International Equities

Currency Backdrop

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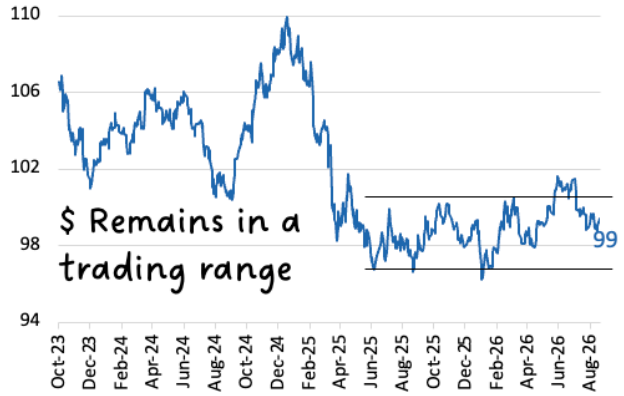
September 15, 2026

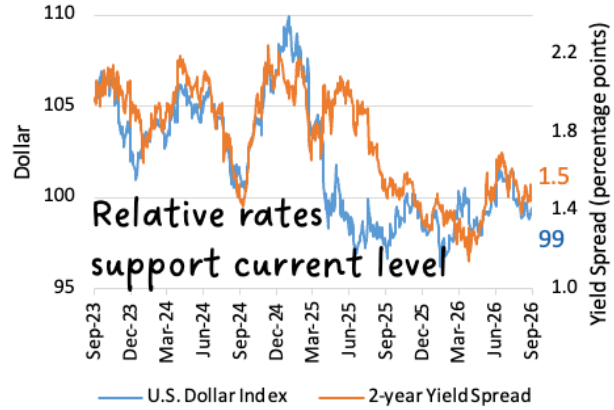
- The dollar remains an important contributor to our international equity outlook, but recent moves continue to reinforce our view that it is no longer a persistent headwind for U.S. investors abroad. The Dollar Index has remained stuck in a narrow range for more than a year, despite several developments that would typically push it higher.
- Relative interest rates continue to provide mixed signals. U.S. short-term yields remain high, but rate increases abroad have prevented interest rate differentials from widening materially in the dollar's favor. This helps explain why stronger U.S. economic data and expectations for additional Fed tightening have not produced a sustained dollar rally.
- The dollar's response to geopolitical stress is also worth watching. Continued tensions in the Middle East, higher oil prices and rising long-term yields would normally provide support for the dollar, yet the currency has remained relatively contained. The inability of the dollar to strengthen meaningfully despite a more supportive near-term backdrop suggests much of that support may already be reflected.
- Emerging markets benefited from dollar weakness in August, particularly Korea and Taiwan, where stronger currencies added to equity returns. That tailwind could prove less reliable if Fed tightening expectations push U.S. rates and the dollar higher.
- Over the longer term, we continue to believe the dollar has likely passed its secular peak. Large fiscal deficits, gradual reserve diversification and greater currency hedging by international investors remain structural headwinds. For U.S. investors, we no longer view the dollar as a reason to avoid international exposure.

U.S. Dollar Index



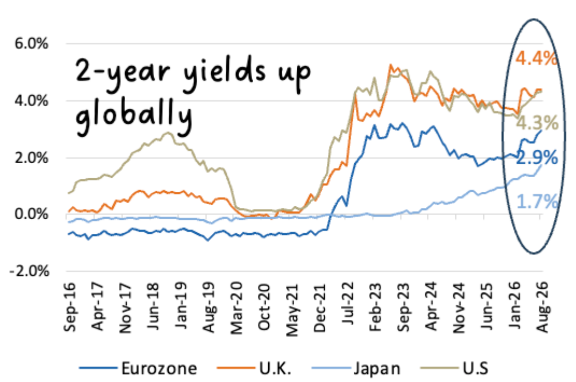
Source: Bloomberg. 3 years of daily data through Sep 14 2026

