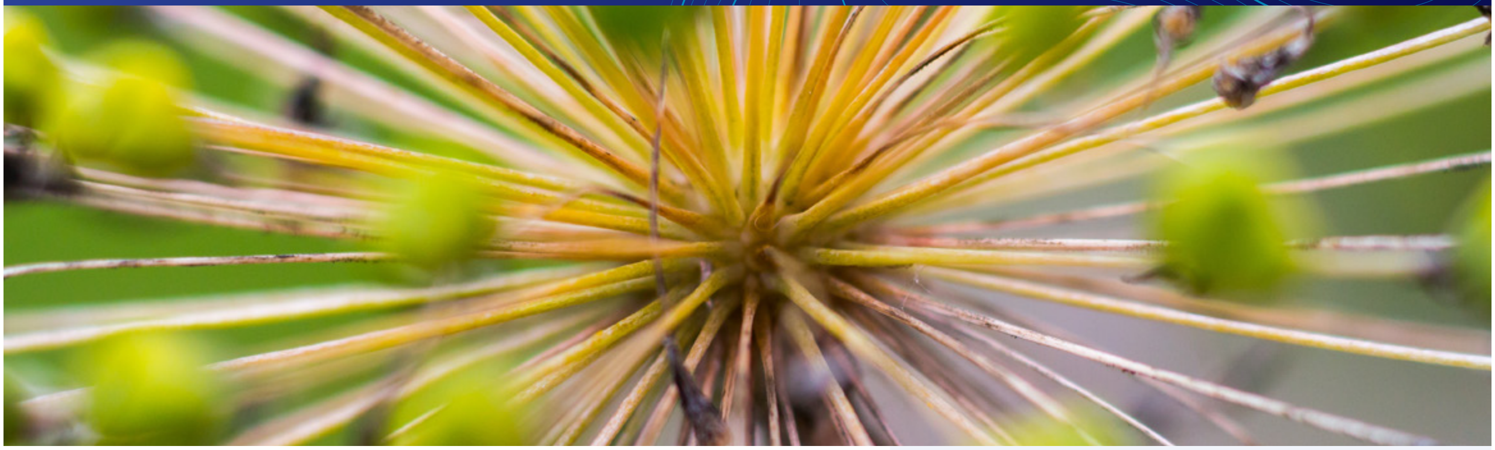
First Eagle Investments

JUNE 2023

Insights



Non-US Equities: More Bang for Your Buck

The campaign against inflation launched in early 2022 shook up the hierarchy of financial markets after years of relatively steady leadership. Among the more notable—and potentially most durable, in our view—developments resulting from tighter financial conditions globally has been the outperformance of non-US stocks relative to US names.

The chronic underperformance of non-US stocks in the years following the global financial crisis obscured what over time has been a far more nuanced history of relative performance, and a look at long-term cumulative returns reveals many decades of alternating leadership between US and non-US stocks. In fact, it wasn't until mid-2014 that US dominance emerged in earnest, as pronounced dollar strength and an outsized rally in long-duration stocks such as those comprising the NYSE FANG+ Index provided a significant boost to US investment. Discounting the impact of these factors, relative outperformance amounted to only 1.2% per year.[1]

The tailwinds supporting US outperformance moderated late last year, providing a potential glimpse into a less-binary future in which quality and valuation are more important than style box or domicile. And while the opportunity to gain exposure to a wide range of quality businesses has always been an attractive characteristic of non-US equity markets, in our view, current relative valuation multiples suggest that more "bang for your buck" may be available outside the US.

KEY TAKEAWAYS

- US equities surged ahead of their international counterparts beginning in mid-2014, driven by a strong dollar and low discount rates that favored investment in long-duration stocks such as those comprising the NYSE FANG+ Index. Excluding the effect of these factors, relative outperformance was far less significant.
- Market dynamics began to shift with the onset of the Fed's aggressive rate-hike campaign in 2022, prompting a rotation in leadership toward international stocks as the dollar weakened and NYSE FANG+ performance grew volatile.
- In our view, investment success likely will be predicated less on exposures to particular styles or geographies and more on identifying quality companies globally whose tangible and intangible attributes position them to navigate what seems likely to be a complicated and volatile environment.
- The rapid expansion of valuation multiples in the US suggests non-US markets currently may offer more "bang for your buck," or a lower cost per unit of profit.

