Likes/Dislikes – November 19th, 2021

Below are Evergreen Gavekal's Likes/Dislikes for November 19th, 2021.

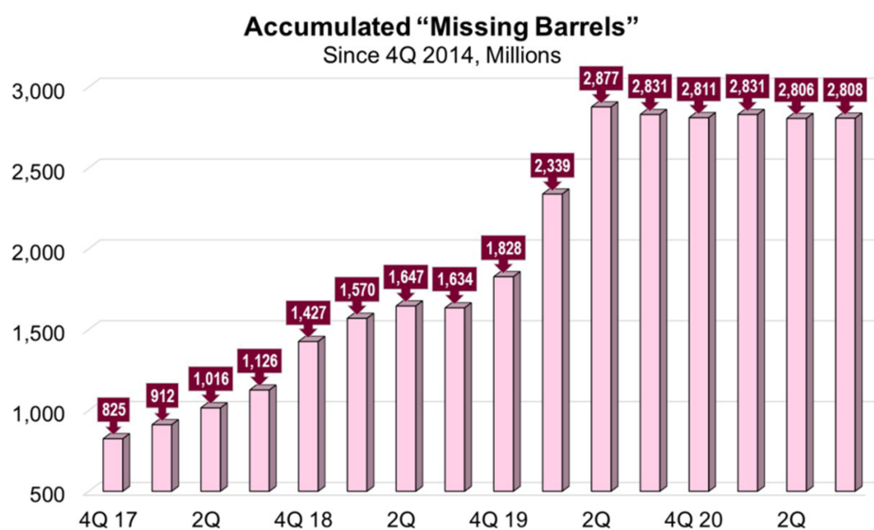
OUR CURRENT LIKES AND DISLIKES

Changes highlighted in **bold**.

Arguably, the attention-grabbing market news this week was the sharp correction in the crypto currencies. The bellwether, Bitcoin, has tumbled 14.4% from its recent peak but it is still up a stunning 100% this year. It continues to be my view—as overly cautious as it has been—that there is a severe shakeout coming in crypto-land due to intensifying scrutiny of the "stable coin" Tether which is the main funding medium for Bitcoin purchases. If I'm right, and there is another 50% dive looming for Bitcoin, that could create a solid buying opportunity, at least for the aggressive portion of an investor's portfolio.

Personally, hard assets with practical applications remain my preferred way to protect purchasing power against what continue to be spectacularly stimulative monetary policies by the Fed. Copper and silver are two examples of this preference due to the increasing demand these commodities are nearly certain to experience. In turn, this is a function of the massive expansion looming from both solar panel production and electric vehicles (EVs) proliferation.

Oil prices are under pressure as a result of the reality of worsening Covid news in Europe. On a less real basis, the International Energy Agency's forecast of an oil surplus next year has been another source of weakness, as have releases from the US Strategic Petroleum reserves. (Over time, these tend to be more bullish than bearish and this one smacks of desperation on the part of the Biden administration.) The fact of the matter is that the IEA has drastically underestimated oil demand for the last twenty years and, particularly, since 2014. Over the latter timeframe the demand measurement shortfall now amounts to roughly 2.8 billion barrels! Moreover, it is also projecting a highly improbable—based on the spending starvation that has persisted among energy producers for most of the last eight years--production increase of 3 million barrels per day next year.



Accordingly, this pull-back in the energy complex is unsurprising based on how much oil, natural gas and the related equities have risen in price this year. The correction may well have further to go but long-term investors, who believe that persistent shortages are more likely than the IEA's glut forecast, should use the weakness to engage in dollar-cost-averaging, especially in energy issues that have come down hard.

As far as the stock market goes, there are some warning signs appearing despite the steady cadence of new highs in the S&P and the NASDAQ. There are now almost double the number of stocks making new 52-week lows versus highs. And in a sign of how much froth there is these days, the list of stocks selling at 10 times sales or more is double what it was at the height of the dotcom bubble of the late 1990s. (Thank you, David Rosenberg, for both of these factoids.)

