International Equities

Currency Backdrop

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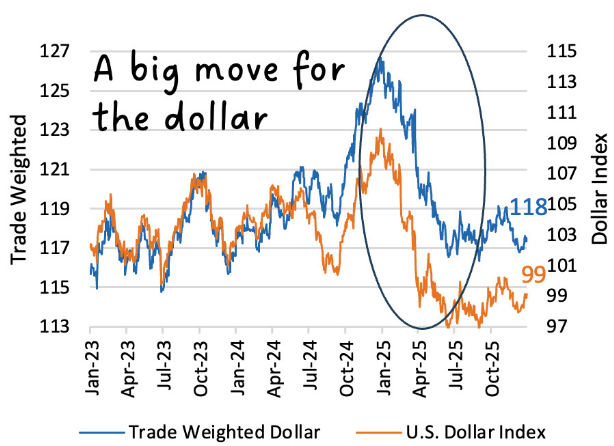
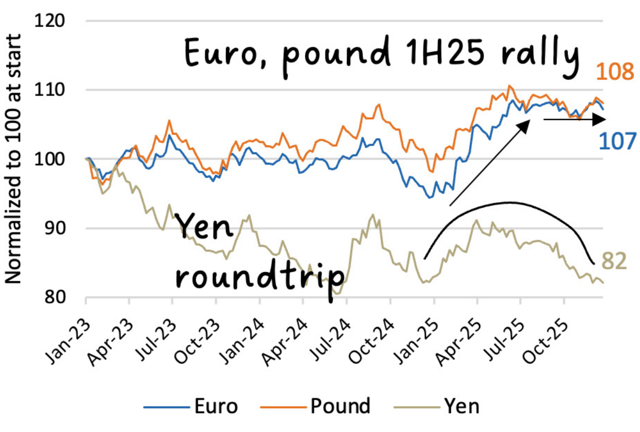
- The U.S. dollar weakened sharply in 2025, falling 7.3% on a trade weighted basis. Moves of this magnitude are unusual; historically, annual dollar volatility has averaged below 5%. Last year's decline ranks above the 75th percentile of historical outcomes.
- The dollar's weakness reflected a confluence of shifting policy expectations. Most importantly, interest rate expectations changed as the Fed pivoted toward rate cuts in response to a cooling labor market. At the same time, growth prospects abroad improved, encouraging capital flows into non-U.S. equities and currencies. Tariffs and other "America first" policies also prompted some central banks and traditional dollar holders to diversify reserves toward alternatives such as gold.
- The Japanese Yen rallied in early 2025 but gave back those gains and continued to weaken into 2026. A weaker yen raises import prices and fuels inflation. The Bank of Japan has been slow to respond, wary of tightening policy while consumers are already strained by higher living costs. Meanwhile, the government has leaned toward fiscal stimulus to support households, a stance that runs counter to monetary policy and has contributed to further yen weakness. Export-oriented Japanese companies have benefited from the weak currency, offsetting negative currency effects for U.S. investors.
- European currencies, including the euro and the pound, all rallied against the dollar in 2025. This outperformance came in the first half of the year as expectations for Fed rate cuts grew. The eurozone further benefited from capital inflows and relatively stronger-than-expected growth signals. Investor sentiment toward European assets improved just as safe haven demand for the dollar faded.
- Emerging market currencies showed more mixed performance, but in aggregate posted modest gains against the dollar. China, which actively manages its currency, allowed the yuan to rise by about 4%. The yuan is expected to continue appreciating in 2026, supported by undervaluation, growing trade surplus, and policy tilts toward stability.

