Global Fund

Market Overview

The continued rebound of beleaguered technology stocks—which were among the hardest hit during last year's selloff—was the story in equity markets during the second quarter of 2023.

Market Summary	2nd Quarter 2023
MSCI World Index	+6.83%
S&P 500 Index	+8.74%
German DAX Index	+3.32%
French CAC 40 Index	+3.54%
Nikkei 225 Index	+18.54%
Brent Crude Oil	-6.11% $74.90 a barrel
Gold	-2.54% $1,919.35 an ounce
US Dollar	+8.60% vs. yen -0.42% vs. euro

Source: Bloomberg, WM/Reuters.

Enamored with the potential of generative artificial intelligence (AI), investors bid up a narrow cohort of megacap growth companies, and most broader indexes came along for the ride. The S&P 500 Index and MSCI World Index posted their third consecutive quarter of gains, returning 8.7% and 6.8%.[1] While growth continued to outperform value, the spread between the two styles was far less extreme than it was in the first quarter, as investors slowly began to accept the Federal Reserve's guidance that policy rates would need to be higher for longer.

Equity and Fixed Income Markets Sending Conflicting Signals

While the excitement around the AI narrative helped boost US equity markets to varying degrees, a paradox seemed to emerge under the upbeat surface. Even though the Federal Reserve has raised rates considerably over the past year-plus, financial conditions haven't actually tightened all that much thanks to ongoing fiscal expansion. As a result, equity and fixed income markets appear to have fallen out of sync.

Equity markets appear to be pricing in a soft landing. The year-to-date rally in the S&P 500 Index brought its P/E ratio back up to around 20x, while implied volatility receded to pre-Covid levels. In contrast, fixed income markets are flashing warning signs. The yield on two-year Treasuries backed up to the 5% level that preceded March's bank failures, further inverting the yield curve, while measures of interest rate volatility remained elevated.[2] At the same time, capital is being rationed within certain parts of the economy; leveraged credit new issuance continues to be muted, and bank-lending standards have tightened to levels consistent with recession in the aftermath of the regional bank crisis.[3]

For its part, the Fed has continued to prioritize the fight against inflation, and market-implied rates suggest investors have begun to accept that this policy cycle may peak higher and later than previously expected. Though the central bank left the federal funds rate untouched at 5–5.25% following its June 13–14 meeting, messaging strongly suggested it was not done. Minutes released a few weeks later pointed toward a divided committee, though a "strong majority… expect that it will be appropriate to raise interest rates two or more times by the end of the year," per Chair Powell.[4] Indeed, the Fed's new dot plot shows rates peaking at 5.6% this year. Additional hikes would not come as a surprise; while headline inflation has improved markedly on the back of falling energy and food costs, core inflation remains sticky, reflecting resilient economic activity and a still-strong labor market.[5]

So, while we're seeing a continued gradual disinflation from last year's peaks amid a still-resilient economic backdrop, the fiscal largesse that has eased this transition appears likely to fade. Combined, these factors may increase the risk of stagflation, which for those who do not remember the 1970s was bad for growth stocks, bad for US versus international equities, and bad for financial assets compared to real assets like gold and oil. Furthermore, by the end of the 1970s, equity multiples were about half of their current level, while fixed income yields were about double. Were a similar trajectory to emerge in the 2020s, we could be in for a long period of adjustment.

Shifting International Dynamics May Create Opportunities

Though not as headline-grabbing as AI, a number of global developments during the quarter caught our attention. In Asia, the currencies of China and Japan have been notably weak, as central banks in both countries, for similar but nuanced reasons, are pursuing accommodative monetary policy as much of the rest of the world tightens. While

1. Source: FactSet; data as of June 30, 2023.
2. Source: FactSet; data as of June 30, 2023.
3. Source: Federal Reserve; data as of June 30, 2023.
4. Source: Bloomberg; data as of July 5, 20023.
5. Source: Bureau of Economic Analysis; data as of June 30, 2023.

a disappointing post-Covid recovery in China has forced the People's Bank of China to intervene, the Bank of Japan remains committed to yield-curve control despite signs that Japan's economy may be breaking out of its multidecade malaise. This nuance likely explains why Japan's Nikkei 225 Index outpaced China's Shanghai Shenzhen CSI 300 Index by more than 2,000 basis points in the second quarter.[6]

