

# First Eagle Global Fund

## Market Overview

With the Covid-19 pandemic in retreat in some—but certainly not all—parts of the world, many financial markets have been swept by a warm breeze of optimism. The MSCI World Index rose 7.7% in the second quarter after its 4.9% gain in the first, while the S&P 500 Index added 8.5% to its 6.2% rise in the first quarter. Notably, however, the reflation trade that had prevailed since September appeared to run out of steam during the second quarter, and many of the themes that dominated the markets' initial pandemic rebound returned to the fore. For example, during the quarter investors returned their focus to growth stocks from value stocks and to large caps from smaller names, with a bias toward US-listed companies.<sup>1</sup>

The success of risk assets year to date can be traced in part to a striking rebound in business confidence. Despite the propagation of Covid variants, large regional imbalances in vaccine rates and still-significant slack in global employment, a number of purchasing managers indexes worldwide reached new multiyear peaks during the second quarter,<sup>2</sup> suggesting high spirits in corporate boardrooms after a deeply depressing 2020. Historically, business confidence has often signaled GDP growth.

While we cannot be certain of the duration of these high levels of confidence and stock valuations, we suspect they may be shorter-lived than the market appears to anticipate; in our view, the economic recovery may already be fully priced in. The MSCI World Index trades at approximately 20 times forward earnings estimates, and those estimates represent a roughly 20% increase from the prior peak levels of earnings in 2018 and 2019,<sup>3</sup> which strikes us as extreme. We would say the same for the increase in commodity prices, many of which exceeded their prior cycle peaks during the quarter.

Unsurprisingly, given the stimulus-fueled pace of the economic recovery, we've seen the emergence of some supply-chain bottlenecks. Anecdotally we are also hearing from our portfolio companies about difficulties in hiring and about rising prices for raw materials. Energy has perhaps been the one commodity where the price increase surprised people on the upside. Mean-

Market Summary	2nd Quarter 2021
MSCI World Index	+7.74%
S&P 500 Index	+8.55%
German DAX Index	+3.48%
French CAC 40 Index	+9.07%
Nikkei 225 Index	-1.17%
Brent Crude Oil	+18.24% \$75.13 a barrel
Gold	+3.65% \$1,770.11 an ounce
US Dollar	+0.44% vs. yen -0.89% vs. euro

Source: Bloomberg, WM/Reuters.

while, we have heard very little bottom-up concern about fiscal unsustainability—likely because corporate margins have benefited from ultra-easy fiscal policy. As the recovery progresses and the stimulus eventually moderates, we will probably see a more complex picture emerge and, more likely than not, some moderation in business sentiment.

Government authorities face a sort of Catch-22: if they tighten prematurely, they may stifle the recovery before full employment is reached. On the other hand, if they keep fiscal and monetary policy too easy for too long to avoid derailing the asset recovery, they could increase the potential for inflation in a low-growth world—in other words, stagflation. As we learned from the 1970s, stagflation can have very negative effects on both stocks and bonds. Without a fiscal consolidation or increase in labor productivity, continuation of the current very easy policy may lead to a series of much tougher future choices and outcomes.

However, it's plausible that fixed income markets are anticipating future fiscal tightening and its impact on productivity.

1 Source: FactSet; data as of July 1, 2021.

2 Source: Institute for Supply Management, International Federation of Purchasing and Supply Management, IHS Markit; data as of July 9, 2021.

3 Source: MSCI, FactSet; data as of July 1, 2021.

The 10-year US Treasury drifted steadily lower from its March high point above 1.70% and ended the second quarter at around 1.45%,<sup>4</sup> while both commodity prices and business confidence have shown signs of softening as we move through the summer. Shorter-term yields, meanwhile, broke higher in response to the unexpectedly hawkish dot plot that emerged from the Federal Reserve's June policy meeting. Hemmed in below 0.20% for most of the past year-plus, the yield on the two-year US Treasury approached 0.30% as the quarter drew to a close, flattening the yield curve.<sup>5</sup> This move was accompanied by a dip in the gold price, strength in the US dollar and moderation of long-dated inflation expectations.

Despite the massaging of market expectations, the Fed remains data dependent in its decision-making and likely will maintain a wait-and-see approach before taking steps to unwind its extraordinary stimulus. It's important to note that the central bank recently adopted an inflation-targeting policy framework. Rather than tightening monetary conditions in anticipation of inflation pressures and the approach of full employment, as it had in the past, the Fed will tolerate—if not actively seek—above-target inflation for some period to achieve its target rate as an average over time. However, there is some concern that the longer rates stay low in the face of mounting inflation and strong economic growth, the more we risk a violent upward adjustment at some future point.