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



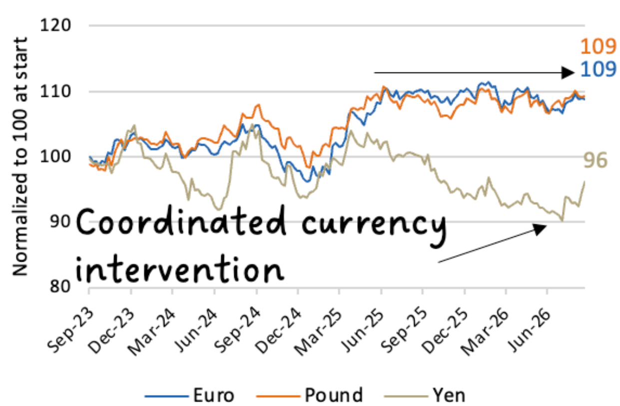
Source: Bloomberg. 3 years of daily data through Sep 11 2026. The weighted yield spread is the difference between U.S. 2-year Treasury yields and the weighted average of 2-year yields from countries in the dollar index.

2 year Government Bond Yields



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

Developed Currencies versus the Dollar



Source: Bloomberg. 3 years of weekly data through Sep 11, 2026.

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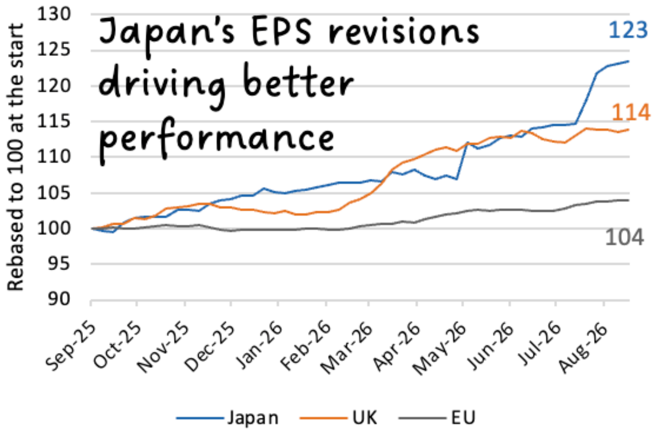
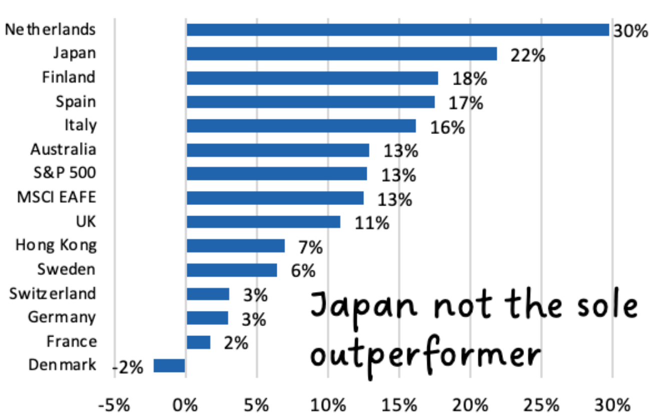
- We remain neutral on developed international equities. Fundamentals remain constructive, but recent market behavior has become more mixed. MSCI EAFE has slipped modestly behind the S&P 500 year to date, with strong Japanese performance offset by renewed weakness in Europe.
- Europe's recent weakness increasingly looks tied to a less friendly discount rate and energy backdrop. European natural gas prices have risen sharply, while long-term government yields have also moved higher. That combination raises costs for businesses and consumers while increasing the discount rate applied to future earnings, helping explain why improving economic data and healthy earnings have not translated into stronger equity performance.
- Japan remains the stronger developed market story. Earnings expectations and price performance continue to move in the same direction, while exposure to semiconductor equipment, automation and robotics provides differentiated growth drivers. A stronger yen and further Bank of Japan tightening remain the principal risks.
- Developed international equities continue to offer diversification from the increasingly AI-heavy U.S. market. Last month we noted that AI-related companies account for a much smaller share of developed ex-U.S. risk than in the S&P 500, providing exposure to global economic growth without the same dependence on the AI investment cycle.
- Taken together, we see insufficient risk/reward asymmetry to move away from neutral. Japan's earnings and price signals are encouraging, and the dollar remains supportive, but Europe's weaker relative performance, rising interest rates and natural gas prices, and less convincing earnings revisions keep us from shifting away from our neutral stance.