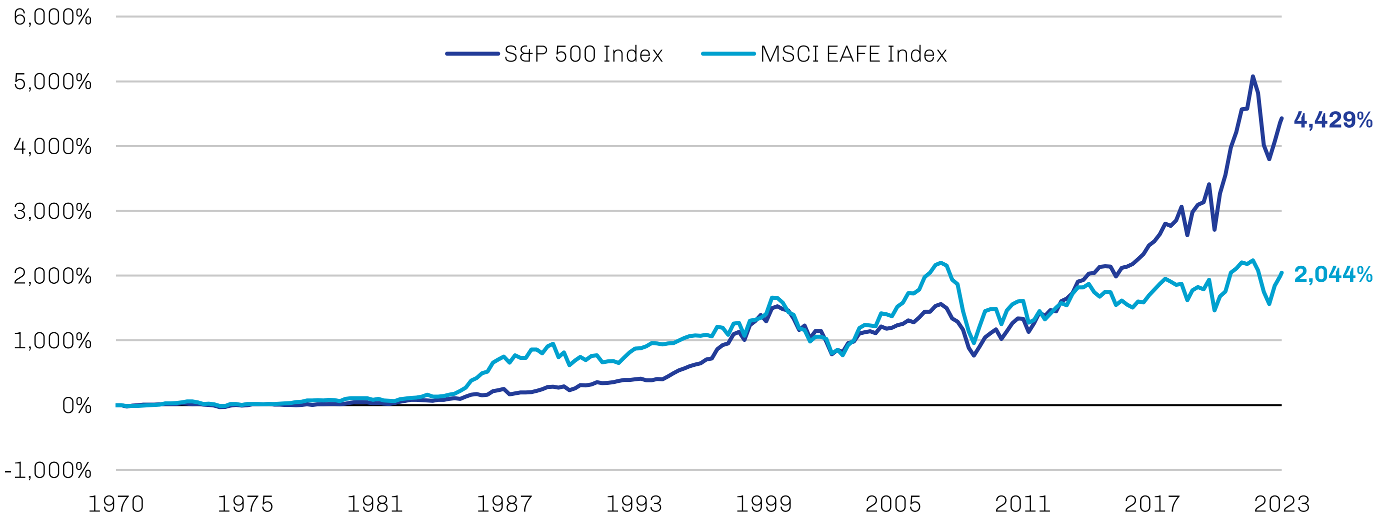
1. Source: FactSet; data as of April 30, 2023.

The Extraordinary Circumstances that Fueled US Equity Outperformance ...

Given the dominance of US equity markets over the past decade or so, it can be easy to overlook that the relative performance of US and non-US stocks over time has been far more balanced. In fact, as depicted in Exhibit 1, the cumulative returns of the S&P 500 Index and MSCI EAFE Index were nearly identical from 1970 through mid-2014 before US equities raced ahead.

Exhibit 1. US Equites Surged Past Non-US Stocks in Mid-2014

Cumulative Return, January 1970 through April 2023



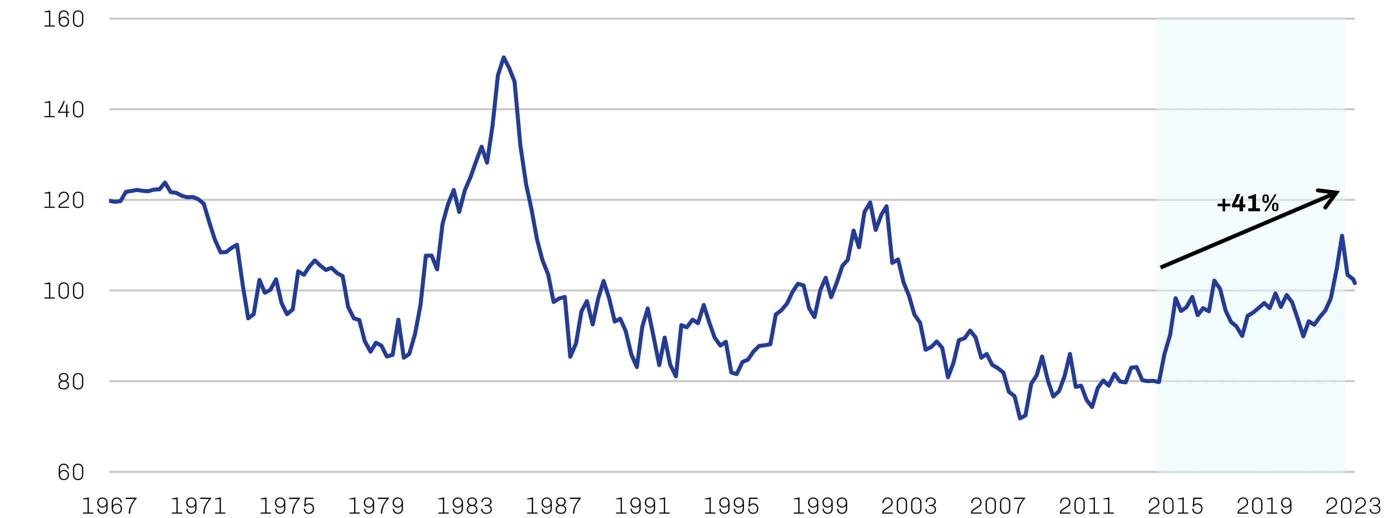
Source: Bloomberg; data as of April 30, 2023. **Past performance does not guarantee future results.**

