



4Q25 Market Overview: Kissing the Beehive

Risk assets in general capped off a strong year with a solid fourth quarter. In contrast with recent trends, non-US equity markets led the way in 2025.

While the threats to market stability that have prevailed throughout the year were undiminished during the quarter, investors continued to embrace risk. The S&P 500 Index gained 2.7% for the fourth quarter and 17.9% for the year, while the MSCI EAFE Index returned a respective 4.9% and 31.2%. Notably, 2025 was only the third year in the past 10 that the MSCI EAFE has outperformed the S&P 500. Gold, meanwhile, surged 65% during the year, its largest annual return since 1979.¹

Despite ample motivation for conservatism in an environment of pronounced macro, financial, geopolitical and structural concerns, risk perception in US markets remains low pretty much wherever you look.² There's a fine line between confidence and hubris, however, and we believe the low risk perception evident in these markets—rich equity valuation multiples, tight high yield spreads are low implied volatility—leaves them vulnerable to the latter.

KEY TAKEAWAYS

- While the post-pandemic normalization of certain macro factors has been encouraging, US fiscal settings remain far off-kilter, which may help explain the decoupling of gold and Treasuries seen in recent years.
- The twin deficits facing the US—the combination of negative fiscal and current account balances—represents an incremental risk that most other economies do not face and complicate efforts to consolidate fiscal policy.
- Capital expenditures by hyperscalers—companies that operate massive data centers supporting cloud computing—have grown rapidly, helping to support the US economy and markets. But how long can this last?
- The current geopolitical disequilibrium has increased the possibility of destabilizing left-tail events and highlighted the importance of building resilient portfolios.

1. Source: FactSet; data as of December 31, 2025.

2. Source: Bloomberg; data as of December 31, 2025.

The US Double Bind Gets Tighter

While the post-pandemic normalization of certain macro factors has been encouraging, the country's fiscal settings remain far off-kilter. The US federal deficit remains historically outsized relative to the unemployment rate—as it has since the outbreak of Covid-19.³ Normally, high unemployment rates and recession beget large fiscal deficits, as lower tax revenues combine with increased government spending. Conversely, low unemployment rates and robust economic growth typically support higher tax revenues and tighter fiscal policy, causing deficits to contract or even turn into surpluses. If the economy were in balance, we'd expect budget deficits of around 2% of gross domestic product (GDP)—not the 5.8% at the end of fiscal year 2025.⁴

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We believe this persistent deficit spending helps explain the decoupling of gold and Treasuries seen in recent years. The price of gold surged 67% during 2025—its largest annual gain since 1979—and has more than doubled over the past two years in an apparent acknowledgement of the double-bind facing US policymakers: Doing nothing to address the deficit could stoke renewed inflationary pressures, while taking action to curb it would likely increase the possibility of recession. More recent rallies in the prices of other precious metals like silver and platinum appear to reflect the same policy conundrum.⁵

The US is not alone in this regard, of course, as fiscal deterioration has been widespread across both advanced and emerging economies. However, the US is among only a few key economies—alongside the UK and Brazil—facing twin deficits, and this combination of negative fiscal and current account balances represents an incremental risk that most others do not face.⁶ The US current account deficit reflects an imbalance between savings and investment in the economy, which, by formula, must be offset by inflows of foreign capital into the US. The current account deficit is not necessarily a bad thing; the US has long been a popular destination for foreign investment, bolstered by the dollar's status as the global reserve currency. However, it does complicate efforts to consolidate fiscal policy.

Twin deficits are nothing new for the US, which has run them consistently since the early 1980s with only a few exceptions, the most recent being 2001.⁷ More often than not, however, the fiscal deficit as a percentage of GDP has exceeded the current account deficit; efforts to bring the fiscal deficit to levels less than that of the current account deficit have the potential to bleed into the private sector, impacting free cash flow and causing corporate credit issues.⁸

Beyond this fiscal reckoning is a question of how long the tailwinds that have supported both economic and equity market growth in recent years can persist. Chief among these has been the massive spending on the buildout of artificial intelligence (AI) infrastructure. Spending on semiconductor fabrication and data centers on average have accounted for 0.4% of GDP growth annually since 2022, and the growth of technology investment overall has contributed nearly half of GDP growth in recent quarters.⁹

3. Source: Haver Analytics, Bureau of Economic Analysis, US Treasury, Federal Reserve Bank of St. Louis; data as of December 31, 2025.

