

JULY 8, 2016

*"This is a supernova that will explode one day"*

-BILL GROSS on global government bond markets

**Pull it together, Dave!** One of my EVA goals for the summer has been to do an overview issue summarizing a number of Evergreen's dominant views. It dawned on me over the 4th of July weekend that, thanks to my close friend Grant Williams, I'd already attempted to do so, at least orally, while we were both attending the Mauldin Strategic Investment Conference (SIC) in late May. At the time, Grant and I did a wide-ranging interview where he skillfully guided me through the maze that passes for my overarching mindset on current financial and economic conditions.

It's only been a bit over a month since he and I chatted but, obviously, there has been a major development—the Brexit—in the meantime. Yet, despite the risks posed by that event, US stocks remain back up at all-time highs. On the other hand, the message from the bond market isn't as positive. Longer-term Treasury bond yields have recently hit their lowest point ever, indicating both risk-aversion and concerns about the global economy (and, perhaps, worries about a critical vote in Italy come October). Moreover, credit spreads\*, which Grant and I spend a fair amount of "air time" discussing, have moved up (though, as yet, not alarmingly).

Since then, the Fed has also decided to leave interest rates unchanged. There's little doubt the Fed is spooked by global uncertainties but it's also likely they are noticing a string of weak US economic data points (though, very recently, there've been some upbeat releases). It remains to be seen how well the American economy will fare should fears of a European dissolution escalate and the international economy continues to lose altitude (not that it had much in the first place!).

The other striking development since Grant and I spoke has been the further collapse of yields on overseas government bonds. For example, in Switzerland, yields are negative across the entire curve (meaning, investors are paying the Swiss government for the privilege to lend it money, even out to 50 years!). As he and I discuss, the elimination of interest rates around the world is one of the gravest threats investors in need of income currently face.

Per last week's EVA, it's certainly possible that further central bank liquidity deluges—in order to calm Brexit jitters—will push bonds and stocks even higher. In the long run, though, this also makes markets more vulnerable to a wicked moment of truth. Of course, as we all are learning on almost a daily basis, truth is becoming an increasingly scarce commodity. This is obviously the case in politics but it's also the reality in financial markets where determining true prices is nigh on impossible due to extreme central bank manipulation.

So, to hear what Grant and I have to say on these and other topics, [click on this link](#).

As always, your feedback is greatly appreciated.

David Hay



\*The difference between government and corporate borrowing rates.

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A special message from the author:

My wife and I have supported the International Justice Mission (IJM) for many years. This exceptional organization—one of the most efficient non-profits we've ever been involved with—has made tremendous strides in reducing human trafficking and slavery around the world since its founding in 1997. You may have read that one of IJM's team members in Kenya, along with his client and a taxi-driver, were kidnapped and murdered in late June, apparently by rogue elements of the Kenyan police force. The *New York Times* article on this atrocity can be accessed by [clicking on this link](#).

When we read about such tragedies we often feel both enraged and helpless. But in this case there is definitely something you can do to help. [By clicking on the next link](#), you can digitally submit a petition to Kenya's president requesting an investigation into these killings and the removal of the Deputy Inspector General of the Administration Police. Unfortunately, this is far from an isolated case due to endemic corruption in—and rampant human rights abuses by—the Kenyan police force, as you will read.

Thank you in advance for your assistance and concern.

David Hay

## OUR CURRENT LIKES &amp; 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% (for new buyers, start with a partial position due to the recent major rally)
- Intermediate-term investment grade corporate bonds, yielding approximately 4%
- Gold-mining stocks (due to the magnitude of the recent surge, some profit-taking is reasonable)
- Gold (on a pull back)
- Intermediate municipal bonds with strong credit ratings
- The Indian stock market
- Long-term Treasury bonds
- Select blue chip oil stocks (on a pull back)
- Emerging bond markets (dollar-based or hedged); local currency in a few select cases
- Intermediate Treasury notes
- Long-term investment grade corporate bonds

## WE'RE NEUTRAL ON

- Most cyclical resource-based stocks
- Large-cap value
- Short-term investment grade corporate bonds
- High-quality preferred stocks yielding 6%
- 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
- Long-term municipal bonds
- Mid-cap growth

## WE DON'T LIKE

- US-based Real Estate Investment Trusts (REITs)
- Small-cap value
- Mid-cap value
- Small-cap growth
- Floating-rate bank debt (junk)
- Lower-rated junk bonds
- Emerging stock markets, however a number of Asian developing markets, besides India, appear undervalued

*the Evergreen*  
**VIRTUAL  
ADVISOR**

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