EVERGREEN GAVEKAL

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"Buy not on optimism, but on arithmetic."
- BENJAMIN GRAHAM, mentor to Warren Buffett

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INTRODUCTION

The investment landscape and headlines of today would be unrecognizable to someone who fell asleep six months ago and suddenly snapped awake. Financial markets have undergone a tectonic shift that few saw coming. Back in the summer of 2016, the prevailing belief was that central banks were all-powerful and would forever push rates lower in a continuation of policies followed since the crash of 2008. In a show of force, the Bank of England announced a fresh cut to their interest rate to fend off an economic seizure in the face of the Brexit decision, the European Central Bank re-upped quantitative easing, and the Fed was maintaining overnight rates at just above zero.

In retrospect, that may have marked the peak of central banks' power to strong-arm markets. Yields around the world began a rise that picked up steam with the election of Mr. Trump and made the miniscule rate rise by the Fed in December seem inconsequential.

Then came an announcement that should have shaken markets to their core. Fed officials began openly discussing the possibility of unwinding the Fed's balance sheet, currently a mix of Treasuries and mortgage-backed securities that stands at $4.5 Trillion. (For those who do not know, the Fed has continued to reinvest any income generated from their holdings, thus maintaining their current exposure and impact on markets.) At any other point in the past seven years, the mere mention of a reduction would have sent markets tumbling…and has! Remember the Taper Tantrum?

But you know what? The US 10-year Treasury yield rose just 10 bps that day. The S&P 500 actually rose 0.19% with an almighty shrug.

This represents one of the biggest shifts in market attention that we have witnessed in recent memory, and the Fed is ready to take full advantage. No longer in the spotlight, they are intent on raising rates at least three times this year and seem to have the market's full permission to pull away the proverbial punchbowl. Of course, this shift is a direct result of the policies being pursued (with great vigor and in 140-character format) by the White House. Unfortunately, the market seems to be paying attention to only the best policies, with little regard to the knock-on effects of some of the not-so-great visions of the president.

This brings us to this week's EVA, which comes in video format from our friends at Real Vision TV (RVTV)*. In this interview, our very own CIO and EVA author David Hay discusses the investment landscape as he sees it with a few nuggets of insight sprinkled in. With all eyes on Trumponomics and its potential impacts, David provides us with a timely grounding in rational thought. Below, we have a 7-minute highlight reel of Dave's interview touching on the main ideas as well as a link to the full interview.

RVTV provide reliably candid and timely discussions with some of the world's leading voices including interviews with investing legends such as Jim Rogers, Kyle Bass, Rob Arnott, and Jeff Gundlach, among many others. It is a fast growing service, doubling its subscriber base in the past year and gaining a reputation as one of the most important new investment media sources. RVTV hits well above its weight in content and we use it regularly at Evergreen for fresh perspectives and new ideas.

Highlights - RVTV Interview with David Hay

Full Version - RVTV Interview with David Hay

Note: *<u>More About Real Vision TV:</u> Born out of a need to offer people honest investment insight without the current hype and bias, Raoul Pal and Grant Williams created Real Vision. Real Vision Television is a financial video-on-demand service offered by Real Vision, with over 500 in-depth interviews with the world's sharpest independent analysts, fund managers, geopolitical strategists, economists and investors. Free from groupthink, advertising or bias, Real Vision presents its viewers with the very best economic information and financial insight available and then allows them to make up their own minds, and profit from knowledge.*

OUR CURRENT LIKES & DISLIKES

No changes this week.

WE LIKE

- Large-cap growth (during a correction)
- International developed markets (during a correction)
- Canadian REITs
- BB-rated corporate bonds (i.e., high-quality, high yield)
- Cash
- Publicly-traded pipeline partnerships (MLPs) yielding 7%-12%
- Intermediate-term investment grade corporate bonds, yielding approximately 4%
- Gold-mining stocks
- Gold
- Intermediate municipal bonds with strong credit ratings
- Select blue chip oil stocks (on a pull back)
- Emerging bond markets (dollar-based or hedged); local currency in a few select cases
- Investment-grade floating rate corporate bonds
- Mexican stocks
- High-quality preferred stocks yielding 6%, selling at a discount from par value
- Certain Solar "Yieldcos"
- Long-term municipal bonds

WE'RE NEUTRAL ON

- Large-cap value
- Short-term investment grade corporate bonds
- Short yen ETF
- Emerging market bonds (local currency)
- Short euro ETF
- Bonds denominated in renminbi trading in Hong Kong (dim sum bonds)
- Canadian dollar-denominated bonds
- Mid-cap growth
- Long-term Treasury bonds
- Long-term investment grade corporate bonds
- Emerging stock markets, however a number of Asian developing markets, ex-India, appear undervalued
- The Indian stock market
- Intermediate Treasury notes
- Select European banks

WE DON'T LIKE

- US-based Real Estate Investment Trusts (REITs) (once again, some small-and mid-cap issues appear attractive)
- Small-cap value
- Mid-cap value
- Small-cap growth
- Floating-rate bank debt (junk)
- Lower-rated junk bonds
- Most cyclical resource-based stocks

the Evergreen
VIRTUAL ADVISOR