# LIKES/DISLIKES - MARCH 5TH, 2021

Below are Evergreen Gavekal's Likes/Dislikes for March, 5th, 2021 *EVA*.

As an overarching recommendation, present market conditions have become so hyper-bullish that this author is suggesting significant profit-taking; related to this, new buys should be limited to those securities that offer a compelling risk/reward proposition. Gold miners are an example of the latter after their correction since this summer’s spectacular run-up.

**LIKE**

- 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 has been extremely strong lately; thus, prudence on new buys is appropriate. Longer term, though, the Nikkei has had a multi-year breakout, a highly positive development.)

- **Publicly-traded pipeline partnerships, i.e., MLPs and other mid-stream energy securities. (MLPs have had a strong start to the year, now up 25%, drastically outperforming the S&P 500; while momentum is very strong, reduced accumulation is prudent.)**
- Gold-mining stocks (The miners rallied early in the year but have fallen back, creating another opportunity for investors who want hard asset exposure. They have continued to fall, likely due to the rise in longer-term interest rates in many countries, including the US. Long-term, their outlook remains extremely bullish.)
- Gold (Gold has also been soft over the last few weeks; those seeking protection from current US fiscal and monetary policies should take advantage of the weakness.)
- Silver (It has had a wild ride in recent weeks due to the “Reddit Rebels” but it has fallen back to virtually flat on the year; avoid buying into any Reddit rallies. Should US inflation accelerate, however, silver has considerable long-term upside potential; additionally, around 10% of silver demand is from solar panel fabrication.)
- **Select international blue chip oil stocks (Based on the enormity of the rally since early November, some reduction of energy exposure might be prudent; recently, even a number of the energy laggards have been trending up.)**

- Short-term investment grade corporate bonds (1-4 year maturities; favor shorter maturities due to rising inflation risks due to the likelihood of the Fed and the Treasury over-stimulating the US economy.)
- Emerging market (EM) bonds in local currency (focusing on stronger countries)
- Large-cap value (Value stocks, such as energy and financial issues, have been the biggest winners from the vaccine news; accordingly, buy somewhat more cautiously—and possibly do some trimming—even though this style is likely to be among the main beneficiaries of the reflation/reopening trends in 2021.)
- **High-dividend equities with *safe* distributions (Despite the sharp recent rise in treasury yields, investors still have a desperate need for cash flow and many equities provide much higher yields than bonds; as with energy and other value sectors, high-dividend stocks have been on fire of late so dialing back on purchases is appropriate.)**

- Most cyclical resource-based stocks (These have also experienced powerful up-moves; thus, some profit-taking is appropriate.)

- BB-rated corporate bonds (Buy more selectively after a spectacular rally.)
- 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; however, the SK market recently broke out to an all-time high, a very bullish development.)
- Small-cap value (Based on the vaccine-driven rally since late October, a buying pause is prudent; small cap issues are typically hit the hardest during corrections.)
- **Uranium and uranium producers (The world's leading uranium miner is up roughly 70% since early November, validating our positive stance on this sub-sector; thus, additional profit-taking is prudent though we continue to like the long-term outlook for U2-related securities).**

- **Certain "Virus Victim" equities such as refiners, homebuilders, and select retail stocks (After a powerful rally in homebuilders and certain 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.)**
- 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 (These have risen materially from our initial recommendation; therefore, less aggressive buying is appropriate even though we continue to like the multi-year outlook.)

**NEUTRAL**

- 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; profit-taking is advisable.)
- **Renewable Yield Cos (These Green Energy, MLP-like securities have retreated, in some cases considerably; thus, resume buying in certain cases.)**
- Intermediate-term investment-grade corporate bonds, yielding approximately 2.5% (Moving to 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 a few months ago).

- 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
- Canadian dollar-denominated short-term bonds (Thanks to a rebound in the Canadian dollar, these have provided solid returns in recent months; some profit realization may be prudent.)
- Intermediate-term Treasury bonds

- One- to two-year Treasury notes

- Traditionally "safe" sectors such as Staples and Utilities (However, some utilities have corrected hard and appear attractive.)
- Virus Victors (I.E, those companies that have benefitted from global lockdowns and now sport premium valuations.)
- Floating rate bank loans (Moving these to neutral due to the prospects of a strong economy later this year, lowering default risks. Also, their floating rate nature is a solid inflation hedge.)

**DISLIKE**

- **Small-cap growth (Moving to Dislike due to the rapid appreciation of this style and extremely elevated valuations; these have been hard hit of late.)**

- Long-term Treasury bonds (Moving these to dislike due to Evergreen's and Gavekal's rising conviction in a looming burst of inflation.)
- Long-term investment grade corporate bonds (Moving these to dislike based on 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.)
- European banks (Moving to dislike status due to a second round of lock-downs in many key eurozone countries; additionally, negative interest rates in Europe are very hard on bank profitability. The steeper yield curve—longer rates rising much faster than shorter rates-- occurring around the world is a major positive, however.)
- **Most municipal bonds (Munis have been hit fairly hard lately, validating our previous caution.)**
- US dollar (The dollar has bounced a bit lately. However, its long-term outlook appears very challenging and it remains overvalued versus many currencies, especially those in Asia.)

- **Many semi-conductor 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 over-valued with a few exceptions. This pricey group has been sliding recently.)**
- Mid-cap growth
- Lower-rated junk bonds
- **Green energy stocks (Note, this refers to equities, not the Renewable Yield Cos; most of the former have truly gone ballistic. Many green energy plays have been slammed in recent weeks.)**
- SPACs (Special Purpose Acquisition Companies, which are structured to greatly favor insiders and disadvantage retail investors.)

- Most new issues (The IPO market is as frothy as I've seen it other than the giddiest days of the dot.com era.)
- Despite a disastrous week, most of the popular Reddit/WallStreetBets stocks still have material downside, though they could rally, briefly, after such a pronounced decline.