2026 EPS Revisions (local currency)



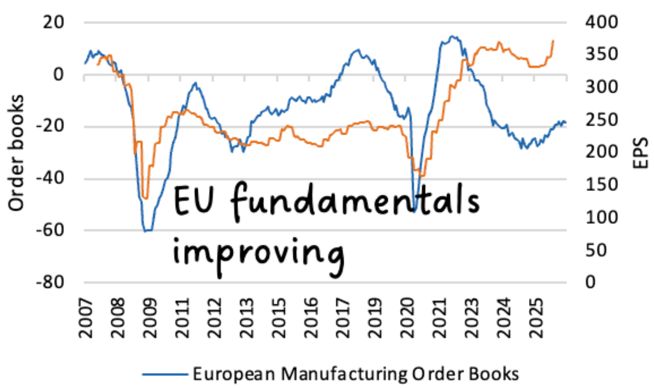
Source: Bloomberg. 6 months of weekly bottom-up analyst estimates through Sep 07 2026.

YTD Total Return by Country (in USD)



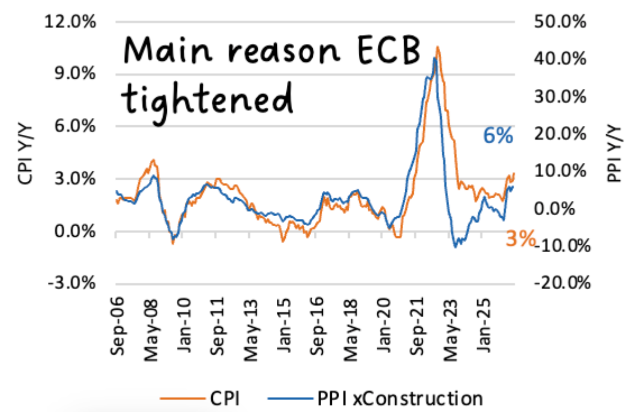
Source: Bloomberg. Data as of Sep 10 2026.

Eurozone Earnings Cycles



Source: Bloomberg. 20 years of monthly data through Aug 2026. Order book data advanced 6 months.

