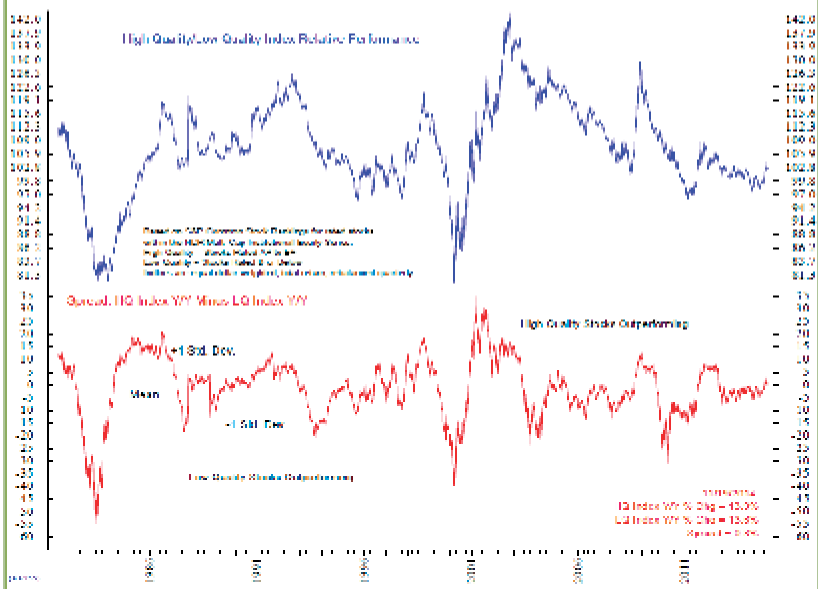
November 21, 2014

EVERGREEN GAVEKA

MONTHLY CHARTBOOK / NOVEMBER 2014

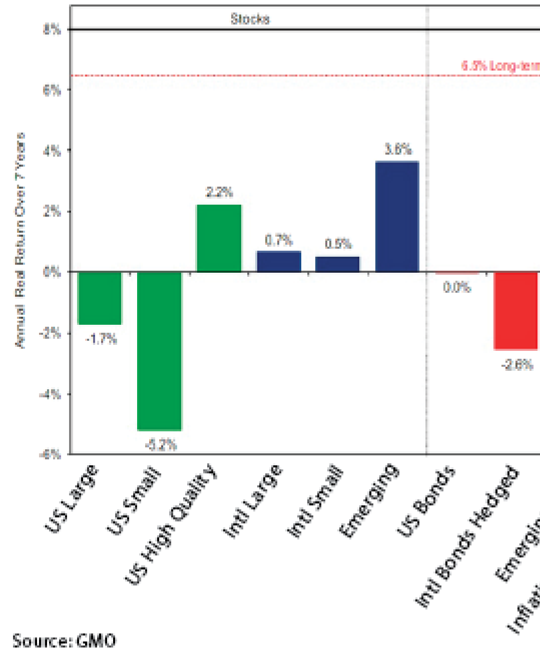
THE US FINANCIAL MARKETS

NDR HIGH-QUALITY STOCK INDEX VERSUS NDR LOW-QUALITY STOCK INDEX



Daily date 9/29/1981-11/19/2014 (log scale)
Source: Ned Davis Research (NDR)

