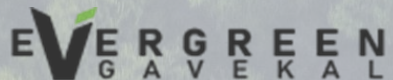




2020 Mid-Year Update

August 2020 Chartbook

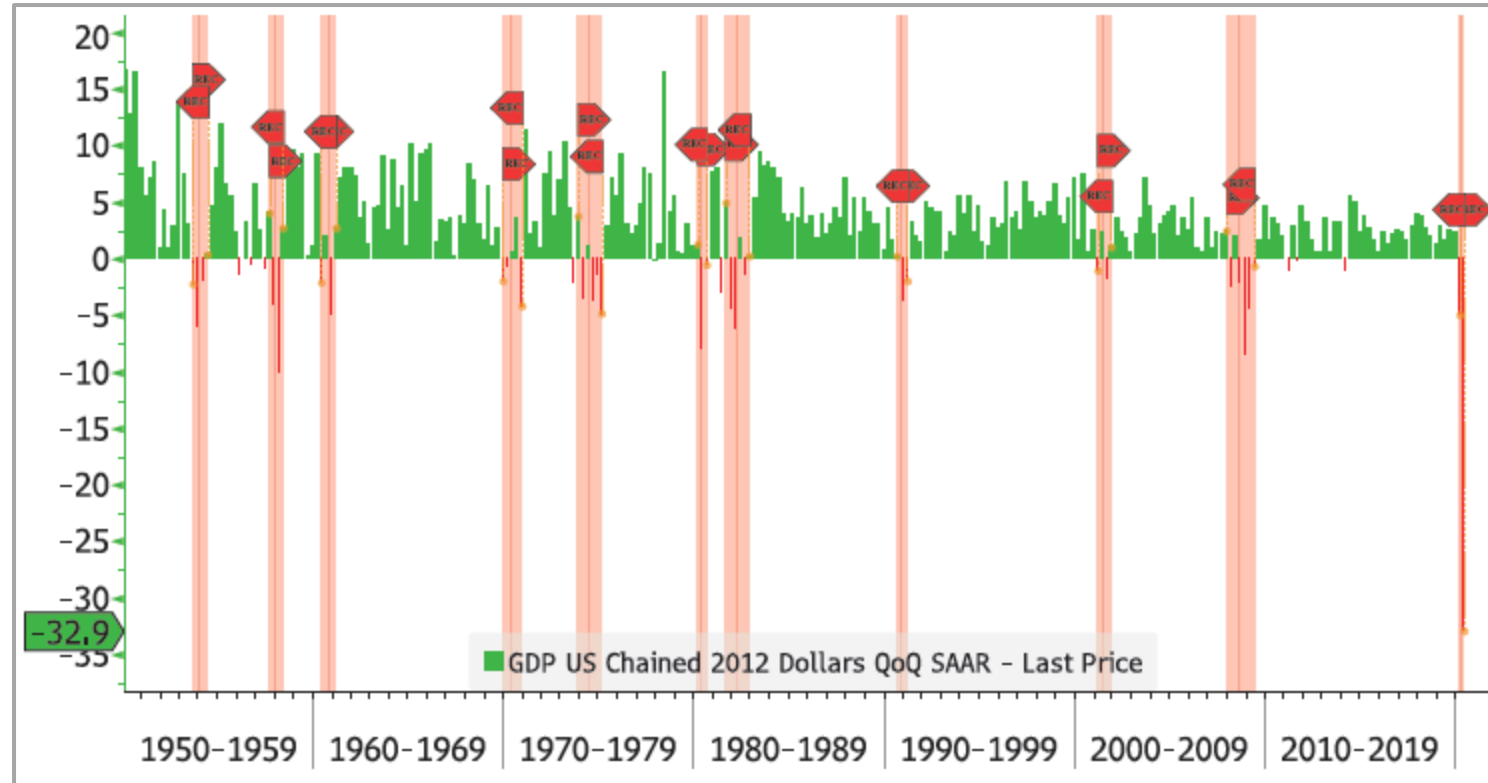
See important disclosures following the presentation.



About This Chartbook

In this edition of *Evergreen Chartbook*, we'll explore the economic recovery we have seen since the US officially entered a recession in Q2 of 2020. We will also delve into the impressive and broad-based rally within financial assets, as well as our current outlook for financial markets.

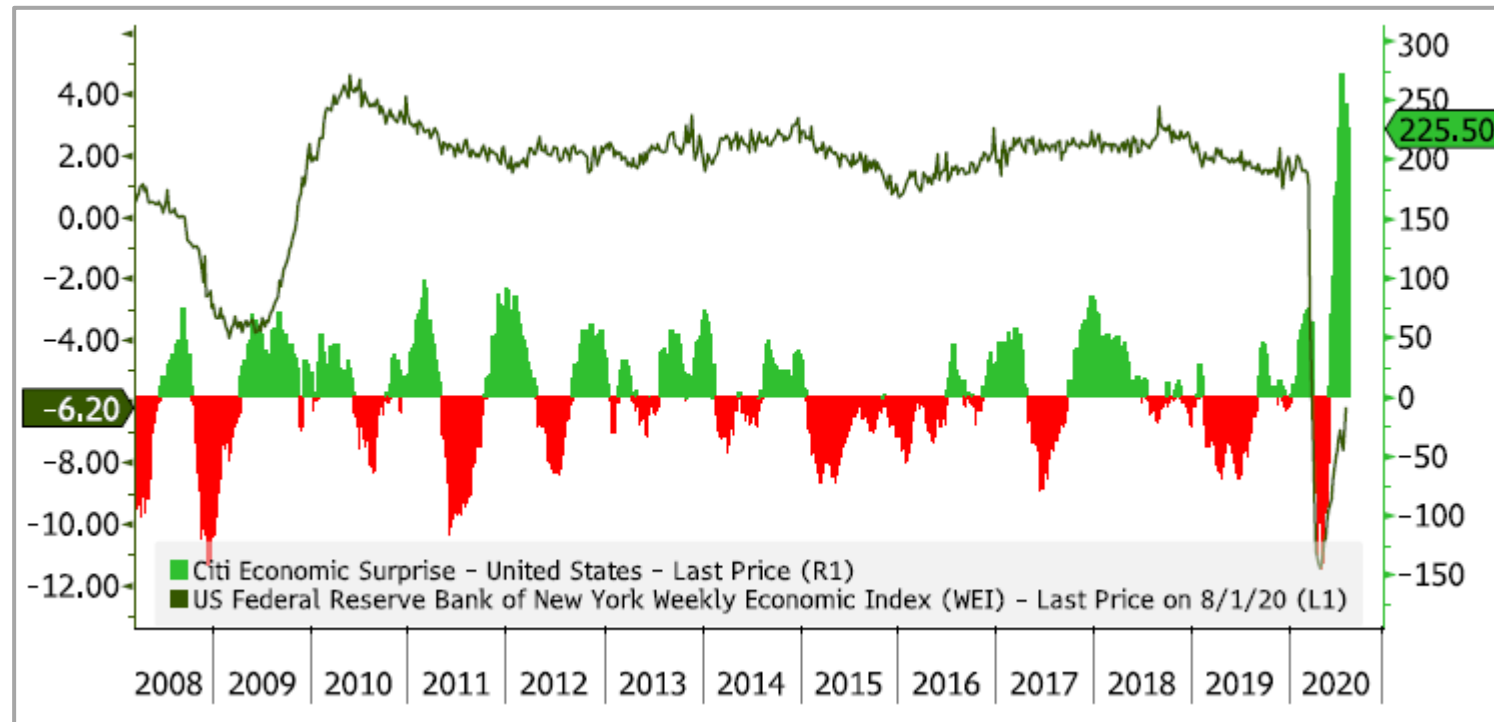
Economy: Q2 Weakest GDP Print on Record, But the Worst is Behind Us



Source: Bloomberg, Evergreen Gavekal

- The US economy officially entered a recession in Q2, with GDP contracting -32.9% (see: the largest quarterly decline on record.)
- But in the good news column, the recession is likely to be short-lived as economic data has largely improved since early May. That said, it will take time to fully return to trend growth.

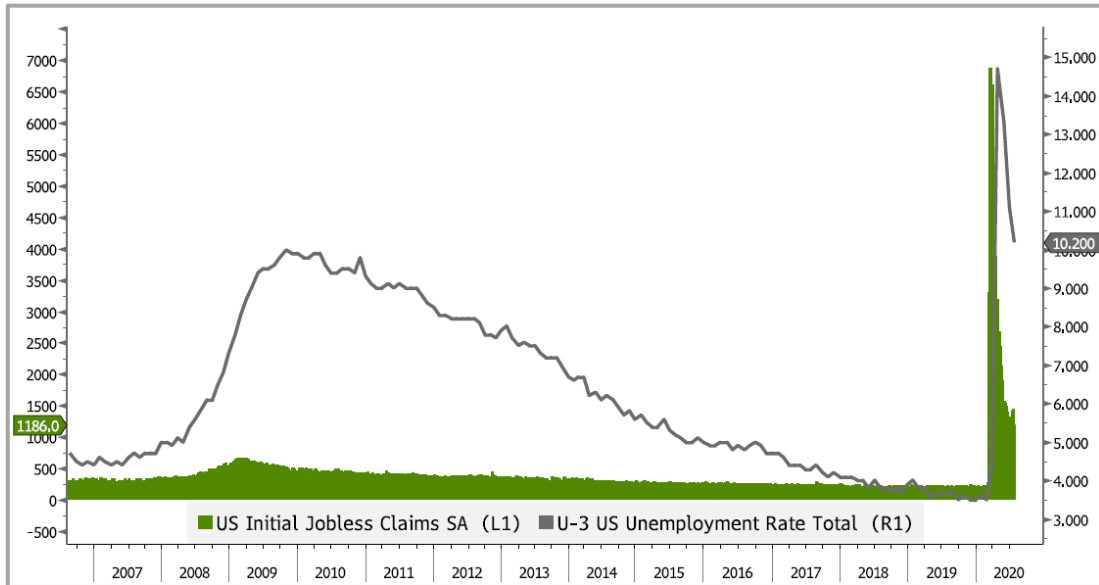
Economy: Q2 Weakest GDP Print on Record, But the Worst is Behind Us



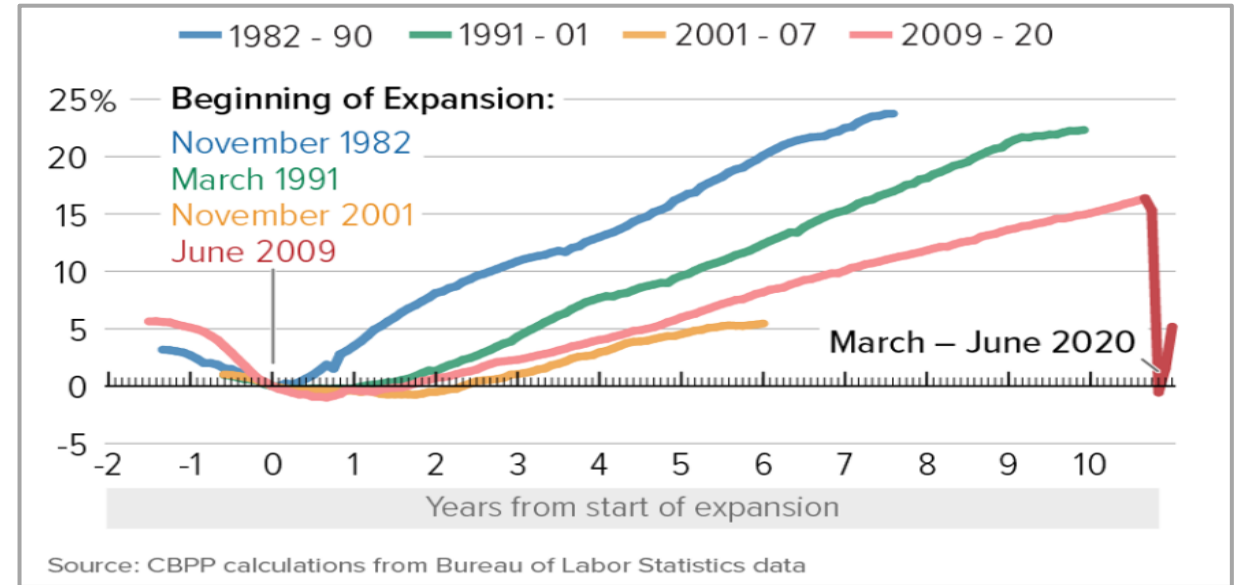
Source: Bloomberg, Evergreen Gavekal

- The NY Fed's Weekly Economic Index - which aims to track real GDP through weekly economic releases - highlights the improvement with a recent reading of -6.2% relative to the April 25th low of -11.4%.
- Data has also continued to come in ahead of expectations according to the Citi Economic Surprise Index, which recently registered an all-time high.
- This activity all points to Q3 GDP improving markedly with the consensus economist predicting an 18% advance relative to Q2.

