Likes/Dislikes – July 23rd, 2021

Below are Evergreen Gavekal's Likes/Dislikes for July 23rd, 2021.

OUR CURRENT LIKES AND DISLIKES

Changes highlighted in **bold**.

As the Fed's alleged hawkish shift from last month fades into the rear view mirror--with the realization that it was much ado about almost nothing--a much more serious threat to financial markets has emerged. The Delta variant of Covid has rightly caused consternation among investors—at least for one day, this past Monday.

Those fears triggered an avalanche of selling in economically-sensitive and natural-resource based issues which had already been on their heels prior to Monday. Since then, these have rallied in many, though not all, cases. Further bad news on the Delta variant, however, is entirely possible and likely to create renewed downward pressure. Buying into any such weakness should pay long-term dividends (literally, as well as figuratively, based on the high yields many of these stocks offer).

Oil prices were particularly hard hit on Monday though they have bounced back over $70 once again. This likely reflects the worsening supply deficit in crude despite OPECs announced intention to increase production by 400,000 barrels per day.

Gold prices have remained in a recovery trend although gold miners continue to trade listlessly. I remain bullish on their second half prospects.

After a withering rally, US treasuries prices have weakened. They continue to uninterest me due to their negative returns after inflation even with maturities as far out as 30 years.

One concerning aspect about the US stock market is that its leadership is narrowing mostly to the mega-cap glamor tech names like Amazon, Google and Microsoft. This often occurs before deeper corrections than the recent mere 4% blip that has mostly been recovered. Having a decent cash reserve seems prudent to me at this point.

- Large-cap growth. (For the most part, there continues to a better risk/reward ratio with growth-at-a-reasonable-price—GARP—type issues; as with the overall US stock market, bargains are increasingly scarce.)
- **Certain international developed markets, especially Japan (The Japanese market produced an impressive long-term breakout in November but has been consolidating this year. It remains an excellent way to benefit from the next leg up in the global economy once the Delta variant is perceived to be under control.)**
- **Publicly-traded pipeline partnerships, i.e., MLPs and other mid-stream energy securities. (MLPs have had an extraordinary run since last November, despite a 17% correction from their June peak to the low seen, for now, on Monday. Even so, they are up 37% on a total return basis for the year.)**
- Gold-mining stocks (please see above)
- Gold (Bullion itself is bouncing back nicely; the miners are likely to follow).

- Silver (It has been lagging gold lately and may be poised to run once again.)
- **Select international blue chip oil stocks (Previously, we had suggested some exposure reduction was prudent after the big rally since last November. Lately, energy stocks have fallen, sharply in many cases. Thus, there has been considerable value restoration and I recommend doing selective accumulation.)**
- Short-term investment grade corporate bonds (1-4 year maturities; favor shorter maturities due to rising inflation risks because of the likelihood that the Fed and the Treasury are over-stimulating the US economy.)
- Emerging market (EM) bonds in local currency (focusing on stronger countries)
- **Large-cap value (This major style has been lagging its growth counterpart in recent weeks, making it look relatively more attractive.)**
- **High-dividend equities with *safe* distributions (A number of these have fallen further due to Delta variant worries.)**
- Most cyclical resource-based stocks (Previously, we recommended some profit-taking which turned out be decent advice; now, as described above, it's timely to look for bargains in these issues.)
- BB-rated corporate bonds (Buy more selectively after a spectacular rally and favor shorter maturities.)
- Canadian REITs (Avoid office issues for now.)
- **South Korean Equities (This is another area in which to be less aggressive given how much this market has risen since late March; as we noted in early December, the South Korean index broke out to a new all-time high and since then has popped another 16%. From the initial early November break-out point, it is up 29% despite a mild 2% rise so far this year.)**
- Uranium and uranium producers (The world's leading uranium miner has vaulted 90% since early November, validating our positive stance on this sub-sector. Due to its big move, hold off on new purchases despite its recent retracement.)
- **Certain "Virus Victim" equities such as refiners, homebuilders, and select retail stocks (After a powerful rally in homebuilders and a number of retailers, be more selective; subsequent to breaking support and falling initially post that break, refiners have roared back on the vaccine news. Look to buy refiners during a pull-back as they should be beneficiaries of the economy re-opening; some appear more attractive after getting hit in recent weeks.)**
- Investment-grade floating rate corporate bonds (Despite a vigorous rally in recent months, there remains decent long-term value in this bond market niche.)
- **The higher quality mortgage REITs (Previously, we'd advise profit-taking on these but some have come down hard enough to warrant re-purchasing.)**
- Renewable Yield Cos (These Green Energy, MLP-like securities have retreated, in some cases considerably; with the leading renewable Yield Co having corrected even further, we are moving this group to Like. However, buy less aggressively after a recent bounce-back.)
- Floating rate bank loans (Moving these up another notch due to the gathering strength of the US economy—reducing default risks—and their floating-rate structure that mitigates inflation risks.)

