Likes/Dislikes – October 29th, 2021

Below are Evergreen Gavekal's Likes/Dislikes for October 29th, 2021.

OUR CURRENT LIKES AND DISLIKES

Changes highlighted in **bold**.

The main market story of this week has nothing to do with stocks though the S&P did hit a minor new high. Rather, the really big news is what's happening to bond markets around the world. Putting it bluntly, they are getting pounded. This is particularly true on the short end of the yield curve (i.e., shorter maturity bonds) with some of the rate jumps truly eyebrow-raising, particularly on a percentage increase basis. (Please see the charts below and if they don't shock you, you've probably been watching too many Halloween horror films!) If this type of carnage spreads to the US bond market, it will quickly become headline news.

Absolute yields levels remain, of course, miniscule and in most countries well below their inflation rates. Thus, most bond markets still "offer" negative yields, a most unappealing situation for fixed-income investors. Perhaps the term "fixed income" should be replaced with "nixed-income".

While Delta fears in the US have largely evaporated, the rise in Covid cases in the UK continues to be worrisome. Moreover, it's possible those infections are due to a more virulent variant than even Delta. Perhaps this is why economically-sensitive market sectors have been somewhat soft this week; however, this could also be a function of the aforementioned bond market convulsions, as well as China slowdown concerns.

Gold and silver miners have been beat up a bit this week, likely for similar reasons. Copper miners have held up better but still gave up some ground. Evergreens' long-term bullish outlook on them has not diminished, however. Additionally, they remain up from their late September lows.

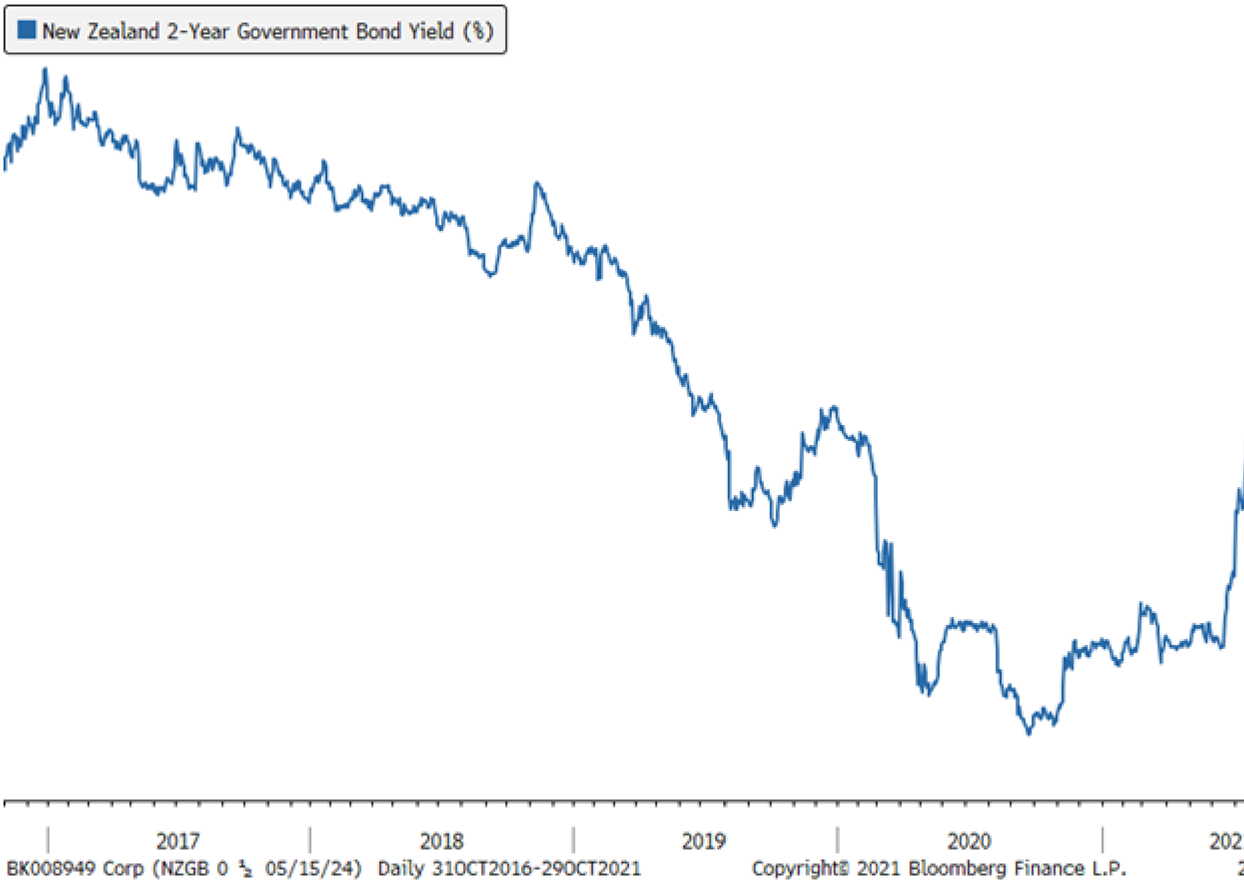
Despite the S&P 500 moving to a slightly higher high, the sub-surface market action continues to be less-than-inspiring. The divergence between the broader NYSE Composite Index and the S&P is one example. The NYSE Comp often weakens before S&P 500 corrections. The key to whether stocks experience a hiccup or something more serious may well lie with global bond markets. A true rout in the fixed-income world would be seriously bad news for almost every asset class. Hopefully, it will not get that disorderly but with such deeply negative real yields in most countries it is a non-trivial risk.

