Likes/Dislikes - April 10, 2020

Below are Evergreen Gavekal's Likes/Dislikes for April 10, 2020.

OUR CURRENT LIKES AND DISLIKES

Changes highlighted in **bold**.

Note: This past week has seen a massive rally in all risk assets due to moves by the Federal Reserve and caution is warranted at this time given the economic harm that has been inflicted. This includes buying carefully when it comes to junk bonds (always a good idea with these!) and municipal bonds.

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) yielding something approaching infinity (due to this sector’s utter collapse, we feel it is now appropriate to accelerate accumulation; however, distribution cuts are spreading due to the unprecedented collapse in energy demand; again, a big recent rally warrants a bit slower buying pace)**
- **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**
- Silver (at current prices, it appears more attractive than gold)
- Select international blue chip oil stocks
- Short-term investment grade corporate bonds (1-2 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 if 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)
- **BB-rated corporate bonds (the Fed has now announced that it will buy high-grade, high-yield bonds, thus providing direct support to this part of the junk bond market; this is a first for any global central bank and it intends, of course, to do this with money it will fabricate).**
- A wide range of high-income securities that have been crushed by the global margin call, including preferred stocks (many of these have surged so buy less aggressively)
- **Canadian REITs (these, too, fall under the crushed category, though, again, there’s been a notable recovery with some rising 50% in the last few weeks)**

- **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 (this market has been pounded, offering excellent long-term value, notwithstanding a recent bounce; S. Korea is far ahead of the west in seeing its infection rate decline.)
- Long-term investment grade corporate bonds (the Fed's declared intention to buy corporate bonds has made these much less appealing though some bargain remain)
- **Solar Yield Cos (the leading entity in this sub-sector has been slammed along with nearly all yield plays and is once again attractive, though it, too, has rallied of late)**
- **Small-cap value (another asset class that has surged recently, so reduce buying for now)**
- **Intermediate-term investment-grade corporate bonds, yielding approximately 4% (this is another corner of the bond market the Fed is actively supporting)**

NEUTRAL

- Mid-cap value
- Emerging stock markets; however, a number of Asian developing markets look undervalued
- Intermediate-term investment-grade corporate bonds, yielding approximately 4%
- **US-based Real Estate Investment Trusts (REITs) (We were preparing to upgrade these to buy but a huge rally has occurred; fundamentals for many REITs are also likely to be very challenged.)**
- Cash
- Long-term Treasury bonds
- British pound currency
- Canadian dollar-denominated short-term bonds
- Japanese Yen
- Small-cap growth
- Mid-cap growth
- **Lower-rated junk bonds (see cautionary comment at beginning of Likes/Dislikes)**
- **Floating-rate bank debt (junk) (same as lower-rated junk bonds)**
- Intermediate-term Treasury bonds
- One- to two-year Treasury notes
- Traditionally "safe" sectors such as Staples and Utilities (moving these up to neutral as many have been hard hit of late)

DISLIKE

- European banks (these are ominously making new all-time lows)
- Investment-grade floating rate corporate bonds (reducing exposure to these as Fed rate cuts are increasingly likely)
- 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 and generally trade at lofty prices despite falling earnings.

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

(Note: based on the intense damage done to nearly all risk-assets lately, our negativity has eased even on the above “dislikes”)

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