Fall in August

Last week’s weakness in global equity markets accelerated into a rout as exchanges opened across the world on Monday, August 5.

While investors had grown prickly in recent weeks on signs of wavering economic momentum in the US, a disappointing jobs print on Friday appeared to kick concerns over the soft-landing narrative into overdrive. A few general observations:

- The newly hawkish bias of the Bank of Japan (BOJ) stands in sharp contrast with the dovish leanings of other central banks like the Federal Reserve, and has caused the yen to strengthen. The abrupt repricing of fed funds rate expectations following the weak jobs report last week supercharged this move and served as a lighting bolt to the carry trade. The generationally low valuation of the yen made it highly elastic to this sort of change in relative expectations.
- Japan’s Nikkei 225 shed more than 12% on Monday, its biggest one-day decline since the Black Monday crash in October 1987.[1] The Japanese equity market, in our view, is arguably undervalued relative to cash flows and assets. Japanese policy makers face tough choices unwinding their extremely accommodative monetary and fiscal policy settings; while this risk may be better priced following recent market drawdowns, the path forward will be a function of unpredictable policy evolution and geopolitical developments.
- Big tech names were another hard-hit segment, with the “Magnificent Seven” at one point having shed about $750 billion in market capitalization; yet, this cohort remains sharply higher year to date.[2] Earnings reports over the past few weeks generally have been underwhelming, and investors who have bid up the prices of these stocks for several years now may be growing impatient for tangible results from massive AI-related expenditures. That said, equity markets overall appear to merely have corrected from overbought levels; we have not seen the type of drawdown that would suggest a seasoned bear market.

1. Source: Reuters; data as of August 5, 2024.
2. Source: *The Wall Street Journal*; data as of August 5, 2024.

All comments are as of August 5, 2024.

For institutional investor use only.

- There is usually a tight relationship between equity market implied volatility and high yield credit spreads. In this selloff, however, equity market volatility spiked considerably more than credit spreads.[3] This suggests to us that there are either technical pressures leading the equity volatility market to be oversold, or that equity volatility markets (along with the yield curve) are signaling recession risk that will ultimately be reflected in higher credit spreads. Either way, the risk-reward in high yield credit has become relatively less attractive, in our view.
- As we have seen in previous incidents when liquidity first begins to get tight, the yen and US Treasuries rallied, the CBOE Volatility Index spiked and the gold price eased. Perhaps this is not surprising given short-term interest rates at cyclical highs in absolute terms and relative to softening wage inflation.[4]

In the view of the Global Value team, certain exposures like cash, gold and more defensive sectors like consumer staples—while not immune to market drawdowns—may provide some element of resilience compared with tech-heavy, broad market aggregates. We believe today's "shock" market move is a good reminder of the importance of respecting the inherent uncertainty of markets by investing in resilient assets.

Soft US Jobs Report Reverberates Globally

For some time now, market sentiment has appeared to be closely tied to expectations around the Fed's ability to engineer a soft landing for the US economy. Friday's job report appeared to flip a switch in the prevailing narrative and serve as a catalyst for Monday's sharp selloff, but it's not the first sign of economic fade we've seen this summer. Despite a range of economic data—from PMI reports to loan activity to consumer balance sheets—suggesting heightened cyclical risk, markets have been pricing in a soft landing and continued earnings growth.

> While the weak job report appeared to flip a switch in the prevailing narrative, it wasn't the first sign of economic fade we've seen this summer.

Traders now expect a 50 basis point cut in the federal funds rate at each of the central bank's next two meetings in September and November, and another nearly 50 basis points in December.[5] However, Fed officials—including Chicago Federal Reserve President Austan Goolsbee on Monday—have rushed to caution against overreacting to one month's numbers.[6] Indeed, the Fed will get another set of labor market data before the September meeting, and there are reasons to believe the hurricane that hit Texas may have impacted the July readings. Another bad report in August, however, likely would cause the Fed to act aggressively come September. Current market volatility is unlikely to prompt an inter-meeting cut by the Fed, as it is well aware that repricing was to be expected in certain markets where valuations appeared stretched.