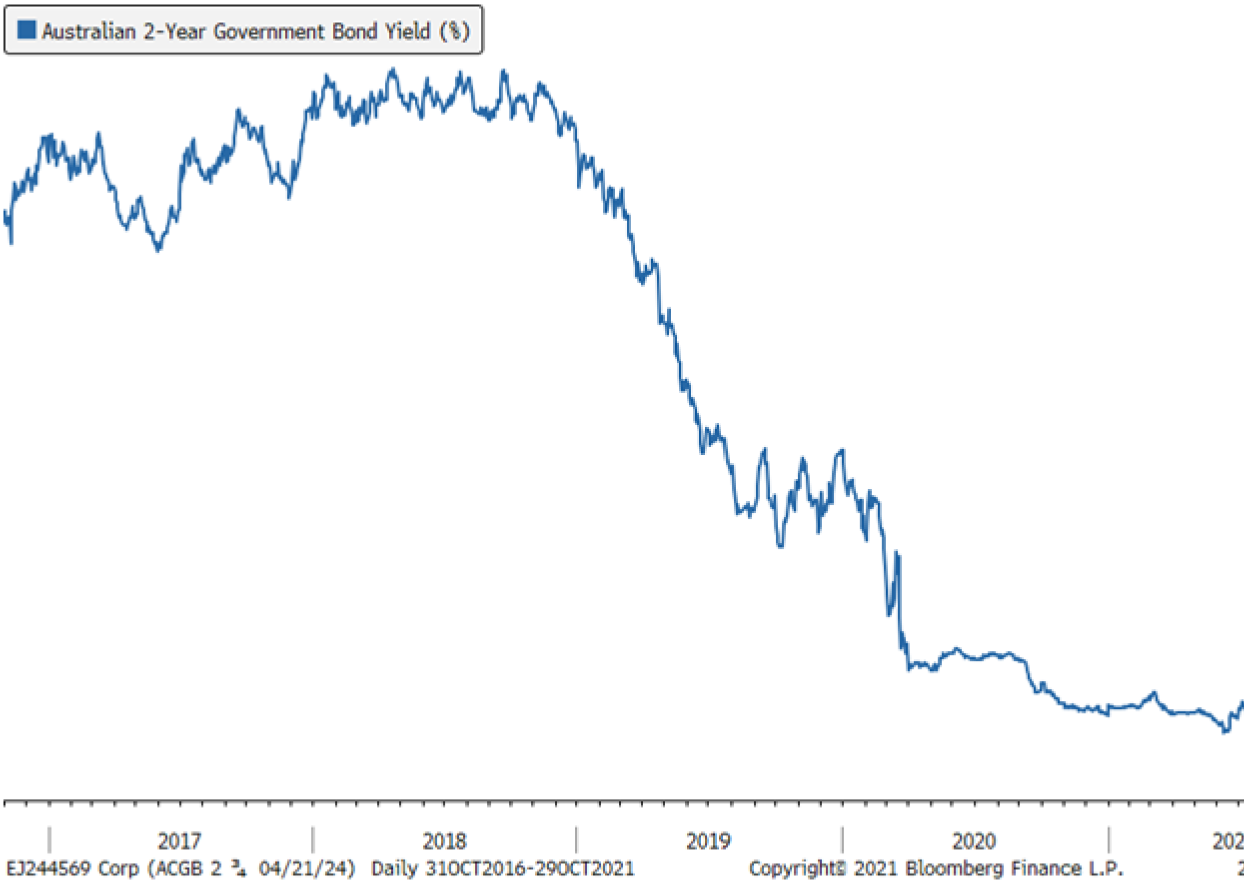
One of our favorite markets continues to be Japan. For those that missed it in prior *EVAs*, the Japanese market has broken out to a 28-year high. This is an extremely bullish development in Evergreen's view.

