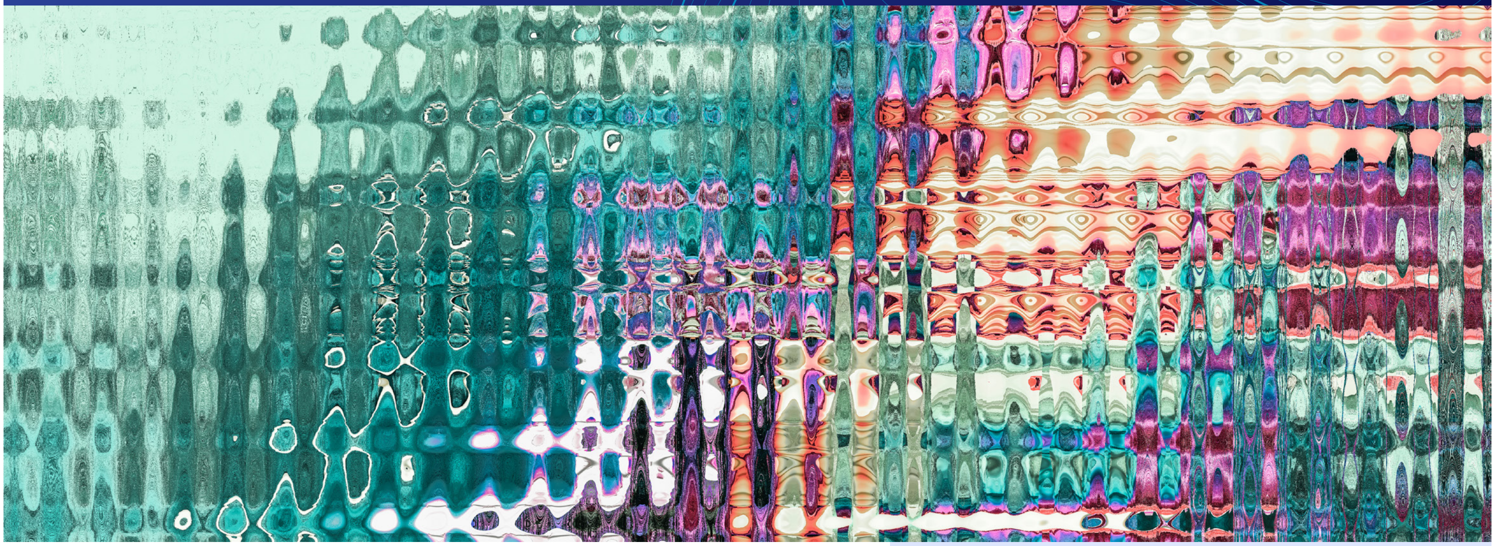

4Q24 Market Overview: Parting of the Sensory

Global equity market performance in the fourth quarter was in many ways a microcosm of the past two years.

As has been the trend, outperformance during the last stanza of 2024 could be found in the most concentrated, highest-growth segment of the world's largest stock market; that is, tech-oriented US stocks. The NYSE FANG+ Index, for example, gained more than 15% in the fourth quarter, the cherry on top of a 51% annual gain. Overlapping with nine of the 10 FANG+ components, the S&P 500 Index was able to share in some of the spoils, advancing 2.4% for the quarter and 25% for the year, while the FANG+-less MSCI EAFE Index returned -8.1% and 3.8% for the quarter and year, respectively.[1]

As suggested by the recent dominance of US stock markets, risk perception in the US has been low, boosting equity multiples and pushing credit spreads to cyclical tights. In stark contrast, risk perception in China is high, as the tailwinds that benefitted the world's second largest economy in the immediate aftermath of Covid-19 have turned. The MSCI China Index was down as much as 50% from its early-2021 peak at one point, while government bond yields across the curve ended 2024 near all-time lows.[2] Given the massive impact the interplay of US and China has had on economies, markets and the world in general, we think their post-pandemic decoupling is worth examining.

KEY TAKEAWAYS

- With risk perception low in the US and high in China, the countries' financial markets have been on divergent paths.
- Fixed asset investment in China has shifted toward manufacturing following the collapse of its property sector bubble. The resulting excess capacity has weighed on export prices and provided China's trading partners with a strong disinflationary impulse.
- Though the US has made significant progress taming inflation, a range of possible developments could spark renewed pressures, including a rebound in Chinese growth, new tariffs on imports, ongoing tech capex and persistent labor-market strength.
- While the valuation of growth stocks relative to value stocks are at all-time highs, renewed inflation is but one of the many potential catalysts for a recalibration of risk appetites.

1. Source: FactSet; data as of December 31, 2024.
2. Source: MSCI, Bloomberg; data as of December 31, 2024.

"Chimerica" a Chimera?

For much of the past several decades, the symbiotic relationship between the US and China represented a primary driver of global macroeconomic activity and financial market performance, so much so that the term "Chimerica" was coined to describe the interconnectivity of the world's most rapidly growing emerging market (at the time) and its dominant economic power (still).[3]

While signs of strain in the Chinese economy in the not-too-distant past were typically viewed as bad for global activity and risk assets broadly, the impacts of China's current malaise have been more nuanced. For example, the collapse of China's property market bubble—which began with the default of developer Evergrande in 2021 and has yet to find a bottom—is at least partly responsible for the cyclically moderating inflation pressures in the US and many other countries. Fixed asset investment in China has shifted away from real estate and toward manufacturing, and the resulting excess capacity has weighed on export prices and provided China's trading partners with a strong disinflationary impulse.[4] Meanwhile, waning confidence among Chinese businesses and households depressed imports and caused a range of economically sensitive commodities—everything from oil to copper to wheat—to derate versus gold, another exogenous source of downward pressure on global inflation.