In China, aging demographics, massive private-sector and local-government debt, property-market woes and slowing productivity growth have continued to weigh on the economy, while an emergent slump in exports—which account for about one-fifth of economic activity—is a more recent headwind. After spiking with the government's loosening of Covid restrictions in late 2022, activity in the services sector has cooled as well.[7] Though policymakers have introduced small stimulus measures in recent months, large fiscal deficits limit their ability to respond forcefully to China's economic malaise. The country's GDP growth target for 2023 is only 5%, the lowest in more than three decades; the Chinese economy expanded only 3% in 2022 amid its extended zero-Covid strategy. On a positive note, recent rhetoric suggests that the contentious relationship between China's regulators and its tech industry—which is estimated to have resulted in the loss of more than $1 trillion in market value since it began two years ago[8]—may be on the mend, providing greater clarity for these businesses.

Some Global Value team members recently traveled to Japan for company visits, and management sentiment there appeared to be the most constructive it has been for quite some time. Notably, we continue to see an uptick in the adoption of corporate governance best practices, including stock buybacks, higher dividends, the appointment of independent directors and enactment of meaningful return-on-equity targets. While some of these improvements can be attributed to reforms imposed by the Tokyo Stock Exchange, we are encouraged that a constructive groupthink on the issue seems to have emerged within Japan Inc. We remain vigilant, however; policy settings in Japan are still a long way from home, both in terms of Japan's fiscal deficit and eventual need to unwind yield curve control, and changes here could be disruptive to equity markets.

In contrast with Asia, Latin American currencies have appreciated sharply; the region is home to five of the world's eight best performing currencies during first half 2023. Latin American central banks acted early and decisively in the face of inflationary pressures, and the resulting positive rate carry attracted foreign capital.[9] In addition, concerns that the leftward political shift in the region over the past few years—which engulfed its top six economies among a few others—would bring about a populist overhaul have abated as the most-feared policy outcomes of this "new pink tide" failed to come to fruition.[10] Certain countries also have been outsized beneficiaries of the re-domiciling of manufacturing capacity alongside the rise of protectionism and pandemic-era disruptions to supply chains. Mexico, for example, recently became the US's top trading partner, accounting for 15.4% of bilateral trade for the first four months of 2023; in contrast, China's share fell to 12% after reaching an all-time high of 17.5% in fourth quarter 2019.[11] This vibrancy, combined with what had been very cheap valuations, propelled the MSCI EM Latin America Index to a 14.3% return in US dollar terms during the second quarter.[12]

Europe, meanwhile, has been a paradox. Despite a wide range of concerns gripping the region—not only the war in Ukraine and its impact on food and energy costs but also riots in France, a rightward swing in Sweden and various other local and geopolitical issues—the euro has been firm. We think this is a good reminder of the opposing impacts price and prospects can sometimes have on financial markets. In our view, the euro had become very cheap relative to its fundamentals prior to Russia's invasion and became cheaper still when it sold off in the months that followed. Despite its fundamentals appearing weaker as a result of the war's impacts, however, the currency has trended steadily higher since bottoming in September 2022.

Volatility May Equal Opportunity

Equity markets have been quite asynchronous among regions and sectors, and currency effects in some cases have amplified these differences. As go-anywhere, benchmark-agnostic investors, volatility like this often creates opportunity—whether to sharpen our pricing in an old-economy stock typical of value investing, or to find an entry point into a less traditional name whose temporary valuation displacement belies a quality operation with still-unrealized potential. As always, we seek resilience in our portfolios from the bottom up, searching for cash-flow-generative companies with strong market positions, healthy balance sheets and prudent management teams, and buying these stocks only when available at a "margin of safety."[13]

6. Source: Bloomberg; June 30, 2023.
7. Source: Financial Times; data as of July 13, 2023.
8. Source: Reuters; data as of July 12, 2023.
9. Source: Bloomberg; June 23, 2023.
10. Source: Wilson Center; January 6, 2023.
11. Source: Federal Reserve Bank of Dallas; July 11, 2023.
12. Source: FactSet; data as of June 30, 2023.
13. First Eagle defines "margin of safety" as the difference between a company's market price and our estimate of its intrinsic value. "Intrinsic value" is based on our judgment of what a prudent and rational business buyer would pay in cash for all of a company in normal markets.

Portfolio Review

Global Fund A Shares (without sales charge*) posted a return of 3.08% in second quarter 2023. Most regions contributed to performance; North America was the leading contributor and developed Asia excluding Japan was the only detractor. Information technology, communication services and healthcare were the leading contributors by equity sector; materials, energy and utilities were the largest detractors. The Global Fund underperformed the MSCI World Index in the period.