Bank of Japan Charts Its Own Course

On July 31, the BOJ raised its policy target rate to 0.25%, the highest level since 2008, and presented a comprehensive plan for quantitative tightening. The BOJ also indicated that it would issue a series of hikes to bring policy rates toward neutral, assuming its forecasts are being met; this suggests rates in Japan could exceed the pre-global financial crisis peak of 0.5% and highlights the significant changes taking place in Japan's economy and policy settings.[7]

3. Source: Bloomberg; data as of August 5, 2024.
4. Source: FactSet; data as of August 5, 2024.
5. Source: CME FedWatch; data as of August 5, 2024.
6. Source: Reuters; data as of August 5, 2024.
7. Source: Bloomberg; data as of August 1, 2024.

Shrinking interest-rate differentials as a hawkish BOJ contrasts with the dovish leanings of other central banks like the Fed exerted upward pressure on the yen, which was exacerbated by the swift repricing of fed funds rate expectations following the soft jobs report last week. The yen rally has been further supported by traders unwinding their carry trades (i.e., where investors borrow money in economies with low interest rates to finance investment in higher-yielding areas).

Markets no longer expect additional BOJ rate hikes in 2024. In our view, it makes sense for the BOJ to be more cautious given the currency and equity volatility, as well as growing concerns about the health of the US economy. However, reading the minutes of July's BOJ meeting, officials appear to believe that a durable, virtuous cycle between wages and inflation is developing; once market volatility subsides, it would make sense to expect a gradual tightening in policy by the BOJ next year.[8] We continue to believe the yen is undervalued and would expect it to appreciate over the medium term, though nearer-term moves are more difficult to forecast given sensitivity to developments in the US.

Selloff Highlights the Importance of Building Resilience from the Bottom Up

Markets feel more rationally priced today than they felt a few weeks ago, but it would be unwise to assume things only can get better from here; we've long observed that markets can deliver a lot of pain to a lot of participants before arriving at fair prices. This is among the reasons why the Global Value team spends far less time obsessing over the macroeconomic and political variables that drive short-term performance than we do seeking opportunities in quality businesses that we believe can demonstrate resilience across multiple states of the world.

Assets promising growth have been assigned premium valuations by the market for some time now, but the market may start to value potential resilience should the investment backdrop remain volatile—if the soft-landing scenario fails to play out, or sovereign debt concerns promote a broad repricing of government paper, or if any one of the global military hotspots ignites into broader conflict. Resilience has traded at a premium in the past; in our view, there's no reason to believe it won't do so again under the right circumstances.

> While markets feel more rationally priced today than a few weeks ago, it would be unwise to assume things can only get better from here.

8. Source: Reuters; data as of August 5, 2024.

The opinions expressed are not necessarily those of the firm. **These materials are provided for informational purposes only.** These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Any statistics contained herein have been obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed. The views expressed herein may change at any time subsequent to the date of issue hereof. The information provided is not to be construed as a recommendation or an offer to buy or sell or the solicitation of an offer to buy or sell any fund or security.

Past performance is not indicative of future results.

Risk Disclosures

All investments involve the risk of loss of principal.

A principal risk of investing in value stocks is that the price of the security may not approach its anticipated value or may decline in value. "Value" investments, as a category, or entire industries or sectors associated with such investments, may lose favor with investors as compared to those that are more "growth" oriented.

There are risks associated with investing in securities of foreign countries, such as erratic market conditions, economic and political instability and fluctuations in currency exchange rates. These risks may be more pronounced with respect to investments in emerging markets.

Diversification does not guarantee investment returns and does not eliminate the risk of loss.

Bear market refers to a period during which a market experiences a prolonged decline in price.

Federal funds rate is the interest rate at which depository institutions (banks and credit unions) lend reserve balances to other depository institutions overnight on an uncollateralized basis.

