Likes/Dislikes - June 5, 2020

Below are Evergreen Gavekal's Likes/Dislikes for June 5, 2020.

OUR CURRENT LIKES AND DISLIKES

No changes this week.

(Special note: due to the rising tensions between the US and Chinese governments, which might intensify between now and the November presidential election, investors may want to adopt a more defensive posture. There are also obvious risks for a spike in COVID infections as the American economy emerges from lock-down.)

LIKE

- Large-cap growth (focus on lower P/E issues within this style; i.e., “growth at a reasonable price”)
- Some international developed markets, especially Japan
- Publicly-traded pipeline partnerships (MLPs and other mid-stream energy securities. Distribution cuts are spreading due to the unprecedented collapse in energy demand. After more than doubling off the recent low, some selling may be appropriate; however, excellent long-term total return potential remains.)
- 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 (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. Copper could also have a very sharp rally as virus fears are calmed)
- 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, of course, to do this with fabricated money)
- 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
- 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 & Uranium producers
- Certain “Virus Victim” equities such as refiners, homebuilders, and select retail stocks. (after a powerful rally this week, be more selective)
- 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)

NEUTRAL

- Solar Yield Cos (moving to neutral as a result of the powerful up-move since March)
- 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
- Lower-rated junk bonds
- Intermediate-term Treasury bonds
- One- to two-year Treasury notes
- Traditionally “safe” sectors such as Staples and Utilities

DISLIKE

- European banks (despite the recent rally, the long-term outlook remains poor as the ECB continues to suppress interest rates; in addition, there continues to be a non-trivial risk the EU begins to break apart, recent fiscal union news notwithstanding)
- 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)
- Many semi-conductor tech stocks which have surged in price over the last six months despite rapidly building inventories as customers contend with lack of demand.
- Small-cap growth
- Mid-cap growth
- *Floating rate bank loans (the junk variety; spreading bankruptcies and a big price recovery push this asset class back down into the dislike category).*

** Credit spreads are the difference between non-government bond interest rates and treasury yields.*

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