Economy: US Labor Market



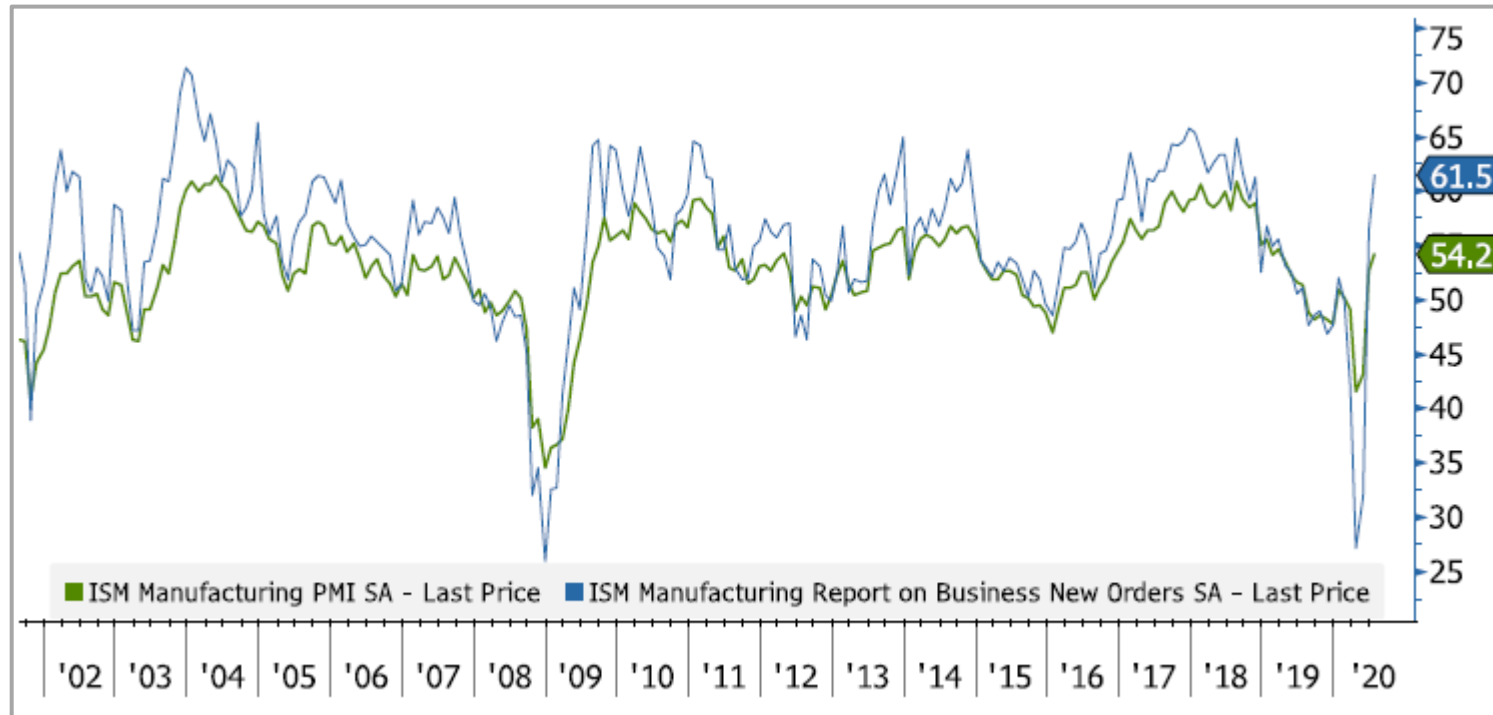
Source: Bloomberg, Evergreen Gavekal



Source: CBPP calculations from Bureau of Labor Statistics data

- The labor market is also improving with the US economy adding 9 million jobs over the last three months, bringing the unemployment rate down from 15% to 10.2%.
- The good news is the recovery in new jobs continues, the bad news is that easy job gains are behind us. From here, job additions will be slower and more gradual over the next several quarters.
- In our estimation, it will likely be 3-4x as long to go from 10% to 5%, or sometime in mid-2021.
- What is fascinating about the carnage in the labor market was that, from March through June, the economy lost the equivalent amount of jobs added since June of 2009 (113 straight months of job gains).

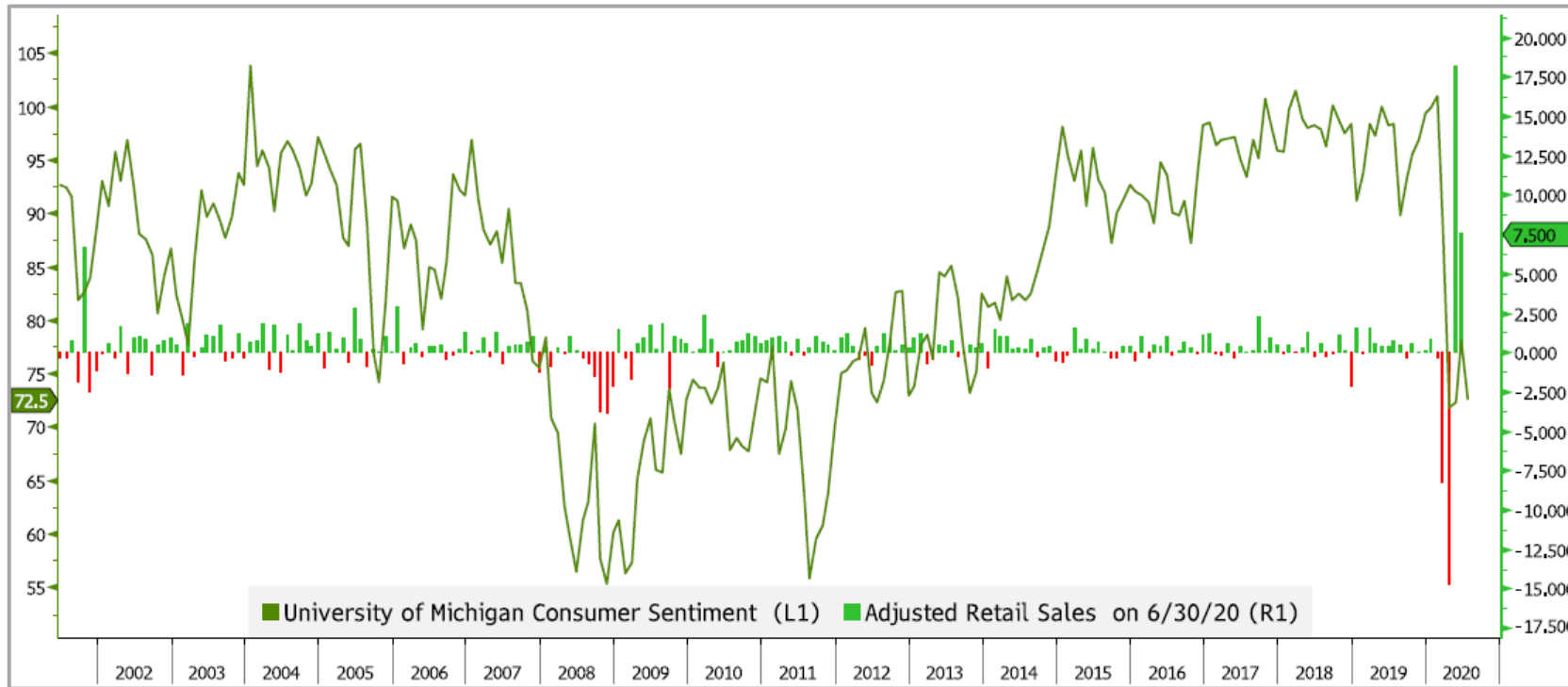
Economy: US Manufacturing



Source: Bloomberg, Evergreen Gavekal

- Manufacturing is showing some life as well with the ISM manufacturing PMI moving into expansion territory (above 50). Even more positive, new orders came in above expectations at 61.5.
- Part of the improvement was a drawdown in inventories, which is not a totally healthy signal, but could also point to higher growth in the back half of the year once inventories need to be restocked.
- Auto sales have been particularly strong with July car sales increasing from a 13.05-million-unit pace to 14.52m. These numbers would have been even stronger if it weren't for weak fleet sales (i.e. car rental companies).

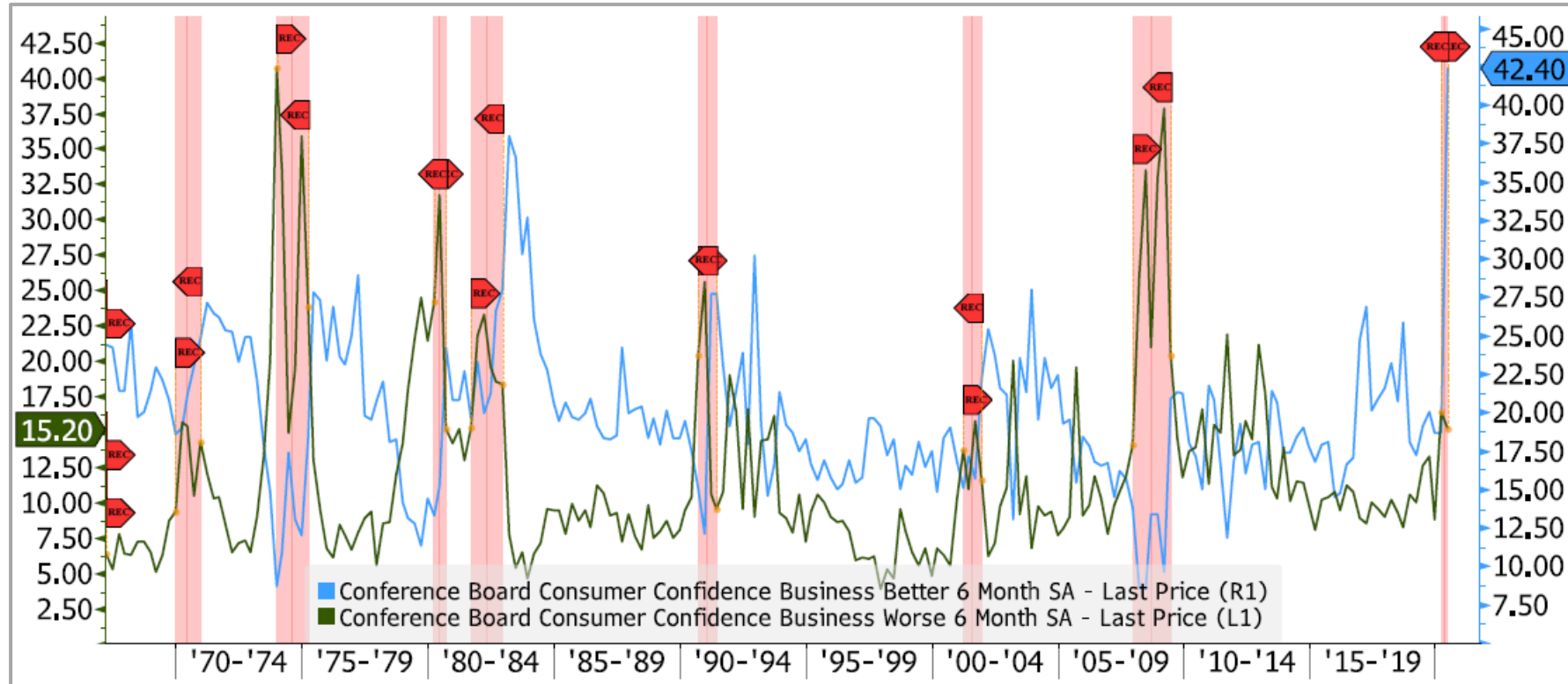
Economy: Retail Sales and Consumer Confidence



Source: Bloomberg, Evergreen Gavekal

- Retail sales also snapped back in May and June with record increases of 18.2% and 7.5%, respectively.
- This was a welcomed improvement as the YoY decline of 19.9% in April improved to an actual year-over-year growth rate of 1.1% for the month of June.
- With that said, consumer confidence has failed to move higher since April. In fact, it fell in July (despite improving economic data) because of a coronavirus resurgence and a potential lapse of jobless benefits.

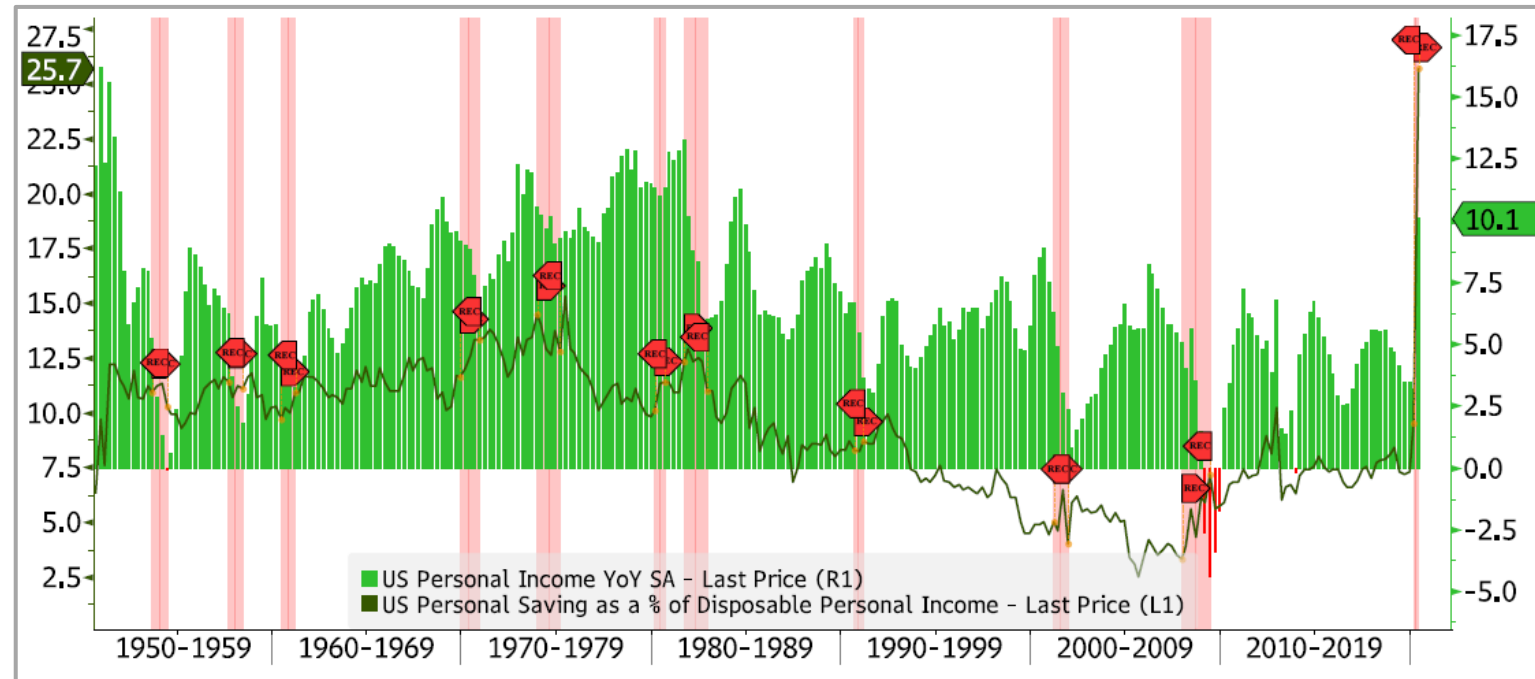
Economy: Conference Board Expectations for Next Six Months



Source: Bloomberg, Evergreen Gavekal

- The interesting part about consumer confidence during this recession is that the expectation for the economy to be better 6-months ahead is the highest on record.
- As you can see in the chart, usually more consumers believe business conditions will be worse, not better, during economic contractions.

