

## Likes/Dislikes – October 15th, 2021

Below are Evergreen Gavekal's Likes/Dislikes for October 15th, 2021.

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### OUR CURRENT LIKES AND DISLIKES

Changes highlighted in **bold**.

Another week, another down, then up, stock trading pattern. Even perma-bears have to give this market credit for its remarkable resilience. Could it be that the Fed's many trillions of synthetic dollars are continuing to support prices? That's a reasonable conclusion but with \$120 billion still being created by Powell & Co. each month, that ballast is not going away anytime soon. Even once the Fed does "taper" (finally!), it will continue to whip up fake money from its Magical Money Machine at what should still be over a trillion-dollar annualized pace. (Do you remember when a trillion dollars seemed like a lot of money?)

On the fundamental front, it's a different story. Investors are waking up to the reality that corporate profit margins are likely to take a hit—possibly, a serious one—from input prices that are rising at almost the same speed as William Shatner did earlier this week. (Nicely done, Captain Kirk!). There are also rapidly mounting concerns about China and its bursting real estate bubble. Based on how vital the property market is to the Chinese economy—some have pointed out it is by far the world's largest asset class—the severity of the price and sales weakness is a serious threat. Relevant to this week's main *EVA* section, China is also being hammered with rocketing energy cost increases. Because China's economy is now so large, and it has typically been the planet's main growth engine, this does have significant negative global repercussions.

Encouragingly, Delta continues to fall off the front pages. On the not so sunny side, Merck's promising Covid anti-viral, Molnupiravir, is being attacked over safety concerns by some scientists (which the company vehemently denies). It continues to be my belief that the US is on the verge of another reopening surge, albeit less dramatic than the one produced by the Covid vaccine rollouts.

The benchmark 10-year T-note has stabilized in the 1.5% to 1.6% range and, despite a rough Friday session, yields fell slightly for the week. My expectation is for further price weakness and, accordingly, higher yields over the balance of the year.

The slight easing by interest rates saw gold move up slightly, with silver doing its usual more volatile thing by rising nearly 3%. Gold miners had an excellent week, up about 5 ½%; this was, once again, notwithstanding a rough day today. Energy and related stocks had another robust week, continuing a truly remarkable year. Both the primary energy ETF (XLE) and the main MLP ETF (AMJ) are up over 50% for 2021, from a total return perspective. In the case of crude oil, it is now around \$85, at least based on Brent, the main European benchmark (US West Texas Intermediate, is bouncing around the low 80s). Brent is up 64% for the year and nearly 3% this week. A near-term correction seems probable though I continue to be bullish on oil prices for the rest of this year and into 2022.

Copper has popped 11% this week and the leading US producer of the red metal has risen by over 13%. Usually, miners move more than the underlying metal but this is nonetheless a nice rally for one of our favored market niches. Hopefully, some EVA readers acted on our suggestion to accumulate copper miners during their recent weakness.

- 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 has continued to move higher and has achieved a multi-year breakout, boding well for future gains. 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.** (Due to the rapid price gains recently, rewarding those who bought into the summertime correction, taking some profits is reasonable.)
- **Gold-mining stocks** (Per the above, they have perked up this month. Recently, I've been suggesting they were poised for a powerful rally and the 11% rise over the last two weeks is a nice start.)
- **Gold** (As noted above, the yellow metal has been bouncing back a bit.)
- **Silver** (Also as described above, silver has risen more than gold this month, up about 7% thus far.)
- **Select international blue chip oil stocks** (Despite the 50% 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 second economic reopening phase.)
- **High-dividend equities with safe distributions** (A number of these have fallen further due to Delta variant worries which, as indicated above, are receding.)

- **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 16.5% from its early year peak. We like its long-term prospects.)**
- **Uranium and uranium producers (The world's leading uranium miner has vaulted roughly 175% 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.)**
- 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.)
- **Copper producers. (Again as discussed above, their October rally has benefited those who bought into recent weakness, as I've been suggesting.)**
- A new sector recommendation is healthcare stocks. Many have corrected and are trading at alluringly attractive valuations, often with lush dividend yields.
  
- 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.)
- 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.)
- 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 (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 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 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.)
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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.)**
  - **Small-cap growth (Since late-February, around the time of our negative call on this style, it is down roughly 8%.)**
  - 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 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 now faltering rally over the last few months, long-treasuries remain down 6.5% 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 1.8% 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 ½% 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 (Of late, the semis have begun to struggle a bit.)**
  - 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. The SPAC ETF has fallen 35.4% from its February highs, justifying our negative stance on this highly speculative slice of the market. The *Wall Street Journal* noted recently that \$75 billion of SPAC market value has been wiped out since February.)**
- 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. These meme-type stocks are sliding once again though they remain absurdly overvalued, in my view.

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