Leading contributors in the First Eagle Global Fund this quarter included Oracle Corporation, Meta Platforms, Inc. Class A, HCA Healthcare Inc., Universal Health Services, Inc, Class B and Fomento Economico Mexicano SAB de CV Units Cons. Of 1 ShsB And 4 ShsD.

Oracle is one of the world's largest independent enterprise software companies. Oracle has been executing well and reported better-than-expected earnings for its most recent quarter. The acquisition of Cerner, which designs software to store and analyze medical records and other health care data, has helped boost Oracle's cloud-computing business. The increased interest in generative AI applications is fueling demand for Oracle's cloud services.

Meta—the parent company of Facebook, Instagram and WhatsApp, among others—reported better-than-expected results for its most recent quarter, driven by sales growth and cost controls. This was a reversal of declining sales trends over the last few quarters. The ongoing rebound in technology stocks was also a tailwind for the stock, as was its demonstrated commitment to cost discipline. We continue to like Meta's potential ability to generate cash and its unique portfolio of assets.

Shares of HCA Healthcare, the largest for-profit US hospital operator, performed well as the company continued to recover from pandemic-related disruptions that caused patient volumes to decline and labor costs to rise. HCA reported better-than-expected results for its most recent quarter and raised its full-year outlook. Results were driven by both growth in visits and procedures as well as improved labor costs, which are approaching pre-Covid levels.

Hospital and health care services provider Universal Health Services has continued to recover from pandemic-related disruptions that caused patient volumes to decline and labor costs to rise. Volume increases have been driven by elective procedures, acute-care services, behavioral-care services and higher inpatient occupancy.

Fomento Economico Mexicano SAB de CV (FEMSA) is a multinational beverage and retail company headquartered in Mexico. The company maintains a collection of quality assets, including a 48% stake in Coca-Cola FEMSA, the largest franchise bottler of Coke in the world, and 100% ownership of OXXO, the largest convenience-store chain in Mexico and Latin America. FEMSA has made good progress on its strategic growth initiative to expand its bottling, retail and digital businesses while divesting its beer business and other non-core assets and reducing debt. The company divested its minority investment in Heineken and entered into an agreement to sell its minority stake in Jetro Restaurant Depot, a wholesale food service supplier.

The leading detractors in the quarter were gold bullion, Alibaba Group Holding Ltd., NOV Inc., Nutrien Ltd. and Newmont Corporation.

The relatively small decline in the price of gold during the quarter belied what was a fair amount of intra-quarter volatility as markets anticipated the potential trajectory of Fed policy. March's bank failures inspired dovish expectations early in the quarter, but sticky core inflation and resilient economic prints as time went on guided markets back toward the possibility that rates would be higher for longer. Despite this short-term volatility, we continue to value gold as a strategic holding and potential hedge against economic and geopolitical uncertainty.

Concerns surrounding slowing economic growth in China and negative geopolitical sentiment weighed on shares of tech giant Alibaba during the quarter. In pursuit of operational and financial efficiency, the company recently announced plans to split into six semiautonomous units, five of which may seek third-party financing, spinoffs or IPOs. Recent fines to Alibaba and its affiliate Ant are viewed by many as the conclusion of Beijing's two-year regulatory crackdown on its tech sector, removing an overhang on Alibaba's stock and potentially creating a path to an Ant public offering.

NOV is a Texas-based oilfield service provider specializing in complex rig equipment for higher-cost extraction settings such as deep-water fields. Weakness in the quarter may reflect disappointment in the free cash flow reported for the first quarter, as the company focused on building working capital in support of strong revenue growth; this is a typical seasonal behavior of oilfield service and equipment companies. In addition, some temporary supply-chain issues resulted in an inventory buildup. Although normalized oil prices have led to reduced drilling by marginal players, we anticipate continued strong capital spending from the larger publicly traded drillers, to the benefit of companies like NOV.

Canada's Nutrien is one of the world's largest producers of potash fertilizer and the third largest producer of nitrogen fertilizer. The company guided earnings expectations lower during the quarter as fertilizer prices pulled back sharply from last year's Russia/Ukraine-related spike. We remain constructive on our investment thesis, as Nutrien enjoys a dominant market position, has a strong balance sheet, generates substantial cash and is buying back stock.

