# Likes/Dislikes – October 22nd, 2021

Below are Evergreen Gavekal's Likes/Dislikes for October 22nd, 2021.

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**OUR CURRENT LIKES AND DISLIKES**

Changes highlighted in **bold**.

**Rising inflation.  An unpopular and dysfunctional government. A shortage of everything except shortages themselves.  A third energy crisis.  China launching a hypersonic missile around the world, as it also threatens Taiwan.  A Fed much further behind the inflation curve than it ever was in the 1970s.  Severe problems in the world's largest asset class, Chinese real estate.  And the US stock market says…no worries!!  This week, the S&P 500 made another of its seemingly infinite number of new highs.**

**Naturally, it's not all bad news out there.  As I've repeatedly pointed out in these pages, the Delta variant continues to recede in terms of both infections and its economic retarding impact.  (It is worrisome that former FDA commission Scott Gottlieb is warning about a new variant emerging in the UK, a country that can't seem to catch a break lately.)**

**Moreover, Merck has announced it is doubling production of its new Covid anti-viral, despite some safety concerns.  However, Evergreen's best source of Covid and biopharma intel is extremely bullish on the drug and feels the short-term nature of its administration mitigates fears about genetic mutations.  Here's what he wrote me this morning (trust me, he is a genius in this field):  "It'll be a huge win both from a medical and a financial perspective for the healthcare system.  Weigh the financial benefit of eliminating half of hospitalization costs versus the price of the pill.  No brainer. Still need something with a safety profile that would enable true post-exposure prophylaxis in low risk asymptomatics."  (You can tell from that last phrase that I wasn't exaggerating with my praise!).**

**As far as the bond market goes, it continues to trade on the soft side but there has not been a major breakdown—yet.  It remains my view that rates are heading higher, possibly materially, meaning prices have further downside.  Pls realize per the below "Dislikes" section on bonds, that in a year when the S&P 500 is up about 23%, including dividends, bonds have produced negative total returns.  (Interestingly, the typically hyper-performing NASDAQ is actually lagging the S&P by roughly 5% thus far in 2021.)**

**Gold and gold miners are having a decent week but the action in silver is more interesting.  It's up 4% this week and 13% from its late September trough.  It has also clearly broken the downtrend it's been in since early June.  Precious metals, and especially the miners thereof, remain one of my preferred investment vehicles.**

**Copper is weakening at the end of the week, as are the miners.  However, both have had a strong rally since late September.  Thus, a pull-back is unsurprising.**

**As noted in this week's main *EVA* section, the Japanese market has achieved an extremely impressive breakout from a wide trading range that has been in place for nearly 30 years.  It's my suspicion that most US investors are oblivious to this development—but they shouldn't be!  Money flowing into Japan that would normally**

**have gone into China has the potential to be a large and persistent positive.**

**Oil prices are taking a breather in the mid-80s.  A correction is to be expected after such a massive rally this year; however, there are growing fears of exceptionally low inventory levels at Cushing, Oklahoma, America's main crude storage facility.  It is still my contention oil will trade with a "1" in front of its price—and I don't mean replay of last year's collapse into the teens.  As I noted at the time, that implosion set the stage for an even more powerful rally--due to the vast amount of supply it inhibited-- than would have happened with a less catastrophic price decline.**

- **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 (Use the recent pull-back for adding to or initiating position in ETFs like EWJ.)**
- Publicly traded pipeline partnerships, i.e., MLPs and other mid-stream energy securities.  (Due to the rapid price gains recently, rewarding those who bought into the summertime correction, taking some profits is reasonable.)
- Gold-mining stocks (Per the above, they have perked up this month.  Recently, I've been suggesting they were poised for a powerful rally and the 11% rise over the last two weeks is a nice start.)
- Gold (As noted above, the yellow metal has been bouncing back a bit.)
- **Silver (Also as described above, silver has risen more than gold this month; it looks attractive both fundamentally and technically.)**
- Select international blue chip oil stocks (Despite the 50% spike this year, energy shares remain exceedingly depressed with many producers trading at double-digit free cash flow yields; some of the mid-sized companies have free cash flow yields in excess of 20%.)
- 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, particularly in Asia)
- **Large-cap value (This major style has been lagging its growth counterpart in recent months, making it look relatively more attractive, notwithstanding a mild recovery since mid-July.  It should be a beneficiary of the economy's second reopening phase.)**
- **High-dividend equities with *safe* distributions (Many have rebounded, validating our earlier endorsement of them.)**
- **Most cyclical resource-based stocks (A number of these have also rallied back, as we had thought likely with such persistent inflation pressures.)**
- 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 (Delta variant concerns have hit the Korean market much more than the S&P 500; however, it has bounced 5% recently and it should also be a beneficiary of investment flows being redirected away from China.)**
- Uranium and uranium producers (The world's leading uranium miner has vaulted roughly 175% since early November, validating our positive stance on this sub-sector.  Due to its big move, hold off on new purchases particularly given the recent surge.)