Magnificent Seven refers to a group a seven very large tech-related stocks, including Alphabet, Amazon, Apple, Microsoft, Meta Platforms, Nvidia and Tesla.

Yield curve measures the spread between yields on short- and long-term bonds; an inverted yield curve occurs when longer-dated bond yields are lower than short-dated bond yields.

CBOE Volatility Index (VIX) measures the 30-day expected volatility of the US stock market. It is based on the prices of options on the S&P 500 Index and is calculated by aggregated weighted prices of the index's call and put options over a wide range of strike prices.

Nikkei 225 Index is an unmanaged price-weighted equity index that consists of 225 stocks in the first section of the Tokyo Stock Exchange.

Indices are unmanaged and do not incur management fees or other operating expenses. One cannot invest directly in an index.

Important Information for Non-US Residents

This material and the information contained herein is provided for informational purposes only, do not constitute and is not intended to constitute an offer of securities, and accordingly should not be construed as such. Any funds or other products or services referenced in this material may not be licensed in all jurisdictions and unless otherwise indicated, no regulator or government authority has reviewed this material or the merits of the products and services referenced herein. This material and the information contained herein has been made available in accordance with the restrictions and/or limitations implemented by any applicable laws and regulations. This material is directed at and intended for institutional investors (as such term is defined in any applicable jurisdiction). This material is provided on a confidential basis for informational purposes only and may not be reproduced in any form. This material is for general information only and is not intended as investment advice or any other specific recommendation as to any particular course of action or inaction. The information in this material does not take into account the specific investment objectives, financial situation, tax situation or particular needs of the recipient. Before acting on any information in this material, prospective investors should inform themselves of and observe all applicable laws, rules and regulations of any relevant jurisdictions and obtain independent advice if required. This material is for the use of the named addressee only and should not be given, forwarded or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

Important Information for Residents in the Abu Dhabi Global Market (ADGM)

This material constitutes an Exempt Communication or is not otherwise subject to the financial promotion restriction in accordance with the Financial Services and Markets Regulation of the ADGM. It must not be delivered to, or relied on by, any other person. The ADGM does not accept any responsibility for the content of the information included in this material, including the accuracy or completeness of such information. The ADGM has also not assessed the suitability of the products or services to which this material relates to any particular investor or type of investor. If you do not understand the contents of this material or are unsure whether the products or services to which this material relates are suitable for your individual investment objectives and circumstances, you should consult an authorised financial adviser.

Important Information for Residents of Australia

This communication is exclusively directed and intended for wholesale clients (as such term is defined in Australian Corporations Act 2001 (Cth) only and, by receiving it, each prospective investor is deemed to represent and warrant that it is a wholesale client. The information contained herein is provided for informational purposes only and should not be considered a solicitation or offering of investment services, nor a solicitation to sell or buy any shares of any securities (nor shall any such securities be offered or sold to any person) in any jurisdiction where such solicitation or offering would be unlawful under the applicable laws of such jurisdiction. Unless otherwise indicated, no regulator or government authority has reviewed this material or the merits of the products and services referenced herein. This material and the information contained herein has been made available in accordance with the restrictions and/or limitations implemented by any applicable laws and regulations. This material is provided on a confidential basis for informational purposes only and may not be reproduced in any form. Before acting on any information in this material, prospective investors should inform themselves of and observe all applicable laws, rules and regulations of any relevant jurisdictions and obtain independent advice if required. This material should not be relied upon as investment advice and is not a recommendation to adopt any investment strategy. This material is for the use of the named addressee only and should not be given, forwarded or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof). First Eagle Investment Management, LLC is exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 (Cth) in respect of the financial services it provides to wholesale clients in Australia and is regulated by the US Securities and Exchange Commission under US laws, which differ from Australian laws.