From June 30, 2014, through April 30, 2023, the S&P 500 outperformed the MSCI EAFE by 104%. Impressive for sure, but in our view this pronounced bifurcation in return can be attributed primarily to two—likely temporal—factors:

- **US dollar appreciation.** Having declined precipitously throughout the early 2000s following the bursting of the dot-com bubble, the US dollar was range-bound for about a decade before breaking higher in mid-2014. As shown in Exhibit 2, the dollar rallied about 41% from June 30, 2014, to its current-cycle quarterly peak at end-September 2022. Dollar appreciation can be attributed to a variety of factors that attracted capital into US markets, including the interest rate differential that emerged due to the Fed's relatively tight monetary policy. A strengthening currency generally supports local investment.

Exhibit 2. Dollar Strength Has Been an Obstacle for Non-US Equities

US Dollar Index, January 1967 through April 2023



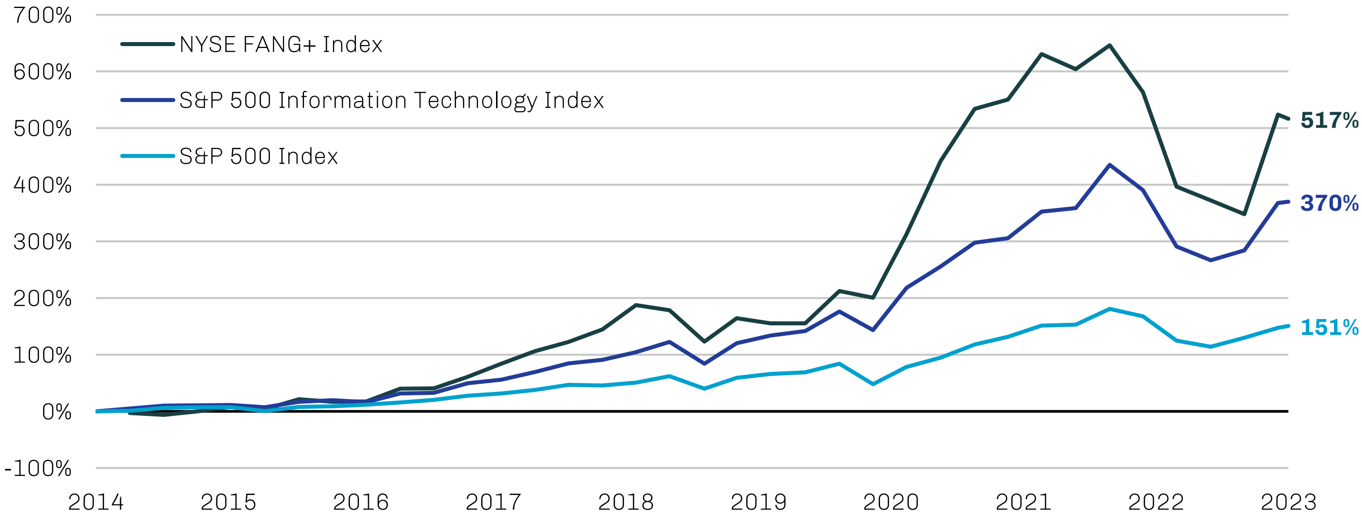
Source: Bloomberg; data as of April 30, 2023.

- **FANG+ supremacy.** Nearly half of the S&P 500's gain during the period was fueled by the performance of technology stocks in general and the mega-cap constituents of the NYSE FANG+ Index in particular.[2] Very low discount rates throughout this period heightened the appeal of the future cash flows of long-duration growth stocks, and the valuation multiples of these "new economy" names received an additional boost in 2020 from the Covid-fueled virtualization of day-to-day life. As shown in Exhibit 3, the NYSE FANG+ Index swamped the S&P 500 Information Technology Sector Index by 159%—and that was after 2022's selloff in FANG+ names closed the gap somewhat. With an aggregate weighting of 25% in the S&P 500, FANG+ stocks have an outsized impact on the index's overall performance; none of these stocks are included in the MSCI EAFE Index, which has only about an 8% exposure to information technology.

> Nearly half of the S&P 500's gain during this period was fueled by the performance of technology stocks.

