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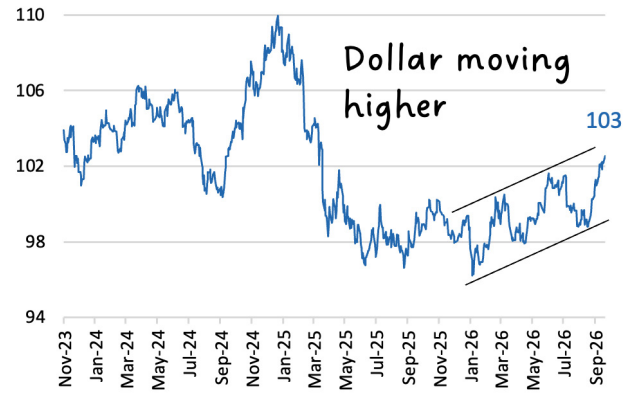
International Equities

Currency Backdrop

Authors: Erik M. Aarts, CIMA / James Macey, CFA, CAIA / Tim Paulin, CFA / Crit Thomas, CFA, CAIA **October 14, 2026**

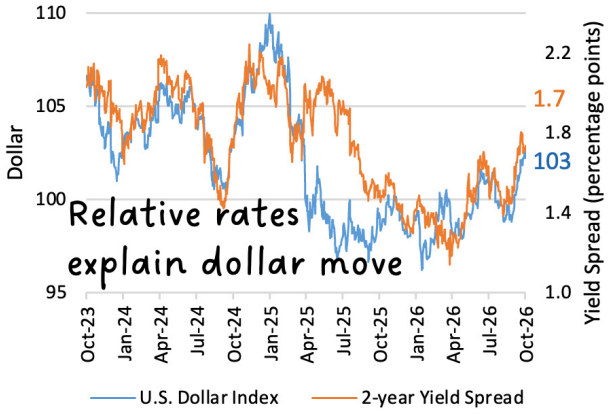
- The dollar has broken out of the trading range that defined much of the past year. The move has been relatively modest, the Dollar Index is up just over 4% year to date, but it has again become a headwind for developed international investors. Currency translation has reduced MSCI EAFE's year-to-date return by roughly 3 percentage points.
- For now, we view the dollar's recent strength as primarily driven by relative rates and stronger U.S. growth rather than the beginning of a new secular advance. Much of the Fed's hawkishness is already reflected in market expectations, meaning further dollar strength likely requires continued U.S. economic outperformance and additional widening in expected rate differentials. A softer U.S. growth outlook or less aggressive Fed path would weaken that support.
- The currency impact has been much less significant for emerging markets. Currency translation has had essentially no net effect on MSCI EM's year-to-date return, although that masks meaningful differences across countries. Stronger currencies have added to returns in China and Korea, while currency weakness has detracted from returns in India and Taiwan. This highlights why the impact of a stronger dollar can vary considerably across international markets.
- The bullish longer-term dollar story remains less compelling. Bloomberg's valuation work now finds the dollar overvalued against most G-10 currencies, although valuation is a poor short-term timing tool and has not prevented the recent rally. We continue to believe the dollar has likely passed its secular peak, but the recent move is an important reminder that cyclical forces can dominate structural trends for meaningful periods. Other longer-term headwinds for the dollar include large fiscal deficits relative to other developed peers, gradual reserve diversification and greater currency hedging by international investors. For U.S. investors, we no longer view the dollar as a reason to avoid international exposure.

U.S. Dollar Index



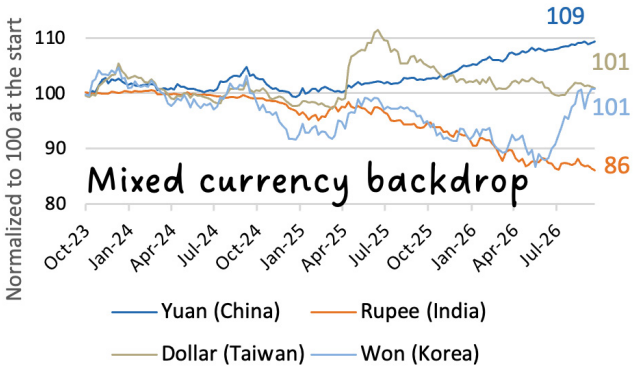
Source: Bloomberg. 3 years of daily data through Oct 13 2026.