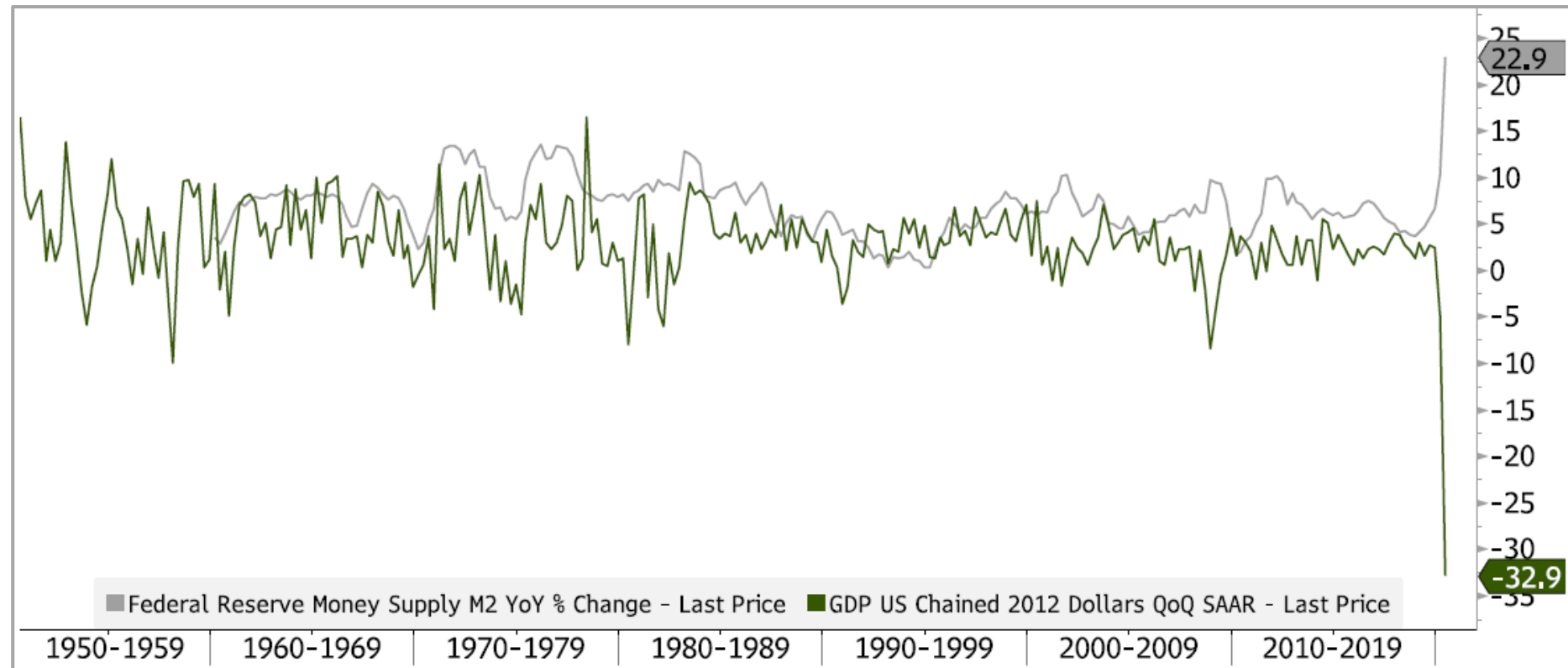
Economy: National Incomes and Personal Savings Rate



Source: Bloomberg, Evergreen Gavekal

- Another odd data point, at least relative to past recessions, is that personal incomes are up 10% YoY.
- This makes sense if you consider the massive government support for businesses, consumers, and local governments. But this stat certainly bucks the trend of what you would typically see during contractions (pink bars above).
- Today, personal savings as a % of disposable income is at the highest level in 70-years, which points towards insecurity for consumers, but also significant pent-up demand once the economy re-opens (likely when a vaccine becomes available).

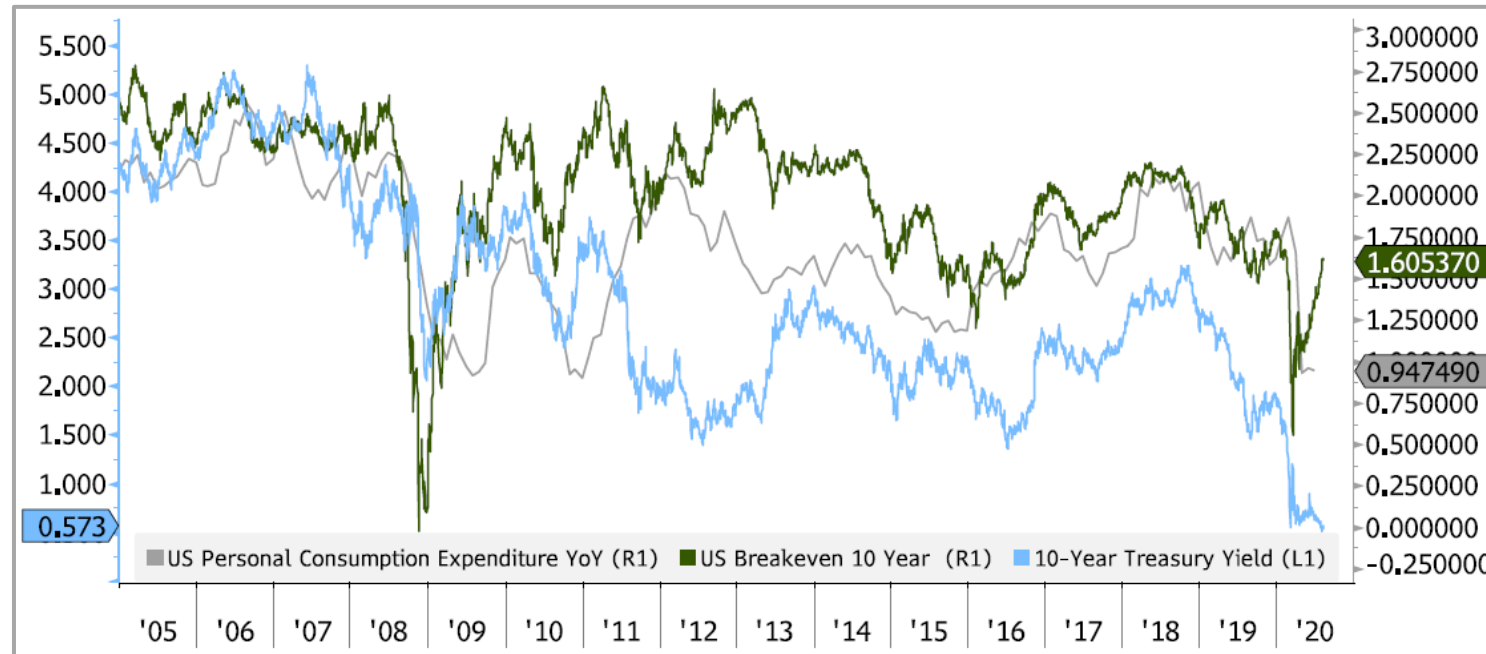
Economy: Money Supply Growth and Real GDP YoY



Source: Bloomberg, Evergreen Gavekal

- Another way to look at the sheer magnitude of government support is simply looking at the growth in money supply, which is up 22.9% year-over-year.
- A robust (and in this case huge) expansion of the money supply generally leads to an uptick in economic growth, so you would expect to see continued improvement in economic data over the next several quarters.

Economy: Inflation

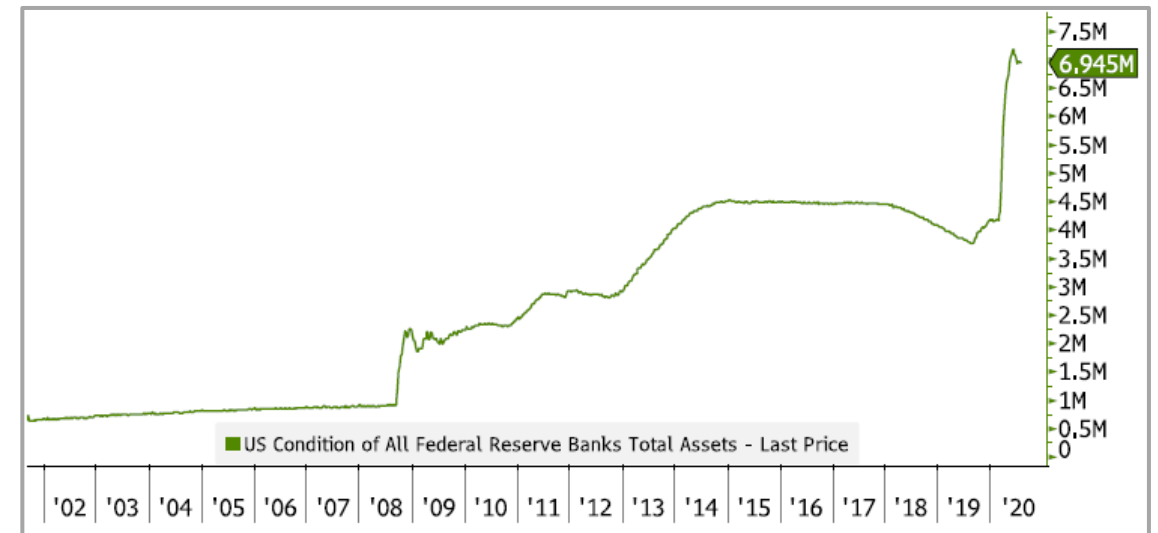


Source: Bloomberg, Evergreen Gavekal

- The massive increase in money supply is very likely to push inflation up over the next 12-18 months.
- The 10-year breakeven, which serves as an indicator for inflation over the next decade, has moved up from .60% in April to 1.6% today.
- Core PCE sits at a decade low of .95% and tends to follow the breakeven rate on a lag, which indicates inflation rates are likely to grind higher.
- The 10-year Treasury tends to follow suit, and absent of some sort of yield curve control, we think longer-term rates could move up .50-1.0% over the next year as our economy gradually reopens.

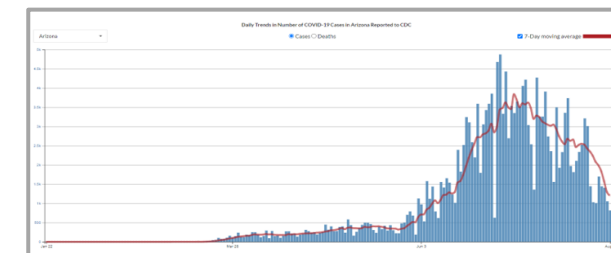
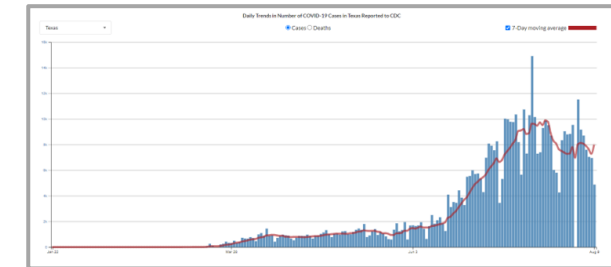
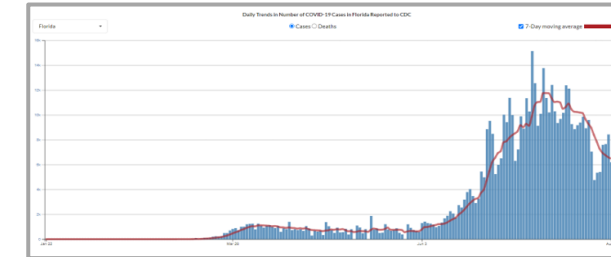
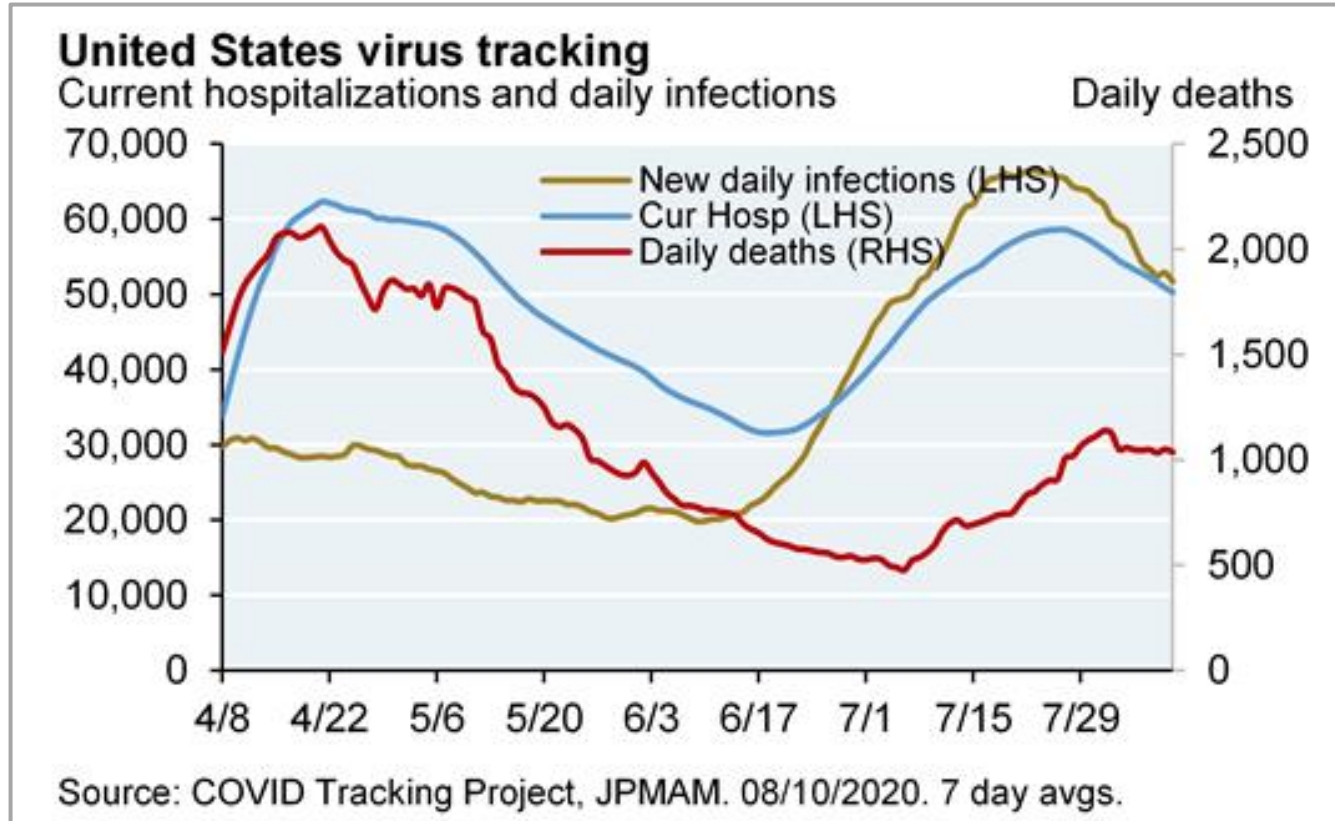
Economy: Fed Balance Sheet