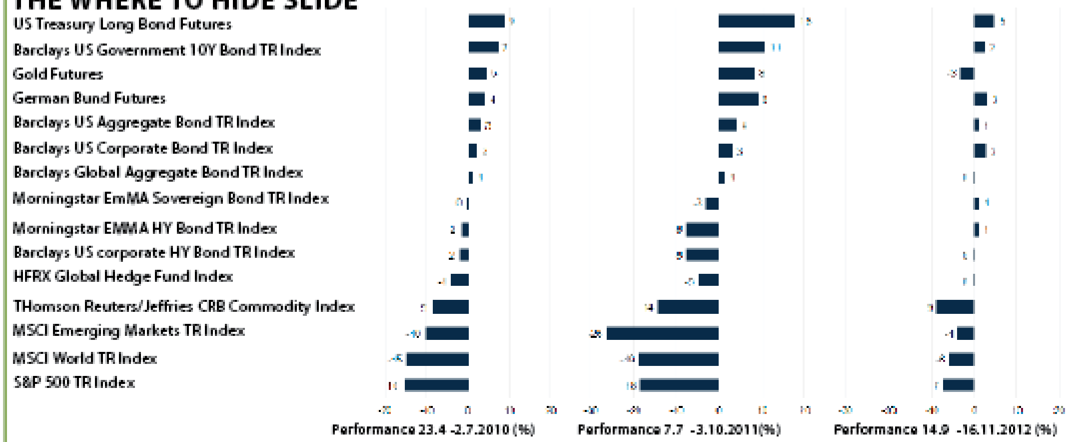
SEVEN YEAR RETURN PROJECTIONS BY A



Source: GMO

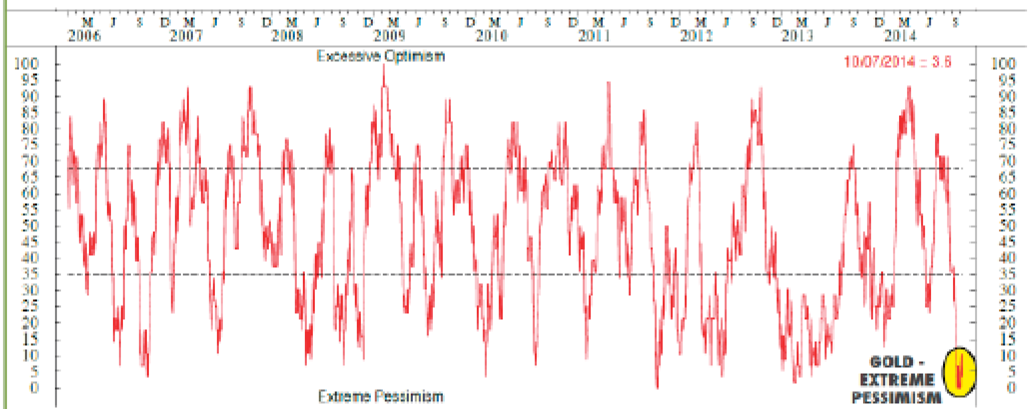
Recently, high quality US stocks have begun to outperform. It's about time. Blue chip issues have l quality shares for almost 15 years. Yet, over the very long-term, high quality stocks have produced su less risk. The prestigious money management firm GMO boasts one of the best long-range asset class records. It continues to project that elite US equities will be the only section of the domestic stock marke positive real returns over the next seven years. Evergreen concurs with that viewpoint.

THE WHERE TO HIDE SLIDE



Source: IR&M, Bloomberg, dates adapted from Breakfast with Dave, Gluskin Sheff

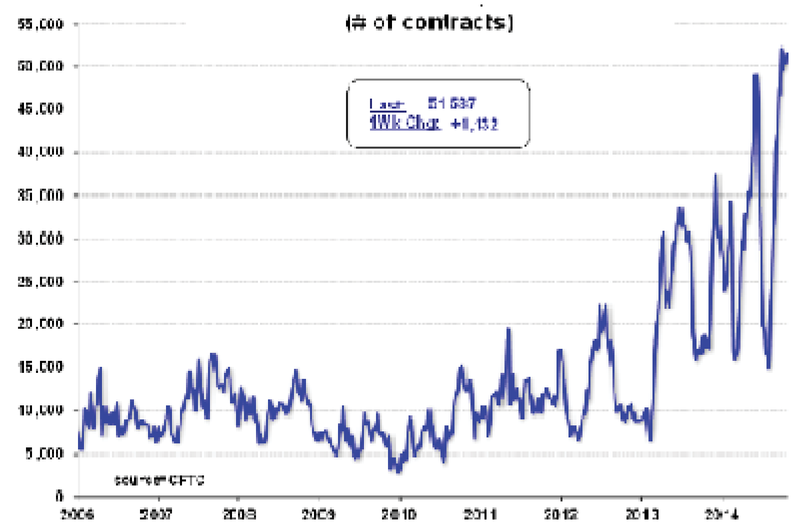
GOLD FUTURES 13-WEEK PERPETUAL CONTRACT



Source: Commodity Systems, Ned Davis Research

Gold's one and a
market has caused it
Yet, for investors lo
in a stock market sel
worth accumulating
tax-loss selling subs
Unfortunately, the yel
crashed through m
(around $1200), violat
discipline and implyin
downside. Based on e
sentiment, though, it
be surprisingly vigor
even more devastated
are also interesting re
New Year nears. (If I se
gold, it's because I am

