Likes/Dislikes - September 18, 2020

Below are Evergreen Gavekal's Likes/Dislikes for September 18, 2020.

OUR CURRENT LIKES AND DISLIKES

No changes this week.

LIKE

- Large-cap growth. (Despite the carnage of the past few sessions, hold off on further buying as this area remains very extended.)
- Certain international developed markets, especially Japan (Note Warren Buffettâ??s recent foray into this market.)
- 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 (After an explosive rally, both the bullion and miners have begun to stabilize in price over the past month and 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 (Similar to gold and the miners, silver has begun to stabilize over the past month with the future continuing to look bright.)
- 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 (Financial stocks could surprise on upside should the economy continue to revive and if longer term interest rates rise somewhat.)
- 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 (Buy more selectively after a spectacular rally.)
- 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)
- South Korean Equities (This is another area in which to be less aggressive given how much this market has risen since late March.)
- 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; attractive yields are becoming harder to come by, however.)
- Uranium and uranium producers (These now offer a more attractive entry point after the recent correction caused by supply-side announcements; their pull-back looks to have

ended with a resumed rally probable based on a very tight supply/demand condition with U2.)

- Certain â??Virus Victimâ?• equities such as refiners, homebuilders, and select retail stocks (After a powerful rally, be more selective; however, refiners have fallen back significantly--watch long-term support levels closely.)
- Investment-grade floating rate corporate bonds (Due to a severe sell-off, caused by 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 (These have risen materially from our initial recommendation; therefore, less aggressive buying is appropriate even though we continue to like the long-term outlook.)

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 â??safeâ?• 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
- Long-term investment grade corporate bonds (Following intervention by the Fed, this asset class experienced a powerful rally off the March lows and current yields are no longer attractive. Inflation concerns could also become an issue at such low yields.)

DISLIKE

- Most municipal bonds (Both intermediate-term and long-term muni bonds have had big rallies with the Fed entering the market, rewarding those who followed this recommendation earlier. We are now moving munis to dislike due to our longer-term inflation concerns and also as a result of the present paltry yields.)
- 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. Based on the sudden weakness in the dollar, anyone shorting it may want to take some profits while retaining most of their short position.)
- 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. Lately, some â??semiâ?• issues have been hard hit while others have soared.)
- 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