ASX Announcement – 12 August 2024

fatPROPHETS GLOBAL CONTRARIAN FUND

Fat Prophets Global Contrarian Fund (ASX Code FPC)

Estimated Pre-Tax NTA 7th August 2024

The estimated pre-tax NTA per share for the Fat Prophets Global Contrarian Fund as at 7th August 2024.

	Amount ($)
Pre-Tax NTA (as at 7th August 2024)	1.0686
Pre-Tax NTA (as at 31th July 2024)	1.2440
Change in NTA (31st July – 7th August 2024)	**-14.10%**

Volatility made a sudden return to financial markets with a vengeance this week with two events precipitating a risk off environment. The first event was the higher-than-expected unemployment print in the US that raised fears the US economy was headed for recession. The second event was the big unwind of the short yen carry trade against the US dollar which was triggered by the BOJ decision to hike interest rates for the first time in over a decade.

The VIX spiked to levels above 65 not seen since the pandemic crash and the GFC, establishing one of the four highest peaks over the past 25 years. While gold made a new record high, the risk off environment was constraining for precious metal equities. In short, every risk asset came under big pressure this week.

The Japanese stock market witnessed a huge unwind with the TOPIX having the biggest decline since 1987. Monday's selloff was then followed by a near record surge in Japanese equities which has continued through the week. In the US, the S&P500 also had the biggest rebound since 2022 following a better than anticipated labour market print which was a push back to the recession narrative.

The Fund experienced a sharp drawdown in value since last Thursday amidst the volatility and market turmoil. The drawdown in the portfolio was centralised on Japanese exposure to the financial stocks, and mainly the banks. The selloff occurred despite Japan's banks all recently reporting very strong results and many having ongoing share buybacks in place. Since the value date for the NTA on the 7th August, markets have continued to rebound as has the Fund. Japan's equity market is now priced for recession on a forward PE of around 12 times, which we believe is an overreaction for the following reasons.

Firstly, JP Morgan estimates that around 75% of the huge yen short position has now been unwound. The dollar/yen should now settle down within a new trading range. Secondly, the BOJ indicated that no more rate hikes would be forthcoming whilst financial markets remain volatile – which had the immediate impact of stabilising the dollar/yen. Thirdly, the growth scare seems premature given that the labour market is still resilient. Fourthly, the VIX had the sharpest retracement of the previous four big volatility spikes seen in the past 25 years. This points to an overreaction in financial markets.

Whilst there are always risks, and we believe certain sectors in the US market are overvalued, we believe the market reaction to date has been excessive. We anticipate a sharp recovery in Japanese equities over coming months with the Fed now cognisant of making another policy error and holding rates too high for too long. In our view, the Fed is now on the cusp of aggressive easing into year-end which will be supportive of markets.

We thank you for your ongoing support during this challenging week.

Angus Geddes

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