Another long-favored area by our firm has been energy. It's been on fire this year but it has also eased for the week. As usual, the high-yielding midstream infrastructure sub-sector has been weaker than the broader energy sector even though these utility-like entities have much less volatile business models than, say, oil and gas producers. It doesn't really make sense but, as they say, it is what it is. Oil prices themselves have

stayed resilient despite the growth and bond market worries described above.

2-Year Government Bonds

- 

- 
Australian 2-Year Government Bond Yield (%)
2017
2018
2019
2020
202
EJ244569 Corp (ACGB 2 ¾ 04/21/24) Daily 31OCT2016-29OCT2021
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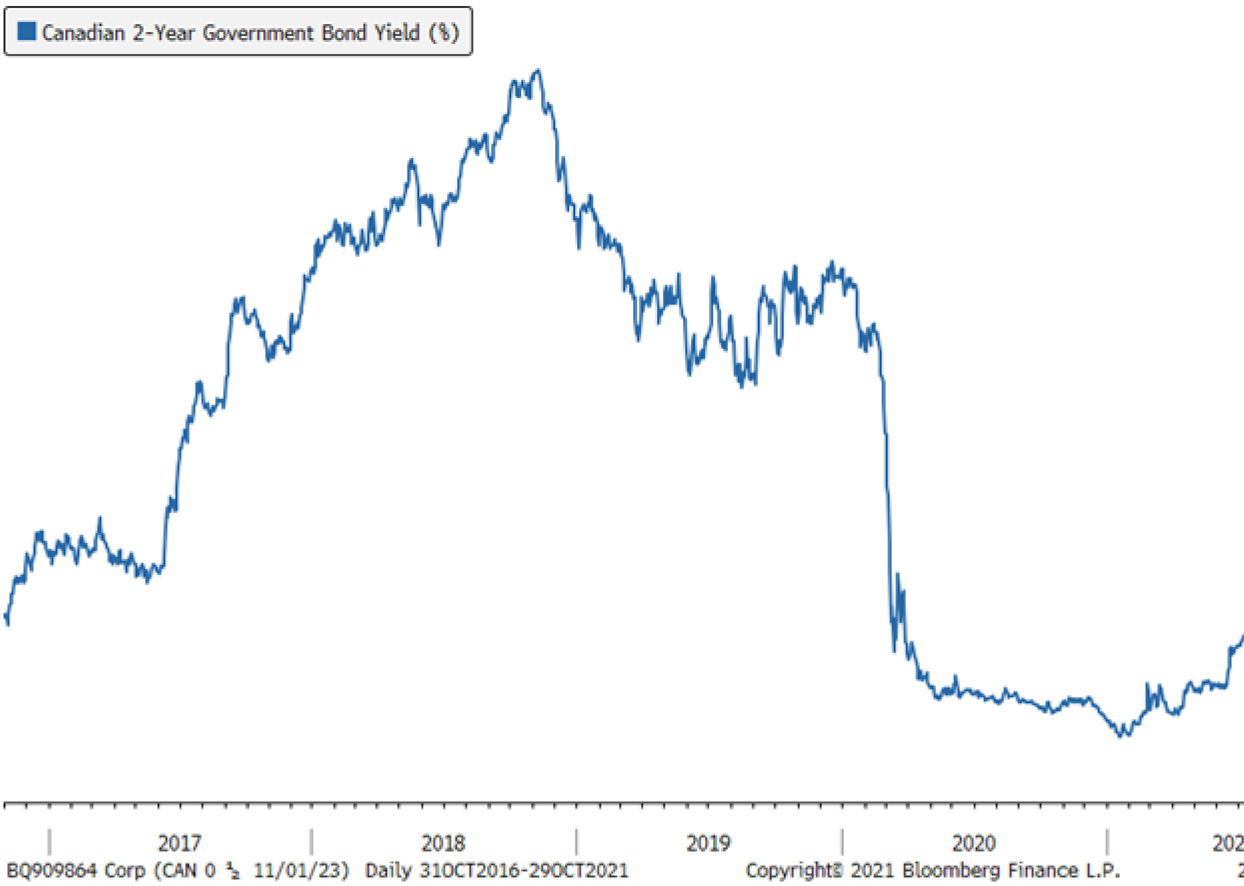
- 
Canadian 2-Year Government Bond Yield (%)
2017
2018
2019
2020
202
BQ909864 Corp (CAN 0 ½ 11/01/23) Daily 31OCT2016-29OCT2021
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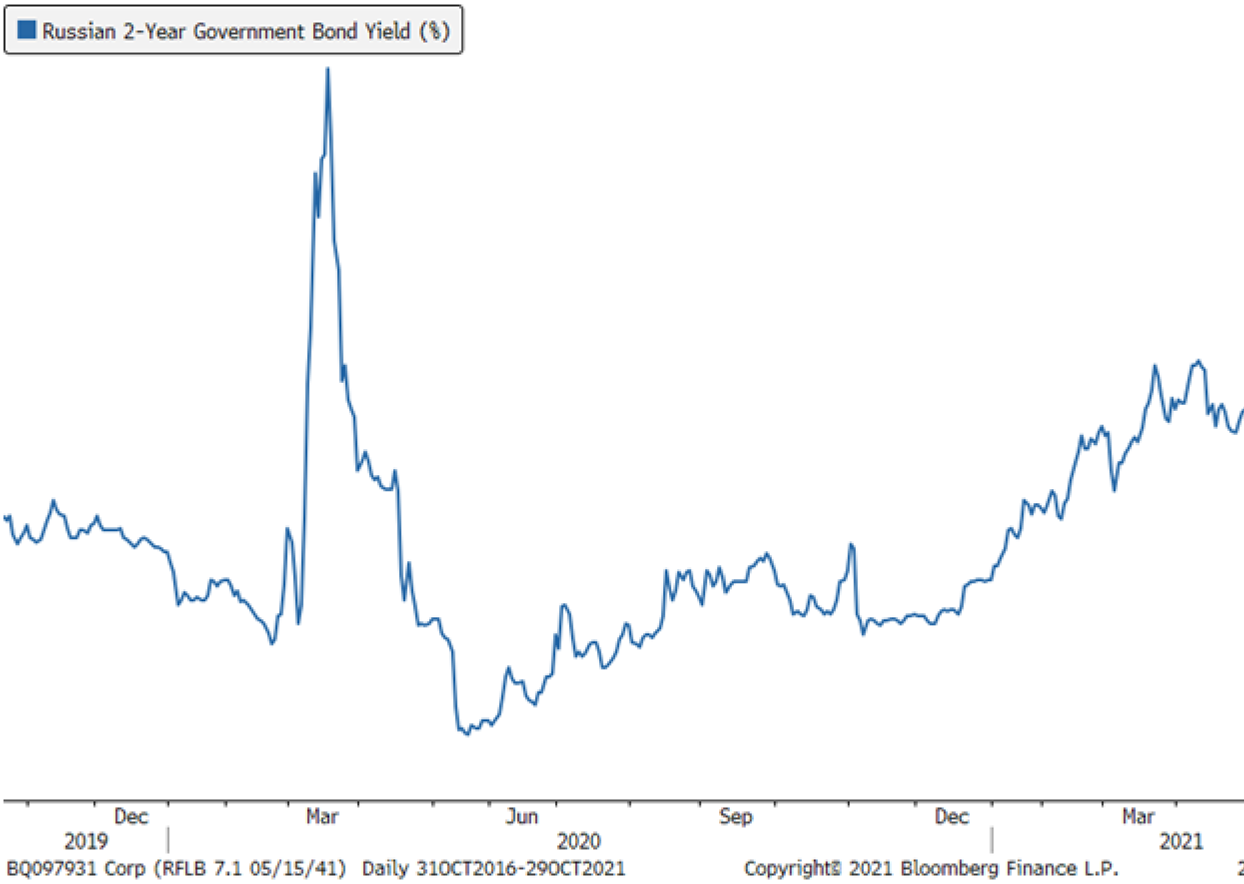
- 

