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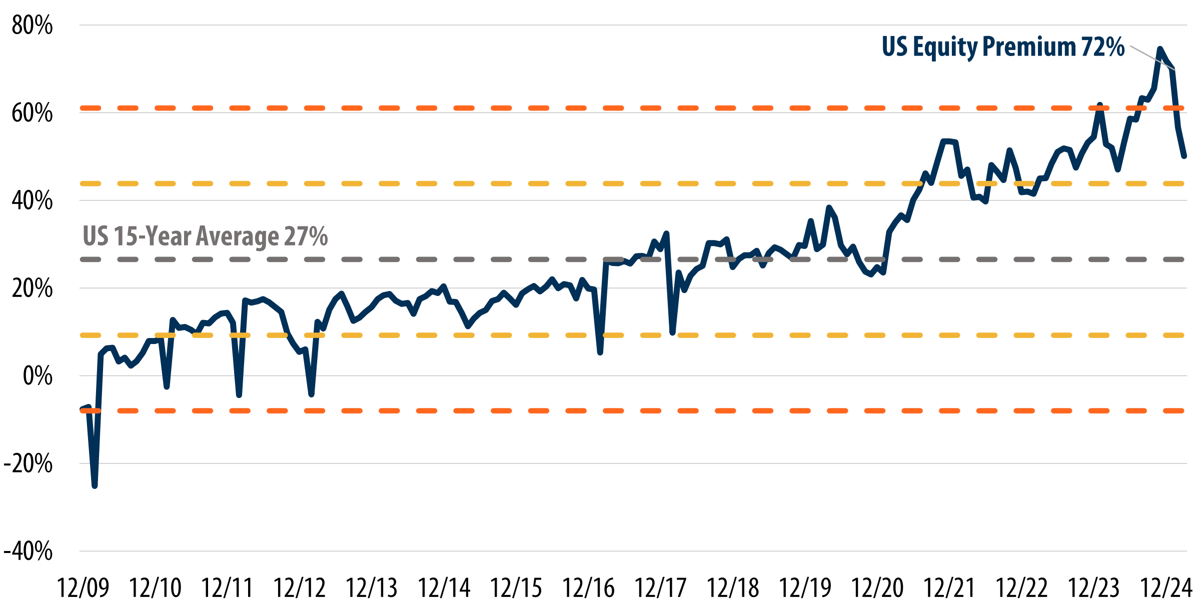
Is the Tide Turning for International Equities?

International equities have struggled to capture investor enthusiasm in recent years. Over the decade ending 12/31/2024, the S&P 500® Index notched a robust 13.1% annualized return, dwarfing the modest 4.8% return of the MSCI ACWI ex USA Index. Against this backdrop, U.S. equity exchange-traded funds ("ETFs") captured 87% of all equity ETF net inflows in 2024.[1] While international stocks account for nearly half the world's equity market cap, the average U.S. investor allocates just 8% to international stocks, according to a recent survey.[2,3] However, the first quarter of 2025 showed signs that the tide may be turning for international equities, as the MSCI ACWI ex USA Index climbed 5.4%, while the S&P 500® Index shed 4.3%. Below we explore some of the factors that fueled this outperformance and discuss why we think many investors may benefit from revisiting international allocations. We then highlight two unique actively-managed international ETFs: the First Trust WCM International Equity ETF (WCMI) and the First Trust WCM Developing World Equity ETF (WCME).

International Outperformance in Q1

The outperformance of international stocks in the first quarter of 2025 was driven by a variety of factors, in our view, including a significant valuation gap between U.S. and non-U.S. stocks, technological developments outside the U.S., and shifts in fiscal policies, both domestically and abroad.

Chart 1: Relative Forward Price-to-Earnings Ratio: S&P 500® Index/MSCI ACWI ex USA Index



Source: Bloomberg. Data from 12/31/2009 – 12/31/2024. **Past performance is no guarantee of future results.** Please see index definitions on the following page.

For years, U.S. equities have commanded premium valuations over their international counterparts. From 12/31/2009-12/31/2024, the S&P 500® Index's average forward price-to-earnings ("P/E") ratio was 18.1, compared to 14.3 for the MSCI ACWI ex USA Index, a 27% premium (see Chart 1). We believe this disparity reflects several advantages for U.S. stocks, including robust earnings growth, higher returns on equity, a thriving technology sector, and the abundant liquidity of U.S. capital markets. By the end of 2024, however, that premium had risen to 72%, more than two standard deviations above the 15-year average. In our view, these elevated valuations made U.S. equities more susceptible to pullbacks than their international peers.

