First Eagle Investments

November Views from First Eagle Global Value Team
Video Transcript

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Jay Lisowski: welcome, Kimball, It seems like for much of the year. Putting aside the non-trivial impact of geopolitics, markets been reacting to expected monetary policy shifts, that is, when expectations tilt hawkish, many asset classes have sold off, and vice versa. It seems like we saw the latest episode of that in October when markets rallied only to have it pull back once Powell spoke last week. At what point do markets move past central bank reactivity and get to the next phase of what's to come? And while we're there, what do you believe is next to come?

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Kimball Brooker: Right? Thanks, Jay. Easy question. Um. Well, I think markets have certainly been hoping that the Fed might be moderating either the pace or the magnitude of these increases. And as you alluded to most recently, those hopes were stoked by the Fed statement last week
that was interpreted as being pretty doveish until Chairman Powell and his comments afterwards signaled the Fed's determination to um, you know, to definitively restore price stability. And he said that the FOMC needs to see inflation come down, and he used the word decisively. And so, I think that the need, you know, for more decisive indication is probably appropriate given the evidence that's emerging that inflation seems to be taking hold in certain parts of the labor market and is potentially creating more embedded expectations around inflation. So the flip side of that, though, is that we have to remember that in addition to the to the higher fed funds rate that central banks around the world are no longer purchasing bonds. They're letting their balance sheets roll down in quantitative tightening. And then on the fiscal side, the stimulus that that had existed for the last two years is being withdrawn. And so we're sort of in the midst of what it is likely to become, if not already, a very contractionary environment at least by historical standards. So, I think the focus of the market is pretty natural and I think that the distribution of potential outcomes, which are arguably quite wide at the moment, until those have narrowed, we should expect um this sort of focus
uh to continue. I think where also it's worth just reminding everybody that you know I think that that there's really nobody, not even the Fed that knows exactly how this is all going to play out.

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Jay Lisowski: Kimball, how do you feel about the prospects for active management and value investing? For many years, as monetary and fiscal policy was so accommodative, some participants wondered if the basic market pricing mechanism had been affected. In your view, are we now back to an environment that favors active stock pickers especially with a valuation discipline?

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Kimball Brooker: I think in an environment like this where we've been experiencing a higher implied volatility and real-life built volatility across asset classes, it's one that should favor active management. And I think it's also true that these higher level of interest rates, they should favor cash flows in the here and now today as opposed to cash out in the future. And I think that should, everything else being equal, you know accrue to the favor of value at investing, at least conventionally practiced.

I should say that that, in our view, our view of value investing is very much holistic and I do think that it is as applicable today as it was, ten years ago or twenty years ago in the sense that our vision of it is just an investment philosophy and a set of processes. It's really designed to deliberately and systematically improve the odds of achieving good real returns, while limiting downside risk.

There are a number of different dimensions, all of which I think are pretty common sensical. We start with focusing on what we think of as competitively advantaged companies in very good financial condition. And so, there's kind of a quality bias to what we're looking for from the get-go. We pay a lot of attention to trying to reduce the agency costs within the portfolio by partnering with management teams who we think of as being capable, economically aligned with us, and hopefully, honorable people as well. So that's another element of what we do.

And then, the third part is a more traditional kind of valuation work where we want to have discipline around why we commit capital. We'll only do so when we feel that there's a margin of safety in terms of our sense of a conservatively estimated intrinsic value. And where we're purchasing relative to that sense of intrinsic value, which always needs to be at a discount. And we think that practicing this kind of discipline over time should bear through in most markets. We're very deliberate and we're not in a hurry to deploy capital, but I think the good news today is that the markets, as valuations have come down, have become more reasonable. And so, the opportunity set, we think, has been improving.

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Jay Lisowski: Thank you for your time and your great insight, City, Kimball. I look forward to speaking with you again next month.
Kimball Brooker: Thanks, Jay. See you later.

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