Positioning Recommendations – March 11th, 2022

There are times when it's relatively easy to be an investor. This is definitely not one of them! For years, it was possible to just sit back and ride the market's rising tide caused by nearly endless liquidity infusions from the Fed and the other leading central banks. Those days have come to an end.

It was also previously reasonable to anticipate another re-opening scenario for the global economy as Covid finally became a non-issue. It was further plausible that with the $2 ½ trillion of excess savings U.S. households have accumulated since the pandemic began, a rip-roaring spending surge was likely. Additionally, with the ultra-critical auto industry in nearly a one-year volume recession, a powerful rebound in vehicle production was almost certain to positively reverberate through the economy. But then came Putin and his murderous hordes…

For Europe, in particular, hopes of another re-opening burst have been dashed. Instead, a deep recession looks almost inevitable. As prior EVA PRs have highlighted, the energy crisis in Europe makes $4.50/gallon U.S. fuel prices look almost benign. Energy rationing on the Continent looks to be a done deal -- never a good thing from an economic activity standpoint.

Even more alarming is what natural gas prices (that have risen seven-fold in Europe over the past year) mean for fertilizer prices. (The good news is that the benchmark Dutch natural gas price has fallen roughly 60% recently.) Suffice to say, it's an enormous problem. There are reports of farmers planting without fertilizers as they have become cost prohibitive. This has highly negative implications for crop yields. Even worse, Russia and Ukraine provide about one-quarter of the world's wheat. As a result, the prospects of extreme food shortages, particularly in parts of the Middle East and Africa, are far from trivial.

It's simply stating the obvious that the volume of problems afflicting the Planet Earth right now could almost fill up the latest 2727-page Congressional budget bill (yes, really!). But there is also the chance for a dramatic positive reversal should peace break out in Ukraine. Evidence is mounting that V. Putin realizes he's made an enormous miscalculation. In addition to the numerous military setbacks his invading forces have suffered, he's also managed to unite and reinvigorate NATO in almost unimaginable ways. The fact that Sweden and Finland want in, along with Germany's stunning decision to dramatically increase its defense spending, must have him wishing he'd never given the attack order.

Now that he's begun blaming his generals and intelligence services for misleading him, a door is perhaps opening for a negotiated peace. He can save face by throwing them under the bus, or maybe the tank, especially if he receives some territorial concessions and an assurance Ukraine won't join NATO (which wasn't going to happen, regardless). This, of course, would be a wonderful-for-humanity development. But it would also almost for sure trigger a rousing rally in financial markets. Accordingly, it's extremely difficult for investors to decide between becoming more defensive or taking advantage of this year's sell-off.

As I've often written, as bad as the official numbers are, the reality for most stocks is far worse. For example, according to JP Morgan's Michael Cembalest, the average NASDAQ stock is down 40% from its peak levels. Ouch! Consequently, there could be a very robust recovery should sanity prevail in V. Putin's brain. (Please allow me to encourage all *EVA PR* readers to check out today's *Bubble 3.0* chapter on everyone's favorite bubble which is, of course, the U.S.

stock market… or, at least it, was.)

So, what's an investor to do? As I've written before the new world order — or, perhaps, more accurately, disorder — benefits a number of American industries. Energy and agriculture are obvious beneficiaries. There are less apparent winners, too, such as U.S. companies that are beneficiaries of what appears to be a massive capital spending cycle. This was already underway before the Ukraine tragedy due to the reshoring of production, in no small part due to tensions with China. But now, with the U.S. once again in a position to be the world's breadbasket and its safest, most reliable, supplier of industrial products, this trend has even more force behind it.

Even if there is a cessation of hostilities in Ukraine, these companies should report strong earnings for years to come. If the fighting drags on, they should also prosper. Ironically, most of these new winners are not the ones with which most U.S. investors have been enamored. This ties into one of my main investment themes; namely, that a far different investment approach needs to be employed, one that recognizes our world has radically changed. In my view, it's not changing back anytime soon.

Positioning Recommendations

LIKE

Per the above, we're adding a new buy recommendation category: capital spending-oriented companies. You should make sure that they have substantial exposure to the US industrial base. Or you should hire Evergreen to do that for you… if you haven't already!

Last week I pointed out that the gold miners were having an excellent year, up 15% as of last Friday. Because they remained so neglected by almost all investors, I suggested they had further upside. Fortunately, they have risen another 8% this week. I'd be a bit careful buying more at this level, but they still appear quite attractive long-term. With gold breaking above $2000 to a new all-time high (though not yet a decisive one), profits should be very strong. One negative is that the miners are major consumers of energy.

- Large-cap growth names at a reasonable price.
- Certain international developed markets, especially Japan
- Publicly traded pipeline partnerships, i.e., MLPs and other mid-stream energy securities.
- **Gold-mining stocks**
- **Gold**
- **Silver**
- Select international blue chip oil stocks
- Oil field services companies, particularly those well exposed to the Permian Basin
- Short-term investment grade corporate bonds
- Emerging market (EM) bonds in local currency (focusing on stronger countries, particularly in Asia)
- Large-cap value
- High-dividend equities with *safe* distributions
- Most cyclical resource-based stocks
- BB-rated corporate bonds
- Canadian REITs
- South Korean Equities

- Certain “Virus Victim” equities such as refiners, homebuilders, and select retail stocks
- Investment-grade floating rate corporate bonds
- The higher quality mortgage REITs
- Floating rate bank loans
- Copper producers
- Healthcare stocks
- **Capital spending-related companies, mainly focused on the US**

NEUTRAL

Some REITs have become extremely pricey, including the largest self-storage entity. If you own that one, I’d be doing some serious profit-taking right now.

- Uranium and uranium producers
- Renewable Yield Cos
- Intermediate-term investment-grade corporate bonds, yielding approximately 4%
- Mid-cap value
- Emerging stock markets; however, a number of Asian developing markets look undervalued
- **US-based Real Estate Investment Trusts (REITs)**
- Cash
- Canadian dollar-denominated short-term bonds
- One- to two-year Treasury notes
- Traditionally “safe” sectors such as Staples and Utilities
- Virus Victors
- Small-cap value
- European banks

DISLIKE

No changes to the below but I’d highlight that many green energy stocks are coming under pressure. However, there was a recent decent rally in the main solar power ETF. Regardless, it remains down almost 40% and its chart looks unappealing.

- The Indian stock market
- A wide range of high-income securities, including preferred stocks
- Intermediate-term Treasury bonds
- Small-cap growth
- Long-term treasury bonds
- Long-term investment grade corporate bonds
- Most municipal bonds
- US dollar
- Many semiconductor tech stocks
- Mid-cap growth
- Lower-rated junk bonds
- Green energy stocks
- SPACs
- Most new issues
- Despite a disastrous February, 2021, most of the popular Reddit/WallStreetBets meme stocks still have material downside.