- Since the start of the Covid-19 pandemic, the Fed's balance sheet has increased by over \$3 trillion. This ginormous mountain of money has provided tremendous support to consumers, businesses, short-term lending markets, and a variety of securities where the Fed and Treasury have intervened (ie. municipal bonds, corporate credit, asset-backed securities, mortgage securities, etc.).
- Looking out over the next year, it's very likely the Fed continues to expand its balance sheet (BS), and most economists project its BS to exceed \$8 trillion by year-end. There is also likely to be another spending bill announced in the next few weeks in the ballpark of \$2 trillion.
- Meanwhile, President Trump recently issued a series of executive orders (including a temporary suspension of payroll taxes as well as extending unemployment benefits) in another attempt to buttress a reeling US economy, despite the healing that's occurred.



Source: Bloomberg, Evergreen Gavekal

Covid-19: A Second Wave Trending in the Right Direction



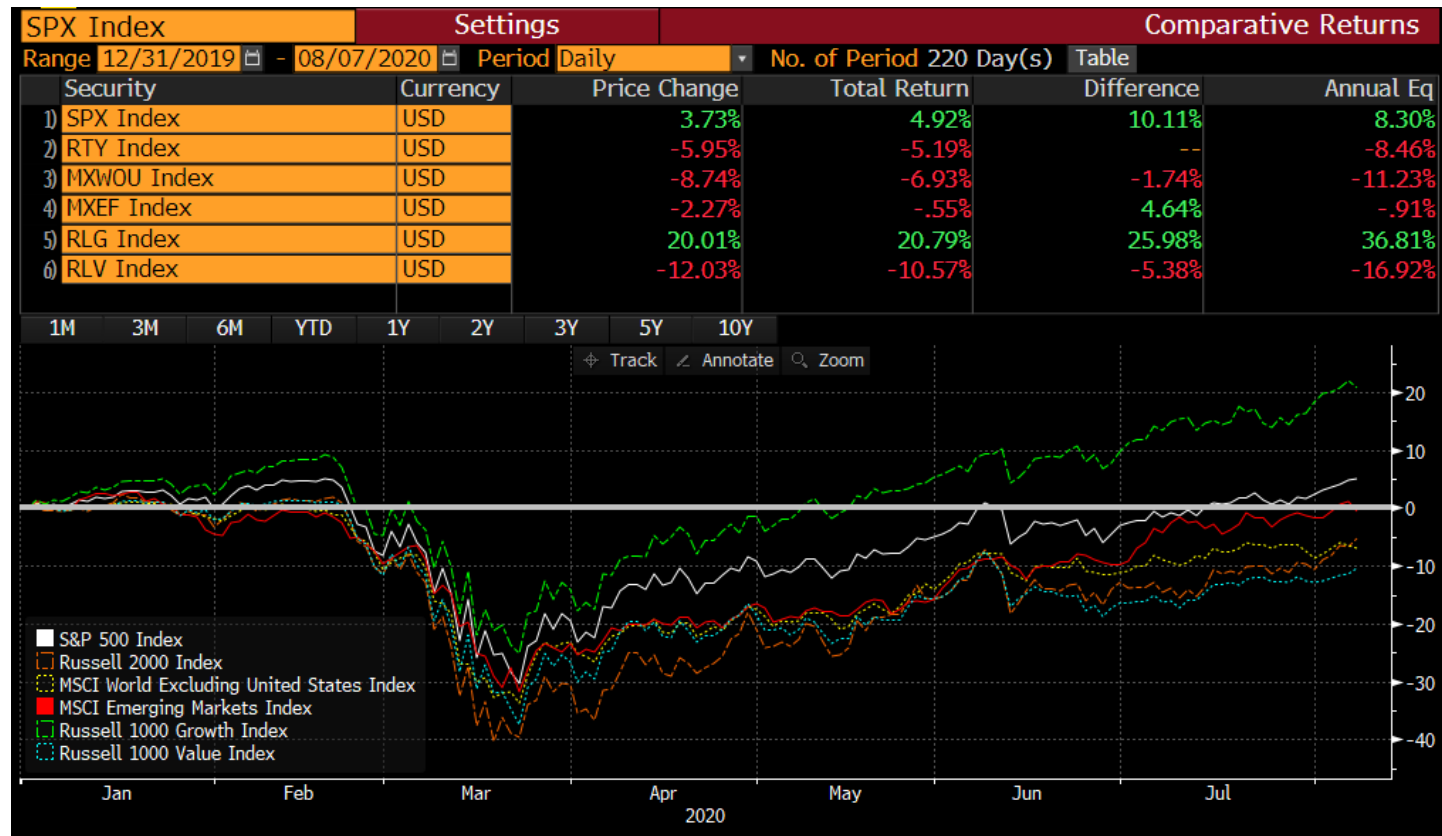
- The second wave of Covid cases in the US is beginning to level out with new infections, hospitalizations, and death numbers falling.
- This is especially true in recent “hot spot” states like Florida, Texas, and Arizona where the daily trends in cases has dipped significantly (as seen within the charts on the right).

Covid-19: Promising Progress on the Vaccine Front

- We have also continued to see positive developments on the vaccine front, with more than 170 candidates in development.
- There are seven vaccines in large-scale phase three trials with encouraging phase two data emerging (though still under review).
- We are holding out hope that humanity can start distributing a working vaccine before year-end, but consensus is looking more like mid-2021.
- Merck has also progressed the antiviral candidate, MK-4482, to phase three trials in September.
- The early results are very promising in terms of finding an effective treatment for Covid-19.

Developer/Manufacturer	Platform	Type of Candidate	Doses	Timing	Route	Phase 1	Phase 2	Phase 3
University of Oxford / AstraZeneca	Non-Replicating Viral Vector	ChAdOx1-S	1	NA	IM	Completed	Under Review	Ongoing
Sinovac	Inactivated	Inactivated	2	0, 14 days	IM	Completed	Under Review	Ongoing
Wuhan Institute of Biological Products/Sinopharm	Inactivated	Inactivated	2	0, 14 or 0, 21 days	IM	Completed	Under Review	Ongoing
Beijing Institute of Biological Products/Sinopharm	Inactivated	Inactivated	2	0, 14 or 0, 21 days	IM	Completed	Under Review	Ongoing
Moderna/NIAID	RNA	LNP-encapsulated mRNA	2	0, 28 days	IM	Completed	Under Review	Ongoing
BioNTech/Fosun Pharma/Pfizer	RNA	3 LNP-mRNAs	2	0, 28 days	IM	Completed	Under Review	Ongoing
CanSino biological Inc./ Beijing Institute of Biotechnology	Non-Replicating Viral Vector	Adenovirus Type 5 Vector	1	NA	IM	Under Review	Ongoing	
Anhui Zhifei Longcom Biopharmaceutical/Institute of Microbiology, Chinese Academy of Sciences	Protein Subunit	Adjuvanted recombinant protein (RBD-Dimer)	2-to-3	0, 28 or 0, 28, 56 days	IM	Under Review	Ongoing	
Institute of Medical Biology, Chinese Academy of Medical Sciences	Inactivated	Inactivated	2	0, 28 days	IM	Under Review	Ongoing	
Inovio Pharmaceuticals/ International Vaccine Institute	DNA	DNA plasmid vaccine with electroporation	2	0, 28 days	ID	Under Review	Ongoing	
Osaka University/ AnGes/ Takara Bio	DNA	DNA plasmid vaccine + Adjuvant	2	0, 14 days	IM	Under Review	Ongoing	
Cadila Healthcare Limited	DNA	DNA plasmid vaccine	3	0, 28, 56 days	ID	Under Review	Ongoing	
Genexine Consortium	DNA	DNA vaccine (GX-19)	2	0, 28 days	IM	Under Review	Ongoing	
Bharat Biotech	Inactivated	Whole-Virion Inactivated	2	0, 14 days	IM	Under Review	Ongoing	
Janssen Pharmaceutical Companies	Non-Replicating Viral Vector	Ad26COVS1	2	0, 56 days	IM	Under Review	Ongoing	
Novavax	Protein Subunit	Full-length recombinant SARS CoV-2 glycoprotein nanoparticle vaccine adjuvanted with Matrix M	2	0, 21 days	IM	Under Review	Ongoing	
Kentucky Bioprocessing, Inc	Protein Subunit	RBD-based	2	0, 21 days	IM	Under Review	Ongoing	
Arcturus/Duke-NUS	RNA	mRNA	NA	NA	IM	Under Review	Ongoing	
Gamaleya Research Institute	Non-Replicating Viral Vector	Adeno-based	1	NA	IM	Ongoing		
Clover Biopharmaceuticals Inc./ GSK/Dynavax	Protein Subunit	Native like Trimeric subunit Spike Protein Vaccine	2	0, 21 days	IM	Ongoing		
Vaxine Pty Ltd/Medytox	Protein Subunit	Recombinant spike protein with Advax adjuvant	1	NA	IM	Ongoing		
University of Queensland/ CSL/Seqirus	Protein Subunit	Molecular clamp stabilized Spike protein with MF59 adjuvant	2	0, 28 days	IM	Ongoing		
Imperial College London	RNA	LNP-nCoVsaRNA	2		IM	Ongoing		
Curevac	RNA	mRNA	2	0, 28 days	IM	Ongoing		
People's Liberation Army (PLA) Academy of Military Sciences/ Walvax Biotech.	RNA	mRNA	2	0, 14 or 0, 28 days	IM	Ongoing		
Medicago Inc.	VLP	Plant-derived VLP adjuvanted with GSK or Dynavax adjs.	2	0, 21 days	IM	Ongoing		
Medigen Vaccine Biologics Corporation/ NIAID/Dynavax	Protein Subunit	S-2P protein + CpG 1018	2	0, 28 days	IM	Ongoing		

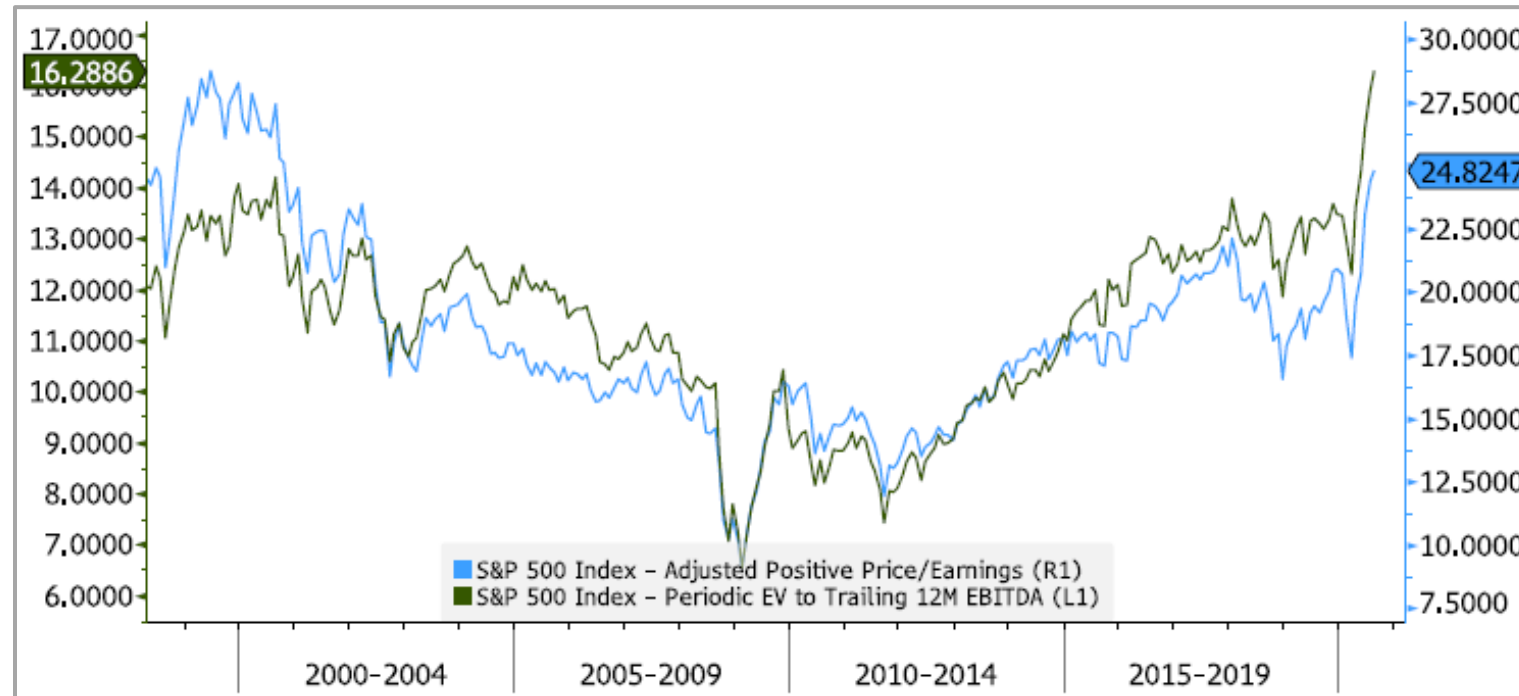
Equities: Impressive Rally Led by Technology



Source: Bloomberg, Evergreen Gavekal

- Since troughing in late-March, the S&P 500 has rallied over 50% and now is +5% on the year.
- This move has been largely led by technology stocks, as seen in the 20.8% return for large cap growth on the year.
- Despite the S&P being up, small caps, value stocks, international and emerging market stocks are still in negative territory.

