

## The End of an Era

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*"Economics, politics, and personalities are often inseparable."*  
—CHARLES EDISON

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*(The following article by Evergreen Gavekal's CEO, Tyler Hay, was originally published in the [Puget Sound Business Journal](#) on February 8th, 2019.)*

### THE END OF AN ERA: POLITICAL DISCORD WILL EVENTUALLY TRIGGER THE ECONOMY'S NEXT DECLINE

Even the most casual financial observer is aware that the U.S. stock market has been roaring for a very long time. The market made history in August 2018 when, at 3,500 days, it became the longest running bull market on record, up roughly 300 percent from the depths of the financial crisis.

Perhaps even more striking than the force and length of the stock market's boom was the absence of volatility along the way. It was not a roller coaster ride up, but instead a relentless and consistent stair-step ascension.

Starting in early 2018, and especially in the fourth quarter of last year, this changed dramatically as volatility emerged from nearly a decade-long hibernation.

During 2017, there wasn't a single day when the U.S. stock market registered a market move of plus or minus 3 percent in a single trading day. Compare that to last year: The market saw 15 days when it had moves of this magnitude, 10 of which occurred during the fourth quarter.

Along with an increase in volatility, we saw broad weakness. The *Wall Street Journal* reported that, by mid-November, 90 percent of all investible asset classes including stocks, bonds and commodities were registering losses.

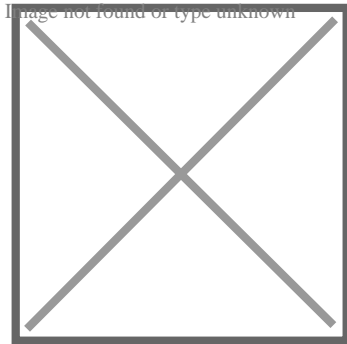
Only those living in a cocoon could have missed the uncertainty facing the U.S. economy as 2018 drew to a close. But many local investors are left wondering what this means for our economy locally. Are we living in a calm port that will remain unaffected if the American economy slips into a recession or worse? If history is any guide, the answer is "sort of."

While our region certainly didn't go unscathed during the recession of 2008-09, the damage was felt more in other parts of the country. The strength of our local companies combined with the northward migration of Silicon Valley companies looking for workers in a region with a far more affordable cost of living helped cushion the blow. However, I predict we don't see volatility coming in the form many are anticipating. While unemployment, corporate profits and stock prices are among the favored metrics used to gauge our economic trajectory, I'd propose a different perspective.

The volatility that lies ahead both locally and on a national level will not come from economic factors, but will emerge from the world's growing political discord. Nationally, we are currently engaged in a massive trade stare-down with China. Interest rates in the US have risen substantially in recent years. Our nation is struggling to solve a growing wealth gap between the

haves and the have-nots. The national debt has skyrocketed in the U.S. and in many other countries. Locally, we are struggling with similar issues like the impact of a new minimum wage policy, the on-again, off-again head tax, a growing homeless population and plummeting housing affordability.

We have a nation that's never been more divided and the world economies seem to be shifting away from globalization and embracing a far more protectionist attitude. I am very optimistic about the long-term future of our economy, largely due to tremendous advances that I expect in technology and health care. But if we don't see a changing attitude among policymakers, I fear the turbulence will be extreme as we attempt to solve some very serious challenges. Frankly, when you turn on any news channel, it's hard to believe that will happen any time soon.



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## **OUR CURRENT LIKES AND DISLIKES**

No changes this week.

### **LIKE \***

- Large-cap growth (buy more cautiously due to the recent rally)
- Some international developed markets (especially Japan)
- Cash
- Publicly-traded pipeline partnerships (MLPs and other mid-stream energy securities) yielding 7%-15% (as a result of the powerful rally of the first two weeks of the year, buy more selectively)
- Gold-mining stocks
- Gold
- Select blue chip oil stocks (still attractive despite their bounceback)
- One- to two-year Treasury notes
- Canadian dollar-denominated short-term bonds
- Short-term investment grade corporate bonds (1-2 year maturities)
- Emerging market bonds in local currency (start a dollar-cost-averaging process and be prepared to buy more on further weakness)
- Mexican stocks (after a sharp recovery, we are again trimming back on our REIT holdings)
- Large-cap value (there are a plethora of bargains now in this area)
- Intermediate municipal bonds with strong credit ratings

- Intermediate-term Treasury bonds (especially the five-year maturity)
- Solar Yield Cos (due to the PG&E-related selloff)

## NEUTRAL

- Most cyclical resource-based stocks (some are looking more attractive)
- Mid-cap growth
- Emerging stock markets; however, a number of Asian developing markets appear undervalued
- Canadian REITs
- Intermediate-term investment-grade corporate bonds, yielding approximately 4%
- US-based Real Estate Investment Trusts (REITs)
- Long-term investment grade corporate bonds
- Long-term municipal bonds
- Short euro ETF
- Long-term Treasury bonds
- Investment-grade floating rate corporate bonds
- Select European banks
- Small-cap growth
- Preferred stocks

## DISLIKE

- Small-cap value
- Mid-cap value
- Lower-rated junk bonds
- Floating-rate bank debt (junk)
- US industrial machinery stocks (such as one that runs like a certain forest animal, and another famous for its yellow-colored equipment)
- BB-rated corporate bonds (i.e., high-quality, high yield; in addition to rising rates, credit spreads look to be widening) \* \*\*
- Short yen ETF (i.e., we believe the yen is poised to rally)
- Dim sum bond ETF; individual issues, such as blue-chip multi-nationals, are attractive if your broker/custodian is able to buy them

\* Credit spreads are the difference between non-government bond interest rates and treasury yields.

\*\* Due to recent weakness, certain BB issues look attractive.

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