## A More Balanced View of the World

Another point of note in the first half of 2021 was the weaker tone of Asian equity markets. Both China and Japan were flattish in the second quarter and well below early 2021 peaks despite the broad strength in global equity markets. In Japan, the weakness may be due to delays in its vaccine rollout in the face of building concerns over the delta variant. China has started to become less accommodative as Covid recedes further in the rearview mirror, while its regulatory structure has grown more complex. Given that China was the first to experience Covid, the first to bring it under control and now the first to pull back on stimulus, the Chinese equity market's experience this year ought to serve as a warning against complacency.<sup>6</sup>

4 Source: FactSet; data as of July 15, 2021

5 Source: Federal Reserve Bank of St. Louis; data as of July 9, 2021.

6 Source: FactSet; data as of July 1, 2021.

7 Source: MSCI, Standard & Poor's; data as of July 1, 2021.

To us, these regional disparities highlight the value of diversification. To an exceptional degree, global stock gains in recent years have been driven by the performance of US companies, which has skewed the composition of global indexes; at the end of the second quarter, for example, US stocks comprised nearly 70% of the MSCI World Index. Meanwhile, the MSCI EAFE Index, which does not include US equities, still trades below its 2007 peak even as the S&P 500 has nearly tripled.<sup>7</sup> It is obvious that very large technology-related US companies (like the FAANG+ stocks) have dominated key areas of the new economy, but it is equally obvious to us that good companies have regularly appeared in domiciles around the world. Stock weightings in the MSCI indexes are based on current market capitalizations, but allocations in our global portfolios are based on a longer-term—and, in our opinion, more balanced—view of the prospects for individual stocks.

Regional performance has varied over time, and it seems reasonable to expect a reversion to longer-term norms at some point, especially if the economic strength of the United States forces the authorities to pull back on stimulus before other developed markets. But geography is just one dimension of diversification. In most of our portfolios, the Global Value team applies an all-weather approach marked not only by broad geographic diversification but also diversification across and within sectors. This approach reflects our conviction that the future is unknowable in many respects—including, in the current context, the full consequences of the measures taken to combat Covid's economic impact.

For example, financials, one of the largest sectors in several of our portfolios, is quite diversified in its own right, featuring an array of smaller industry subsets like diversified holding companies, regional banks, niche insurers and asset-light financial services businesses. In contrast, while we have tended to have less exposure to the information technology sector than the MSCI World Index, we have built a solid position in the space—including a strong presence in cloud software and semiconductor manufacturing—without paying for hypergrowth technology concept stocks. And by focusing on resilient businesses available at attractive valuations, we feel our portfolios are well positioned for whatever may come next.

## Portfolio Review

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Global Fund A Shares (without sales charge\*) posted a return of 5.95% in second quarter 2021. Financials was the top contributor among economic sectors, followed by information technology, consumer staples and materials. Industrials was the only sector with negative performance, though utilities and real estate were relative laggards. The Global Fund underperformed the MSCI World Index in the period.

Leading contributors in the First Eagle Global Fund this quarter included gold bullion, Oracle Corporation, Compagnie Financière Richemont SA, Exxon Mobil Corporation and Facebook, Inc. Class A.

Though it pulled back in the waning weeks of the second quarter following the Fed's somewhat hawkish June meeting, gold was a strong performer for the period. Given full equity market valuations, tight credit spreads and the potential that business confidence will return to levels more consistent with long-term averages, we believe the option value of gold has increased in recent months.

Oracle continues to make progress reinventing itself for the cloud-computing environment that prevails today and competes in what we believe is a huge addressable market in the public cloud. It has begun to gain traction with the subscription model for its services, and the strong results posted for its most recent quarter demonstrated the stickiness of its business. The company has been a strong cash flow generator in recent years and has consistently returned excess cash to shareholders in the form of dividends and share buybacks.

Richemont, which counts Cartier and Van Cleef & Arpels among its maisons, has continued to benefit from strong demand for luxury goods and jewelry in particular. The Swiss company has also made notable strides in developing an e-commerce platform in partnership with Alibaba and Farfetch, which is expected to give it enhanced access to the growing Chinese luxury market.

The continued recovery in oil prices as economies reopen helped fuel another strong performance across the energy complex, including shares of Exxon Mobil. Exxon Mobil recently lost a proxy fight with an activist investor that took three of the company's 12 board seats. While the press was focused on the investor's concerns over Exxon Mobil's long-term energy transformation strategy, other factors fundamental to shareholder returns—like capital discipline and balance sheet management—were also at play.