Bonds have been generally stable this week, catching a bid, as traders say, as a consequence of Covid lock-down fears in Europe and a strong dollar. The latter continues to rally but, unusually, so is gold. Bullion has had an upside breakout on a technical basis this week but, typically, the dollar and gold move in opposite directions. Gold mining shares have naturally benefited from the yellow metal's price revival. I'm sure it comes as no surprise to EVA readers that this author remains highly bullish on the long-term outlook for precious metals which should be even more precious in an era of immense debt monetization and currency debasement by the planet's leading central banks.

LIKE

- 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. The Japanese market should be a beneficiary of overseas investors pulling capital out of China.)
- Publicly traded pipeline partnerships, i.e., MLPs and other mid-stream energy securities. (Recently, we recommended some profit-taking; based on the pull-back of late, that was decent advice.)
- **Gold-mining stocks (Despite their 16% rally this quarter, they remain very attractively valued on a long-term basis. But based on the run-up, lighter buying is**

appropriate.)

- **Gold (As noted above, it has achieved an important breakout this week, at least in the eyes of certain credible technical analysts; eventually, bullion should take out the high it set last year around $2000 per ounce.)**
- **Silver (It, too, is acting if it wants to move higher, possibly substantially. The downtrend in place since early spring has clearly been broken.)**
- **Select international blue chip oil stocks (Despite the roughly 50% total return 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%. Based on this week's sharp correction, energy stocks are not as extended as they were last week!)**
- 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 (Use the recent dip to add or initiate exposure. SK stocks should also benefit from money fleeing China.)
- **Uranium and uranium producers (The world's leading uranium miner has vaulted roughly 184% 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; I am becoming less bullish on housing due to extremely elevated prices and also signs of building inventories.)**
- 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 (Based on a mild recent rally as well as the dual threats from rising rates and a flattening yield curve, we advise renewed profit-taking in this sub-sector; please be aware "profit-taking" does not suggest a complete exit.)
- Floating rate bank loans (Although GDP growth this quarter came in 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. (The largest US copper producer is up roughly 27% since late September, benefiting those who followed our suggestion to buy during its summertime correction. Due to enormous demand looming from electric vehicles, the supply of the red metal should see recurring shortages in years to come.)**
- **A relatively new sector recommendation is healthcare stocks. Many have corrected and are trading at alluringly attractive valuations, often with lush dividend yields. (Use the recent weakness in some pharma names to accumulate; others, though,**

have rallied hard and in those cases decrease accumulation.)

- 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. As with bonds, we prefer the floating-rate variety.)
- 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 due to rising rates overseas and escalating inflation concerns.)
- 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 (The recent yield spike makes these even more interesting—literally.)
- 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 10% recently before bouncing back. However, it has had a bullish multi-year breakout; thus, it might be advisable to accumulate small cap value on any material weakness.)**
- 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 (These remain in 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 essentially flat. After selling off earlier this year, this style has been rebounding of late. It remains extremely pricey and could actually be hurt by the so-called "Great Rotation"

from the long-outperforming growth style into value.)

- **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 down about 8%.)**
- **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 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 1.9% 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 roughly 5.8% 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 (Some semi issues have come down hard, enhancing their future return potential. Evergreen is particularly pleased with the recent powerful rebound in Qualcomm.)
- 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. The recent new EV truck maker Rivian looks ludicrously overvalued.)
- **SPACs (Special Purpose Acquisition Companies, which are structured to greatly favor insiders and disadvantage retail investors. The SPAC ETF has fallen 29% from its February highs, justifying our negative stance on this highly speculative slice of the market.)**
- **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, even though some recent IPOs have had explosive moves…*if* you were able to attain shares at the initial offering price, which every few are. Be very careful about chasing these in the secondary market.)**
- Despite a disastrous February, most of the popular Reddit/WallStreetBets stocks still have material downside. The recent bounce in two of the highest profile "meme stocks" provides another shorting, or put-buying, opportunity.

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