Exhibit 3. Tech Was Strong; FANG Was Stronger

Cumulative Return, June 2014 through April 2023

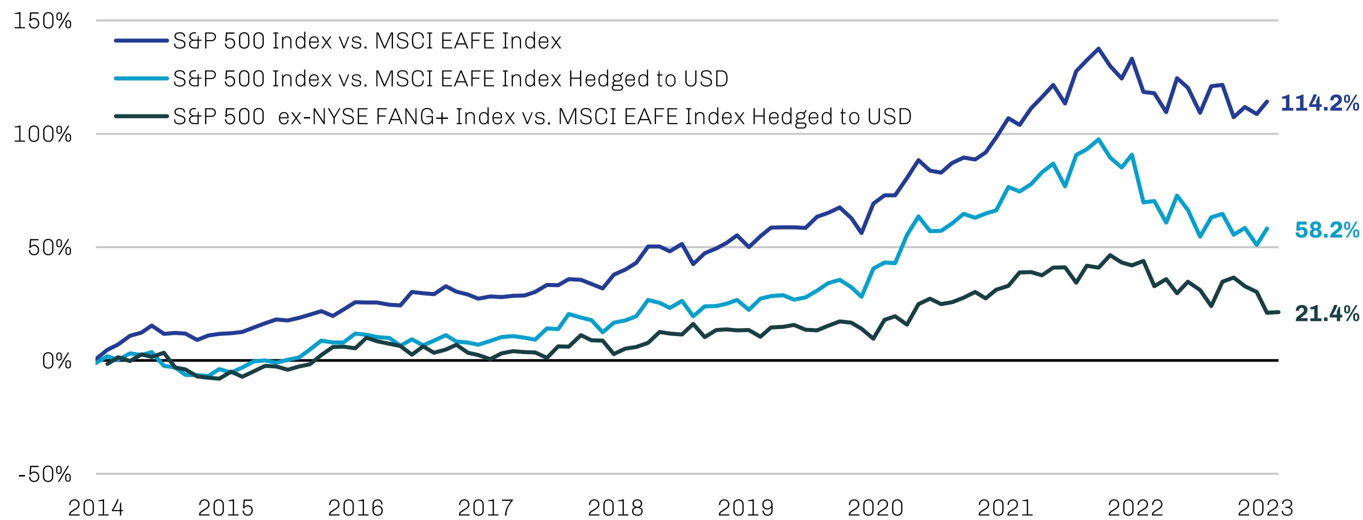


Source: FactSet; data as of April 30, 2023. **Past performance does not guarantee future results.**

Exhibit 4 deconstructs the impact of these two facetors. Excluding the effect of the US dollar's strength and the sharp rally in FANG+ stocks from the cumulative return of the S&P 500 reduces its outperformance over the period to about 19%, or 1.2% annualized—not too dissimilar from periods of EAFE outperformance seen in the mid-1980s/90s and mid-2000s.

Exhibit 4. Excluding the Impacts of the Dollar and FANG+ Presents a More Balanced Picture

Excess Return, June 2014 through April 2023



Source: FactSet; data as of April 30, 2023.

2. As of April 30, 2023, the NYSE FANG+ Index comprised AAPL, AMD, AMZN, GOOGL, META, MSFT, NFLX, NVDA, SNOW and TSLA.

...Began to Wane as the Fed Took on Inflation

With the onset of the Fed's aggressive rate-hike campaign in early 2022, the dynamics that had driven relative equity performance since mid-2014 began to shift, inspiring both a broad equity market selloff and a rotation in leadership. Exhibit 5 examines equity market performance in the disparate regimes of the past six quarters. Without the simultaneous headwinds of dollar appreciation and FANG+ strength over this period, non-US stocks have outperformed.

Exhibit 5. Shifting Dynamics Have Favored Non-US Stocks

Returns

	2022	4Q22	1Q23
NYSE FANG+ Index	-40.0%	-5.2%	39.2%
US Dollar Index	8.2%	-7.7%	-1.0%
S&P 500 Index	-18.1%	7.5%	7.5%
MSCI EAFE Index	-13.9	17.4	8.6