U.S. Dollar and Weighted 2-yr Yield Spread



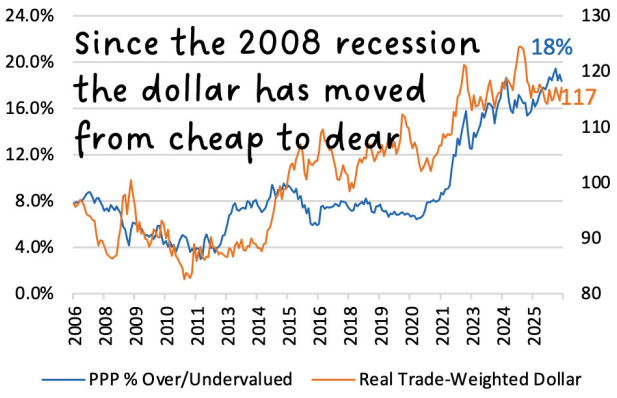
Source: Bloomberg. 3 years of daily data through Oct 12 2026. The weighted yield spread is the difference between U.S. 2-year Treasury yields and the weighted average of 2-year yields from countries in the dollar index.

Emerging Market Currencies versus the Dollar



Source: Bloomberg. 3 years of weekly data through Oct 09 2026.

U.S. Dollar Valuation Measures

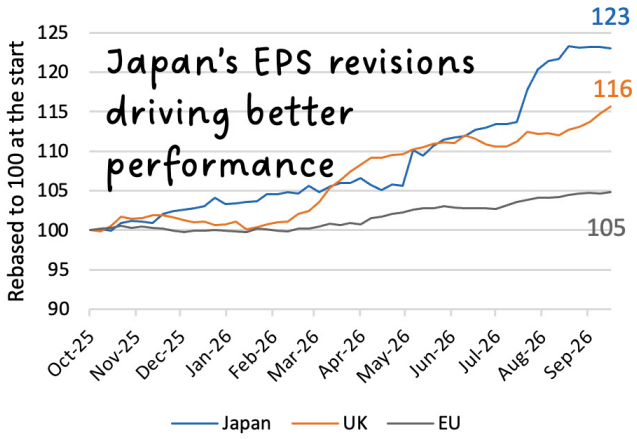


Source: Bloomberg. 20 years of monthly data through Sep 30 2026.

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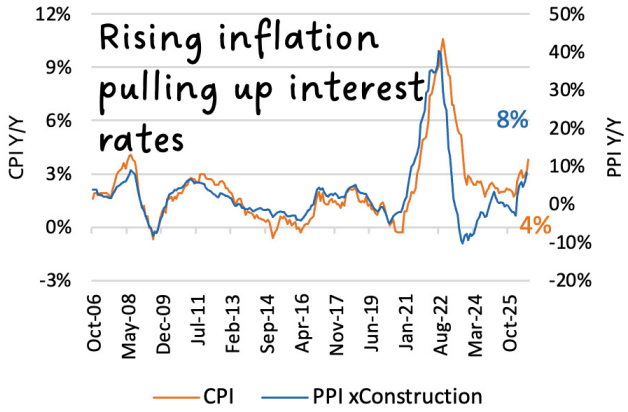
- We remain neutral on developed international equities. Japan continues to provide a strong offset to weaker European performance, but the regional divide has widened. Earnings remain generally supportive, though higher interest rates and rising fiscal concerns have made the backdrop in Europe more challenging.
- Europe increasingly needs earnings growth to carry the market. Sovereign yields have moved sharply higher, limiting the potential benefit from multiple expansion and reducing equities' dividend advantage over bonds. Earnings estimates continue to rise, but upgrades remain concentrated in technology, energy and financials, while recent market breadth has weakened.
- France's fiscal stress increasingly bears watching for signs of a broader European sovereign-debt problem. Spreads have widened and concerns are beginning to spill into other markets, echoing aspects of 2011. However, countries retain market access, banks are better capitalized and the ECB has stronger tools to limit contagion, suggesting the situation has not yet become systemic.
- Japan remains the strongest developed international story. Technology, financials and industrials continue to benefit from stronger earnings revisions and exposure to AI investment, automation and defense spending. The yen has recovered only modestly from its July low, preserving support for exporters, although higher Japanese yields and further Bank of Japan tightening remain risks.
- Taken together, we see insufficient risk/reward asymmetry to move away from neutral. Japan's earnings and price signals remain encouraging, but Europe's weaker market confirmation, higher rates and growing French fiscal uncertainty keep us from becoming more constructive. Stabilization in European yields and broader participation in earnings and market performance would improve the case for an overweight.