Important Information for Residents of Brazil

First Eagle Investment Management, LLC is not accredited with the Brazilian Securities Commission - CVM to perform investment management services. The investment management services may not be publicly offered or sold to the public in Brazil. Documents relating to the investment management services as well as the information contained therein may not be supplied to the public in Brazil.

Important Information for Residents of Canada

This material does not constitute investment advice or an offer or solicitation to sell or a solicitation of an offer to buy any product or service or any securities (nor shall any product or service or any securities be offered or sold to any person until such time as such offer and sale is permitted under applicable securities laws.) Any products or services or any securities referenced in this material may not be licensed in all jurisdictions, and unless otherwise indicated, no securities commission or similar authority in Canada has reviewed this material or the merits of the products and services referenced herein. If you receive a copy of this material, you should note that there may be restrictions or limitations to whom these materials may be made available. This material is private and confidential and is directed at and intended for institutional investors and is only being provided to "permitted clients" as defined under the Canadian Securities Administrators' National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations. This material is for informational purposes only. This material does not constitute investment advice and should not be relied upon as such. Before acting on any information in this material, prospective clients should inform themselves of and observe all applicable laws and regulations of Canada. Prospective clients should inform themselves as to the legal requirements and tax consequences within the countries of their citizenship, residence, domicile and place of business with respect to the acquisition, holding or disposal of shares or the ongoing provision of services, and any foreign exchange restrictions that may be relevant thereto. First Eagle Investment Management, LLC is not authorized to provide investment advice and/or management money in Canada.

Important Information for Residents of Dubai

This material and the information contained herein is provided for informational purposes only, does not constitute and is not intended to constitute an offer of securities, and accordingly should not be construed as such. Any funds or other products or services referenced in this material may not be licensed in all jurisdictions and unless otherwise indicated, no regulator or government authority has reviewed this document or the merits of the products and services referenced herein. This material and the information contained herein has been made available in accordance with the restrictions and/or limitations implemented by any applicable laws and regulations. This material is directed at and intended for institutional investors (as such term is defined in any applicable jurisdiction). This material is provided on a confidential basis for informational purposes only and may not be reproduced in any form. Before acting on any information in this material, prospective investors should inform themselves

of and observe all applicable laws, rules and regulations of any relevant jurisdictions and obtain independent advice if required. This material is for the use of the named addressee only and should not be given, forwarded or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

Important Information for Residents of the State of Kuwait

The Capital Markets Authority and all other Regulatory Bodies in Kuwait assume no responsibility whatsoever for the contents of this material and do not approve the contents thereof or verify their validity and accuracy. The Capital Markets Authority and all other Regulatory Bodies in Kuwait assume no responsibility whatsoever for any damages that may result from relying on the contents of this material either wholly or partially. It is recommended to seek the advice of an investment advisor.

Important Information for Residents of the State of Qatar

Any funds, products or services referenced in this material may not be licensed in all jurisdictions, including the State of Qatar ("Qatar"), and unless otherwise indicated, no regulator or government authority, including the Qatar Financial Markets Authority (QFMA), has reviewed this material or the merits of the products and services referenced herein. If you receive a copy of this material, you may not treat this as constituting an offer, and you should note that there may be restrictions or limitations as to whom these materials may be made available. This material is directed at and intended for a limited number of "qualified" investors (as such term is defined under the laws of Qatar). This material is provided on a confidential basis for informational purposes only and may not be reproduced in any form. Before acting on any information in this material, prospective clients should inform themselves of and observe all applicable laws and regulations of any relevant jurisdictions, including any laws of Qatar. This material is for the use of the named addressee only and should not be given, forwarded or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof). Any entity responsible for forwarding this material to other parties takes responsibility for ensuring compliance with applicable securities laws.