SILVER - COMMITMENT OF TRADERS: SPECULATIVE SHORTS

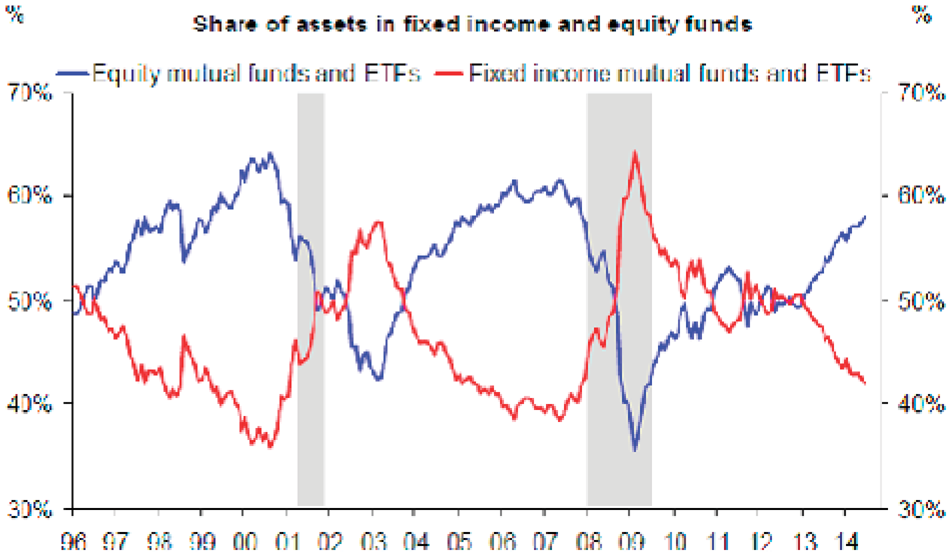


Source: CFTC

Silver, the poor man's precious metal, has definitely made all those involved with it over the last few
poorer. This is especially the case for those reckless bulls who charged into silver when it was approachi
the spring of 2011, a time when its ETF (SLV) was trading with higher volumes than the S&P 500. (At the
that this was a very strident warning silver was caught up in a full-blown bubble). As with gold, the
radically different today. Speculative "investors" are ferociously hostile toward silver. On the negative s
continue to accumulate SLV and it also recently broke multi-year support.

THE US FINANCIAL MARKETS

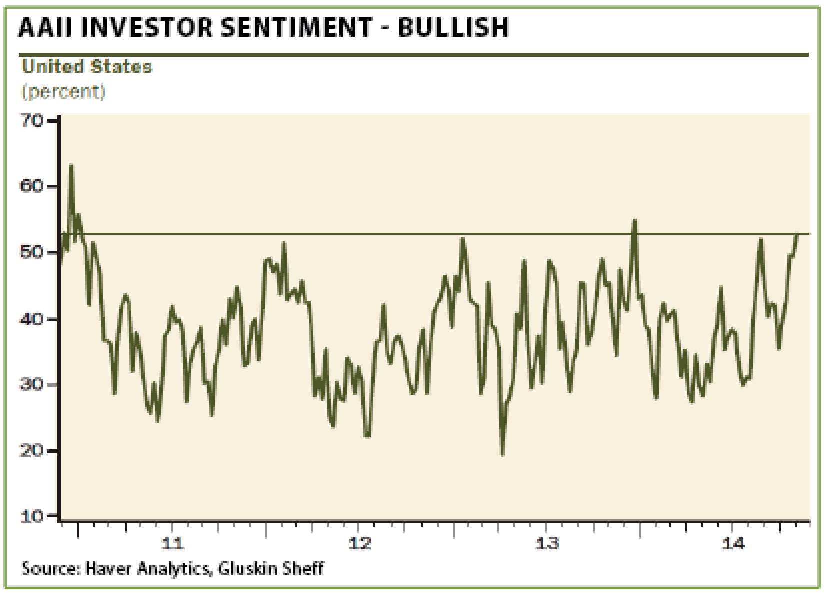
HOUSEHOLDS' ASSET ALLOCATION TO FIXED INCOME IS DECLINING

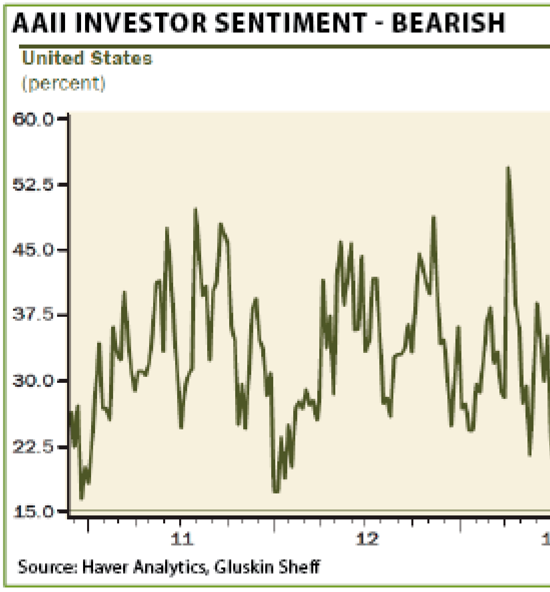


Note: Fixed income is the sum of bond and money market funds.
Source: ICI, Haver Analytics, DB Global Markets Research

The belief that US investors are over-exposed to bonds and underweight stocks continues to be as sightings. Yet, as you can see above, looking at both mutual fund and ETF assets, the opposite is actu note that the gap isn't as wide as it was in 2000 or 2007, just prior to those epic bear markets for equ hand, considering the "graying" of the US investor class, on an age-adjusted basis, the far higher allocat incongruous to the Evergreen Investment Team. Perhaps the most important message from the chart the last nearly twenty years, stocks and bonds have regularly changed places in terms of most in-and o