4. Source: US Treasury; data as of September 30, 2025.

5. Source: Bloomberg; data as of December 31, 2025.

6. Source: Haver, International Monetary Fund, First Eagle Investments; data as of October 31, 2025.

7. Source: Federal Reserve Bank of St. Louis, US Bureau of Economic Analysis; data as of December 31, 2025.

8. Source: Federal Reserve Bank of St. Louis; data as of December 31, 2025.

9. Source: Bank for International Settlements; data as of January 7, 2026.

Capital expenditures by hyperscalers—companies like Amazon, Apple, Meta, Microsoft and Oracle that operate massive data centers supporting cloud computing—have grown rapidly over the past decade or so, at a pace far exceeding that of cash flow from operations.¹⁰ As a result, capex as a percentage of cash flow from operations for these companies has grown from about 20% in 2015 to 70% today, and what had been very free-cash-flow generative businesses are now decidedly less so.¹¹ Spending on data centers and other AI infrastructure by hyperscalers is forecast to continue, but its current rate of growth is unsustainable absent some other sources of financing. To us, it seems likely to decelerate toward the growth rate of operating cash flow for these companies, which may represent an unwelcome plot twist in the market’s AI narrative.

Finding Ballast Across Assets

Already-high geopolitical tensions ratcheted up a notch in early 2026, as the US took military action on Venezuelan soil to remove President Nicolas Maduro. The Trump administration has publicly offered a range of justifications for forcing leadership change in Venezuela—including the illegitimacy of the elections that brought Maduro to power, the country’s role in the international drug trade and the seizure of US oil interests, among others. To us, one clear, if unspoken, goal of the operation was to check the influence of China and Russia on Venezuela and Latin America in general. Both nations have close diplomatic and economic ties in the region and staunchly oppose US dominance.

While escalations such as we have seen in Latin America in early 2026 are largely unpredictable, they are not surprising amid a geopolitical order in flux. We’ve spoken in recent years about the emergence of the Eurasian heartland, with authoritarian powers concentrated in eastern Europe and Asia—China, Russia, Iran and North Korea—growing increasingly aligned. More recently, the behavior of the US, long seen as reliable partner to like-minded countries worldwide, has led many to question the durability of its traditional alliances. Geopolitics is a complex system, and the current disequilibrium has increased the possibility of destabilizing left-tail events—be they in the Americas, Europe or Asia.

Perhaps unsurprisingly in this uncertain environment, the monetary value of gold has been reasserting itself. Earlier, we noted the significant increase in the gold price over the past two years, but this rally has merely aligned gold with its 50-year geometric average relative to the stock of US public debt while bringing it closer to its geometric average versus the S&P

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500.¹² And though we’re attuned to the risk inherent in such a sharp price move, we continue to highly value its strategic hedge potential given the fiscal and geopolitical dynamics currently in place.

Gold, however, is not the only source of portfolio ballast. Nor is cash. We believe portfolio resilience also can be built with equities that offer ballast though their lower risk character. This is not achieved simply through higher allocations to traditionally defensive segments of the market like health care and consumer staples. Rather, it is through evaluating stocks across industries from the bottom up in search of attributes that historically have contributed to low correlations to the broader market, including strong balance sheets, high margins, diverse product lineups, long-lived assets and contractually obligated revenues.

10. Source: S&P Capital IQ, Bloomberg and company reports; data as of December 31, 2025.

11. Source: Bloomberg, First Eagle Investments; data as of September 30, 2025.

12. Source: Bloomberg; data as of December 31, 2025.

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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.

Gross domestic product (GDP) measures the total value of all economic output in goods and services for an economy.

Sovereign debt is issued by a country's government as a way to borrow capital.

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

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.

S&P 500 Index (Gross/Total) measures the performance of 500 of the top companies in the leading industries of the US economy and is widely recognized as a proxy for the US market as a whole. A total-return index tracks price changes and reinvestment of distribution income.

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