Eurozone Inflation Measures



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

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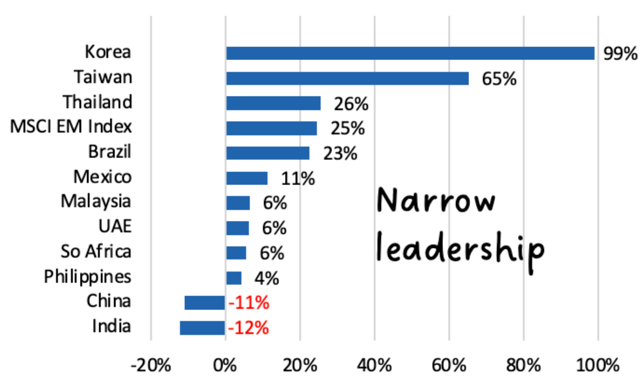
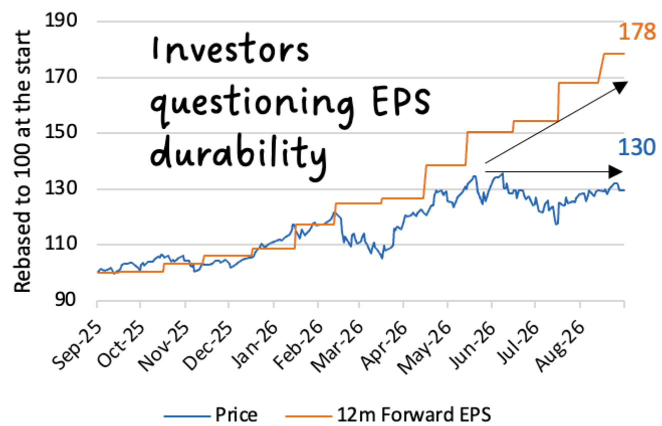
- We remain slightly underweight emerging market equities, although the tension between strong performance and concentrated risk has become even more pronounced. MSCI EM is up 25% year to date through September 10, nearly twice the S&P 500's return and has continued to outperform over the past month. Fundamentals remain strong, with both earnings revisions and price momentum moving higher.
- Concentration remains our primary concern. Taiwan and Korea now represent roughly 48% of MSCI EM, leaving index returns unusually dependent on the semiconductor and AI cycle. Much of that exposure is concentrated in just three semi companies (TSMC, Samsung Electronics and SK hynix) making what should be a broad macro allocation increasingly dependent on a small number of company-specific outcomes.
- That concentration remains the central challenge to our slightly underweight position. The issue is not that we are bearish on AI or the three companies driving returns. Rather, an allocation to what should be a broad macro asset class has become increasingly dependent on company-specific fundamentals and a historically cyclical semiconductor industry. That places a macro allocator in the uncomfortable position of making what is increasingly a bottom-up investment decision.
- There are attractive opportunities elsewhere in EM, but they have limited influence on the benchmark. Brazil has been a notable recent outperformer, supported by its position as a net oil exporter, resilient domestic fundamentals and other country-specific factors. Election developments provide an additional catalyst for Brazilian equities. However, at less than 4% of MSCI EM, Brazil is too small to meaningfully diversify the index's dominant Asian technology exposure.
- Taken together, EM earnings and price momentum are strong, but the source of those returns remains unusually concentrated. For a macro allocator, that creates an uncomfortable risk/reward: increasing exposure would effectively require greater conviction in the fundamentals and durability of a handful of historically cyclical semiconductor companies. We would prefer to see a more meaningful broadening of earnings and return drivers before moving toward neutral.

YTD Total Returns (in USD) by Country



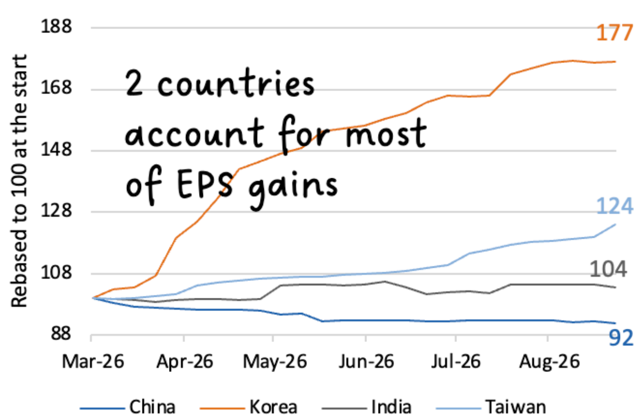
Source: Bloomberg. MSCI EM index data as of Sep 10 2026.

MSCI EM Index (in USD)



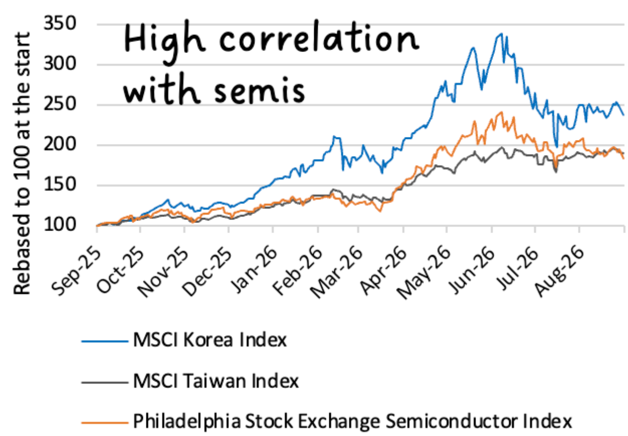
Source: Bloomberg. 1 year of daily data through Sep 14 2026.

