

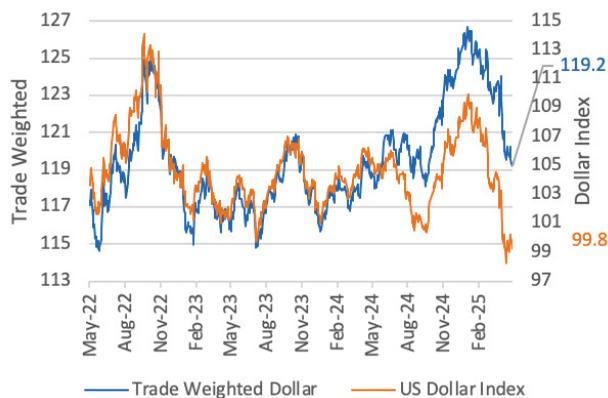


Authors: Crit Thomas, CFA, CAIA / Erik M. Aarts, CIMA / Tim Paulin, CFA

May 12, 2025

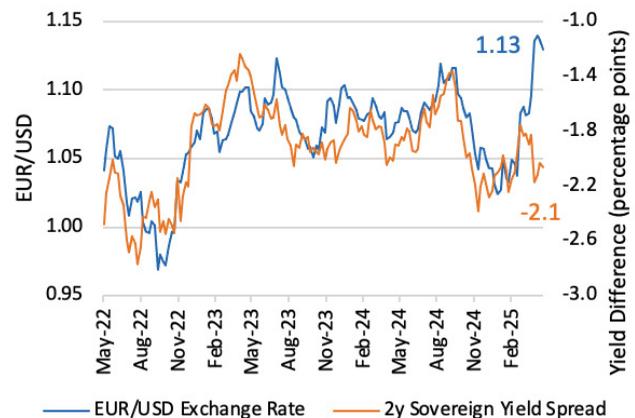
- ▶ Until April 4, the weakness in the U.S. dollar could largely be explained by interest rate differentials. That's no longer the case. While short-term volatility may play a role, deeper issues could be emerging.
- ▶ The dollar had already begun to stabilize against developed market currencies even before the announced tariff rollback with China. It then rallied as the pause in tariffs lowered recession fears among investors.
- ▶ The trade agreement with the UK may offer limited insight into broader negotiations. However, its strong pro-U.S. tilt could signal challenges ahead for Europe – particularly given that the 10% across-the-board tariff remains in place, a key sticking point for EU negotiators.
- ▶ In early May, the U.S. dollar hit all-time lows against emerging market currencies, as measured by the MSCI EM Currency index, which mirrors the MSCI EM stock index's country weightings. This move coincided with Trump's pause of the Liberation Day tariffs and may reflect investors shifting away from U.S. assets amid rising tariff uncertainties.
- ▶ Taiwan's dollar (TWD) surged in early May, followed by more modest gains in other Asian currencies. The TWD rally was likely triggered by rumors of a trade deal that included an agreement to allow the TWD to appreciate.
- ▶ Stepping back, the dollar's decline likely reflects a broader shift in global sentiment away from the U.S. As a trending asset, it may stay under pressure until there is more policy clarity. Tariffs may also reduce U.S. demand for foreign goods, weakening foreign demand and appetite for dollar assets.

U.S. Dollar Index



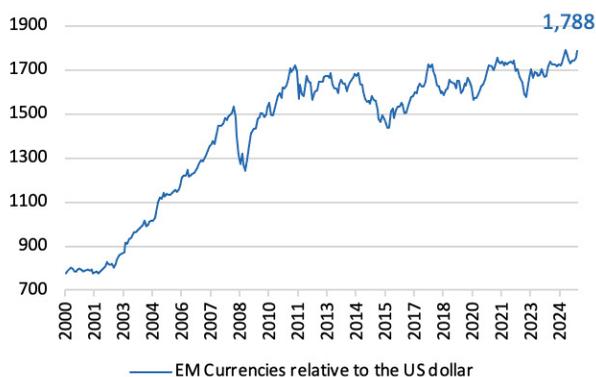
Source: Bloomberg. 3 years of daily data through May 08 2025