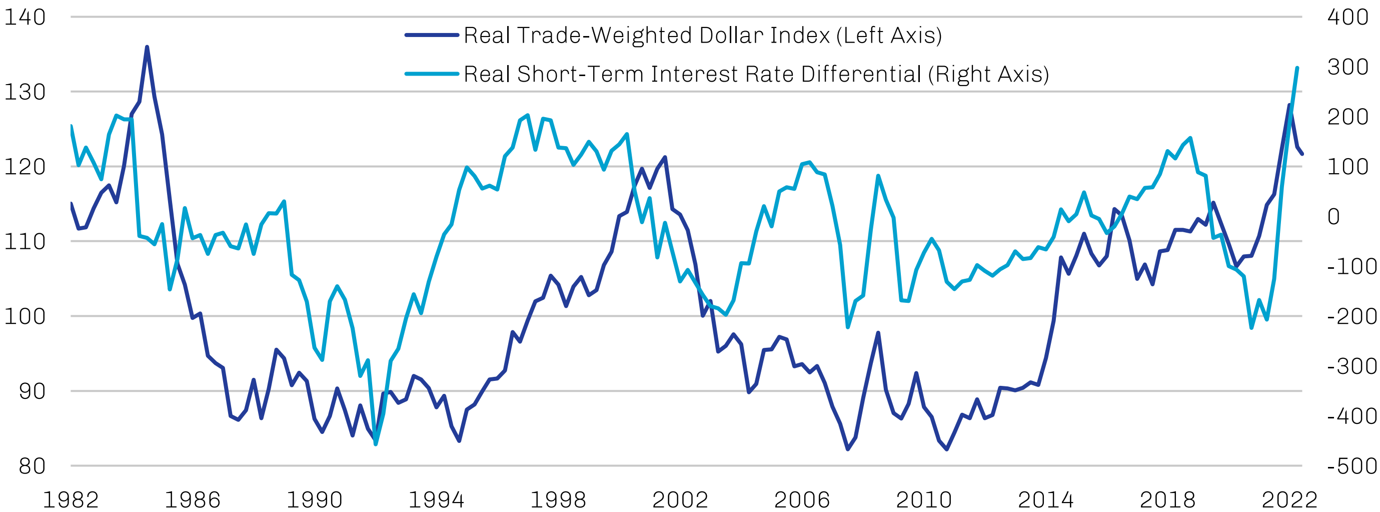
Source: FactSet, Bloomberg; data as of April 30, 2023. **Past performance does not guarantee future results.**

- **US dollar depreciation.** Though all major central banks raised their benchmark rates in 2022, the Fed was among the earliest to act and certainly the most aggressive.[3] As a result, the difference between US and non-US short-term interest rates—which, depicted in Exhibit 6, historically has been a key driver of the dollar's relative value—widened and by September 2022 had pushed the US dollar index to a 20-year peak. This differential also supported the relative outperformance of US equity markets in dollar terms for the first three quarters of the year. Signs near year-end that the Fed may be prepared to slow its pace of hikes fueled a rebound in risk assets and raised expectations that interest rate differentials would narrow, and non-US stocks outperformed as the dollar's strength receded over the next six months.

It's reasonable to think the trend of interest rate convergence may persist as the US nears its terminal rate while hikes in other major central banks persist. The Fed raised the upper bound of the federal funds rate to 5.25% following its May meeting, though the 25 basis point hike and its accompanying messaging was widely interpreted as dovish and suggestive that the peak of this cycle could be near.[4] In contrast, the European Central Bank's key policy rate remains biased higher, with European Central Bank (ECB) President Lagarde acknowledging that "we are not pausing" following the bank's May hike.[5]

Exhibit 6. Interest Rate Convergence Historically Has Pulled the Dollar Lower

January 1982 through February 2023



Note: The dollar index is versus other advanced-economy currencies. The interest rate differential is the federal funds rate deflated by 12-month trailing PCE inflation less the GDP-weighted blended policy rate of other advanced economies deflated by the 12-month trailing GDP-weighted CPI in these economies.

Source: Haver/Federal Reserve, Bureau of Economic Analysis, First Eagle Investments; data as of February 2023.

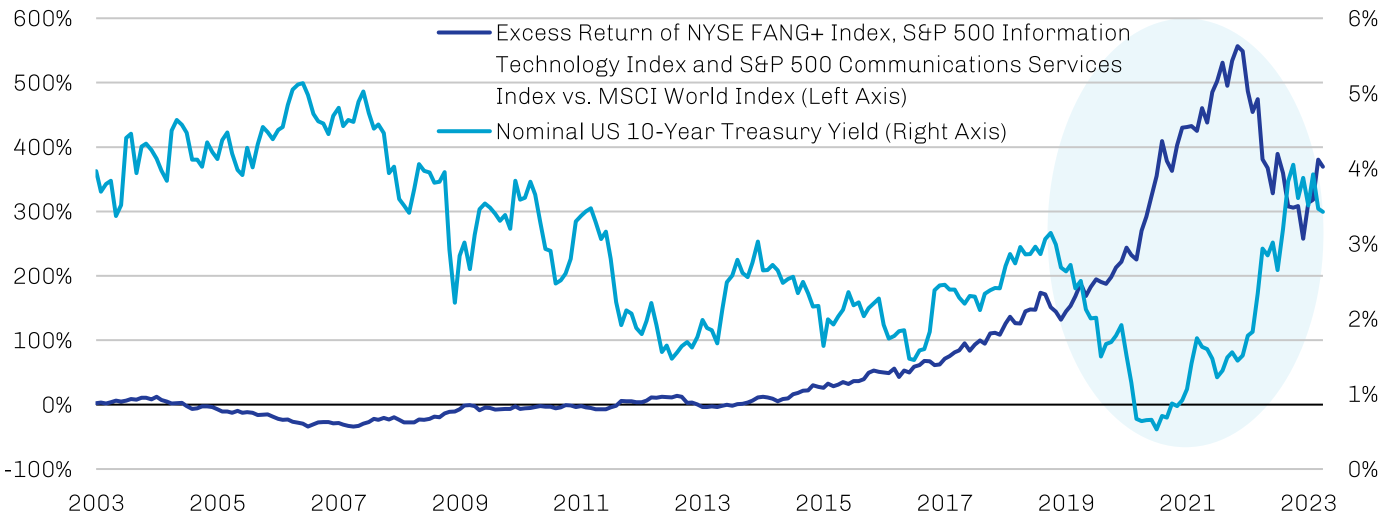
3. Source: Bloomberg; data as of April 30, 2023.
4. Source: *The Wall Street Journal;* data as of May 3, 2023.
5. Source: European Central Bank; data as of May 4, 2023.