2026 EPS Revisions (local currency)



Source: Bloomberg. 6 months of weekly bottom-up analyst estimates through Sep 07 2026.

Performance in Local FX



Source: Bloomberg. 1 year of daily observations through Sep 10 2026.

International Equities

Market Characteristics

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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	
	August 2026	YTD	2025	2024	2023	Index Weight	2026	2027
MSCI EAFE	**2.0%**	**14.2%**	**31.9%**	**4.3%**	**18.9%**	**100%**	**NA***	**NA***
MSCI United Kingdom	0.7%	12.7%	35.1%	7.5%	14.1%	14%	24%	4%
MSCI Japan	3.4%	21.1%	25.1%	8.7%	20.8%	24%	25%	10%
MSCI Europe	1.6%	11.4%	36.6%	1.0%	22.7%	52%	13%	10%
MSCI EM	**3.4%**	**24.4%**	**34.4%**	**8.1%**	**10.3%**	**100%**	**NA***	**NA***
MSCI China	-0.3%	-7.5%	31.4%	19.7%	-11.0%	21%	6%	15%
MSCI India	-0.3%	-8.4%	4.3%	12.4%	21.3%	11%	8%	11%
MSCI Taiwan	6.4%	63.9%	39.8%	35.1%	31.3%	27%	68%	30%
MSCI Korea	5.9%	92.2%	100.8%	-23.1%	23.6%	21%	380%	38%

Valuations

	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
MSCI EAFE	**18.1x**	**60%**	**14.8x**	**85%**	**11.4x**	**89%**	**2.0x**	**100%**
MSCI United Kingdom	16.0x	65%	12.6x	57%	9.4x	62%	1.7x	89%
MSCI Japan	19.5x	58%	15.6x	74%	11.9x	91%	1.7x	99%
MSCI Europe	18.0x	52%	15.0x	88%	11.6x	89%	2.0x	99%
MSCI EM	**15.2x**	**63%**	**9.1x**	**17%**	**11.4x**	**93%**	**2.2x**	**98%**
MSCI China	14.0x	52%	9.8x	42%	11.5x	70%	1.3x	39%
MSCI India	23.3x	73%	18.6x	74%	17.7x	82%	2.6x	79%
MSCI Taiwan	28.9x	82%	16.7x	94%	21.8x	95%	3.8x	99%
MSCI Korea	10.2x	22%	4.3x	0%	7.7x	74%	2.2x	98%

Fundamentals

	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
MSCI EAFE	**2.6%**	**38%**	**11.3%**	**100%**	**12.6%**	**84%**	**2.5**	**26%**
MSCI United Kingdom	3.2%	28%	11.9%	95%	14.4%	68%	2.4	51%
MSCI Japan	1.7%	42%	9.3%	100%	10.8%	100%	-0.2	26%
MSCI Europe	2.8%	40%	11.2%	99%	13.2%	73%	3.8	21%
MSCI EM	**2.0%**	**3%**	**14.4%**	**91%**	**15.6%**	**81%**	**2.0**	**74%**
MSCI China	2.3%	47%	10.6%	29%	11.1%	28%	4.6	99%
MSCI India	1.3%	30%	12.1%	80%	15.7%	54%	2.3	33%
MSCI Taiwan	1.3%	22%	13.7%	96%	20.2%	98%	0.3	17%
MSCI Korea	0.8%	2%	22.2%	100%	20.1%	100%	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 August; EPS growth estimates based on consensus bottom-up analyst estimates.

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