Euro/Dollar and Yield Spread



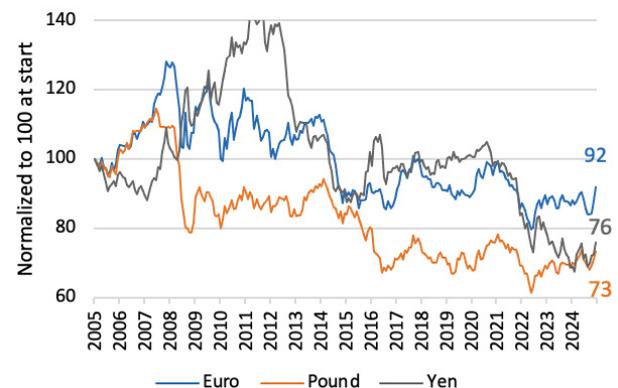
Source: Bloomberg. 3 years of weekly data through May 02 2025

MSCI EM Currency Index



Source: Bloomberg. 25 years of monthly data through Apr 30 2025

Developed Currencies versus the Dollar



Source: Bloomberg. 20 years of monthly data through Apr 2025

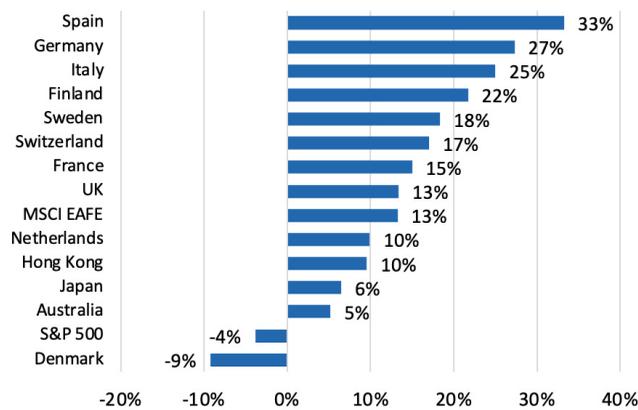


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- ▶ We remain slightly underweight developed international equities.
- ▶ Following the April 2 tariff announcement, the euro, yen, and pound appreciated. This benefits U.S. investors with foreign exposure, but also makes exports from those countries more expensive and tariffs more painful.
- ▶ European companies have begun warning about the impact of a stronger euro on competitiveness in the U.S. and Chinese markets. While many firms are hedged in the short term, a prolonged rally could pressure revenues and profitability
- ▶ The U.S. is the EU's largest export partner, accounting for about 5% of the EU's GDP. Key industries include medical and pharmaceutical products, autos, and industrial machinery – industries tied to high-quality jobs. Analyst earnings estimates for the EURO STOXX 50 index have been falling. Failure to reach a favorable trade deal with the EU poses downside risk.
- ▶ Japan is somewhat insulated from tariffs due to decades of offshoring, though exports to the U.S. still make up 2.3% of its GDP. While Japan has been prioritized in tariff talks, its dependence on China (its largest trading partner) adds complexity.
- ▶ On the positive side, a weaker dollar could support U.S.-based investors in international markets. The EU is preparing to ramp up fiscal spending, and both the ECB and BOE have more policy flexibility than the Fed as inflation eases. A potential Russia-Ukraine ceasefire would also be supportive. Lastly, the MSCI EAFE index trades at a significant discount to the S&P 500.

YTD Total Return by Country (in USD)



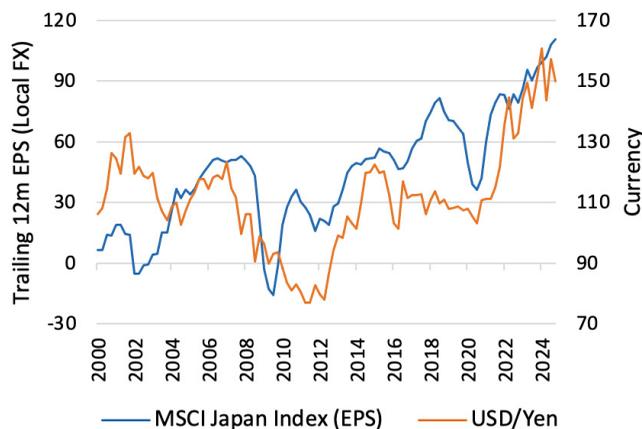
Source: Bloomberg. Data as of May 07 2025

