Likes/Dislikes – August 20th, 2021

Below are Evergreen Gavekal's Likes/Dislikes for August 20th, 2021.

OUR CURRENT LIKES AND DISLIKES

Changes highlighted in **bold**.

Another week, another Delta debacle! What looked like might be the end of the correction in economically-sensitive and hard asset sectors was a false dawn. What we need now is a true Delta dawn, when infections roll over and then come down drastically. Once that happens, another powerful market rally should ensue.

However, this time of year often sees market corrections and even crashes. 2021 appears to be following that pattern. Last week, I noted the deteriorating market breadth and increasing earnings misses; this week has been more of the same. We've also seen a number of companies report robust sales and profits and still trade down. (Deere is an example of this today.)

In a similar vein, oil prices remain in correction mode despite global crude inventories continuing to fall. Weaker prices should lead to an even more severe supply shortfall once Delta fears peak. For now, global oil demand has remained on an upward slope.

Gold has experienced a mild correction but gold miners have been hit much harder. My suggestion is to dollar-cost-average into the weakness. Miners should be among the biggest winners from both improved Covid news and the Fed's inflationary monetary policies (along with equally inflationary fiscal policies).

The worsening Delta variant news has buoyed both the dollar and treasury bonds. My expectation is that this well be fleeting strength.

As recommended last week, having a healthy amount of cash in reserve seems like a no-brainer to me—particularly considering how brain-free our country's leaders are acting these days.

- **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, though there has been some value restoration lately.)**
- Certain international developed markets, especially Japan (The Japanese market produced an impressive long-term breakout in November but has been consolidating this year. It remains an excellent way to benefit from the next leg up in the global economy once the Delta variant is perceived to be under control.)
- Publicly-traded pipeline partnerships, i.e., MLPs and other mid-stream energy securities. (MLPs have had an extraordinary run since last November, despite a 17% correction from their June peak to the low seen, for now, on July 19th. Even so, they are up roughly 35% on a total return basis for the year.)
- Gold-mining stocks (please see above)

- Gold (Its recent weakness is likely just a pause in a powerful long-term up-trend.)
- **Silver (It has been lagging gold lately and may be poised to run once again though that will probably require improved pandemic news.)**
- Select international blue chip oil stocks (Previously, we had suggested some exposure reduction was prudent after the big rally since last November. Lately, energy stocks have fallen, sharply in many cases. Thus, there has been considerable value restoration and I recommend doing selective accumulation.)
- 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 weeks, making it look relatively more attractive.)
- High-dividend equities with *safe* distributions (A number of these have fallen further due to Delta variant worries.)
- Most cyclical resource-based stocks (Previously, we recommended some profit-taking which turned out be decent advice; now, as described above, it's timely to look for bargains in these issues.)
- 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; the former is now down 15% from its early year peak. We like its long-term prospects.)**
- Uranium and uranium producers (The world's leading uranium miner has vaulted 90% since early November, validating our positive stance on this sub-sector. Due to its big move, hold off on new purchases despite its recent retracement.)
- **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; subsequent to breaking support and falling initially post that break, refiners have roared back on the vaccine news. Some, however, have pulled back enough to warrant light buying.)**
- 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 (Previously, we'd advise profit-taking on these but some have come down hard enough to warrant re-purchasing.)
- **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.)**

- 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.)
- Copper producers. (Moving to neutral due to the huge rally by this group. We previously advised profit-taking but after a 20% correction in the largest American copper producer

we suggested some light purchases. It has now rallied back 19% so, for now, hold off on new buys.)

- Intermediate-term investment-grade corporate bonds, yielding approximately 2.5% (Now rated 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 last fall).
- **US-based Real Estate Investment Trusts (REITs) (It is critical to be highly selective with this sector; however, the reopening of the US economy 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. Recently, the loonie has weakened a bit creating a better entry point for those bond investors looking to diversify out of the US.)
- 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 28% from its peak notwithstanding the spread of the Delta variant.)**
- 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 by 13% recently before bouncing back a bit.)
- 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. The recent rally by the 10-year T-note has pushed its real yield even more into the red.)
- **Small-cap growth (Since late-February, around the time of our negative call on this style, it is down roughly 10%.)**
- As a 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 rally over the last couple of months, long-treasuries remain down 3.8% 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 are now off 0.7% for the year, including cash flow.)**

- Most municipal bonds (Munis have bounced a bit lately but we remain negatively disposed to longer issues.)
- US dollar (The dollar has softened of late, after a decent rally. Its long-term outlook appears very challenging and it remains overvalued versus many currencies, especially those in Asia. The new King of Bonds, Jeff Gundlach, opined on CNBC recently that, long-term, the dollar is “doomed”.)
- Many semiconductor 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. To its credit, however, the semi index recently broke out to a new high. Despite that, its lofty valuations render it an unappealing area for new capital commitments.)
- Mid-cap growth
- Lower-rated junk bonds
- 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. A growing number of SPACs are struggling in the market lately; perhaps, this bubble is bursting.)
- 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; the recent frenetic rally in some of these—unjustified by fundamentals—creates another shorting opportunity for the risk-tolerant. Lately, these are once again fading, in some cases significantly.