

Likes/Dislikes – November 5th, 2021

Below are Evergreen Gavekal's Likes/Dislikes for November 5th, 2021.

OUR CURRENT LIKES AND DISLIKES

Changes highlighted in **bold**.

Keep them doggies rolling, rawhide! Boomers may fondly recall that line from the opening theme song for the extremely popular Western series that ran from 1959 to 1966. Besides the famous lyrics, Rawhide launched the career of one Clint Eastwood who continues to produce and direct movies at the tender age of 91.

Some six decades later, the chant is “Keep them new highs rolling, Wall Street!”. And, boy, is the Street doing a great job in that regard. Today, it received a major assist—again—from Pfizer. A year ago almost to the day, Pfizer’s vaccine announcement triggered the next up-leg in the emerging-from-Covid bull market that began on March 24th with the Fed’s stunning announcement it was preparing to buy corporate bonds. This November, the dramatic “reveal” was of a highly efficacious anti-viral, joining, and possibly one-upping, Merck’s Molnupiravir.

As reported by Bloomberg, the clinical trials for Pfizer’s med, Paxlovid, were halted ahead of schedule because the results were so impressive. To wit: ““We are really over the moon that we did see such high efficacy in this study. It has tremendous implications for patients globally,” said Annaliesa Anderson, chief scientific officer for Pfizer’s hospitals business unit. Justifying her ebullience, Paxlovid has an 89% success rate in reducing hospitalizations and deaths. (It’s also a lot easier to pronounce than Molnupiravir!) Critically, both meds are administered in pill form, negating the need for IV infusions, a clear advantage. Moreover, they can—and should—be administered within three to five day of becoming symptomatic rather than waiting until a Covid infection has become entrenched and, potentially, life-threatening. The bottom-line is that this is great news for humanity and, these days, we need all we can get.

It’s also a highly positive development for the Great Rotation this newsletter has been endorsing over the past 15 months or so. This means a shift away from the long outperforming growth sector into more value-oriented issues that tend to be major beneficiaries of better economic times. Most of those are soaring today on this news. It also gives us more confidence that we are moving back into an inflationary boom and that the economy won’t stay stuck in the stagflationary mud that has been the case since the Delta variant raced around the world this past summer.

As far as last week’s hot story about the riot in many overseas bond markets, that has cooled down. Several central banks have walked back from their tightening rhetoric, perhaps wrong-footed by the rapid rate rises in countries like Great Britain, Canada and New Zealand. It remains to be seen how much control central banks will retain over their bond markets. They may have to choose between letting the inflation genie further out of the bottle or belatedly attempting to raise rates close to prevailing levels of inflation (which vary considerably between countries). Per this week’s quote, I’m right there with Mike O’Rourke in assuming the first outcome will play out. Frankly, most central banks are so far behind the inflation curve that a serious effort to push interest rates up near

their respective CPI levels would almost certainly create intense turbulence in financial markets.

Perhaps this belief in central bank timidity is spreading and that may be behind the rebound by inflation hedges this week such as gold miners. However, energy stocks are likely a superior way to participate in the second re-opening wave; they also offer a way to benefit from high and rising/natural gas prices which are themselves a leading source of upward CPI pressures.

This week, longer-term bonds in the US have experienced a recovery from oversold conditions. There is little question “the Street” had become very bearish on bonds and for a number of valid reasons, particularly the Fed’s increasingly prickly inflation problem. It’s my belief that once the bearish sentiment tapers off—partially due to diminished fears of a taper tantrum—bonds will resume their downtrend in price and uptrend in yields. (This point relates to the tendency for investment types, or asset classes, to rise in price when there is considerable bearish positioning and sell off when bullishness is pervasive.)

- Large-cap growth. (For the most part, there continues to be 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.)
- **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 big move up today, they remain very attractively valued on a long-term basis.)
- **Gold** (Bullion has been stabilizing in recent weeks; however, it remains in a gentle up-trend from its August lows; we continue to like its multi-year prospects.)
- Silver (Same stance as on gold)
- Select international blue chip oil stocks (Despite the 60% spike 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%.)
- 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 200% 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; some homebuilders have had significant pullbacks due to the interest rate rise.)
- 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 (Previously, we'd advise profit-taking on these but higher bond yields have triggered enough of a correction to warrant renewed accumulation. A steeper yield curve is a positive for this sub-sector; lately, though the curve has been flattening, a mild negative.)
- 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. (While they've retreated somewhat in recent weeks, their long-term uptrend remains in place. 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. (Some of these, such as Merck, have had robust rallies recently; in its case, it appears to have had a major breakout. While it did, in fact, breakout earlier this week, the Pfizer news has triggered a sharp sell-off today in Merck's shares.)**
- 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, though not nearly as severe as show above in various other countries.)
- 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 down 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.)
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- **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. Validating our bearish stance on them, longer-term treasuries have struggled lately and for the year as a whole, notwithstanding this week’s rally.)**
 - **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 “Great Rotation” discussed above.)**
 - 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 slightly in the red.)
 - **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 5.9% 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% 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 4.75% 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 this week's 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.)
- **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. 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 bounce in two of the highest profile "meme stocks" provides another shorting, or put-buying, opportunity.**

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