THE US FINANCIAL MARKETS

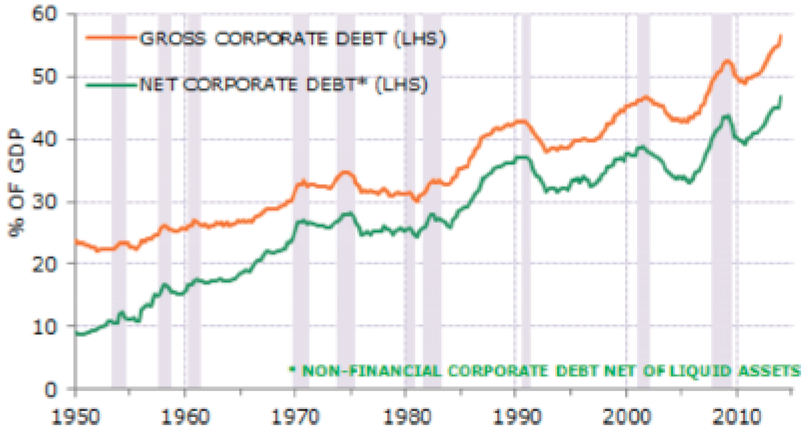




As usual, bullish sentiment toward stocks swooned and bearishness vaulted during the mini-co September to mid-October. Now, just as predictably, with prices having fully recovered (and then som their oats while bears are back in hibernation. This raises the odds that any unsettling news could cause reaction.

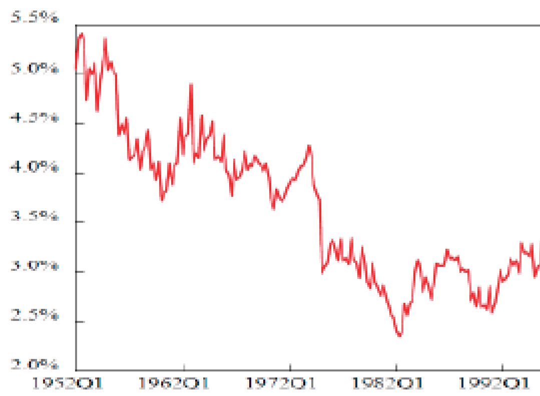
US ECONOMIC TRENDS

NON-FINANCIAL CORPORATE DEBT



Source: *Business Insider*

NONFINANCIAL CORPORATE CASH AND C
AS A % OF TOTAL ASSETS; LAST POINT 1



Source: Federal Reserve

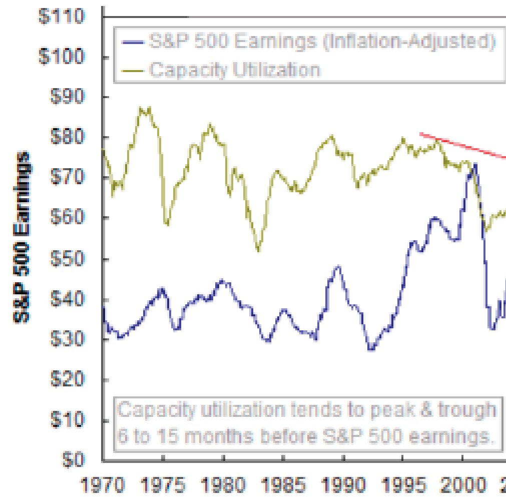
Another belief which seems to have more lives than James Bond is that the collective balance sheet o
is cash heavy and debt-lite. However, the reality is quite different. Even looking at net debt levels, givin
massive amounts of cash some companies possess (especially large tech firms), corporate debt as a perc
the economy (GDP) has never been larger. Similarly, holdings of cash and cash equivalents have eased
a few years ago.

US ECONOMIC TRENDS

CPI MEDICAL CARE SERVICES

Shaded regions represent periods of US recession
Source: Haver Analytics, Gluskin Sheff

EARNINGS VERSUS CAPACITY UTILIZATI



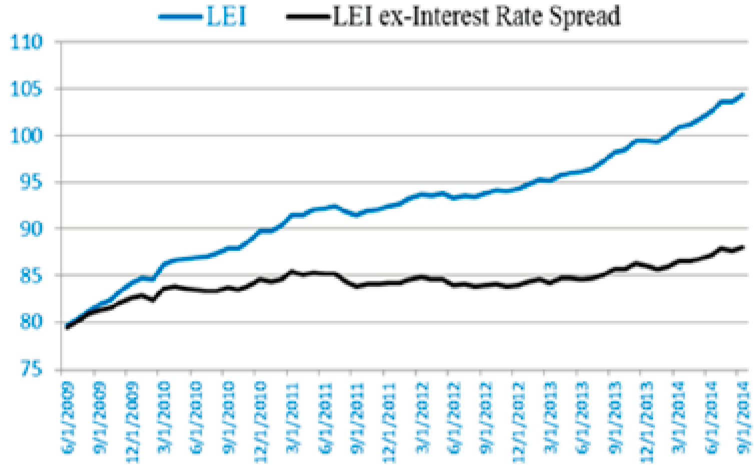
Source: Chart of the Day

One very positive long-term development for the US economy is the extended downturn in healthcare services costs. It remains to be seen, of course, how Obamacare will impact this salubrious trend. Evergreen believes that various long overdue cost rationalization measures will be put in place, helping to mitigate the inexorable rise in medical care spending as America ages.