> The collapse of China's property market is at least partly responsible for cyclically moderating inflation pressures in many developed countries.

Bloody, but Unbowed

While the US has made significant progress against inflation, the battle has reached only a fragile peace, in our view, and the country remains vulnerable to renewed pricing pressures.

Ironically, China is one potential source of such a renewal. China's rate of deflation has moderated, as has the disinflationary impulse being exported to its trading partners. This impulse might weaken further still should policymakers make good on suggestions of large-scale stimulus; for example, a December meeting of the Central Economic Work Conference produced a statement that "lifting consumption vigorously" was among party leaders' top goals for 2025.[5]

New tariffs on imports into the US could add further fuel to the inflation fire. While China is the main target of President-Elect Trump's protectionist leanings—on the campaign trail, Trump vowed to impose new 60% tariffs on all Chinese imports—he also has pledged tariffs as high as 10% on global imports and an additional 25% on goods from Canada and Mexico.[6] Beyond their impact on producer and consumer costs, these tariffs could have both direct and indirect impacts on oil prices, which are already highly susceptible to shifts in the geopolitical temperature. Meanwhile, the surge in capital expenditures among big tech companies—previously capital-light businesses like Meta, Google and Microsoft now have capital budgets that dwarf those of traditional giants like Exxon—has implications for the real economy, particularly as these investments extend into energy.[7]

3. Niall Ferguson and Moritz Schularick, "'Chimerica' and the Global Asset Market Boom," *International Finance* (10:3, 2007).
4. Source: UBS, First Eagle Investments; data through September 30, 2024.
5. Source: Bloomberg; data as of December 12, 2024.
6. Source: Reuters; data as of January 8, 2025.
7. Source: Bloomberg, First Eagle Investments; data as of September 30, 2024.

The US labor market may be the root of our inflation concerns, however. During the Fed's tightening cycle, nonfarm payrolls continued to grow even as the unemployment rate ticked modestly higher, an unusual dynamic we think can be attributed to the massive stimulus provided during the Covid-19 era. The nominal rebasing of the economy that resulted from the government's debt spree bolstered corporate profits even as margins contracted, which supported a moderation in payrolls growth rather than an outright contraction. With financial conditions easing and economic confidence mounting, profits and profit margins have since inflected upward, and it's reasonable to think that payrolls and wage growth may follow suit.[8] Though down from its peak of 6.7%, wage inflation of 4.3% remains inconsistent with the Fed's 2% inflation goal, and this stickiness is likely among the reasons why inflation prints have stubbornly persisted above target even as other components have retreated.[9]

Perhaps recognizing these challenges, the Fed has grown increasingly hawkish only a few months into its rate-cut cycle. While 100 basis points worth of cuts since September brought the Fed's key policy rate to 4.25–4.50% by year-end 2024, its December dot plot expects only 50 basis points more in 2025, down from 100 basis points in September.[10] Should inflationary pressures reignite—notably, many measures of inflation already have bounced off the lows established earlier in the year—even this revised forecast may prove ambitious.[11]

Valuation Has Its Own Gravity

As a result of this period of low-risk perception in US markets, the valuation of growth stocks relative to value stocks has reached all-time highs. While it's been a challenging period for value-oriented investors, we'd be wary of extrapolating recent results going forward.

The extremities we are seeing in markets today remind us of a phrase often used by our former colleague Jean-Marie Eveillard: "Valuation has its own gravity." While their timing is uncertain, any number of potential developments—renewed inflation but one of them—could trigger a swift recalibration of risk appetites and drive markets back to their long-term means.

> Any number of potential developments could trigger a swift recalibration of risk appetites.

8. Source: Federal Reserve Bank of Atlanta; data as of December 31, 2024.
9. Source: Federal Reserve Bank of Atlanta; data as of December 11, 2024.
10. Source: Federal Reserve; data as of December 18, 2024.
11. Source: Bureau of Labor Statistics; data as of December 11, 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 to buy, hold or sell or the solicitation or 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 foreign investments (including depositary receipts). Foreign investments, which can be denominated in foreign currencies, are susceptible to less politically, economically and socially stable environments; fluctuations in the value of foreign currency and exchange rates; and adverse changes to government regulations.

Investment in gold and gold-related investments present certain risks, and returns on gold-related investments have traditionally been more volatile than investments in broader equity or debt markets.

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

Definitions

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.

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

MSCI China Index (Net) measures the performance of large and midcap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings. A net-return index tracks price changes and reinvestment of distribution income net of withholding taxes.

MSCI EAFE Index (Net) measures the performance of large and midcap equities across developed markets countries around the world excluding the US and Canada. A net-return index tracks price changes and reinvestment of distribution income net of withholding taxes.

NYSE FANG+ Index is an equal-weighted equity benchmark designed to track the performance of 10 highly traded growth stocks of technology and tech-enabled companies in the technology, media & communications and consumer discretionary sectors.

S&P 500 Index (Gross/Total) measures the performance of the large cap segment of the US equity market but is widely recognized as a proxy for the US market as a whole. It is composed of 500 constituent companies across the US economy, weighted by float-adjusted market capitalization. A total-return index tracks price changes and reinvestment of distribution income.

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).

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.

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.

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.

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.

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.

Residents of Taiwan:

First Eagle Investment Management, LLC is not licensed to engage in an investment management or investment advisory business in Taiwan and the services described herein are not permitted to be provided in Taiwan. However, such services may be provided outside Taiwan to Taiwan resident clients.

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.

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.