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"I'd prefer to die on my feet than to live on my knees."

- Stéphane Charbonnier, martyred editor-in-chief of the French newspaper, Charlie Hebdo

EVERGREEN VIRTUAL ADVISOR

Introduction by Tyler Hay



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For many of our readers, Evergreen's business relationship with Louis Gave is well known. Over the years, a true friendship has formed with the founding partner of GaveKal Research. Though Louis resides in Hong Kong, he and his family are French.

When news broke of the terror attack in Paris last week, my first thought was of them.

We are relieved to relay that Louis' family and GaveKal colleagues (several of whom were in Paris at the time of the attacks) are safe and sound.

Given Louis background, as well as his service in the French military, the following piece offers his unique perspective on the impact of the recent events. For many Americans this was an all too familiar reminder of our own experience with terrorism. As we all grieve alongside those impacted by the Paris attacks one cannot ignore the consequences it will have politically and economically. Countries around the world are being forced to confront the fallout created by the instability in the Middle East. Louis outlines why he thinks the attacks we witnessed in Paris may mark a turning point in the geopolitical landscape and the war on terror. We are thankful to Louis' for sharing this with our readership, as this is only available to others through their subscription based research service.

Next week, we will change lenses from geopolitics and examine the economic and financial implications facing Europe and the Middle East in the inaugural issue of *For What It's Worth* (a new letter from our Chief Economist, Worth Wray). For today, please read Louis' emotional, defiant, and thoughtful response to last week's horrific attacks in Paris.

FRANCE UNDER ATTACK

Louis Gave, GaveKal

In the worst days of the Northern Ireland troubles, British policymakers spoke of a "tolerable level of violence". It was taken for granted that senseless and murderous acts would be committed, but what mattered was ensuring that these did not "get out of hand".

In the past year, France has experienced three such acts: the Charlie-Hebdo and kosher supermarket murders of January, the botched (thanks to a French civilian, three US soldiers and a 62-year old British IT manager) mass-shooting attempt on an Amsterdam-Paris train, and Friday's multi-pronged attack against entertainment areas in the French capital. Of the three, Friday's attacks were the most shocking as their careful planning, meticulous execution, and the grim death-toll involved makes it clear that this was not the work of "lone-wolves", but an orchestrated operation à la 9/11. Continuing the analogy with the Irish Republican Army, or even Al-Qaeda, leaves one with an uncomfortable feeling as at least the Irish terrorists, and even the nihilists at Al Qaeda, had political goals. The first wanted to see the British leave Northern Ireland; the second wanted to see an end of the US military support to Saudi Arabia. Today, what are the political goals of ISIS *vis à vis* France? What is the aim of these killings?

For the past few years, the Middle East has been gripped by a civil war (broadly pitting Sunnis against Shias, but also secularist Sunnis versus fundamentalists, as well as Kurds against Turks) that is more complicated than the Spanish Civil War (where communists liquidated anarchists, before being in turn put to the sword by Franquists, themselves divided between fascists and catholic traditionalists). Still, if for Spain the broader arch of the civil war was Franquists (supported by fascist Germany and Italy) against the popular front (very loosely supported by Britain, France and then the Soviet union), the broader arch of the Middle Eastern civil war has been Shias led by Iran, and supported by Russia, against Sunnis which are supported by Saudi Arabia and Qatar. And this is where it gets complicated because of all the Western powers, France has undeniably been the one leaning

the most aggressively against the Shias in favor of the Sunni side of the ledger (the side of the civil war ledger that ISIS itself emanates from). It was France which revealed that Assad had crossed the “red line” of using chemical weapons, and it was France that agitated to intervene against Assad’s regime before President Obama and the British Parliament decided that letting the Russians handle the situation was a better course of action.