- **FANG+ weakness.** As noted earlier, long-duration equities such as those that populate the tech sector and the FANG+ Index were the primary beneficiaries of the "lower-for-longer" interest rate environment enabled by below-average inflation. As higher discount rates began to weigh on the present value of future cash flows, valuation multiples for FANG+ stocks, in particular, compressed, and the index suffered a peak-to-trough drawdown of nearly 50%—perhaps not surprising for an index with a 25% standard deviation of returns since inception. Notably, the FANG+ Index was one of the few risk-market cohorts that did not participate in the fourth quarter 2022 rebound, though it has reclaimed some of its losses in 2023 on the back of range-bound interest rates. With the dollar weak, however, the MSCI EAFE has continued to outpace the S&P 500 despite the contribution of FANG+ stocks.

> The MSCI EAFE continued to outpace the S&P 500 year-to-date 2023 despite the rebound in FANG+ stocks.

Exhibit 7. Treasury Yields Shifted From Tailwind to Headwind for Long-Duration Stocks

January 2003 through April 2023



Source: Bloomberg; data as of April 30, 2023. **Past performance does not guarantee future results.**

Get What You Pay For in Global Markets

We've often warned of the dangers of extrapolating short-term trends, and we are not about to cite two quarters of non-US equity outperformance as evidence that the era of US market dominance is over. At the same time, an imminent return to the conditions that bolstered US outperformance through a strengthening dollar and massive gains in FANG+ stocks seems even more unlikely. The combination of still-high inflation, robust wage growth and very low unemployment suggests investors may be tasked with navigating a more nuanced macroeconomic landscape than has been the norm in recent years. In such an environment, we believe investment success will be predicated less on exposures to particular styles or geographies and more on identifying quality companies whose tangible and intangible attributes position them to navigate what seems likely to be a complicated and volatile environment.

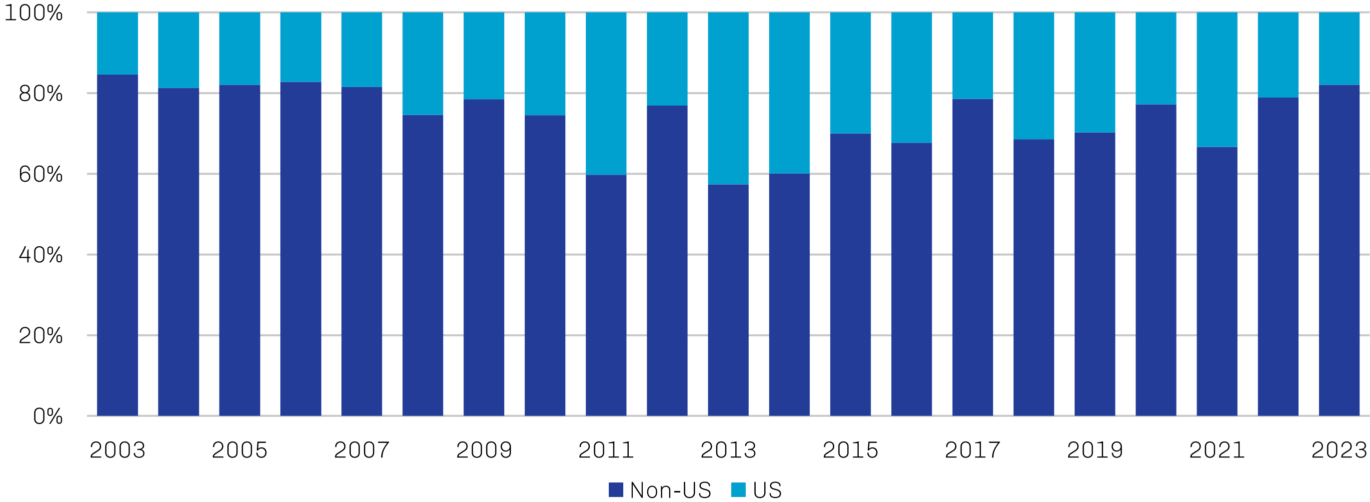
In our view, this necessarily includes businesses outside the US. Not only do non-US stocks represent a massive potential opportunity set equal to 78% of the MSCI ACWI Index in terms of number of securities, many of these companies have been strong performers over the years, as shown in Exhibit 8. Combined with much lower return correlations,[6] non-US markets represent fertile ground for investment managers seeking outperformance through active and selective stock picking.