A key trigger for U.S. equity underperformance in Q1 was the unveiling of a new generative artificial intelligence ("AI") model from Chinese firm DeepSeek, which upended assumptions about the trajectory of AI infrastructure development. Since that announcement, the S&P 500® Index has dropped 7.8%, weighted down by several AI-related stocks, while the MSCI ACWI ex USA Index gained 1.8%, according to Bloomberg (1/24/2025-3/31/2025).

A global shift in fiscal policy is another factor that has boosted investor sentiment for international equities over U.S. equities this year, in our opinion. The new Trump administration is focused on slashing spending and shrinking the federal deficit—a move that could sting in the near-term, in our opinion, even if it fosters long-term growth. Meanwhile, other major economies are leaning into fiscal stimulus. For instance, China plans to widen its fiscal budget deficit to 4% of gross domestic product, the highest since 1994.[4] Germany, too, has unveiled a €500 billion infrastructure fund, while planning to ease restrictions on government borrowing.[5]

[1] First Trust ETF Data Watch: Asset Flows Monitor, January 2025.
[2] Empower, *The Currency*, January 2025.
[3] Morningstar, January 2025
[4] Bloomberg, March 2025
[5] *New York Times*, March 2025

Looking Ahead

In our view, many drivers of international equity outperformance in Q1 still hold strong. The S&P 500® Index's forward P/E ratio (20.9) remains 50% above the MSCI ACWI ex USA Index (13.9), despite 2025 earnings growth forecasts of 12% for the S&P 500® Index, modestly outpacing the 9% projected for its international counterpart.[6] Meanwhile, we believe investors in AI-related stocks are still rattled by increasing overseas competition, and uncertainty persists over when hefty capital spending outlays for AI will yield returns. And we believe overseas economies appear poised to ramp up fiscal stimulus—partly as a buffer against potential U.S. tariffs—while the U.S. Department of Government Efficiency is likely to continue hunting for spending cuts.

Active-Management May Help Address Potential International Pitfalls

More than half a trillion dollars is parked in the five largest passive international equity ETFs, despite their modest returns of 3.9% to 5.7% annually over the past decade.[7] We attribute this underwhelming performance, in part, to a scarcity of high-quality stocks. For instance, 42.5% of companies in the MSCI ACWI ex USA Index generated returns on equity below 10%, compared to just 29.8% in the S&P 500® Index.[8] This gap underscores why selectivity is vital for international markets, in our opinion. Actively-managed ETFs may provide a more targeted approach, aiming to identify companies or sectors that appear to have strong market positions, potential competitive advantages, and promising growth prospects.

The First Trust WCM International Equity ETF (WCMI) and the First Trust WCM Developing World Equity ETF (WCME) are both actively-managed ETFs, sub-advised by WCM Investment Management, LLC (WCM). WCMI invests primarily in international equity securities (including developed and emerging markets), while WCME focuses on stocks located in developing countries (i.e. emerging markets). Both ETFs utilize a bottom-up approach to stock selection, based on a series of quantitative, financial factors, along with qualitative non-financial factors, such as assessments of company culture.

After nearly two decades of U.S. equity dominance, investors' home-country bias is understandable—but the case for international equities is gaining traction, in our opinion. U.S. stocks carry a steep valuation premium despite a narrowing gap in earnings prospects and risks of overspending on AI infrastructure—especially as efficient alternatives like DeepSeek emerge—while overseas markets draw support from fiscal stimulus. Meanwhile, passive international strategies have produced mediocre returns, allocating billions to lower quality companies with stagnant growth. We believe an active approach, focusing on company fundamentals, may help uncover opportunities and contribute to diversification. As global allocations come into focus, we believe ETFs like WCMI and WCME offer a compelling path to navigate this shift.

[6]Capital IQ, as of 3/31/2025.

[7]Morningstar, 3/31/2015- 3/31/2025.

[8]Bloomberg. Trailing 12-months, as of 2/28/2025.

References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

Diversification does not guarantee a profit or protect against loss.

Performance Summary (%) as of 3/31/25

WCME Performance*	3 Month	1 Year	3 Year	5 Year	Since Fund Inception
Net Asset Value (NAV)	5.62	6.68	0.64	8.30	8.30
Market Price	6.15	7.46	0.89	8.46	8.46
Index Performance**					
MSCI Emerging Markets Index	2.93	8.39	1.44	7.94	7.94
WCMI Performance*					
Net Asset Value (NAV)	7.32	6.82	4.34	11.92	11.92
Market Price	7.86	7.35	4.52	12.03	12.03
Index Performance**					
MSCI ACWI ex USA Index	5.23	6.24	4.48	10.92	10.92

Performance data quoted represents past performance. Past performance is not a guarantee of future results and current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and shares when sold or redeemed, may be worth more or less than their original cost. You can obtain performance information which is current through the most recent month-end by visiting www.ftportfolios.com.