Russian 2-Year Government Bond Yield (%)
Dec
Mar
Jun
Sep
Dec
Mar
2019
2020
2021
BQ097931 Corp (RFLB 7.1 05/15/41) Daily 31OCT2016-29OCT2021
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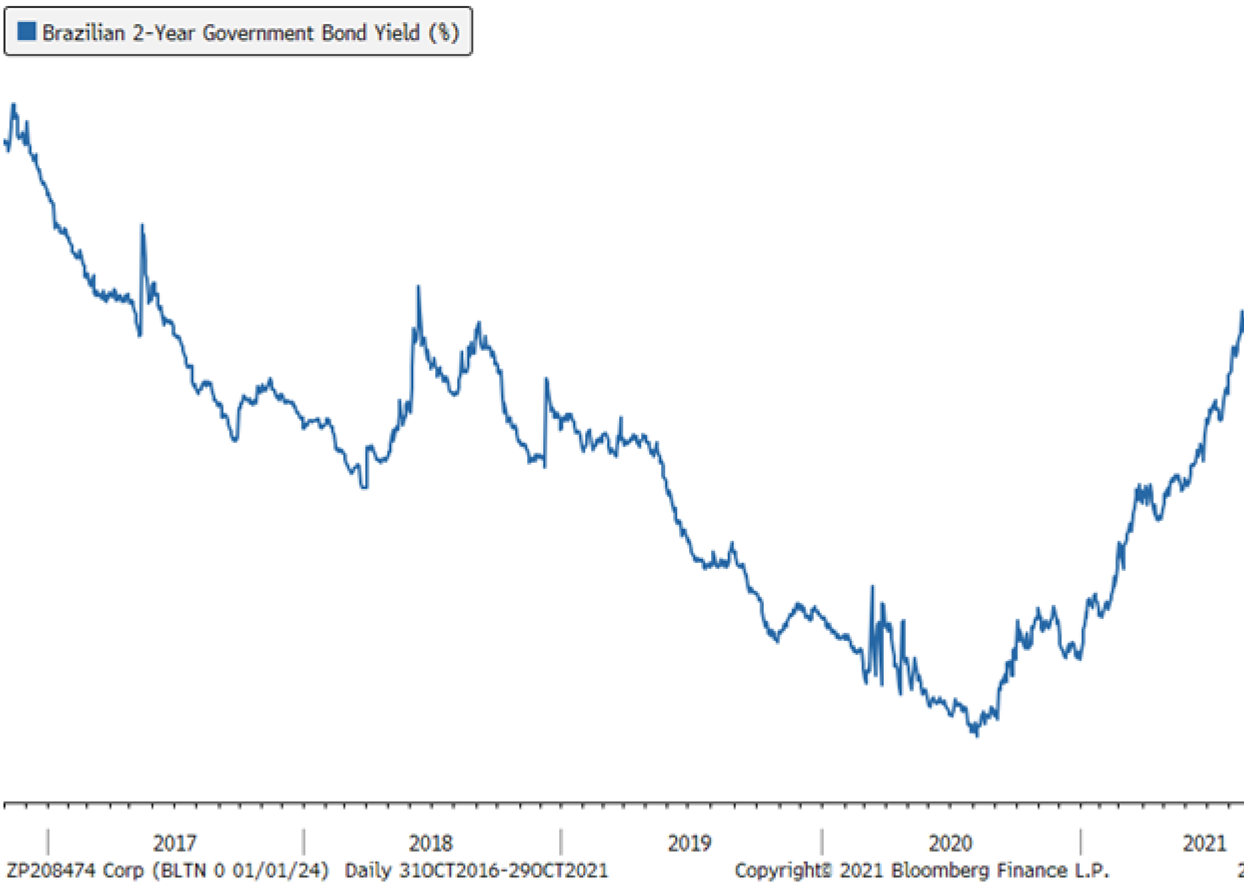
- 