US capacity utilization is at its sec
virtually back to where it peaked in 200
weakest economic recovery since WW
the official unemployment rate now un
be hard-pressed to avoid raising rates
at least somewhat consistent with a m
economy. This could actually be very
real economy but it likely poses a thre
of the financial world that have benefi

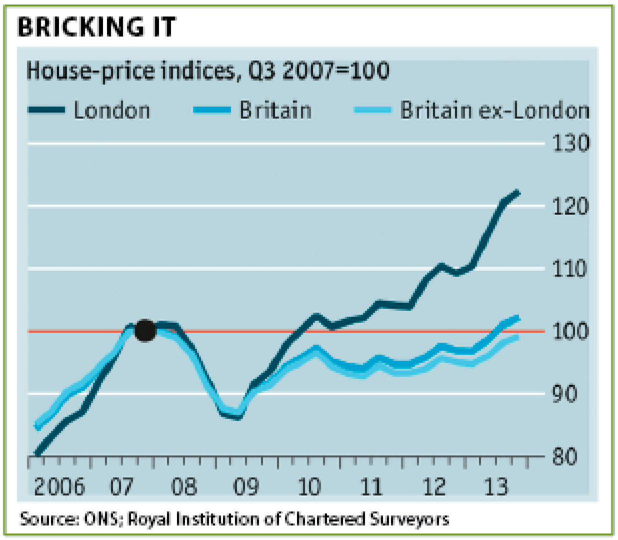
US ECONOMIC TRENDS

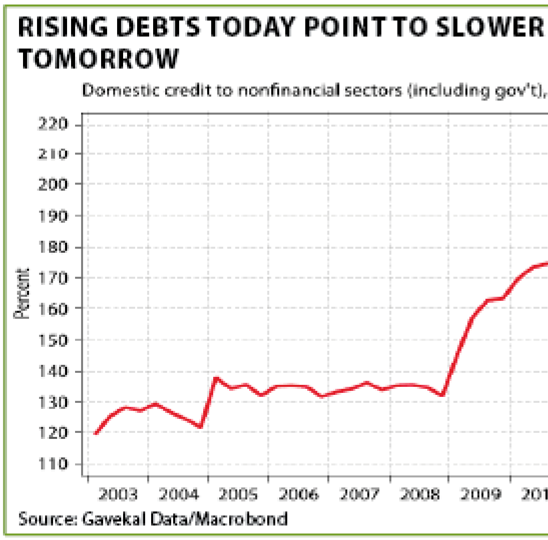
LEADING ECONOMIC INDICATORS (LEI) WITH AND WITHOUT INTEREST RATE FACTORS



Source: Bloomberg

Jones Trading's Mike O'Rourke and GaveKal's Charles Gave have both been critical of the traditional Indicators (LEIs). This is due to the heavy influence on them caused by the Fed's suppression of short-ter the related compression of credit spreads (as those in need of income are forced further out the matu spectrum). The difference between the standard LEIs and a version that backs out the Fed's distorting



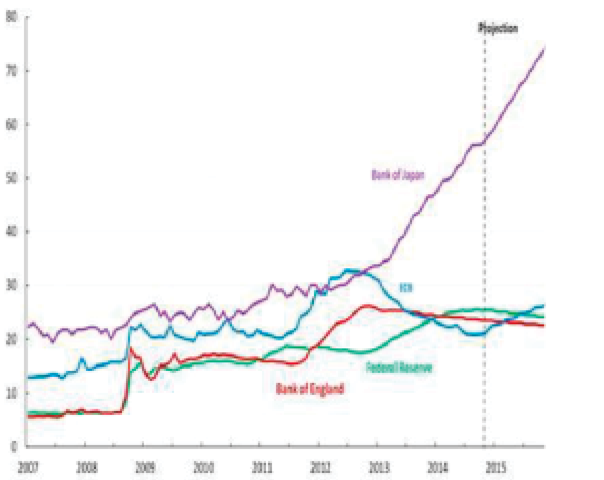


the prolific and insightful Mike O'Rourke, is arresting.

The UK has engineered a healthy economic recovery, at least superficially, contrary to many naysayers who felt reforms of its welfare program would trigger another recession. It is worrisome, though, how much of the economy's vitality is based on reflating another bubble in housing. Also ominously, the Bank of England's chief economist recently commented that the UK bond market is effectively pricing in 40 years of negative real (after-inflation) interest rates. This may be a result of the market's realization that relying on printing money and inflating asset prices leads to long-term stagnat