Newmont is one of the largest gold miners in the world and also a major producer of silver, and weakness in the prices of these metals

* Performance for Class A shares without the effect of sales charges and assumes all distributions have been reinvested, and if a sales charge was included values would be lower.

during the period weighed on the stock. In addition, some investors were given pause when Denver-based Newmont sweetened its offer to acquire Australia's Newcrest Mining in May. This deal is still subject to regulatory review and requires approval from shareholders. A labor strike at the Peñasquito silver mine in Mexico that began in June was another headwind. We remain constructive on Newmont's strong fundamentals; the company is a well-diversified industry behemoth with reserves in good jurisdictions and a strong balance sheet.

We appreciate your confidence and thank you for your support.

Sincerely,

First Eagle Investments

Average Annual Returns as of Jun 30, 2023

				YTD	1 Year	5 Years	10 Years	Expense Ratio*
First Eagle Global Fund	Class A	without sales charge	SGENX	9.21%	13.80%	6.70%	6.82%	1.11%
First Eagle Global Fund	Class A	with sales charge	SGENX	3.75%	8.10%	5.61%	6.27%	1.11%
MSCI World Index				15.09%	18.51%	9.07%	9.50%	

The performance data quoted herein represent past performance and do not guarantee future results. Market volatility can dramatically impact the Fund's short-term performance. Current performance may be lower or higher than figures shown. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Past performance data through the most recent month-end are available at www.firsteagle.com or by calling 800-334-2143.

The average annual returns for Class A Shares "with sales charge" of First Eagle Global Fund give effect to the deduction of the maximum sales charge of 5.00%.

*The annual expense ratio is based on expenses incurred by The Fund, as stated in the most recent prospectus.

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

The 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. Reserve balances are amounts held at the Federal Reserve to maintain depository institutions' reserve requirements. Institutions with surplus balances in their accounts lend those balances to institutions in need of larger balances.

Risk Disclosures

All investments involve the risk of loss of principal.

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.

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.

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.

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

MSCI World Index measures the performance of large and midcap securities across 23 developed markets countries. The index provides total returns in U.S. dollars with net dividends reinvested. **Shanghai Shenzhen CSI 300 Index** measures the performance of 300 A-share stocks listed on the Shanghai and Shenzhen Stock Exchanges. **MSCI Emerging Markets Latin America Index** measures the performance of large and midcap stocks across emerging market countries in Latin America. **NYSE FANG+ Index** is designed to represent 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. The S&P 500 Index includes dividends reinvested. **Nikkei 225** is an unmanaged price-weighted equity index, which consists of 225 stocks in the first section of the Tokyo Stock Exchange. German **DAX® Index** is unmanaged and tracks the segment of the largest and most important companies—known as blue chips—on the German equities market. It contains the shares of the 30 largest and most liquid companies admitted to the FWB® Frankfurt Stock Exchange in the Prime Standard segment. The DAX represents about 80% of the aggregated prime standard's market cap. The French **CAC 40** is an unmanaged market index designed to reflect the evolution of the Euronext Paris market. It is made up of the 40 highest ranking shares listed on the Paris market, according to criteria based on free float market capitalization and trading volume. The index is reviewed and adjusted every quarter in order to take into account changes concerning the size and the volume of the constituent companies.

The holdings mentioned herein represent the following total assets of the First Eagle Global Fund as of 30-Jun-2023: Oracle Corporation 3.25%; Meta Platforms, Inc. Class A 2.41%; HCA Healthcare Inc. 1.92%; Universal Health Services, Inc, Class B 1.08%; Fomento Economico Mexicano SAB de CV Units Cons. Of 1 ShsB And 4 ShsD 1.22%; gold bullion 10.79%; Alibaba Group Holding Ltd. 0.74%; NOV Inc. 0.88%; Nutrien Ltd. 0.52%; Newmont Corporation 0.69%.

This commentary represents the opinion of the First Eagle Global Fund portfolio managers as of 30-Jun-2023 and is subject to change based on market and other conditions. The opinions expressed are not necessarily those of the entire 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 Fund's portfolio is actively managed and holdings can change at any time. Current and future portfolio holdings are subject to risk.

The Fund may invest in gold and precious metals through investment in a wholly-owned subsidiary of the Fund organized under the laws of the Cayman Islands (the "Subsidiary"). Gold Bullion and commodities include the Fund's investment in the Subsidiary.

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