Brazilian 2-Year Government Bond Yield (%)
2017
2018
2019
2020
2021
ZP208474 Corp (BLTN 0 01/01/24) Daily 31OCT2016-29OCT2021
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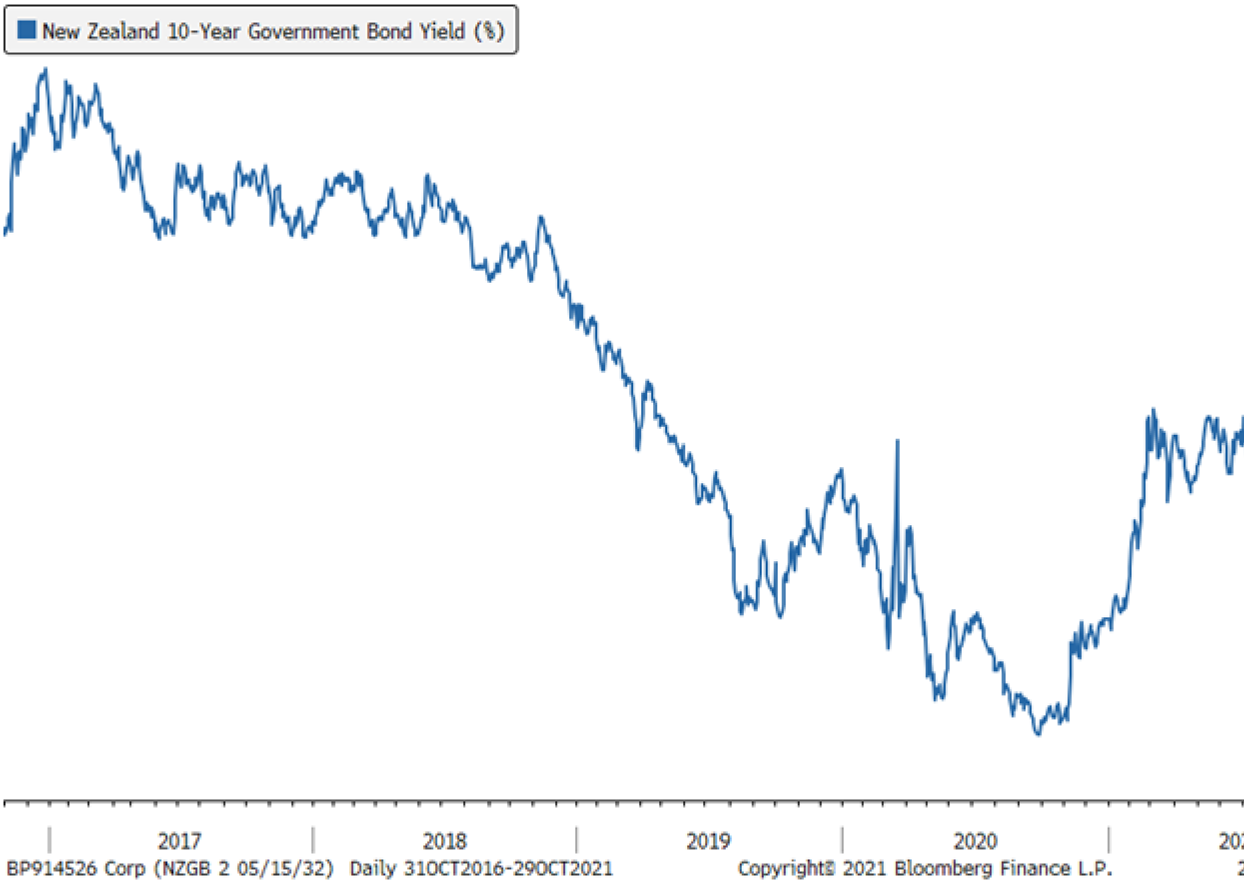
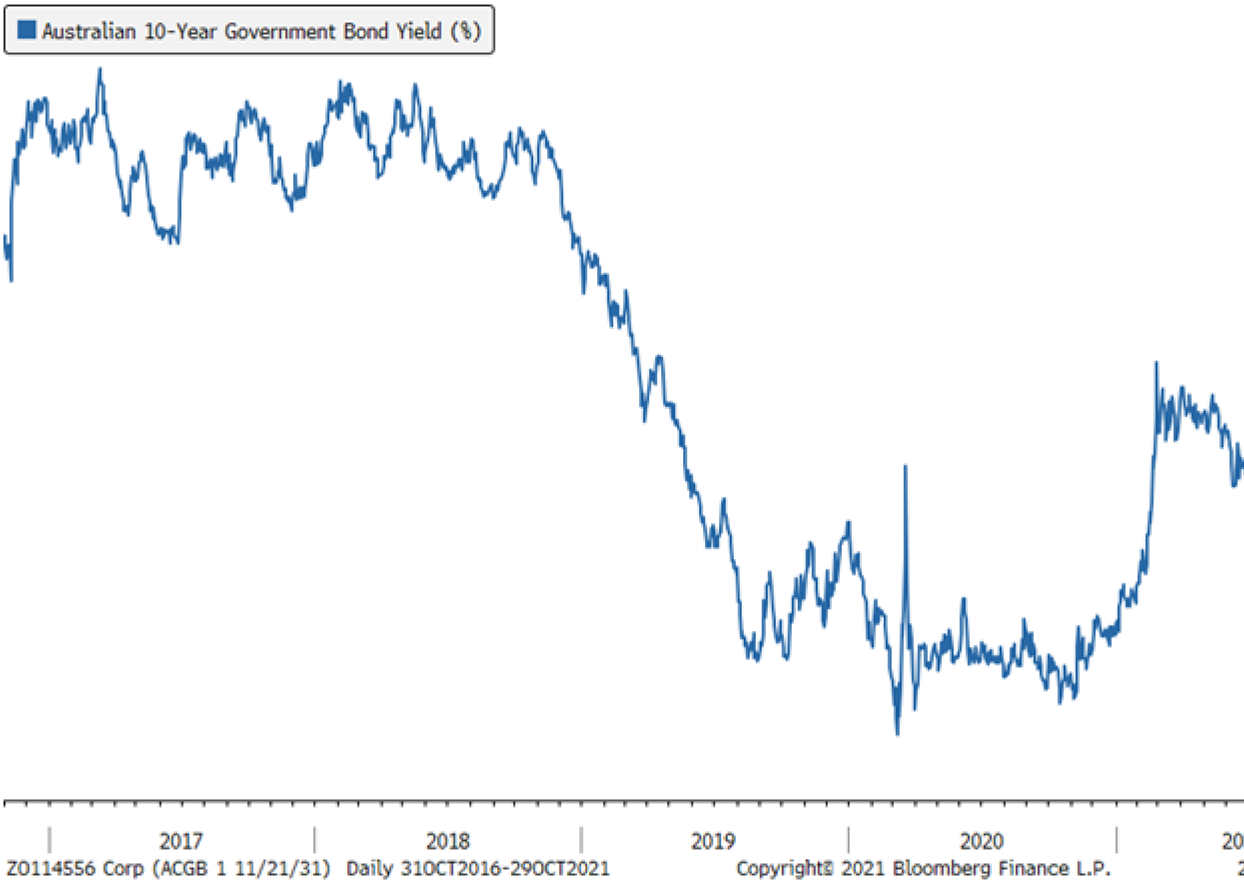
10-Year Government Bonds