2026 EPS Revisions (local currency)



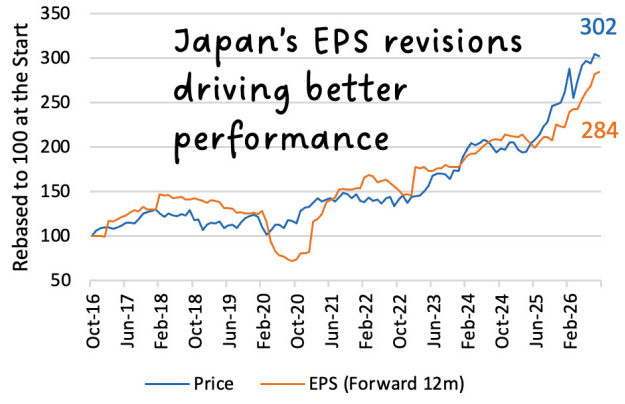
Source: Bloomberg. 6 months of weekly bottom-up analyst estimates through Oct 06 2026.

Eurozone Inflation Measures



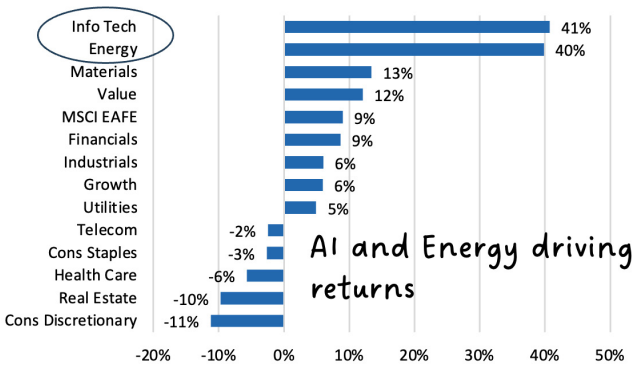
Source: Bloomberg. 20 years of monthly data through Sep 2026.

MSCI Japan Index (local currency)



Source: Bloomberg. 10 years of monthly data through Sep 2026.

YTD Total Return (in USD) by Sector (MSCI EAFE Index)

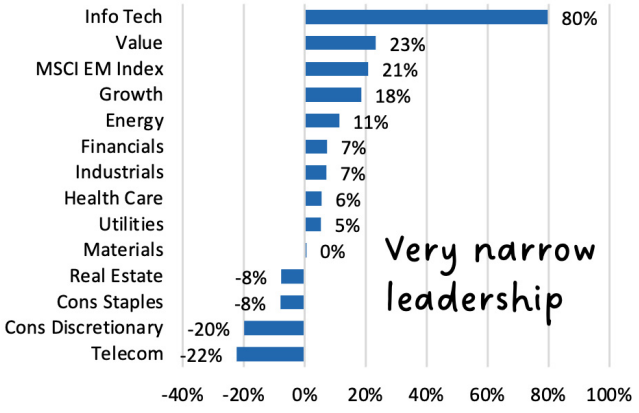


Source: Bloomberg. Data as of Oct 09 2026.