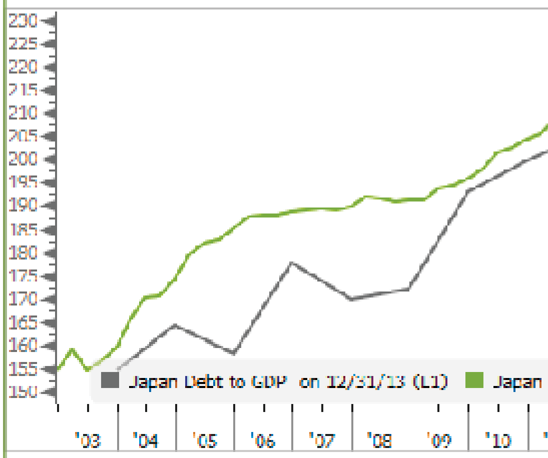
To put China's debt binge since the G perspective, if the US had increased its sector indebtedness by an equivaler we would have added about $12 trilli liabilities. In actuality, the US has slig debts. China is not an outlier, however Journal has noted of late, worldwide de GDP has increased by 36% since 200 record high of 212%. So much for the Gr

TOTAL CENTRAL BANK ASSETS AS % OF GDP



Source: Gavin Davies

JAPANESE DEBT-TO-GDP AND TOTAL JAP
(IN TRILLION YEN)



Source: Bloomberg, Evergreen GaveKal

Perhaps the most alarming news to come out of Asia recently was Japan's shockingly weak third c Instead of the positive rebound expected after a poor second quarter (caused by a sharp increase economy contracted 0.4%. Consequently, Japan now has the dubious distinction of being back in a techn consecutive negative quarters). This should cause advocates of further QEs and massive deficit spendin most fundamental assumptions of how to revive moribund economies. Japan has printed far more mo developed country and has also accumulated the largest government debt relative to the size of its econ it remains back in recession and is still struggling to decisively break out of its deflationary morass.

My key takeaways from the charts and data shown above is that we are moving closer to a global epiphany—namely, that the near total reliance on QEs (quantitative easings, more commonly known as printing money) is failing to bring home the mail. Moreover, one of the biggest surprises to me after years of central banks conjuring up tens of trillions of pseudo-money is that deflation is emerging as a major threat, not inflation. It is particularly telling that economically-sensitive commodity prices, as well as precious metals, have been mercilessly pounded. Then, add to that the prevailing nanoscopic level of nearly all developed country government bond yields, most of which are plumbing multi-century lows. Something is clearly very wrong with the world's dominant monetary policy of fabricating trillions and hoping for the best. Yet, despite deflation in many countries, central banks have succeeded in creating a lot of inflation. It's just that it's all been in asset prices. Don't forget how "well" the combination of tame consumer prices and soaring asset values worked in 2000 and again in 2007. Oh, that's right—this time is different.

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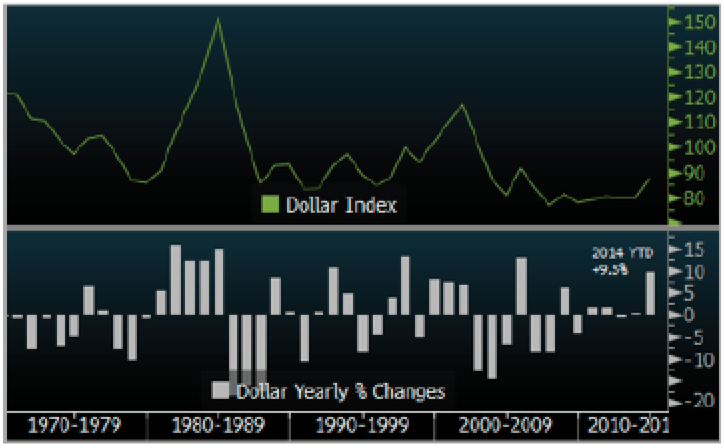
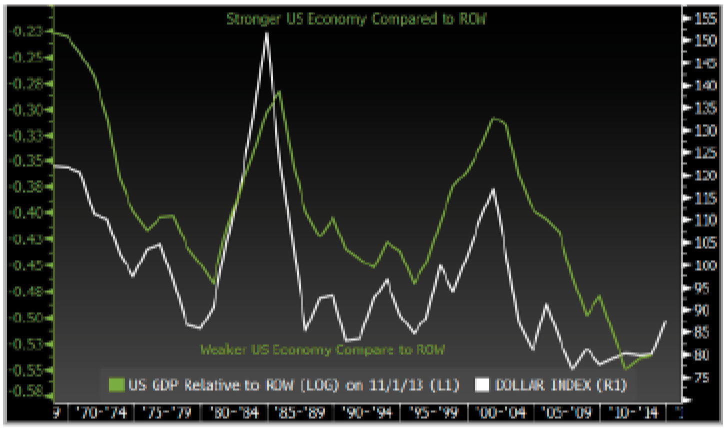
DAVID HAY
Chief Investment Officer

THE IMPLICATIONS OF A STRONGER USD



Green line: dollar index; Grey bars: dollar yearly and changes
Source: Bloomberg, Evergreen GaveKal