> An imminent return to the conditions that bolstered US outperformance seems unlikely.

6. Source: FactSet; data as of April 30, 2023.

Exhibit 8. Ample Opportunities for Outperformance in Non-US Markets

Number of Companies in MSCI ACWI Index Outperforming the S&P 500 Index Annually, 2003 through YTD 2023

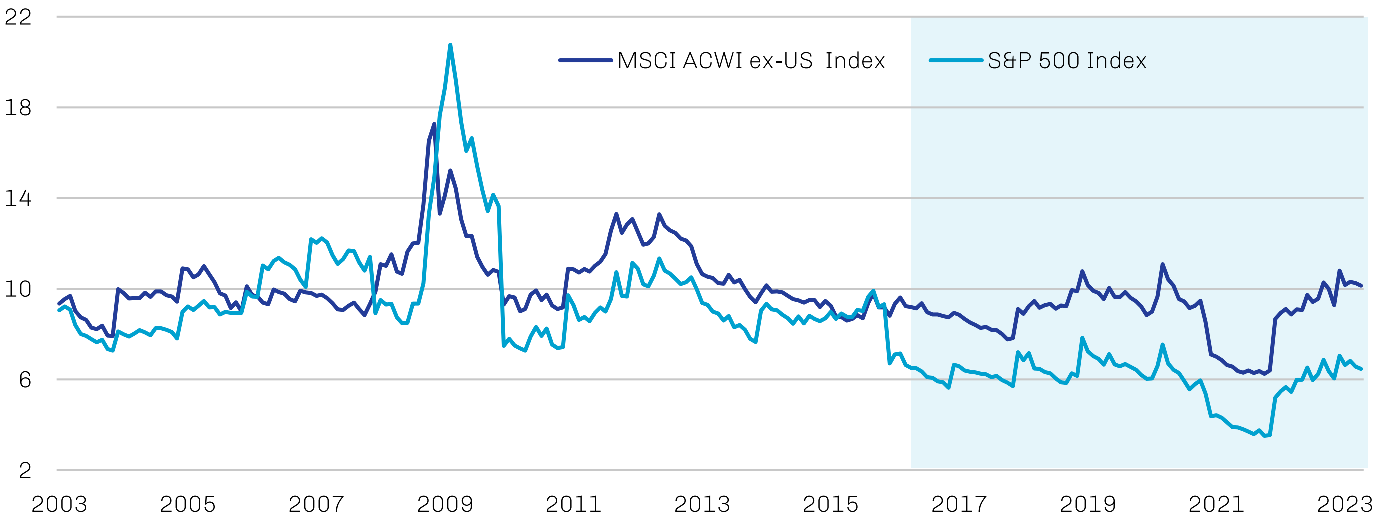


Source: FactSet; data as of April 30, 2023. **Past performance does not guarantee future results.**

While we've long advocated the potential benefits of strategic exposure to stocks outside the US, the current environment appears particularly hospitable to a global perspective. Exhibit 9 depicts what we refer to as the "bang for your buck" ratio of the S&P 500 and MSCI ACWI ex-US indexes, which compares profitability (EBIT margin) to valuation (price-to-sales ratio). Leadership in terms of this metric traded between the two indexes for most of the twenty-first century until 2016, at which point non-US equities began to demonstrate a consistent and increasing "bang for your buck" profile. Though profitability was increasing globally, outsized multiple expansion in the S&P 500 meant investors were paying more per unit of profit for US companies than for non-US names. This bigger "bang for your buck" ratio has been broad-based; health care is the only sector of 11 in which the S&P 500 appeared advantaged, and conditions suggesting particular value in non-US stocks could be found in energy, materials and real estate.

Exhibit 9. Non-US Equities Currently Offer More "Bang for Your Buck"

Ratio of EBIT Margin to Price-to-Sales Ratio, January 2003 through April 2023



Source: FactSet; data as of April 30, 2023.

Quality over Trend

Though it's possible that a more supportive environment for non-US stocks may have emerged, First Eagle's investment process remains unchanged. We continue to seek to construct resilient, all-weather portfolios from the bottom-up that help clients avoid the permanent impairment of capital with the goal of generating long-term real returns across market cycles. We target quality companies globally whose tangible and intangible attributes position them to generate persistent cash flows over the long term—and suffer through short-term challenges if necessary—and wait for such stocks to become available at prices that represent a meaningful "margin of safety."