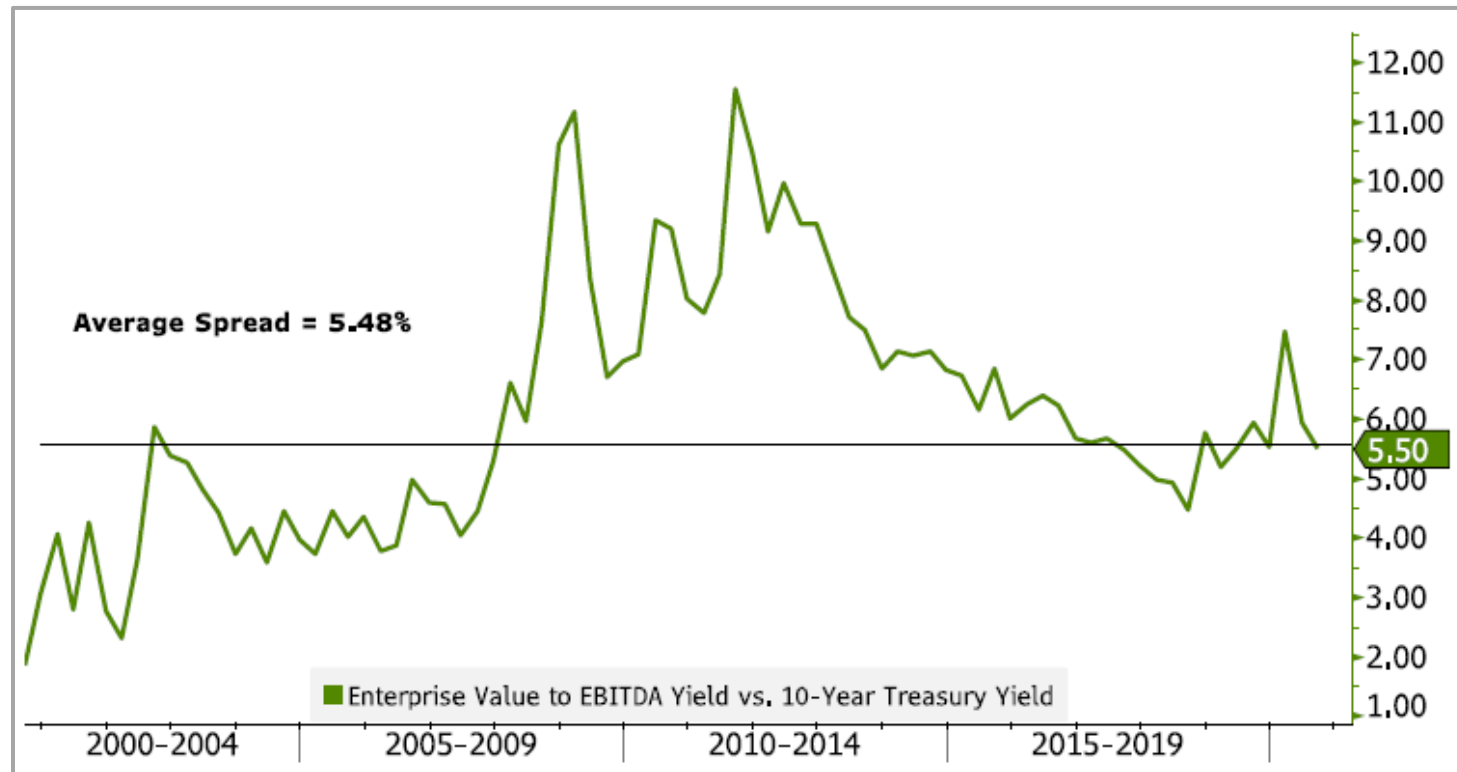
Equities: S&P 500 Valuation



Source: Bloomberg, Evergreen Gavekal

- Stocks are tricky to value at this point since valuation has moved up to dangerously high levels. In fact, Enterprise Value to EBITDA (i.e. gross cash flow) is up to 16.3x, far higher than during the dot-com bubble. With that said, earnings have now contracted, so this multiple is based on rather depressed earnings.
- Currently, the estimate for S&P 500 earnings is roughly \$130 per share (P/E of 25x), a projected 20% drop vs 2019.
- The 2021 consensus estimate calls for \$164 in earnings or a less egregious 20x P/E, but that requires an earnings growth rate of 26%, which will be tough to achieve.

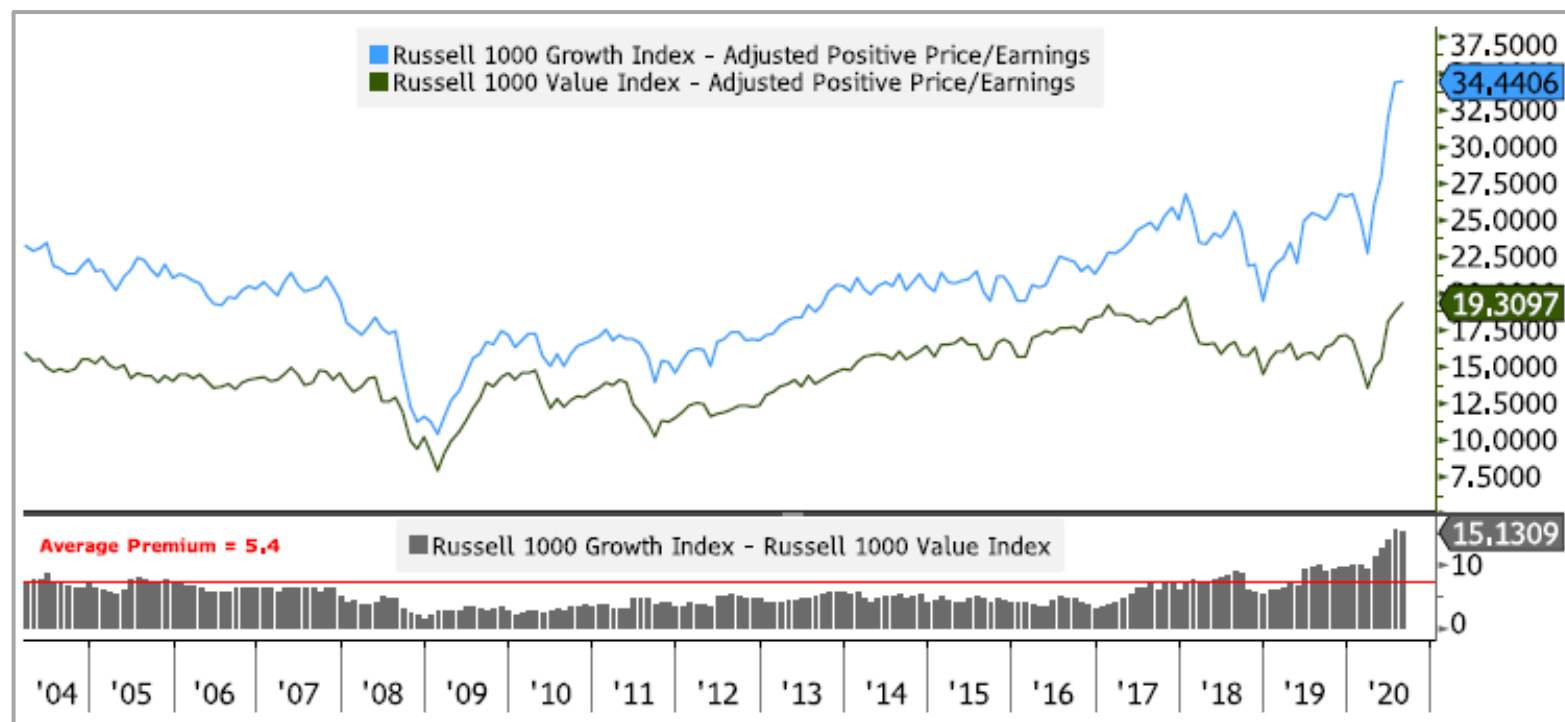
Equities: Valuation vs. Treasury Yields



Source: Bloomberg, Evergreen Gavekal

- Another factor is valuation relative to interest rates, given the drop in the 10-year Treasury yield to 0.644%.
- Using a cash flow yield for stocks (including debt on the balance sheet) the spread between stocks and bonds is 5.5%, or coincidentally in line with the 20-year average.
- This is also using trailing cash flows (which includes a horrendous Q2), so you could make the case for rising cashflows that will widen this spread. Contrarily, interest rates are also likely to grind higher in that scenario.

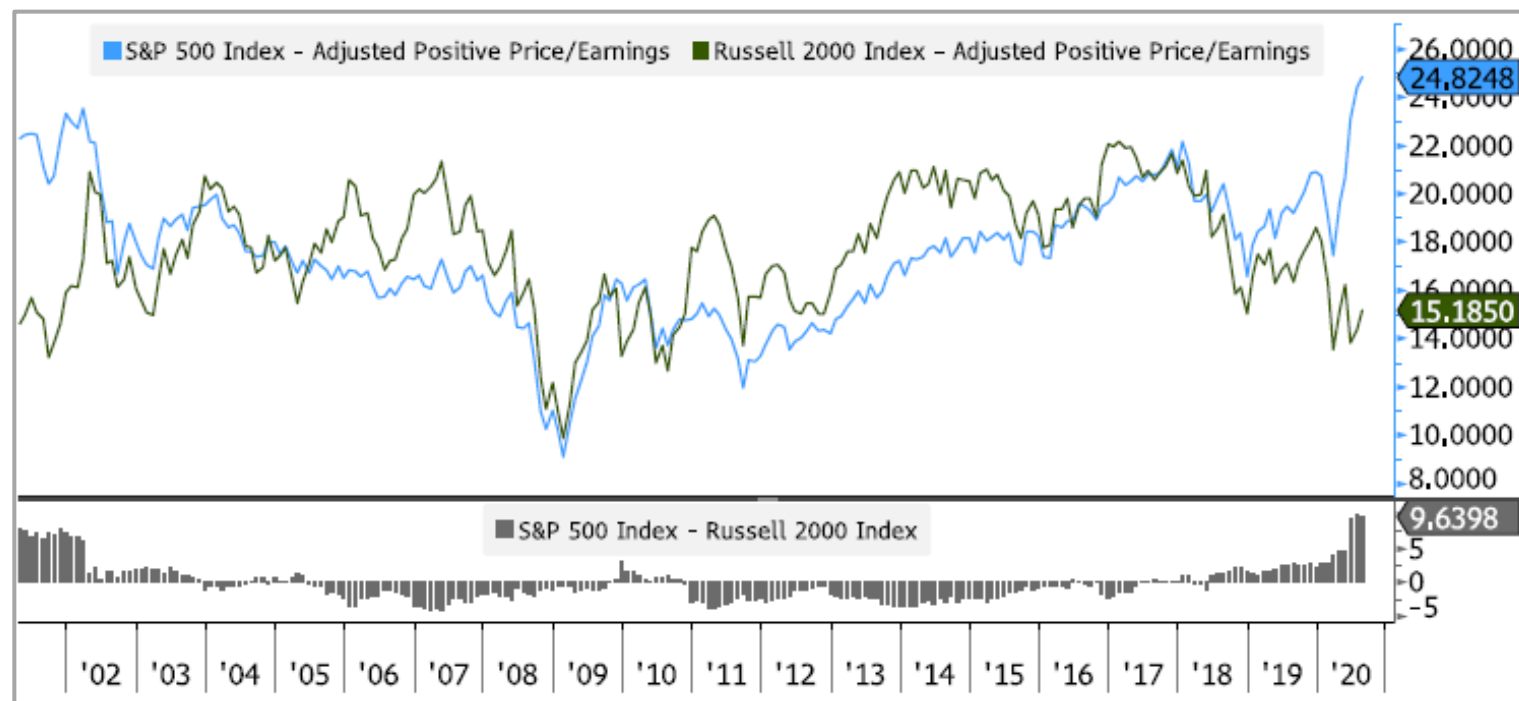
Equities: Russell 1000 Growth P/E vs. Russell 1000 Value



Source: Bloomberg, Evergreen Gavekal

- For the better part of the last decade, we have been overweight large cap growth (LCG) relative to large cap value (LCV).
- The lower pane shows the relative P/E between the two with the spread averaging a 5.4 point premium for LCG.
- From 2008-2019, LCG traded mostly at discount to that 5.4-point average vs. LCV. Today, LCG trades at a 15-point premium to LCV, which looks quite expensive relative to history.
- That's why we have begun to favor value relative to growth and believe it's wise to trim back growth/tech given the outperformance.