Facebook has continued to post impressive results for both revenue and active users of its traditional platforms. In the meantime, the social media giant continues to make progress on new

initiatives—like Facebook Horizon (virtual reality) and Facebook Shops (e-commerce)—and maintains attractive monetization optionality around services like Messenger and WhatsApp.

The leading detractors in the quarter were Secom Co., Ltd., Komatsu Ltd., Mitsubishi Estate Co., Ltd., Booking Holdings Inc. and Bangkok Bank Public Company Limited NVDR.

Tokyo-based Secom is a security services and surveillance systems company with operations in multiple jurisdictions across Asia and Australasia as well as in the UK, though it generates most of its revenue in Japan. While Secom participated in the general weakness in Japanese stocks during the quarter, we believe it maintains a strong core business. It recently consolidated subsidiary Secom Joshinetsu—a trend among Japanese companies as corporate governance continues to improve in the country—at a premium to its pre-announcement share price.

Komatsu has been among the machinery companies buffeted by news flow around infrastructure spending in the US. While a bipartisan Senate group, with the support of President Biden, reached an agreement on an eight-year, \$1.2 trillion bill, its future is murky. The infrastructure bill appears to be linked to a broader economic agenda that likely will require a thorny budget reconciliation process in order to bypass a Republican filibuster and pass both chambers of Congress.

Mitsubishi Estate, one of the largest real estate developers in Japan, traded lower in concert with many other Japanese names. A sluggish start to Japan's Covid-19 vaccination campaign has delayed the country's economic recovery, and growth remains well below Japan's pre-pandemic trend.

The owner of online reservation sites including booking.com, priceline.com and agoda.com, Booking Holdings generates the majority of its earnings in Europe. While the stock tailed off from its April highs, it appears well positioned for a potential rebound as global travel volumes pick up.

Bangkok Bank is the largest bank in Thailand and the sixth largest in Southeast Asia. After keeping Covid-19 mostly in check during 2020, Thailand has been hammered by the pandemic over the past several months. The outbreak has the government considering additional lockdown measures, weighing on the Thai economy and delaying a revitalization of its important tourist industry.

We appreciate your confidence and thank you for your support.

Sincerely,

First Eagle Investment Management

\* 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.

## Average Annual Returns as of 06/30/2021 (%)

			YTD	1 Year	5 Years	10 Years	Expense Ratio*	
First Eagle Global Fund	Class A	without sales charge	SGENX	10.24	29.26	9.07	7.55	1.11
		with sales charge	SGENX	4.73	22.79	7.95	7.00	
MSCI World Index				13.05	39.04	14.83	10.65	

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.feim.com](http://www.feim.com) or by calling 800.334.2143. The average annual returns are historical and reflect changes in share price, reinvested dividends and are net of expenses. 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.

### Risk Disclosures

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.

The 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.

All investments involve the risk of loss.

The **MSCI World Index** is a widely followed, unmanaged group of stocks from 23 international markets. The index provides total returns in US dollars with net dividends reinvested. **MSCI EAFE Index** is an unmanaged total return index, reported in US dollars, based on share prices and reinvested net dividends of approximately 1,100 companies from 22 countries and is not available for purchase. **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 75% coverage of US equities, it is also considered a proxy for the total market. The **Nikkei 225** is an unmanaged price-weighted equity index, which consists of 225 stocks in the first section of the Tokyo Stock Exchange. The 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.

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

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

The holdings mentioned herein represent the following percentage of the total net assets of the First Eagle Global Fund as of June 30, 2021: gold bullion 10.12%; Oracle Corporation 2.88%; Compagnie Financière Richemont SA 1.55%; Exxon Mobil Corporation 2.24%; Facebook, Inc. Class A 1.66%; Secom Co., Ltd. 0.97%; Komatsu Ltd. 0.34%; Mitsubishi Estate Co., Ltd. 0.63%; Booking Holdings Inc. 0.73%; Bangkok Bank Public Company Limited NVDR 0.34%.

The commentary represents the opinion of the First Eagle Global Fund portfolio managers as of June 30, 2021, 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 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.

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**Investors should consider investment objectives, risks, charges and expenses carefully before investing. The prospectus and summary prospectus contain this and other information about the Funds and may be obtained by visiting our website at [www.feim.com](http://www.feim.com) or calling us at 800.334.2143. Please read our prospectus carefully before investing. Investments are not FDIC insured or bank guaranteed, and may lose value.**