> We seek to construct resilient, all-weather portfolios from the bottom up with the goal of generating long-term real returns across market cycles.

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.

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

Strategies whose investments are concentrated in a specific industry or sector may be subject to a higher degree of risk than strategies whose investments are diversified and may not be suitable for all investors.

Definitions

The **"bang for your buck" ratio** evaluates what you get (profitability) relative to what you pay for (valuation).

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.

Margin of safety is defined by First Eagle as the difference between a company's market value and our estimate of its intrinsic value, which is based on a judgment of what a prudent and rational business buyer would pay in cash for all of a company in normal markets. An investment made with a margin of safety is no guarantee against loss.

Standard deviation is a statistical measure of a security's volatility, or variability in expected return.

Volatility is a statistical measure of the degree to which an individual portfolio return tends to vary from the mean, based on the entire population. The greater degree of dispersion, the greater degree of risk.

Benchmark Definitions

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

MSCI ACWI Index measures the performance of large and midcap representation across 23 developed markets countries and 24 emerging markets countries.

MSCI ACWI ex-US index measures the performance of large and midcap representation across 22 of 23 developed markets countries (excluding the US) and 24 emerging markets countries.

MSCI EAFE Index measures the performance of large and midcap securities across 21 developed markets countries around the world excluding the US and Canada.

MSCI World Index measures the performance of large and midcap securities across 23 developed markets countries around the world.

NYSE FANG+ Index measures the performance of a segment of technology and consumer discretionary sectors consisting of highly-traded growth stocks of technology and tech-enabled companies such as Facebook, Apple, Amazon, Netflix and Alphabet's Google.

S&P 500 Index is a widely recognized unmanaged index including a representative sample of 500 leading companies in leading sectors of the US economy. Although the S&P 500 Index focuses on the large cap segment of the market, with approximately 80% coverage of US equities, it is also considered a proxy for the total market.

S&P 500 Communications Service Index measures the performance of companies included in the S&P 500 that are classified as members of the GICS communications services sector.

S&P 500 Information Technology Index measures the performance of companies included in the S&P 500 that are classified as members of the GICS information technology sector.

US Dollar Index is a geometrically averaged calculation of six currencies (euro, Japanese yen, British pound, Canadian dollar, Swedish Krona and Swiss franc) weighted against the US dollar.

Important Information for Non-US Residents

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. 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 of Australia

This communication is exclusively directed and intended for wholesale clients only. 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 e-mail or the merits of the products and services referenced herein. This document 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 document 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 document, 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 document should not be relied upon as investment advice and is not a recommendation to adopt any investment strategy. This document 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.

Notice to Residents of Brazil

First Eagle Investment Management, LLC and its subsidiary investment advisers are 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.

Notice to Residents of Canada

This document 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 document may not be licensed in all jurisdictions, and unless otherwise indicated, no securities commission or similar authority in Canada has reviewed this document or the merits of the products and services referenced herein. If you receive a copy of this document, you should note that there may be restrictions or limitations to whom these materials may be made available. This document 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 document is provided on a confidential basis for informational purposes only. Before acting on any information in this document, 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.

Important Information for Residents of Dubai International Financial Centre

This presentation 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 the advisory services. The Dubai Financial Services Authority has not approved this document 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 document you should consult an authorized financial adviser.

Important Information for Residents of the State of Qatar

Any funds, products or services referenced in this document 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 document or the merits of the products and services referenced herein. If you receive a copy of this document, 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 document is directed at and intended for a limited number of "qualified" investors (as such term is defined under the laws of Qatar). This document 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 document, prospective clients should inform themselves of and observe all applicable laws and regulations of any relevant jurisdictions, including any laws of Qatar. This document 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 Taiwan

Information displayed on this website is only directed at Taiwanese professional investors (within the meaning of the Taiwanese Securities Investment Trust and Consulting Law, the Futures Trading Law or the Trust Enterprise Law) and is not suitable for individual investors, as this website contains information on certain advisory products and services. If you are uncertain about whether you are a professional investor under the laws of Taiwan, then you should consult your legal adviser.

Important Information for Residents of United Arab Emirates

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, the presentation is not offered to the public in the UAE (including the Dubai International Financial Centre (DIFC))

This presentation 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 presentation 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;

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 document 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 document is directed only at persons in the United Kingdom who qualify as "professional investors. This document 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 document.

FEF Distributors, LLC (Member SIPC) distributes certain First Eagle products; it does not provide services to investors. As such, when FEF Distributors, LLC presents a strategy or product to an investor, FEF Distributors, LLC does not determine whether the investment is in the best interests of, or is suitable for, the investor. Investors should exercise their own judgment and/or consult with a financial professional prior to investing in any First Eagle strategy or product.

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