Equities: S&P 500 Valuation Relative to Russell 2000 (Large vs. Small)

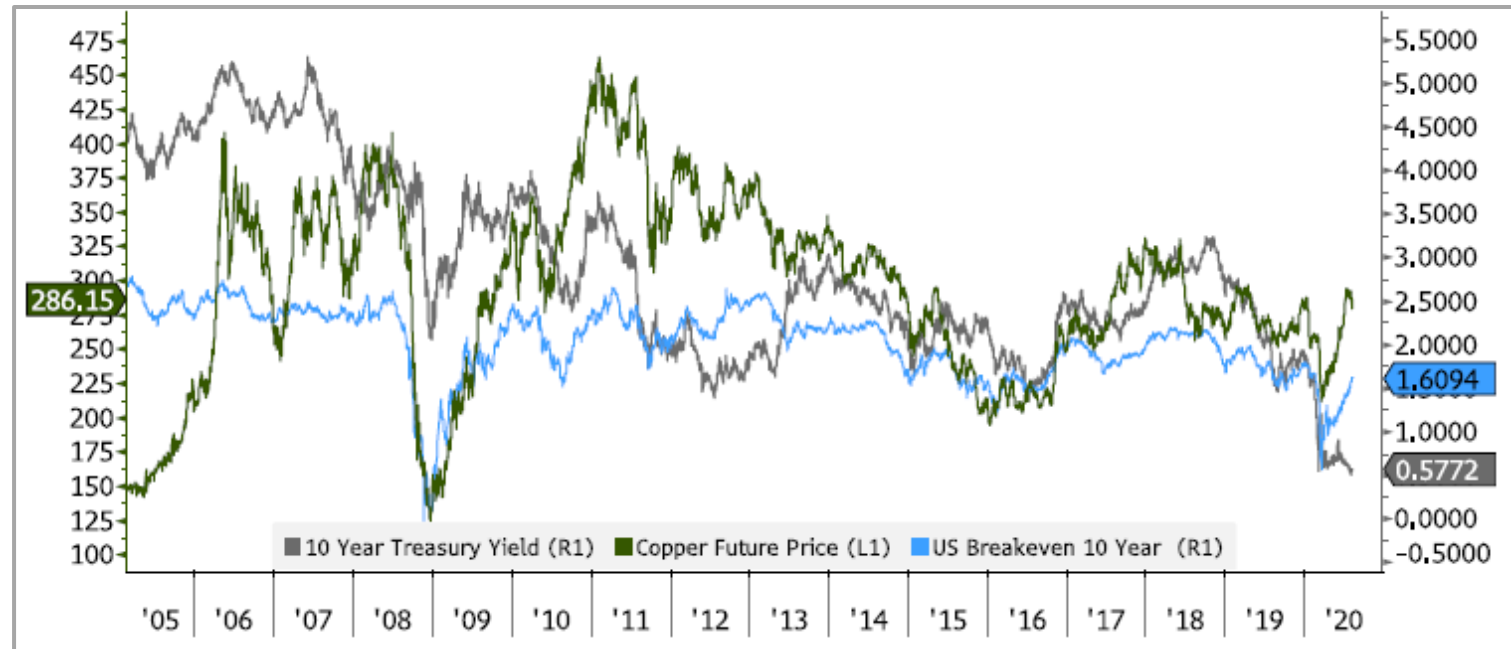


Source: Bloomberg, Evergreen Gavekal

- On the flip side of the coin, we have significantly favored large cap over small-cap companies for the past decade.
- Large cap companies, which the S&P is mainly comprised of, have consistently traded with lower valuations relative to small cap stocks. Today, the S&P trades nearly at a 10-point valuation premium (25x earnings) vs. small caps (15x earnings).
- It's worth noting that the last time the valuation gap was this wide was mid-2001. Over the next five years, small caps outperformed large caps by over 50%.

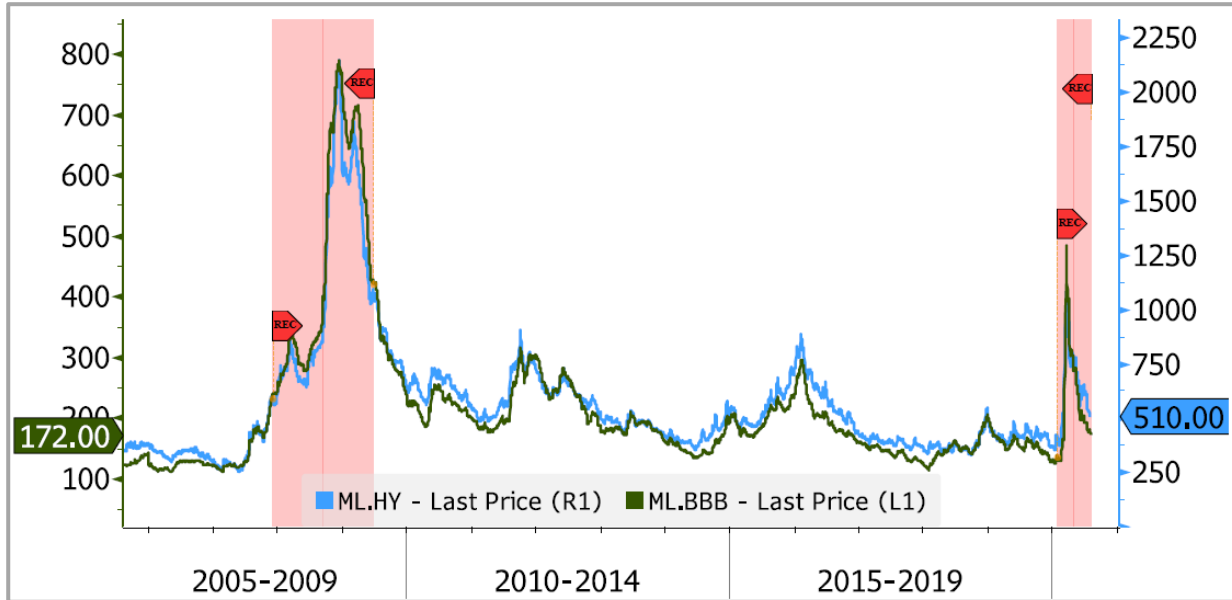
Income Markets: 10-Year Treasury Yield, Copper, and 10-Year Inflation Breakeven

- The collapse in interest rates this year has been incredible. The 10-year Treasury started the year with a yield of 1.9% and today pays just .58%.
- The price of copper, as we previously discussed, tends to lead interest rates given the economic sensitivity of the metal and the inflation expectations it reflects.
- Both of these metrics have moved up sharply over the last few months and point towards higher long-term interest rates over the next 6-12 months.
- Ignoring the risk of higher rates, there is not much value in high-grade bonds based on the fact that after-inflation yields are negative.

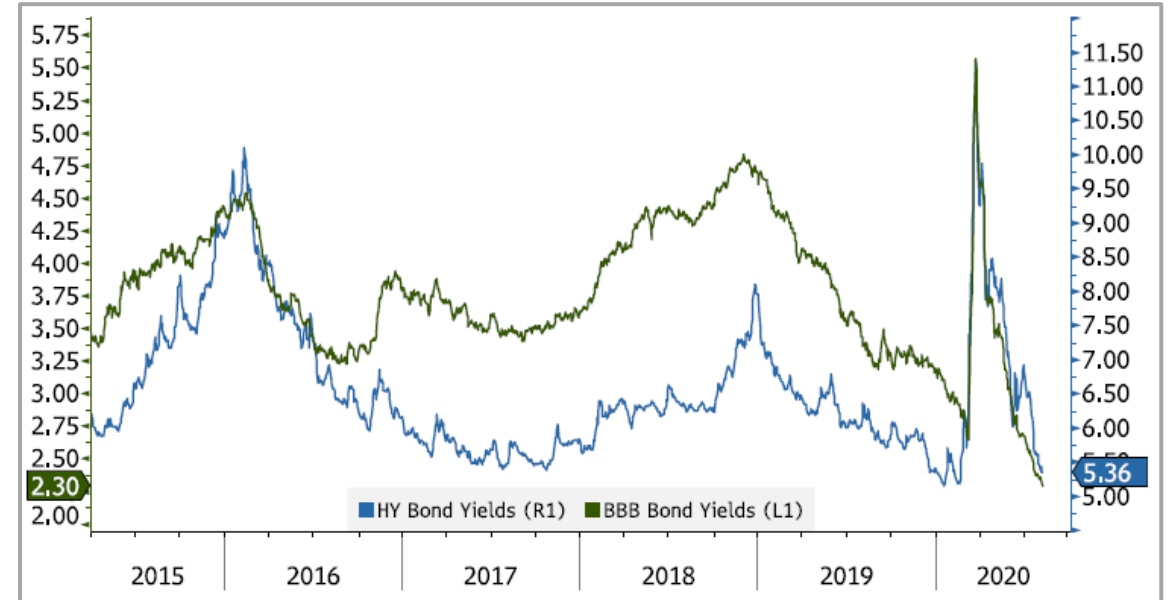


Source: Bloomberg, Evergreen Gavekal

Income Markets: Corporate Bond Spreads and Yields



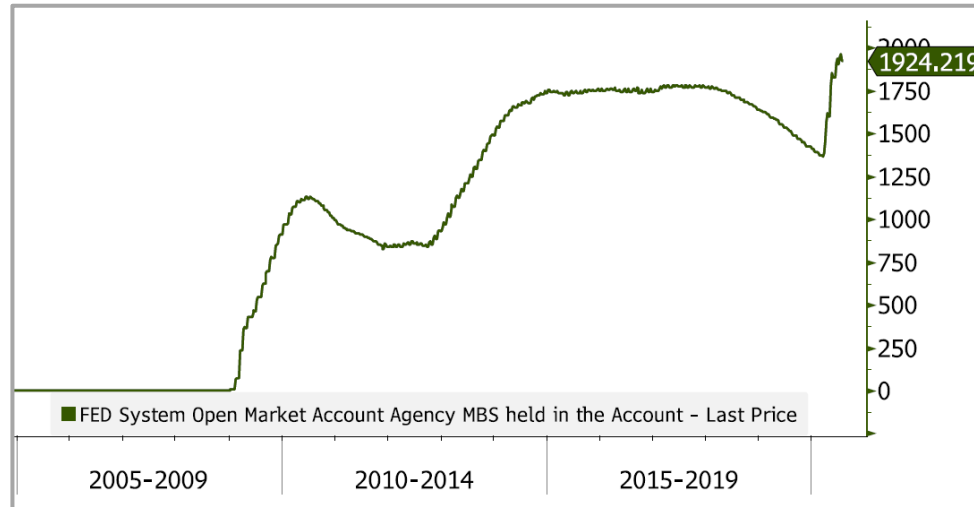
Source: Bloomberg, Evergreen Gavekal



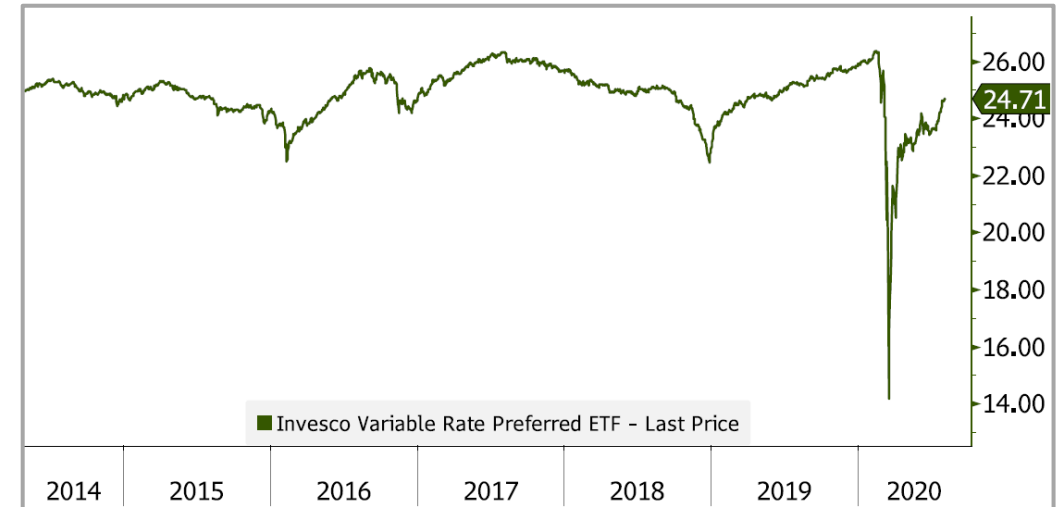
Source: Bloomberg, Evergreen Gavekal

- We do still favor corporate credit, but the spread tightening we have seen has been truly remarkable.
- HY credit spreads have moved from +1,100 during the worst of the crisis to +510, or a 70% retracement of the widening that occurred in Q1.
- HY bonds are now paying 5.36% or only .20% higher than the low on the year from mid-February.
- We were aggressive buyers earlier in the year, but still maintain an overweight position for high-yield since the Fed has plenty of room to buy more corporate bonds (including high yield ETFs, as well as companies downgraded from investment grade to high yield).
- On the investment grade side, we are less enthusiastic given yields are down near 2%. The IG index carries a duration of 10 years, which means investors are getting compensated very little in the way of cash flow relative to the interest rate risk being assumed.