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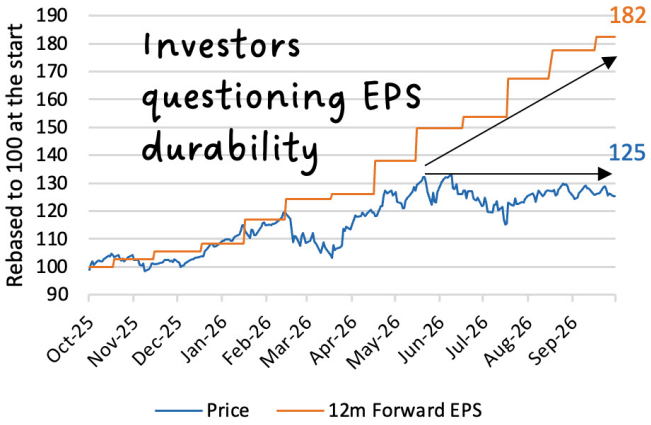
- We remain slightly underweight emerging market equities. Earnings remain healthy, but benchmark performance continues to depend heavily on the semiconductor companies in Taiwan and Korea. With those two markets accounting for nearly half of MSCI EM, the durability of the AI and memory cycle remains unusually important to the broader asset class.
- The semiconductor story has become increasingly differentiated. TSMC continues to provide strong price confirmation of the AI earnings story, while Samsung Electronics and SK Hynix remain well below their June highs. Strong memory demand remains supportive, but investors are increasingly questioning the durability of today's exceptional margins as Chinese producer CXMT rapidly expands capacity and claims technological progress in advanced DRAM. Its newest technology does not pose an immediate threat to HBM leadership, but rising Chinese supply could eventually increase competition.
- China's economy and its equity index are sending different signals. Exports, particularly manufactured goods and technology products, continue to support economic growth even as domestic demand remains weak. But MSCI China is much more exposed to consumer, financial and internet companies than to the export industries driving recent growth, helping explain why resilient exports have not translated into stronger equity performance.
- India's economy remains one of the fastest growing in EM, but that strength has yet to translate into equally strong equity earnings momentum. GDP growth remains above 7%, giving the Reserve Bank room to raise rates as inflation pressures increase. Yet 2027 earnings growth is expected to be closer to 11% and estimates have edged lower in recent months. Higher energy costs, tighter monetary policy and mixed sector-level revisions help explain why strong economic growth has not produced the earnings momentum seen in Taiwan and Korea.
- Taken together, we continue to see insufficient reasons to move away from our slight underweight. EM earnings remain healthy, but benchmark returns are unusually dependent on a few semiconductor companies whose outlook increasingly requires judgments about the memory cycle, AI capital spending and emerging Chinese competition. Broader earnings and price participation would give us greater confidence in moving toward neutral.

YTD Price Return (in USD) by Sector



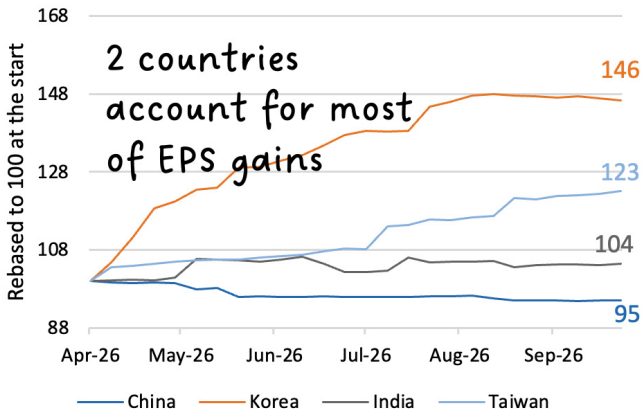
Source: Bloomberg. MSCI EM index data as of Oct 09 2026.

MSCI EM Index (in USD)



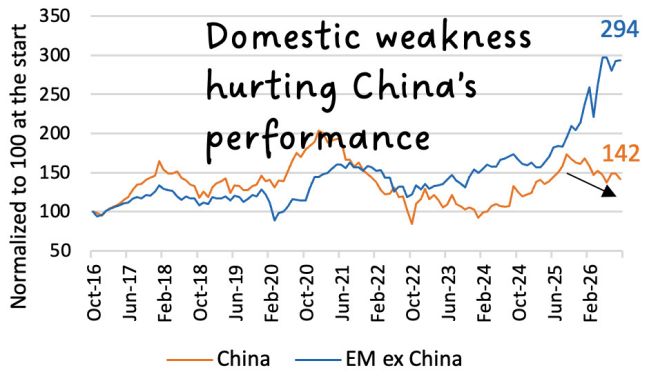
Source: Bloomberg. 1 year of daily data through Oct 13 2026.

2026 EPS Revisions (local currency)



Source: Bloomberg. 6 months of weekly bottom-up analyst estimates through Oct 06 2026.

Total Returns in USD using MSCI Indexes



Source: Bloomberg. 10 year of monthly data through Sep 2026.

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The Indexes mentioned are unmanaged statistical composites of stock market or bond market performance. Investing in an index is not possible.