And so today, as the Middle Eastern civil war leaks over into Europe, one is forced to confront the question of ISIS’s political goals in attacking France. Clearly, ISIS does not subscribe to the old “the enemy of my enemy is my friend” mantra. And so the only possible answer to the question of what ISIS is trying to achieve by attacking France is “nothing”. The Islamists simply attack us because they hate us. And the only goal to be achieved with these killings is to cower an entire population into changing its way of life, whether that be imposing restrictions on free speech (depicting the prophet Mohammed, or even discussing the more disturbing part of the prophet’s biography), or now, simply going out and letting loose on a Friday night. In that respect, the choice of entertainment venues as attack points is surely not co-incidental.

Indeed, when Al-Qaeda attacked the World Trade Center, the goal was to bring US finance to its knees (and from there the US economy). When, a year later, Al-Qaeda attacked Spanish trains on the eve of Spain’s election, the aim was also clear: tip the electoral scale away from the People’s Party which had supported the deployment of US troops in Afghanistan and Iraq in favor of the Spanish Socialist Workers’ Party, which did not support the deployments. With Friday’s attack on Paris, ISIS has clearly shown that its goal is nothing short of upending our entire way of life.

Like the Taliban which banned sports events, music, and celebrations, the ISIS nihilists offer a vision of the world so foreign to any of us as to be incomprehensible. And this nihilist vision now presents the French government with a genuine “how to respond” challenge. With the obvious answer being that the terrorist safe-haven that is the ISIS “state” in Syria and Iraq, and the source of much of the destabilization currently unfolding in Europe, must now be taken out. Conceptually, could the scale of these attacks mean that France would be able to request the help of its NATO allies in an “Article 5” retaliation against ISIS? After all, if Churchill could do a deal with Stalin against the Nazi nihilists (and state in the House of Commons: “If Hitler invaded hell, I would, at the very least, make a favorable reference to the devil in this house”), then surely the Quai d’Orsay now has to hold its nose and switch its focus from removing Assad to wiping out ISIS?

With that in mind, and in the context of the broader Middle Eastern civil war, this weekend’s tragedy is good news for Russia and Iran, and bad news for the Gulf states as attention will increasingly shift to neutralizing the source of the fundamentalist ideology. One immediate result of the Paris attacks was to win support for accelerated US-Russian backed talks between all the main regional powers that aim for a resolution to the Syrian civil war. Last weekend’s military-style terrorist act in Paris will hopefully turn out to be ISIS’s “Operation Barbarossa”*, not an action marking the apex of its powers, but one which sparks a coordinated response leading to its eventual liquidation.

* Operation Barbarossa (German: Unternehmen Barbarossa) was the code name for Nazi Germany’s invasion of the Soviet Union during World War II, which began on 22 June 1941. The operation was driven by Adolf Hitler’s ideological desire to conquer the Soviet territories as outlined in his 1925 manifesto *Mein Kampf* (“My Struggle”).

OUR CURRENT LIKES & DISLIKES

There were no changes this week.

WE LIKE

- Large-cap growth (on a deeper pull back)
- International developed markets (on a deeper pull back)
- Canadian REITs
- Intermediate Treasury notes
- BB-rated corporate bonds (i.e., high-quality, high yield)
- Cash
- Publicly-traded pipeline partnerships yielding 7%-12% (MLPs)
- Intermediate-term investment grade corporate bonds, yielding approximately 4%
- Gold-mining stocks
- Gold
- Intermediate municipal bonds with strong credit ratings
- Long-term municipal bonds
- The Indian stock market
- Long-term Treasury bonds
- Blue chip oil stocks (on a pull-back after the recent rally)
- Emerging bond markets (dollar-based or hedged)
- Canadian dollar-denominated 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%
- Long-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)

WE DON'T LIKE

- Real Estate Investment Trusts (REITs)*
- Small-cap value
- Mid-cap value
- Small-cap growth
- Mid-cap growth
- Floating-rate bank debt (junk)
- Lower-rated junk bonds
- Emerging stock markets

*However, some small and mid-cap issues look attractive (and are becoming even more so)

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