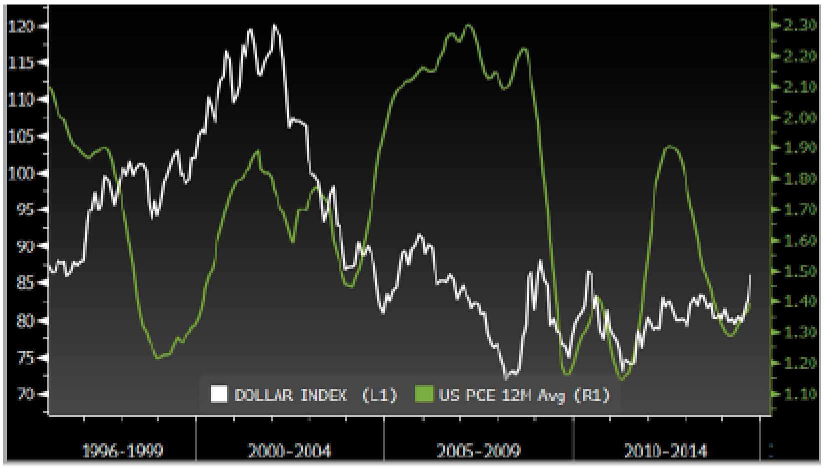
Green line: US GDP Relative to ROW (LOG) on 11/1/13; White line: dollar index
Source: Bloomberg, Evergreen GaveKal

One of the biggest macro, or big pict
has been the rapid appreciation of th
at +9.5% year-to-date, the greenback
the most in any year since 2005. And
is both the world's reserve currency
choice for over 80% of global trade,

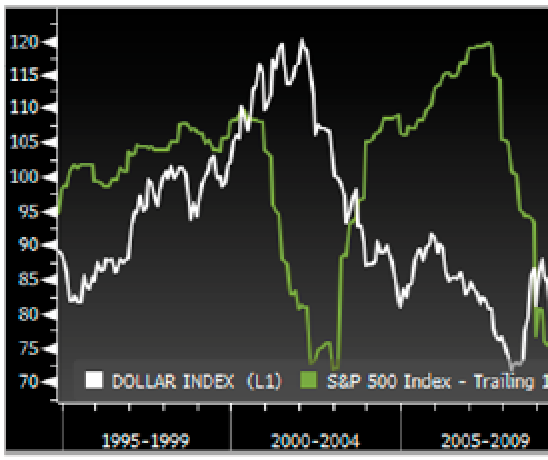
global ramifications for many differen
the planet's economies.

The recent jump in the dollar has b
a stronger US economy compared to t
(ROW), leading to a policy divergenc
where the Fed has quit easing, and the
the European Central Bank, both of w
stimulus mode. The chart on the bott
GDP differences between the US an
stronger relative US economy has a hig
stronger dollar. In the short run, as the
quantitative easing program—with ti
to begin in 2015—the US currency outp
continue. With higher rates in the US, a

THE IMPLICATIONS OF A STRONGER USD



White line: dollar index; Green line: US PCE 12 month average
Source: Bloomberg, Evergreen GaveKal



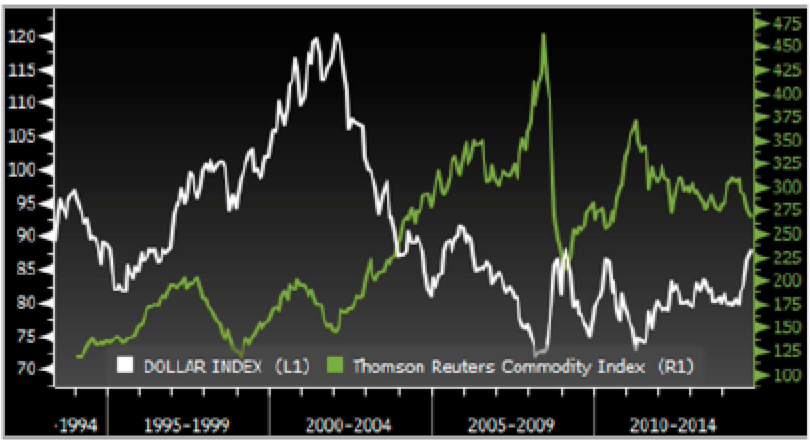
White line: dollar index; Green line: S&P 500 Index - Trailing 12 mon
Source: Bloomberg, Evergreen GaveKal

for the Fed to raise rates next year, this may just be the start of another strong era for the US dollar (USD).

Currently, there is a heated debate between economists on whether inflation or deflation is around the corner. The chart above shows the USD and year-over-year change in the Personal Consumption Expenditure (PCE) index—the Fed's favorite tool for tracking inflation. As you can see, during periods of dollar strength, inflation measures have remained subdued. This is primarily a function of falling import prices, which helps dampen consumer prices. We tend to think that a deflationary bust runaway inflation.