Income Markets: Time to Lighten Up On Duration



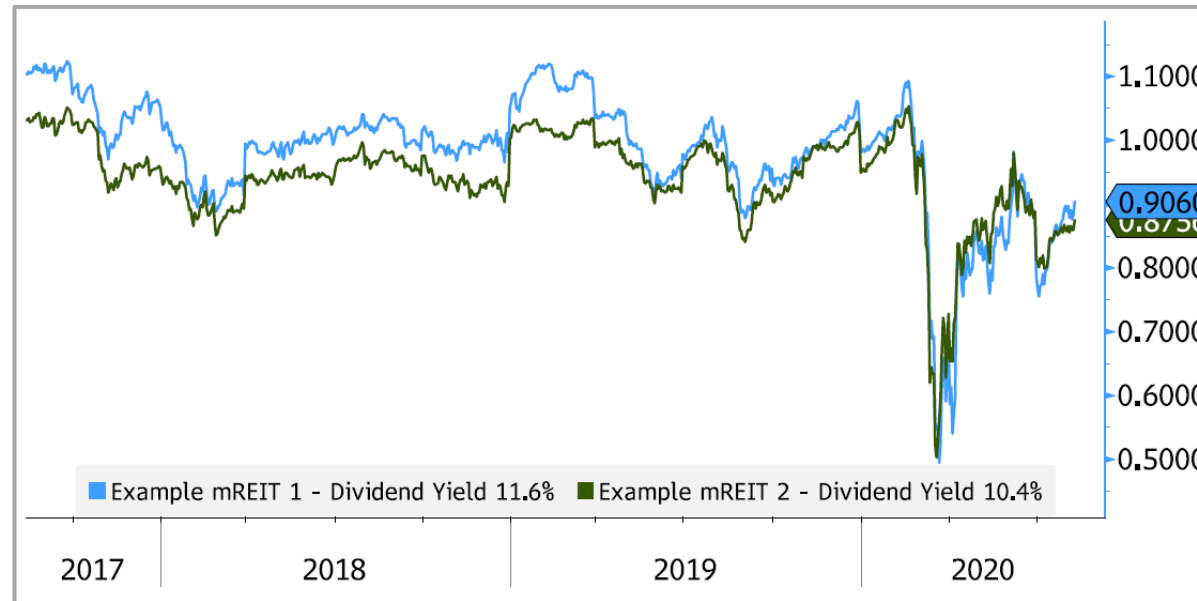
Source: Bloomberg, Evergreen Gavekal



Source: Bloomberg, Evergreen Gavekal

- At this point, given the big downward move in interest rates, we have begun to reduce duration within our portfolios.
- On the high-quality side of our income portfolios, we believe agency mortgage-backed securities (MBS) offer the best risk-adjusted yield with 1.6% cash flow and limited interest rates sensitivity given a duration (roughly equivalent to maturity length) of 3 years.
- The Fed has also increased the amount of MBS held on the balance sheet by over 40% since March, which is an important demand component.
- In lieu of investment grade corporates, we think variable-rate preferreds look attractive. In a rising interest rate or inflation environment, these securities should hold their value well.
- Variable-rate preferreds pay a 5% yield with a relatively short duration profile of 3.13 years.
- It has been an epic run for preferred stocks so at this juncture the play is more on income as apposed to capital appreciation though there is a little room for price upside.

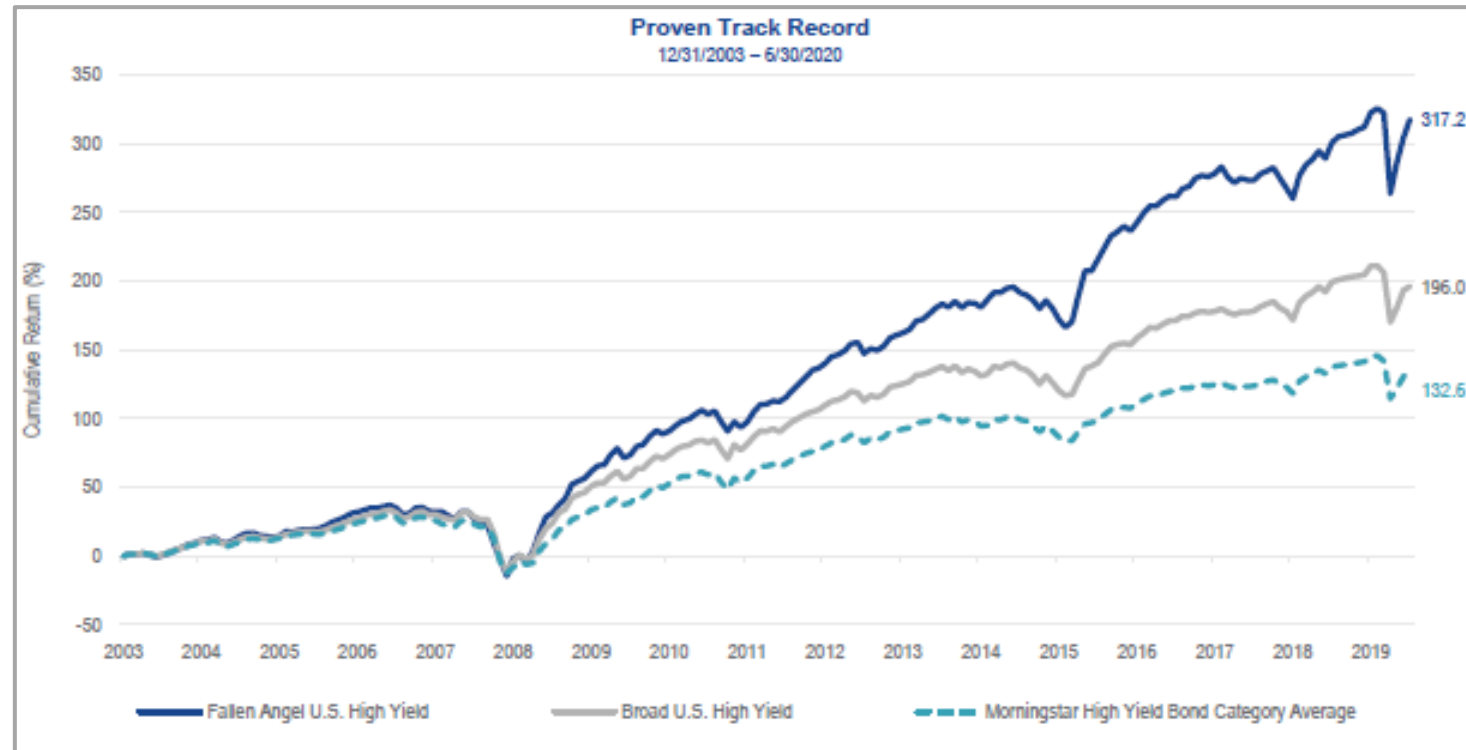
Income Markets: Areas We Like – Agency Mortgage REITs



Source: Bloomberg, Evergreen Gavekal

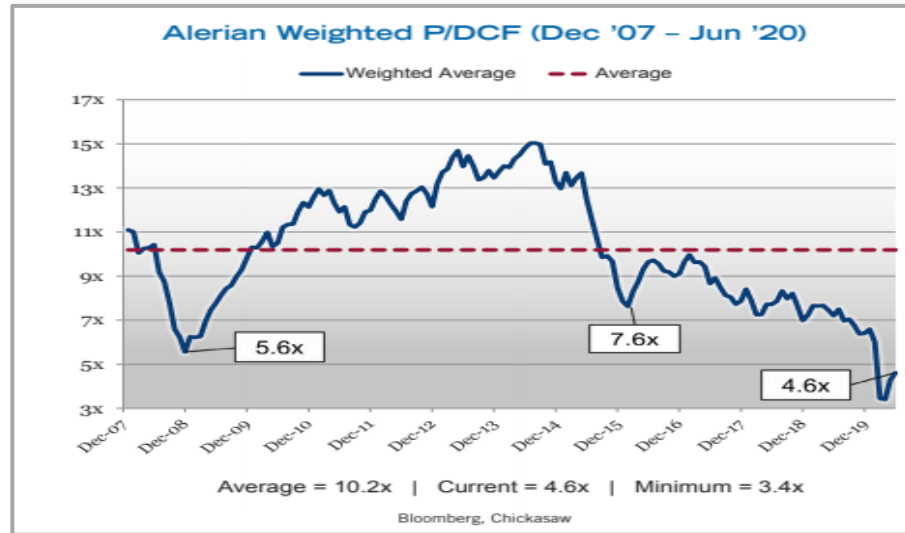
- A leveraged way to gain exposure to the agency mortgage backed security space is through mortgage REITs.
- The highest quality players in the space trade around .91% book value, carry dividend yields of 10-12%, and currently generate a high return-on-equity due to anchored short-term rates, improved funding costs, and attractive mortgage spreads.
- Our belief is the Fed will ramp up purchases at the first sign of any weakness within the government-backed mortgage market.
- With the current yield, and our belief these securities will trade back above book value, the total return potential is 20%+ over the next 12-months.

Income Markets: Areas We Like – Fallen Angels

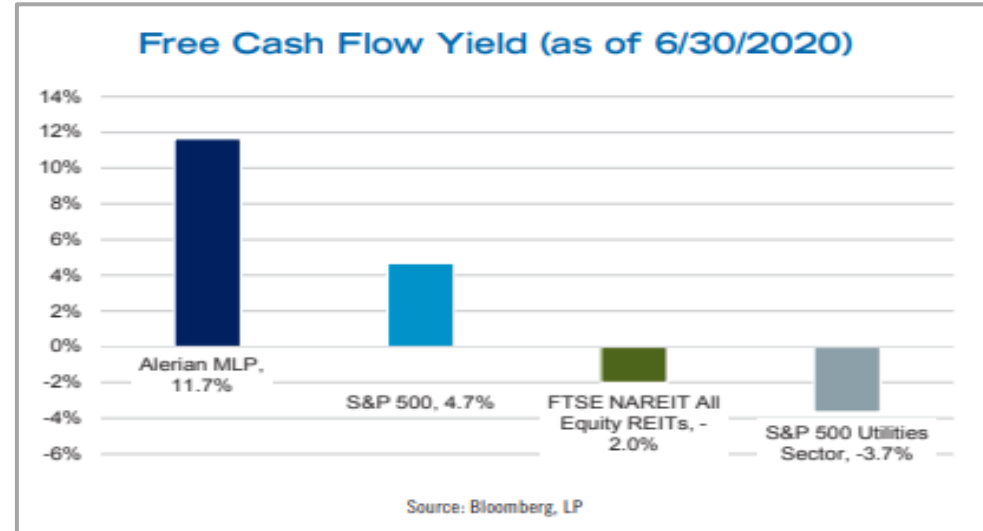


- In the corporate bond realm, we favor high-quality, high-yield (or companies rated-BB). In this space we carry an overweight to “fallen angels” (companies that have been downgraded from investment grade to high yield).
- These bonds have not only generated a higher total return, and lower default rate, relative to high yield, but the Treasury (via the Fed credit facility) is actively buying up both individual fallen angel bonds and the Fallen Angel ETF.
- With a current yield of 4.5%, you are also getting compensated decently well relative to the duration of 4.3 years.

Income Markets: Areas We Like – Midstream Energy Securities



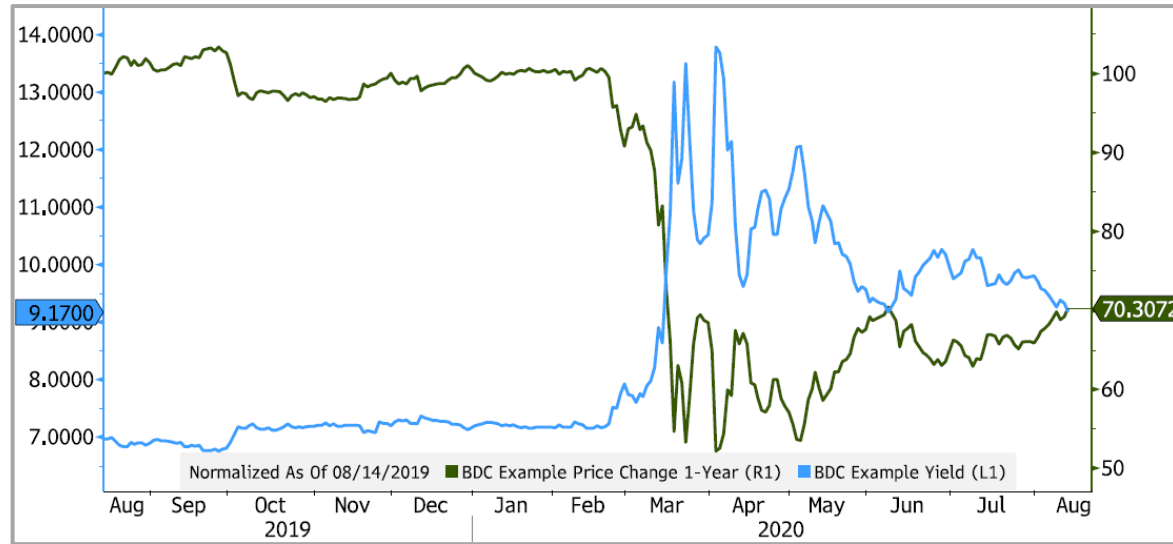
Source: Chickasaw



Source: Chickasaw

- Midstream energy securities have been among the hardest hit sectors this year given a combination of a reduction of energy demand from COVID, OPEC and Russia infighting, and eventual forced selling from leveraged holders.
- We felt the price declines of over 60% during March would prove far more severe than the actual cash flow declines for sector, which has proven true with cashflows down roughly 10% in the first half of the year.
- The space now trades at 4.6x underlying distributable cash flow and the underlying securities not only pay a very attractive 11% yield, they command the highest distribution coverage on record at 1.8x (meaning their available cash flow is 80% higher than their payout).
- These companies have drastically reduced costs and growth capex, which has greatly improved the free (or excess) cash flow generating ability of the group, especially on a relative basis to the S&P, REITs, and Utilities (as seen in the table above).
- Looking out over the next year, we believe energy demand will almost certainly improve and this space will not only offer great cashflow with upside potential for the underlying prices, but also an inflation hedge against trillions of fabricated money hitting the system.