- 

- 
Australian 10-Year Government Bond Yield (%)
2017
2018
2019
2020
20
Z0114556 Corp (ACGB 1 11/21/31) Daily 31OCT2016-29OCT2021
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Russian 10-Year Government Bond Yield (%)
2017
2018
2019
2020
202
BQ096414 Corp (RFLB 6.9 07/23/31) Daily 31OCT2016-29OCT2021
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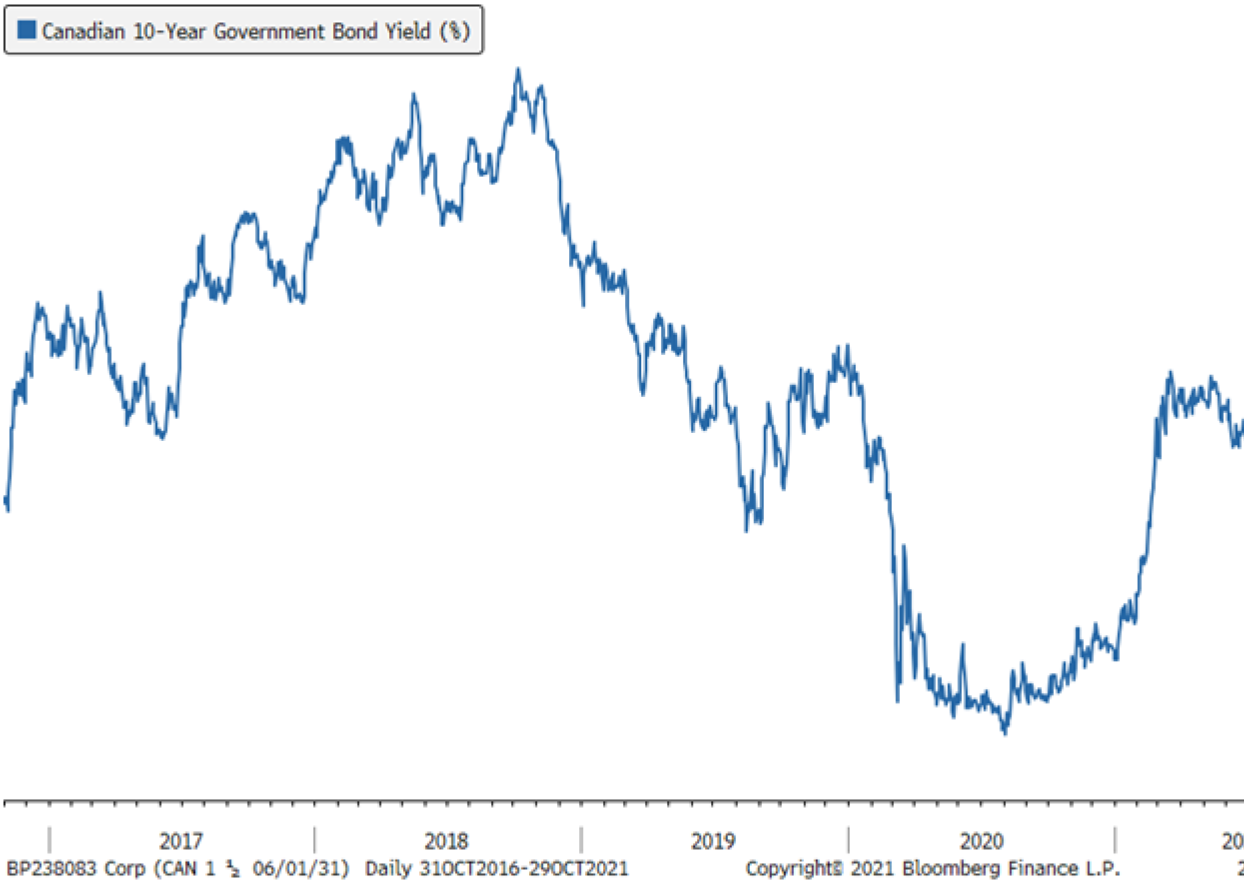
- 
Canadian 10-Year Government Bond Yield (%)
2017
2018
2019
2020
BP238083 Corp (CAN 1 ½ 06/01/31) Daily 31OCT2016-29OCT2021
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Brazlian 10-Year Government Bond Yield (%)
2017
2018
2019
2020
2021
ZP208480 Corp (BNTNF 10 01/01/31) Daily 31OCT2016-29OCT2021
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- 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.)
- **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 (Per the above, they have given back some of their gains. Continue accumulating on weakness.)**
- **Gold (It has had a very mild decline this week; no changes to our long-term buy recommendation.)**
- **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 170% 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 over the week, 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 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.)**

- 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 a bit. 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 (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 7%.)
- **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 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 1.2% 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 4.65% 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.)**
- 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 30% 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. These meme-type stocks are sliding once again though they remain absurdly overvalued, in my view.

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