WCME Inception Date: 3/31/2020. Total Expense Ratio: 0.95%. WCMI Inception Date: 3/31/2020. Total Expense Ratio: 0.85%.

On October 7, 2024, WCME acquired the assets and adopted the performance history of the WCM Developing World Equity Fund and WCMI acquired the assets and adopted the performance history of the WCM International Equity Fund (together, the "Predecessor Funds"), open-end management companies and a series of Investment Managers Series Trust. While the Predecessor Funds and WCME and WCMI have investment policies and practices that are substantially similar, the Predecessor Funds' past performance is not necessarily indicative of how WCME and WCMI will perform in the future, respectively. Accordingly, any of WCME's and WCMI's performance and historical returns shown that incorporate Predecessor Fund performance prior to October 7, 2024 are not necessarily indicative of the performance that WCME and WCMI would have generated.

***NAV** returns are based on the fund's net asset value which represents the fund's net assets (assets less liabilities) divided by the fund's outstanding shares. **Market Price** returns are determined by using the midpoint of the national best bid offer price ("NBBO") as of the time that the fund's NAV is calculated. Returns are average annualized total returns, except those for periods of less than one year, which are cumulative.

**Performance information for each listed index is for illustrative purposes only and does not represent actual fund performance. Indexes do not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Indexes are unmanaged and an investor cannot invest directly in an index.

You should consider a fund's investment objectives, risks, and charges and expenses carefully before investing. Contact First Trust Portfolios L.P. at 1-800-621-1675 or visit www.ftportfolios.com to obtain a prospectus or summary prospectus which contains this and other information about a fund. The prospectus or summary prospectus should be read carefully before investing.

Risk Considerations

You could lose money by investing in a fund. An investment in a fund is not a deposit of a bank and is not insured or guaranteed. There can be no assurance that a fund's objective(s) will be achieved. Investors buying or selling shares on the secondary market may incur customary brokerage commissions. Please refer to each fund's prospectus and Statement of Additional Information for additional details on a fund's risks. The order of the below risk factors does not indicate the significance of any particular risk factor.

Some Asian economies are highly dependent on trade with other countries and there is a high concentration of market capitalization and trading volume in a small number of Asian issuers as well as a high concentration of investors and financial intermediaries. Certain Asian countries experience expropriation and nationalization of assets, confiscatory taxation, currency manipulation, political instability, armed conflict and social instability as a result of religious, ethnic, socio-economic and/or political unrest. In particular, escalated tensions involving North Korea could have severe adverse effect on Asian economies. Recent developments between the U.S. and China have heightened concerns of increased tariffs and restrictions on trade.

Unlike mutual funds, shares of the fund may only be redeemed directly from a fund by authorized participants in very large creation/redemption units. If a fund's authorized participants are unable to proceed with creation/redemption orders and no other authorized participant is able to step forward to create or redeem, fund shares may trade at a premium or discount to a fund's net asset value and possibly face delisting and the bid/ask spread may widen.

Changes in currency exchange rates and the relative value of non-US currencies may affect the value of a fund's investments and the value of a fund's shares.

Current market conditions risk is the risk that a particular investment, or shares of the fund in general, may fall in value due to current market conditions. For example, changes in governmental fiscal and regulatory policies, disruptions to banking and real estate markets, actual and threatened international armed conflicts and hostilities, and public health crises, among other significant events, could have a material impact on the value of the fund's investments.

A fund is susceptible to operational risks through breaches in cyber security. Such events could cause a fund to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures and/or financial loss.

Depositary receipts may be less liquid than the underlying shares in their primary trading market and distributions may be subject to a fee. Holders may have limited voting rights, and investment restrictions in certain countries may adversely impact their value.

Investments in emerging market securities are generally considered speculative and involve additional risks relating to political, economic and regulatory conditions.

Equity securities may decline significantly in price over short or extended periods of time, and such declines may occur in the equity market as a whole, or they may occur in only a particular country, company, industry or sector of the market.