While a rising buck makes import pri makes products priced in the USD c expensive vs. international competiti domestically based firms is either allo or cutting prices to maintain market s have a fairly nasty impact on profit above shows the relationship between the USD. The late '90s is an example o ahead of itself and the resulting plunge

THE IMPLICATIONS OF A STRONGER USD



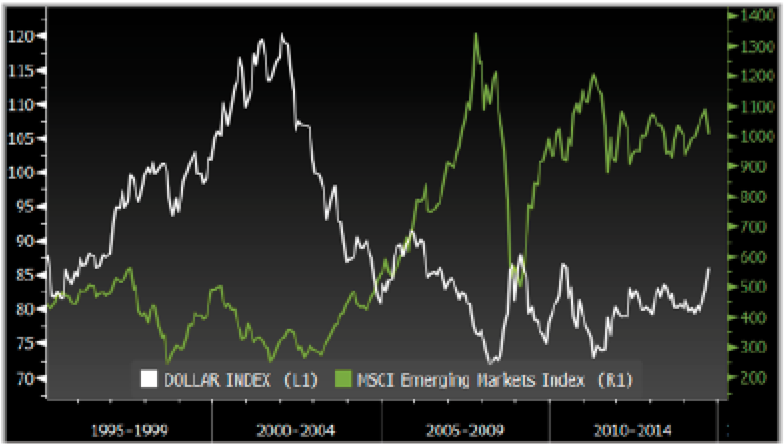
White line: dollar index; Green line: Thomson Reuters Commodity Index
Source: Bloomberg, Evergreen GaveKal

White line: dollar index; Green line: Gold Spot $/oz
Source: Bloomberg, Evergreen GaveKal

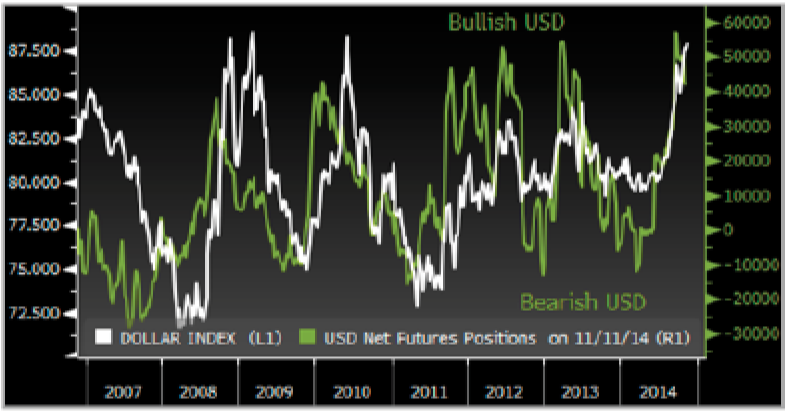
Commodities are one of the most exposed asset classes to a rising dollar. This is because most commodities are priced in dollars. As the dollar rises, prices of commodities tend to drop to maintain their value on a global basis. The opposite is true during periods of dollar weakness. The chart above illustrates this c-saw tendency, and shows the recent plunge in commodities given the dollar's surge.

The previous relationship seems to b
it comes to precious metals. Gold, in pa
this same negative correlation. Gold h
run from the early 2000s until 2011 b

THE IMPLICATIONS OF A STRONGER USD



White line: dollar index; Green line: MSCI emerging markets index
Source: Bloomberg, Evergreen GaveKal



White line: dollar index; Green line: USD Net Futures positions on 11/11/14
Source: Bloomberg, Evergreen GaveKal

began to trend up, the precious metal
nosedive.

One of the biggest beneficiaries of th
easing programs, at least early on, was
According to Morningstar, since 2009
has flowed into developing markets. T
least partially been financed through
sheet expansion. As you can see (char

is a strong inverse relationship betwe
emerging market stocks.

While we believe the forces are in pl
run, we also think the current rally is a
One of the things we evaluate when ar
are the net speculative futures position
at whether traders are positioned long o
this has been a fairly accurate contrar
positioning is extreme. The rationale
positions become excessive, which typi
the end of a powerful upward price mo
take profits. Thus, as long's (i.e., bullish p
out, this puts downward pressure on p
the chart on the bottom left, when th
interest) gets elevated, a dollar correct

CONCLUSION

So despite longer-term catalysts, a near-term correction in the dollar seems probable.

As we put these charts together, we noticed several clear trends associated with a stronger US dollar. The positives for the US include cheaper imported goods as well as more purchasing power abroad. And, dollar strength drives commodity prices down, which reduces key input prices for companies and adds discretionary income for consumers through lower gasoline prices. However, it also makes US companies, which are increasingly more global, less competitive overseas. This negatively impacts sales and profit margins. Further, a stronger dollar is often a symptom of decelerating global economic growth. This is particularly the case in Europe, which is the second largest market for US companies.

While a strong dollar may sound appealing in the short run, it can set off a negative chain reaction. Specifically, when global growth is weak—and international debt based in USD rises—a rapid un-wind and global adjustments are likely. It's pretty clear the US economy currently has decent momentum. But a rising dollar amid international economic deterioration could be the spark that ignites the next fire sale for global asset prices. Conversely, it could be quite bullish for conservative US dollar-based income investments, which, in many cases, yield significantly more

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Important Disclosures