

Likes/Dislikes - July 31, 2020

Below are Evergreen Gavekal's Likes/Dislikes for July 31, 2020.

OUR CURRENT LIKES AND DISLIKES

Changes highlighted in **bold**.

Special note: Due to continued volatility arising from both the virus and economic conditions, purchases should be made even more carefully than in less chaotic conditions. Taking some profits into rallies is likely a prudent approach.

LIKE

- Large-cap growth. (Hold off on further buying. For current holders, some profit-taking is appropriate.)
- Certain international developed markets, especially Japan
- Publicly-traded pipeline partnerships, i.e., MLPs and other mid-stream energy securities. (Resume accumulation after the recent decline of roughly 20%)
- Gold-mining stocks (Both the miners and the bullion itself have rallied lately and could correct near-term; however, the future for them is very bright based on the trillions of fake money being created and unprecedented government spending.)
- Gold (Same as with miners.)
- Silver (Decelerate buying after the recent sharp rally; once again, longer term the price should rise much further.)
- Select international blue chip oil stocks
- Short-term investment grade corporate bonds (1-4 year maturities)
- Emerging market (EM) bonds in local currency (focusing on stronger countries)
- Large-cap value
- Copper producers. (Expect a near term correction after a sharp rally off the lows. The damaging effect of the coronavirus on Copper demand could be high in the short term, but the fundamentals of Copper supply/demand remain attractive long term.)
- High-dividend yield equities with *safe* distributions (As interest rates disappear, investors will go searching for yield.)
- Most cyclical resource-based stocks (Buy more carefully but considerable long-term upside remains as many of these are beneficiaries of inflation/pricing power due to supply chain disruptions.)
- BB-rated corporate bonds (The Fed has now announced that it will buy high-yield—aka, junk--bonds, thus providing direct support to this asset class; it's a first for any global central bank and it intends to do this with fabricated money, of course.)
- A wide range of high-income securities, including preferred stocks (Many of these have surged, as well, so buy less aggressively.)
- Canadian REITs (avoiding office and industrial issues for now)
- Very high quality intermediate- & long-term municipal bonds with strong credit ratings (Both intermediate-term and long-term muni bonds have had big rallies with the Fed entering the market and we are less enthusiastic, as a result.)
- South Korean Equities (This is another area in which to be less aggressive given how much this market has risen since late March.)

- Long-term investment grade corporate bonds (The Fed's declared intention to buy corporate bonds has made these much less appealing though some bargains remain.)
- **Small-cap value**
- Intermediate-term investment-grade corporate bonds, yielding approximately 4% (This is another corner of the bond market the Fed is actively supporting.)
- **Uranium and uranium producers (These now offer a more attractive entry point after the recent correction caused by supply-side announcements.)**
- Certain "Virus Victim" equities such as refiners, homebuilders, and select retail stocks (After a powerful rally, be more selective; however, refiners have fallen back significantly.)
- Investment-grade floating rate corporate bonds (Due to a severe sell-off, due to both the Fed cutting short-term rates close to zero and overall spread widening, there are a number of attractive issues in this bond market niche.)
- The higher quality mortgage REITs.

NEUTRAL

- Renewable Yield Cos
- Mid-cap value
- Emerging stock markets; however, a number of Asian developing markets look undervalued
- US-based Real Estate Investment Trusts (REITs) (It is critical to be highly selective with this sector; fundamentals for many REITs are likely to be very challenged.)
- Cash
- Long-term Treasury bonds
- Canadian dollar-denominated short-term bonds
- Intermediate-term Treasury bonds
- One- to two-year Treasury notes
- Traditionally "safe" sectors such as Staples and Utilities
- Virus Victors (I.E, those companies that have benefitted from global lockdowns and now sport premium valuations.)
- European banks (Despite the sub-zero interest rate environment, the ECB has introduced new rules that create a less onerous burden on the banking system resulting from negative interest rates. However, material risks remain.)
- Small-cap growth

DISLIKE

- US dollar (The unprecedented size of the rescue package funded by debt is likely to put downward pressure on the dollar once this crisis passes; it may be in the process of breaking down.)
- Many semi-conductor tech stocks (These have surged in price over the last six months despite rapidly building inventories as customers contend with lack of demand.)
- Mid-cap growth
- Floating rate bank loans (This refers to the junk variety; spreading bankruptcies and a big price recovery push this asset class back down into the dislike category.)
- Lower-rated junk bonds

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