Euro Stoxx 50 Index



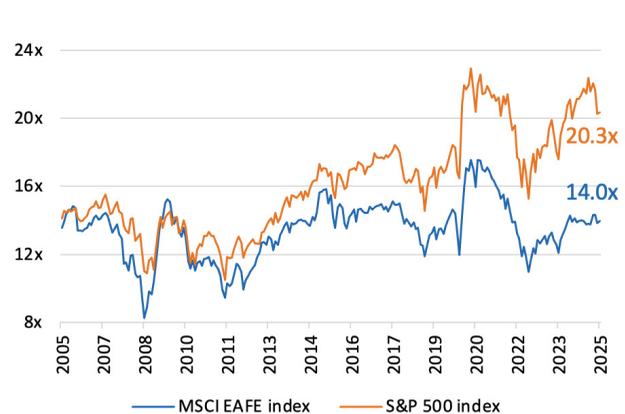
Source: Bloomberg. 1 year of daily observations through May 07 2025

Japan Earnings and Currency



Source: Bloomberg. 25 years of quarterly data through Mar 2025

Forward P/E Ratios



Source: Bloomberg. 20 years of monthly observations through Apr 2025

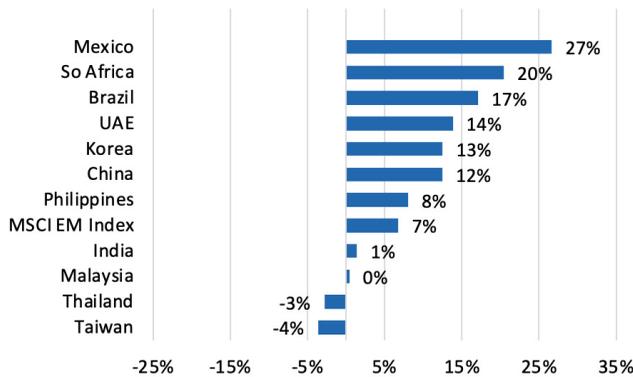


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- ▶ We remain slightly underweight EM due to continued U.S. monetary policy tightness and persistent tariff risks.
- ▶ The surprise 90-day tariff rollback with China was well received on both sides of the Pacific. Still, even a 30% tariff would be punitive. Even before the announcement, Chinese equities had performed well, supported by low starting valuations, limited U.S. exposure among index leaders, investor enthusiasm around DeepSeek, and domestic stimulus efforts aimed at cushioning tariff shocks. However, a trade deal has not been signed, the economy remains soft, and deflation risks persist.
- ▶ India is showing early signs of recovery after a period of weak consumer demand. However, Indian stocks sold off after the UK trade deal announcement, which included steep tariff reductions. These cuts may preview a trade deal with the U.S. While positive in the long term, lower tariffs could hurt protected industries and reduce government revenue in the short term.
- ▶ Taiwan's currency surged in early May, but Taiwan remains one of the worst-performing EM markets year-to-date. With exports to the U.S. making up 15% of GDP, Taiwan is highly exposed to U.S. trade policy. If the currency rally holds, corporate earnings could take a hit. Tariff negotiations are likely to be difficult given Taiwan's undervalued currency and the heavy Chinese footprint of its manufacturing base.
- ▶ South Korea has performed well in USD terms year-to-date, with gains driven equally by currency appreciation and strong semiconductor results. The market was also primed for a recovery, having started the year near bear market lows.
- ▶ Greater clarity on U.S. tariff policy and Fed direction is needed before we turn more constructive on EM. For now, we believe a cautious stance remains appropriate.