- A wide range of high-income securities, including preferred stocks (Preferred stocks look less attractive with prices up, yields down, and inflation risks on the rise.)

- **Copper producers. (Moving to neutral due to the huge rally by this group; we previously advised profit-taking but now, with the leading US copper producer down 20%, some nibbling might be appropriate.)**
- Intermediate-term investment-grade corporate bonds, yielding approximately 2.5% (Now rated neutral due to our increasing inflation concerns and the paucity of attractive yields.)
- Mid-cap value
- Emerging stock markets; however, a number of Asian developing markets look undervalued (Caveat investor: These are much less bargain-rich than they were last fall).
- US-based Real Estate Investment Trusts (REITs) (It is critical to be highly selective with this sector; however, the accelerating reopening of the US economy should relieve pressure on some of the most impaired sub-sectors of the REIT universe—unless they are exposed to cities and/or states that are seeing significant population and business outflows.)
- Cash
- **Canadian dollar-denominated short-term bonds (Thanks to a rebound in the Canadian dollar, these have provided solid returns this year. Recently, the loonie has weakened a bit creating a better entry point for those bond investors looking to diversify out of the US.)**
- One- to two-year Treasury notes
- Traditionally "safe" sectors such as Staples and Utilities (Most utilities have had healthy price bumps lately; consequently, they are less appealing.)
- Virus Victors (I.E, those companies that have benefitted from global lockdowns and now sport premium valuations; many have retreated significantly of late—see CLX as an example.)
- **Small-cap value (Moving to neutral due to high valuations and the massive appreciation since last fall; justifying our prior caution, small cap value did swoon by 13% recently before bouncing back a bit.)**
- European banks (Shifting these back to neutral due to improving vaccination prospects on the Continent, even though eurocrats continue to bungle the roll-out. Still-prevailing negative interest rates in Europe are very hard on bank profitability.)

- Intermediate-term Treasury bonds (Moving these to Dislike due to rising risks of another price down-leg caused by the realization that after-inflation yields are becoming increasingly negative. The recent rally by the 10-year T-note has pushed its real yield even more into the red.)
- Small-cap growth (Since late-February, around the time of our negative call on this style, it is down roughly 7%.)
- As a new tactical recommendation related to the above bullet, investors seeking to reduce equity exposure might want to buy an inverse small-cap ETF. One of these offers twice the upside—and downside—of the small cap index; i.e., should small caps fall 10%, this ETF will rise roughly 20% and vice versa. Thus far, this trade is roughly breakeven. (Small cap growth has been weaker than small cap value recently.)
- **Long-term treasury bonds (These are in the dislike category due to both Evergreen's and Gavekal's rising conviction in a looming burst of inflation; despite a rally over the last couple of months, long-treasuries remain down 4.5% on a total return basis this year.)**

- **Long-term investment grade corporate bonds (These are viewed negatively because of the narrow yield gap, or spread, between corporate debt and treasuries combined with our escalating inflation fears. However, there are a smattering of long-term issues that still offer attractive yields. Long-term corporate bonds are now down -0.44%, including cash flow, for the year.)**
- Most municipal bonds (Munis have bounced a bit lately but we remain negatively disposed to longer issues.)
- **US dollar (The dollar has rebounded sharply over the last few weeks; however, its long-term outlook appears very challenging and it remains overvalued versus many currencies, especially those in Asia. The new King of Bonds, Jeff Gundlach, opined on CNBC last week that, long-term, the dollar is "doomed".)**
- **Many semiconductor tech stocks (We do have a number of semi holdings for Evergreen client; however, these were typically acquired far lower than where they trade today and this space appears generally overvalued with a few exceptions. This pricey group has largely been range-trading since mid-February.)**
- Mid-cap growth
- Lower-rated junk bonds
- Green energy stocks (Note, this refers to equities not the Renewable Yield Cos; most of the former had explosive up-moves in 2020 and into this year; lately, though, many green energy plays have been hit hard.)
- SPACs (Special Purpose Acquisition Companies, which are structured to greatly favor insiders and disadvantage retail investors. A growing number of SPACs are struggling in the market lately; perhaps, this bubble is bursting.)
- Most new issues (Earlier this year, the IPO market was as frothy as I've seen it other than the giddiest days of the dot.com era; there are also signs the new-issue craze is fading. A number of IPOs are trading below their offering prices.)
- Despite a disastrous February, most of the popular Reddit/WallStreetBets stocks still have material downside; the recent frenetic rally in some of these—unjustified by fundamentals—creates another shorting opportunity for the risk-tolerant. Lately, these are once again fading.