- 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; some homebuilders have had significant pullbacks due to the interest rate rise.)
- Investment-grade floating rate corporate bonds (Despite a vigorous rally this year, 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 higher bond yields have triggered enough of a correction to warrant renewed accumulation.  A steeper yield curve is a positive for this sub-sector; lately, though the curve has been flattening, a mild negative.)**
- Floating rate bank loans (Although GDP growth this quarter is likely to be much slower than Q2, this should be a pause not a reversal.  Thus, the still healthy US economy reduces default risks and the floating-rate structure of bank loans mitigates inflation risks.)
- Copper producers.  (Again as discussed above, their October rally has benefited those who bought into recent weakness, as I’ve been suggesting.)
- A new sector recommendation is healthcare stocks.  Many have corrected and are trading at alluringly attractive valuations, often with lush dividend yields.

- Renewable Yield Cos (Based on the hefty rally that has occurred with this group in recent months, justifying our buy rating on them earlier this year, we are downgrading them to neutral; some profit-taking is reasonable despite bright long-term prospects.)
- 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.)
- **Intermediate-term investment-grade corporate bonds, yielding approximately 2.25% (Now rated neutral due to our increasing inflation concerns and the paucity of attractive yields; they have been under pressure lately.)**
- 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 year ago. China is an exception; its market has been crushed creating interesting value plays for brave investors.  However, it’s continuing war on its best companies is a large and legitimate concern.)
- US-based Real Estate Investment Trusts (REITs) (It is critical to be highly selective with this sector; however, the reopening of the US economy, despite recent challenges, 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.)**
- 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; Clorox, for example, remains down materially from its peak.)

- **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 down 10% recently before bouncing back a bit.  However, it has had a bullish multi-year breakout; during a general market correction this would be an interesting style to accumulate.)**
- European banks (Shifting these back to neutral due to improving vaccination prospects on the Continent.  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.  Validating our bearish stance on them, longer-term treasuries have struggled lately and for the year as a whole.)
- **Small-cap growth (Since late-February, around the time of our negative call on this style, it is down roughly 7%.)**
- As a relatively 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 approximately breakeven.
- **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 now faltering rally over the last few months, long-treasuries remain down 8.6% 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 have had a negative total return of 3.4% 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 rallied recently, pushing it up 4% for the year.  This is despite the fact that the US is running a trillion-dollar trade deficit and the Fed continues to fabricate money at a $1.5 trillion annualized rate.  Thus, the dollar's long-term outlook appears very challenging and it remains overvalued versus many currencies, especially those in Asia.)**
- Many semiconductor tech stocks (Of late, the semis have begun to struggle a bit.)
- Mid-cap growth
- **Lower-rated junk bonds (For the first time ever, junk bonds "provide", on average, a yield below inflation; thus, their other moniker, high yield, no longer applies. In my view, the lowest rated junk bonds offer the worst/risk reward.)**
- 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, especially the dodgiest issues like Lordstown Motors and Nikola.)
- SPACs (Special Purpose Acquisition Companies, which are structured to greatly favor insiders and disadvantage retail investors. The SPAC ETF has fallen 35.4% from its February highs, justifying our negative stance on this highly speculative slice of the market.  The *Wall Street Journal* noted recently that $75 billion of SPAC market value has

been wiped out since February.)

- 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. These meme-type stocks are sliding once again though they remain absurdly overvalued, in my view.

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