Total Net Returns in USD

							EPS Growth Estimate	
	September 2026	YTD	2025	2024	2023	Index Weight	2026	2027
MSCI EAFE	**-3.0%**	**10.8%**	**31.9%**	**4.3%**	**18.9%**	**100%**	**NA***	**NA***
MSCI United Kingdom	-4.0%	8.2%	35.1%	7.5%	14.1%	14%	28%	4%
MSCI Japan	1.6%	23.0%	25.1%	8.7%	20.8%	25%	24%	12%
MSCI Europe	-4.7%	6.1%	36.6%	1.0%	22.7%	51%	14%	11%
MSCI EM	**-0.5%**	**23.7%**	**34.4%**	**8.1%**	**10.3%**	**100%**	**NA***	**NA***
MSCI China	-4.6%	-11.7%	31.4%	19.7%	-11.0%	20%	6%	15%
MSCI India	-6.9%	-14.7%	4.3%	12.4%	21.3%	11%	7%	11%
MSCI Taiwan	4.2%	70.7%	39.8%	35.1%	31.3%	29%	71%	32%
MSCI Korea	3.2%	98.3%	100.8%	-23.1%	23.6%	21%	379%	39%

Valuations

	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
MSCI EAFE	**17.4x**	**54%**	**14.6x**	**73%**	**11.1x**	**86%**	**1.9x**	**98%**
MSCI United Kingdom	14.0x	40%	12.1x	43%	8.6x	42%	1.6x	88%
MSCI Japan	19.4x	58%	15.7x	66%	11.8x	91%	1.7x	99%
MSCI Europe	17.6x	51%	14.7x	77%	11.4x	86%	1.9x	98%
MSCI EM	**14.9x**	**57%**	**9.0x**	**11%**	**11.3x**	**92%**	**2.1x**	**97%**
MSCI China	13.0x	40%	9.6x	30%	10.7x	63%	1.3x	34%
MSCI India	22.0x	60%	17.8x	67%	16.8x	77%	2.4x	75%
MSCI Taiwan	29.5x	83%	17.1x	93%	22.5x	96%	3.9x	100%
MSCI Korea	10.3x	23%	3.8x	0%	7.9x	76%	2.2x	98%

Fundamentals

	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
MSCI EAFE	**2.7%**	**39%**	**11.2%**	**99%**	**12.6%**	**86%**	**2.5**	**25%**
MSCI United Kingdom	3.3%	31%	11.6%	94%	14.5%	68%	2.4	50%
MSCI Japan	1.8%	48%	9.2%	99%	10.7%	99%	-0.2	26%
MSCI Europe	2.8%	43%	11.2%	99%	13.2%	72%	3.8	21%
MSCI EM	**2.0%**	**3%**	**14.3%**	**92%**	**15.6%**	**83%**	**2.0**	**73%**
MSCI China	2.4%	52%	10.6%	28%	11.1%	26%	4.6	99%
MSCI India	1.3%	39%	12.0%	80%	15.7%	54%	2.3	33%
MSCI Taiwan	1.3%	21%	13.7%	95%	20.2%	98%	0.3	17%
MSCI Korea	0.7%	1%	22.0%	99%	20.1%	99%	1.3	3%

For Index Definitions see: TouchstoneInvestments.com/insights/investment-terms-and-index-definitions

*Local currency earnings estimates are not available for broad indexes with a mix of currencies.

Source: Bloomberg. Percent ranks are based on 30 years of monthly data as of the end of September; EPS growth estimates based on consensus bottom-up analyst estimates.

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The Touchstone Asset Allocation Committee (TAAC) consisting of Erik M. Aarts, CIMA – Vice President and Senior Fixed Income Strategist, James Macey, CFA, CAIA – Assistant Vice President, Global Market Strategist, Tim Paulin, CFA – Senior Vice President, Investments and Practice Consulting, and Crit Thomas, CFA, CAIA – Global Market Strategist, develops in-depth asset allocation guidance using established and evolving methodologies, inputs and analysis and communicates its methods, findings and guidance to stakeholders. TAAC uses different approaches in its development of Strategic Allocation and Tactical Allocation that are designed to add value for financial professionals and their clients. TAAC meets regularly to assess market conditions and conducts deep dive analyses on specific asset classes which are delivered via the Asset Allocation Summary document. Please contact your Touchstone representative or call 800.638.8194 for more information.

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