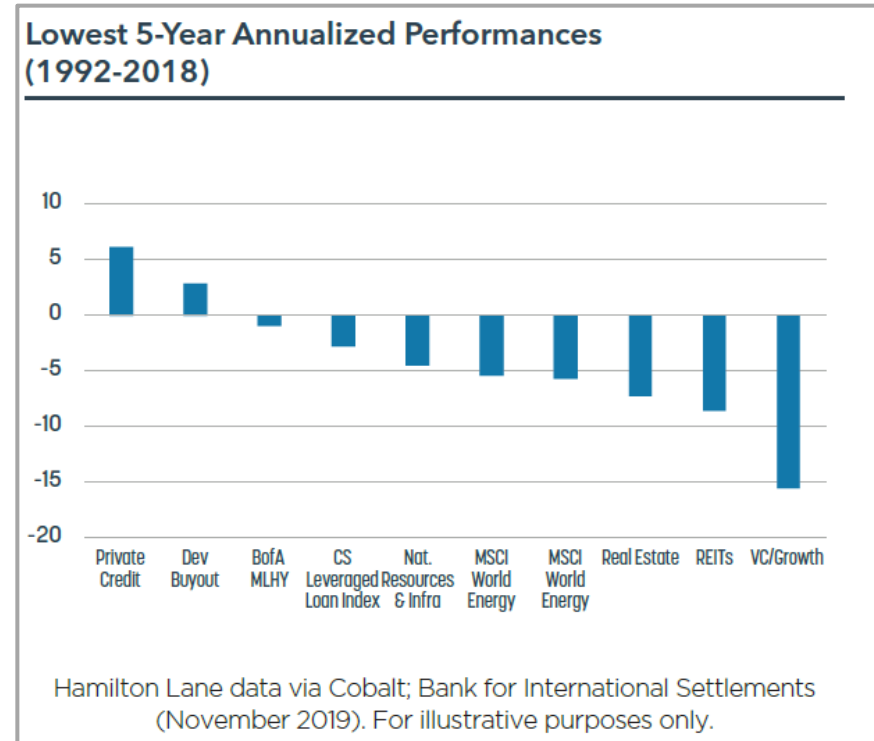
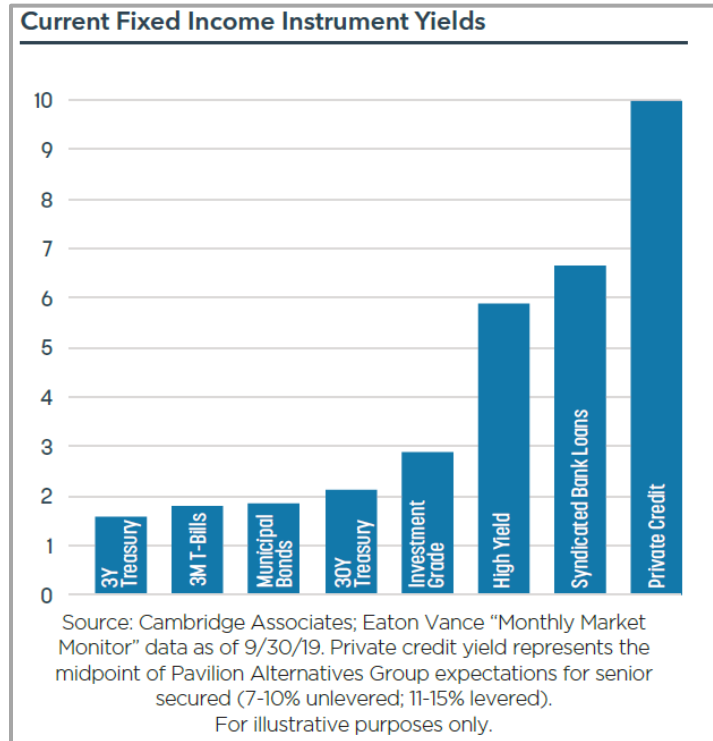
Income Markets: Business Development Companies (BDCs)



Source: Bloomberg, Evergreen Gavekal

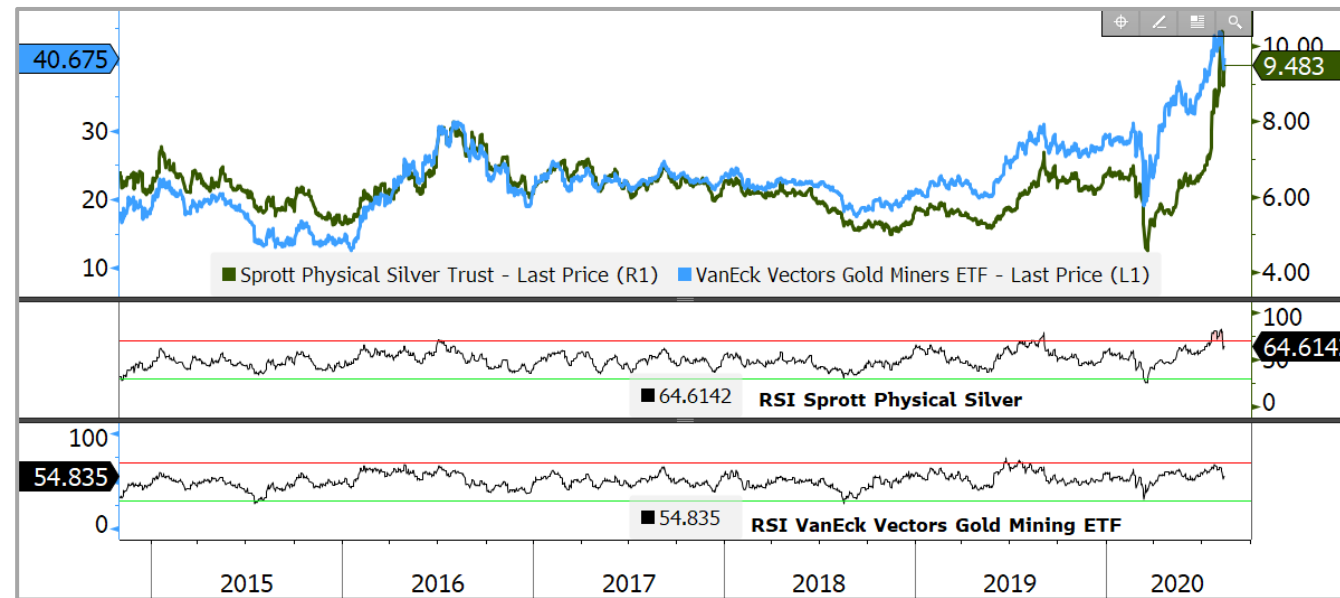
- On the higher risk spectrum, we believe private lending companies (known as BDCs) offer attractive total return potential.
- These companies have been hit hard with most still down 30% over the last year leading to generous yields in the 9-11% range.
- Our focus is on the highest quality players in this market niche that employ lower leverage and hold higher quality loans (i.e. mostly first and second lien loans, which historically have had far higher recovery rates in the rare event of default).
- These companies trade at discounts to their net asset values, and with the high current yield, we think these securities will offer double digit return potential over the next several years.
- It's worth noting we started scooping these companies up in mid-March and considering the incredible runs they've had we have slightly trimmed back exposure in recent weeks.

Income Markets: Private Credit



- We are also currently exploring private credit where, in exchange for illiquidity, you can generate higher cash flow.
- The private credit universe has never had a rolling five-year negative return, which showcases the resiliency of this asset class.
- We expect to increase exposure to this area for our clients over the next few years and are excited about the high and stable cash flows the space has provided historically.

Precious Metals and the Miners: Extended / Overbought

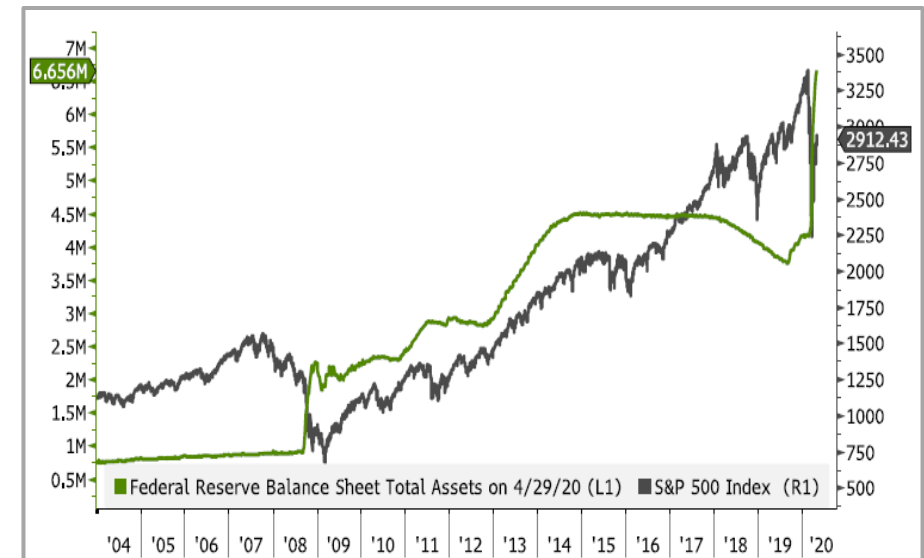


Source: Bloomberg, Evergreen Gavekal

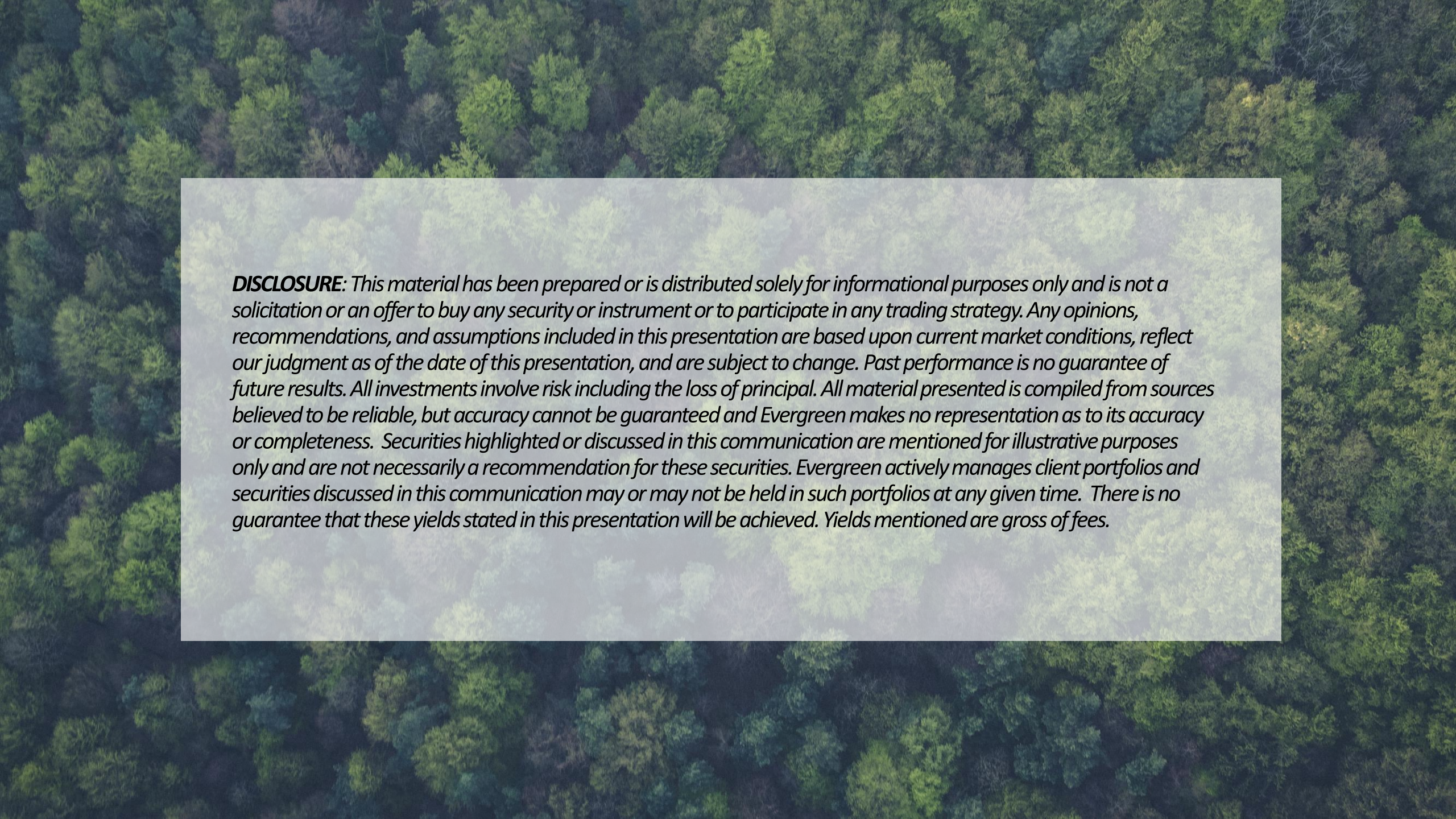
- Precious metals, and the companies that mine them, have been amongst our favorite plays this year. We were high on them due to a combination of increased money supply, government debt, helicopter money (i.e. government money transfers), lower commodity prices (i.e. lower input costs), and general concerns with higher inflation (along with currency debasement). This thesis has worked out well for the price of gold and silver.
- However, a few weeks back, the sector looked extremely extended (as you can see above based on relative strength (RSI) measures). In addition, with gold and interest rates exhibiting a negative correlation, and our view that rates look artificially low, we felt it was prudent to pull back our exposure to both the metals and the miners.
- With that said, any material pullback we see will likely cause us to add back exposure, and long-term participation in the precious metals complex makes sense given the potential for governments to continue to excessively print and spend money.

Outlook / Conclusion

- With how attractively priced both stocks and income investments had become back in late March and April, it was a rather easy decision to actively add risk exposure across our portfolios.
- Today, with the massive rally we have seen across financial assets, the return profile is less attractive - especially considering we are in a recession with falling growth and earnings.
- With that said, we can see a path over the next year to climb out of this recession, given the high likelihood of a vaccine (and improving antiviral treatments).
- The US government has made it quite clear that they will protect asset values at all costs, and any material downside from here should be used as buying opportunities, in our view, based on the likely trend of an ever-growing Fed balance sheet.
- Still, with the massive rally we have seen, we think it makes sense to gradually bring down risk within portfolios to make room to buy into any weakness this fall.
- Considering how much money has been forced-fed into the system, we do think there is a good chance we get a snapback in growth looking out to the next 12-18 months, which should favor a more aggressive portfolio.
- We also think beginning to shift out of the market leaders (i.e. technology) into smaller cap and value stocks is logical based on more attractive valuations and higher return potential.
- On the income side, there are many areas that offer compelling total return potential and coming out of this crisis we believe there will be a continued rush towards "yield".
- Overall, given the heightened volatility it's been a great year to be a tactical and active manager. We plan on continuing to add value by adjusting our asset mix as volatility arises and opportunities present themselves.



Source: Bloomberg, Evergreen Gavekal

An aerial photograph of a dense, lush green forest with many trees visible from above. The foliage is thick and vibrant green, with some darker patches where the canopy is deeper.

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An aerial photograph of a dense, lush green forest. The trees are tightly packed, creating a textured canopy of various shades of green. In the center of the image, there is a large, semi-transparent white rectangle. Overlaid on this rectangle is the text "Thank you!" in a black, italicized serif font.

Thank you!