YTD Total Returns (in USD) by Country



Source: Bloomberg. Data as of May 07 2025

MSCI China Index (local currency)



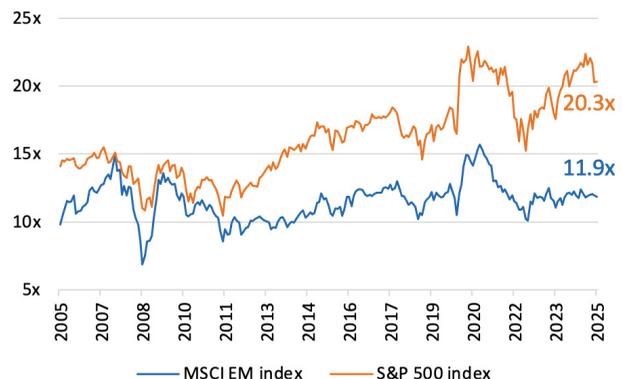
Source: Bloomberg. 10 years of monthly data through Apr 2025

MSCI India Index (local currency)



Source: Bloomberg. 10 years of monthly data through Apr 2025

Forward P/E Ratios



Source: Bloomberg. 20 years of monthly observations through Apr 2025



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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	
	April 2025	YTD	2024	2023	2022	Index Weight	2024	2025
MSCI EAFE	4.7%	12.0%	4.3%	18.9%	-13.9%	100%	NA*	NA*
MSCI United Kingdom	2.7%	12.6%	7.5%	14.1%	-4.2%	14%	-3%	9%
MSCI Japan	5.2%	5.8%	8.7%	20.8%	-15.7%	22%	-5%	11%
MSCI Europe	5.1%	16.6%	1.0%	22.7%	-16.7%	54%	1%	11%
MSCI EM	1.3%	4.4%	8.1%	10.3%	-19.2%	100%	NA*	NA*
MSCI China	-4.2%	10.2%	19.7%	-11.0%	-21.8%	27%	6%	24%
MSCI India	4.8%	1.8%	12.4%	21.3%	-6.2%	19%	6%	14%
MSCI Taiwan	2.4%	-10.4%	35.1%	31.3%	-29.5%	17%	14%	15%
MSCI Korea	4.7%	10.1%	-23.1%	23.6%	-28.9%	9%	19%	15%

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
MSCI EAFE	15.2x	22%	15.4x	57%	9.7x	61%	1.7x	99%
MSCI United Kingdom	13.1x	27%	12.8x	43%	8.2x	28%	1.4x	75%
MSCI Japan	13.9x	18%	15.9x	32%	8.5x	49%	1.1x	94%
MSCI Europe	16.1x	35%	16.0x	73%	10.5x	79%	1.6x	94%
MSCI EM	14.5x	51%	12.7x	62%	10.1x	82%	1.6x	80%
MSCI China	12.8x	36%	11.4x	45%	11.2x	71%	1.4x	44%
MSCI India	26.2x	91%	23.1x	88%	19.3x	93%	2.8x	91%
MSCI Taiwan	16.4x	42%	15.6x	56%	10.9x	63%	1.8x	71%
MSCI Korea	10.4x	26%	8.6x	16%	5.4x	29%	0.8x	81%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
MSCI EAFE	3.2%	63%	10.3%	98%	10.9%	70%	1.5	7%
MSCI United Kingdom	3.8%	57%	11.1%	89%	10.9%	39%	1.0	13%
MSCI Japan	2.4%	88%	7.8%	100%	9.8%	93%	-1.0	11%
MSCI Europe	3.1%	59%	10.5%	100%	11.9%	66%	2.8	5%
MSCI EM	2.8%	69%	10.9%	88%	12.0%	53%	2.0	80%
MSCI China	2.6%	63%	11.4%	63%	11.6%	34%	3.0	98%
MSCI India	1.2%	20%	11.0%	63%	15.5%	46%	2.5	55%
MSCI Taiwan	2.6%	40%	10.8%	87%	15.4%	93%	0.2	11%
MSCI Korea	2.5%	93%	8.4%	93%	9.7%	57%	2.4	26%

For Index Definitions see: [TouchstoneInvestments.com/insights/investment-terms-and-index-definitions](https://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 April; EPS growth estimates based on consensus bottom-up analyst estimates.



The Touchstone Asset Allocation Committee (TAAC) consisting of Crit Thomas, CFA, CAIA – Global Market Strategist, Erik M. Aarts, CIMA – Vice President and Senior Fixed Income Strategist, and Tim Paulin, CFA – Senior Vice President, Investment Research and Product Management, 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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