

Positioning Recommendations - February 18th, 2022

Another week, another tech wreck. For growth investors, the echoes with 2000 are becoming deafening. Battered high P/E stocks, which were down 50% in many cases as of a few weeks ago, just keep on taking a licking. Yes, they're still ticking—as in, ticking lower... and lower... and lower.

During the Nasdaq's extraordinary slow-motion crash from March of 2000 until the final bottom in October 2002—i.e., an agonizing two-and-a-half-year bear market--it melted by roughly 80%. Thus, far it's a mere 13% or so give back, and this week has seen a very modest 1% slide. Yet, for a slew of growth stocks, the pummeling continues. As has been the case for months, the damage below the surface of the major indexes is shocking. Again, the superior performance of mega-cap stalwarts such as Microsoft and Apple are why the Nasdaq itself remains in correction, versus full-on bear market, mode.

Returning back to 2000, that year featured some rip-roaring tech rallies on its way to the final year-end plunge of 37% (and over 50% from the early spring peak). Thus far, we haven't seen those types of powerful snapbacks. One could certainly occur soon should Vladimir Putin order his massing troops to stand down. That continues to be the most likely outcome in my mind though I wouldn't say it's a high-conviction anticipation.

If there is a sanguine resolution of the Ukrainian crisis, that would almost certainly hit the gold miners that I've been recommending lately. Fortunately, since I highlighted them in the January 21st *EVA PR*, they've bounced up by 9% in a less than robust market environment. At this point, I'd be reluctant to chase them, especially if I'm right that Putin will not order an attack. (By the way, there does appear to be a diplomatic solution available if the Ukraine simply signs the treaty to which it has already agreed.)

Energy shares, which have been unbelievably strong performers for the last 15 months, including during this rocky year for stocks, are also at risk of a good-for-mankind denouement in the Ukraine. Accordingly, some profit-taking here is advisable. This is notwithstanding that I'm steadfast in my bullish long-term outlook for this still seriously under-owned sector. This suggestion includes the MLP sub-sector which has also been clobbering the overall stock market recently.

Bonds have actually rallied a bit lately, almost certainly due to a flight-to-safety—or, at least, perceived safety—reaction to the Ukraine standoff. With returns after inflation still in the minus 5% range on the 10-year T-note, these bounces are likely to be limited affairs. The last year and half has been a horrible timeframe for bonds. As I've long warned, this is a big problem for balanced portfolios. Right now, a half-stock, half-bond, portfolio is losing on both sides. That's been an exceedingly rare occurrence over the last 40 years. However, as I emphasize in my book, [“Bubble 3.0”](#), I do believe this is a sneak-preview of what lies ahead for at least the next few years.

However, I will say Team Evergreen is finding some interesting bargains in the corporate bond world, where prices have come down hard in many cases. These at least have a fighting chance against inflation, especially if it eases back to around 5%. Like Jeff Gundlach, quoted in these pages last week, that's about as low as I see it going anytime soon due to REW. Per earlier *EVA*s, this stands for Rents, Energy, and Wages, three inflationary factors that I see

putting continuing upside pressure on the CPI.

With that, it's on to some specific action items, but before those, I'd like to wish you a rejuvenating three-day weekend. I don't know about you, but I can definitely use some serious rejuvenation—the joys of writing a book about the Fed! So much material, so little time!!

Positioning Recommendations

LIKE

As noted in this section's introduction, there are some surprising values popping up in corporate bonds, particularly those rated just below investment grade. The debt of one of America's biggest auto makers is a good example of this and we do believe an upgrade to investment grade status is fairly likely in this case.

- Large-cap growth names at a reasonable price.
- Certain international developed markets, especially Japan
- Publicly traded pipeline partnerships, i.e., MLPs and other mid-stream energy securities.
- Gold-mining stocks
- Gold
- Silver
- Select international blue chip oil stocks
- Short-term investment grade corporate bonds
- Emerging market (EM) bonds in local currency (focusing on stronger countries, particularly in Asia)
- Large-cap value
- High-dividend equities with *safe* distributions
- Most cyclical resource-based stocks
- **BB-rated corporate bonds**
- Canadian REITs
- South Korean Equities
- Certain "Virus Victim" equities such as refiners, homebuilders, and select retail stocks
- Investment-grade floating rate corporate bonds
- The higher quality mortgage REITs
- Floating rate bank loans
- Copper producers
- Healthcare stocks
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NEUTRAL

Rising interest rates in Europe are providing significant relief to its long-suffering banks. There are some interesting opportunities "over there" but it's important to stay with the strongest institutions.

- Uranium and uranium producers
- Renewable Yield Cos
- Intermediate-term investment-grade corporate bonds, yielding approximately 2.25%
- Mid-cap value
- Emerging stock markets; however, a number of Asian developing markets look undervalued

- US-based Real Estate Investment Trusts (REITs)
- Cash
- Canadian dollar-denominated short-term bonds
- One- to two-year Treasury notes
- Traditionally “safe” sectors such as Staples and Utilities
- Virus Victors
- Small-cap value
- **European banks**

DISLIKE

It’s time to move preferred stocks, with their fixed returns and de facto infinite maturities, to official dislike status. However, those with a floating yield structure are fairly safe havens in a rising rate, and high inflation, environment.

- The Indian stock market
- **A wide range of high-income securities, including preferred stocks**
- Intermediate-term Treasury bonds
- Small-cap growth
- Long-term treasury bonds
- Long-term investment grade corporate bonds
- Most municipal bonds
- **US dollar**
- Many semiconductor tech stocks
- Mid-cap growth
- Lower-rated junk bonds
- Green energy stocks
- SPACs
- Most new issues
- Despite a disastrous February, 2021, most of the popular Reddit/WallStreetBets meme stocks still have material downside.

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