Political or economic disruptions in European countries, even in countries in which a fund is not invested, may adversely affect security values and thus the fund's holdings. A significant number of countries in Europe are member states in the European Union, and the member states no longer control their own monetary policies. In these member states, the authority to direct monetary policies, including money supply and official interest rates for the Euro, is exercised by the European Central Bank. The implications of the United Kingdom's withdrawal from the European Union are difficult to gauge and cannot yet be fully known.

Financial services companies are subject to the adverse effects of economic recession, currency exchange rates, government regulation, decreases in the availability of capital, volatile interest rates, portfolio concentration in geographic markets, industries or products, and competition from new entrants in their fields of business.

The risks of investing in emerging market countries are magnified when investing in in frontier market countries due to the potential for extreme price volatility and illiquidity; government ownership or control of parts of private sector and of certain companies as well as the relatively new and unsettled securities laws in many frontier market countries.

A fund may be a constituent of one or more indices or models which could greatly affect a fund's trading activity, size and volatility.

Since securities that trade on non-U.S. exchanges are closed when a fund's primary listing is open, there are likely to be deviations between the current price of an underlying security and the last quoted price from the closed foreign market, resulting in premiums or discounts to a fund's NAV.

Large capitalization companies may grow at a slower rate than the overall market.

Certain fund investments may be subject to restrictions on resale, trade over-the-counter or in limited volume, or lack an active trading market. Illiquid securities may trade at a discount and may be subject to wide fluctuations in market value.

The portfolio managers of an actively managed portfolio will apply investment techniques and risk analyses that may not have the desired result.

Market risk is the risk that a particular security, or shares of a fund in general may fall in value. Securities are subject to market fluctuations caused by such factors as general economic conditions, political events, regulatory or market developments, changes in interest rates and perceived trends in securities prices. Shares of a fund could decline in value or underperform other investments as a result. In addition, local, regional or global events such as war, acts of terrorism, spread of infectious disease or other public health issues, recessions, natural disasters or other events could have significant negative impact on a fund.

A fund faces numerous market trading risks, including the potential lack of an active market for fund shares due to a limited number of market makers. Decisions by market makers or authorized participants to reduce their role or step away in times of market stress could inhibit the effectiveness of the arbitrage process in maintaining the relationship between the underlying values of a fund's portfolio securities and a fund's market price.

A fund classified as "non-diversified" may invest a relatively high percentage of its assets in a limited number of issuers. As a result, a fund may be more susceptible to a single adverse economic or regulatory occurrence affecting one or more of these issuers, experience increased volatility and be highly concentrated in certain issuers.

Securities of non-U.S. issuers are subject to additional risks, including currency fluctuations, political risks, withholding, lack of liquidity, lack of adequate financial information, and exchange control restrictions impacting non-U.S. issuers.

A fund and a fund's advisor may seek to reduce various operational risks through controls and procedures, but it is not possible to completely protect against such risks. The fund also relies on third parties for a range of services, including custody, and any delay or failure related to those services may affect the fund's ability to meet its objective.

The market price of a fund's shares will generally fluctuate in accordance with changes in the fund's net asset value ("NAV") as well as the relative supply of and demand for shares on the exchange, and a fund's investment advisor cannot predict whether shares will trade below, at or above their NAV.

A fund with significant exposure to a single asset class, country, region, industry, or sector may be more affected by an adverse economic or political development than a broadly diversified fund.

Securities of small- and mid-capitalization companies may experience greater price volatility and be less liquid than larger, more established companies.

Trading on an exchange may be halted due to market conditions or other reasons. There can be no assurance that a fund's requirements to maintain the exchange listing will continue to be met or be unchanged.

A fund may hold securities or other assets that may be valued on the basis of factors other than market quotations. This may occur because the asset or security does not trade on a centralized exchange, or in times of market turmoil or reduced liquidity. Portfolio holdings that are valued using techniques other than market quotations, including "fair valued" assets or securities, may be subject to greater fluctuation in their valuations from one day to the next than if market quotations were used. There is no assurance that a fund could sell or close out a portfolio position for the value established for it at any time.

First Trust Advisors L.P. (FTA) is the adviser to the First Trust fund(s). FTA is an affiliate of First Trust Portfolios L.P., the distributor of the fund(s).

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

Definitions

Forward Price-to-Earnings (P/E) is the price of a stock divided by the forecasted earnings per share of the company over the next 12 months.

The **MSCI ACWI ex USA** Index captures large and mid and cap representation across 22 of 23 Developed Markets countries, excluding the United States, and 24 Emerging Markets countries.

The **S&P 500® Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance.

This material is not intended to be relied upon as investment advice or recommendations.