Important Information for Residents of the Kingdom of Saudi Arabia

The information contained herein is provided for informational purposes only and should not be considered a solicitation or offering of investment services, nor a solicitation to sell or buy any shares of any securities (nor shall any such securities be offered or sold to any person) in any jurisdiction where such solicitation or offering would be unlawful under the applicable laws of such jurisdiction. Unless otherwise indicated, no regulator or government authority has reviewed this material or the merits of the products and services referenced herein, including the Saudi Arabian Capital Market Authority. This material and the information contained herein has been made available in accordance with the restrictions and/or limitations implemented by any applicable laws and regulations. This material is directed at and intended for institutional investors (as such term is defined under the laws of the Kingdom of Saudi Arabia). This material is provided on a confidential basis for informational purposes only and may not be reproduced in any form. Before acting on any information in this material, prospective investors should inform themselves of and observe all applicable laws, rules and regulations of any relevant jurisdictions and obtain independent advice if required. This material should not be relied upon as investment advice and is not a recommendation to adopt any investment strategy. This material is for the use of the named addressee only and should not be given, forwarded or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

Important Information for Residents of Dubai

This material is intended for distribution only to Professional Clients. It must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with any funds, products or services that may be mentioned herein. The Dubai Financial Services Authority has not approved this material nor taken steps to verify the information set out in it and has no responsibility for it. If you do not understand the contents of this material, you should consult an authorized financial adviser.

Important Information for Residents of United Arab Emirates (Abu Dhabi)

The offering of the products and/or services described herein have not been approved or licensed by the UAE Central Bank, the UAE Securities and Commodities Authority (SCA), the Dubai Financial Services Authority (DFSA) or any other relevant licensing authorities in the UAE, and accordingly does not constitute a public offer in the UAE in accordance with the commercial companies law, Federal Law No. 2 of 2015 (as amended), SCA Board of Directors' Decision No. (13/Chairman) of 2021 on the Regulations Manual of the Financial Activities and Status Regularization Mechanisms or otherwise. Accordingly, this material is not offered to the public in the UAE (including the Dubai International Financial Centre (DIFC)). This material is strictly private and confidential and is being issued to a limited number of institutional and individual clients: a) who meet the criteria of a Professional Investor as defined in SCA Board of Directors' Decision No. (13/Chairman) of 2021 on the Regulations Manual of the Financial Activities and Status Regularization Mechanisms or who otherwise qualify as sophisticated clients; b) upon their request and confirmation that they understand that the products and/or services described in this material have not been approved or licensed by or registered with the UAE Central Bank, the SCA, DFSA or any other relevant licensing authorities or governmental agencies in the UAE; and c) must not be provided to any person other than the original recipient and may not be reproduced or used for any other purpose.

Important Information for Residents of United Kingdom

This material is issued by First Eagle Investment Management, LLC and is lawfully distributed in the United Kingdom by First Eagle Investment Management, Ltd. First Eagle Investment Management, Ltd is authorised and regulated by the Financial Conduct Authority (FRN: 798029) in the United Kingdom. This material is directed only at persons in the United Kingdom who qualify as "professional investors."
This material is not directed at any persons in the United Kingdom who would qualify as "retail investors" within the meaning of the UK Alternative Investment Fund Managers Regulations 2013 (S.I. 2013/1773) or the EU Packaged Retail and Insurance-based Investment Products Regulation (No 1286/2014), the UK PRIIPs Regulation, and such persons may not act or rely on the information in this material.

FEF Distributors, LLC ("FEFD") (SIPC), a limited purpose broker-dealer, distributes certain First Eagle products. FEFD does not provide services to any investor but rather provides services to its First Eagle affiliates. As such, when FEFD presents a fund, strategy or other product to a prospective investor, FEFD and its representatives do not determine whether an investment in the fund, strategy or other product is in the best interests of, or is otherwise beneficial or suitable for, the investor. No statement by FEFD should be construed as a recommendation. Investors should exercise their own judgment and/or consult with a financial professional to determine whether it is advisable for the investor to invest in any First Eagle fund, strategy or product.

First Eagle Investments is the brand name for First Eagle Investment Management, LLC and its subsidiary investment advisers.

©2024 First Eagle Investment Management, LLC. All rights reserved.