U.S. Dollar Index



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

Developed Currencies versus the Dollar

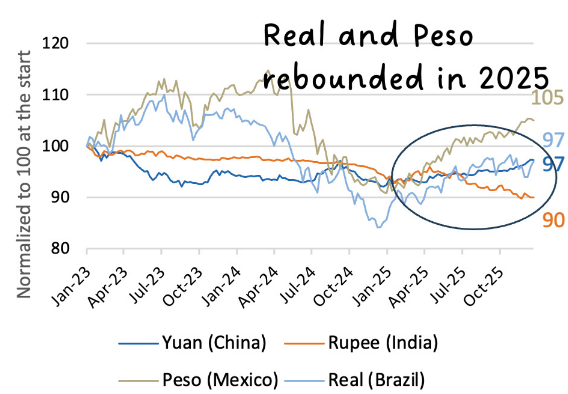


Source: Bloomberg. 3 years of weekly data through Jan 09 2026.

Eurozone Unemployment Rate

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

Emerging Market Currencies versus the Dollar



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

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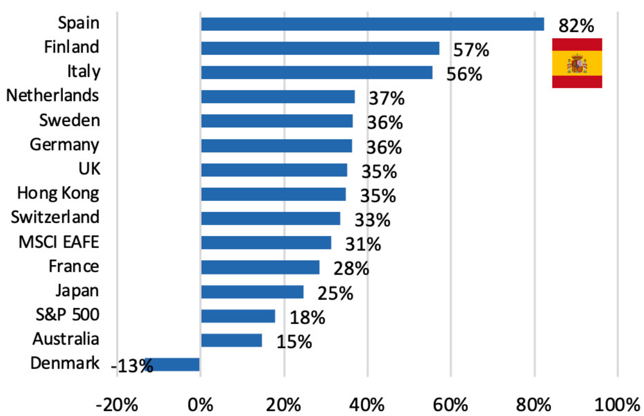
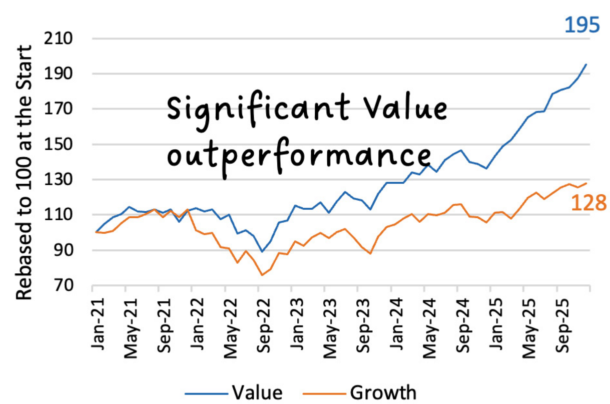
- The MSCI EAFE index delivered a 32% return for U.S. investors in 2025, its best return since 2009. In local-currency terms, the return was 21.2%, implying that dollar weakness contributed 10.8 percentage points to U.S. dollar returns. Even excluding currency effects, EAFE outperformed the S&P 500.
- Spain was the top-performing country, with an 82% return. Financials account for roughly half of the Spanish index and returned 124%. Banks were major contributors across EAFE more broadly, as both Europe and Japan transitioned from a regime of negative interest rates to positive and rising rates, significantly improving bank profitability.
- The Value style significantly outperformed Growth. The MSCI EAFE Value index returned 43.5% in U.S. dollars, compared to 21.2% for the Growth index. Strong returns from Financials, Utilities, Industrials, and Energy drove the performance gap. Value has now outperformed Growth over the past five years. This is a significant departure from U.S. style returns. Historically, EAFE style returns moved largely in sync with the U.S. This has led to lower correlations between the indexes, increasing the importance of EAFE as a diversifier.
- While Growth lagged Value, EAFE Growth still outperformed the Russell 1000 Growth index in U.S. dollar terms, with currency playing a large role in the return differential. In local currency terms, EAFE Growth would have underperformed US Growth. The EAFE Growth index has significantly less technology exposure. Only two technology stocks are in the top ten. As with the broader EAFE index, EAFE Growth offers more diversified and less concentrated exposure relative to U.S. Growth stocks.
- Looking ahead, we believe developed international equities continue to offer long-term advantages - including lower valuations, higher dividend yields, potential currency tailwinds, and less reliance on a narrow set of U.S. mega cap stocks.

YTD Total Return by Country (in USD)



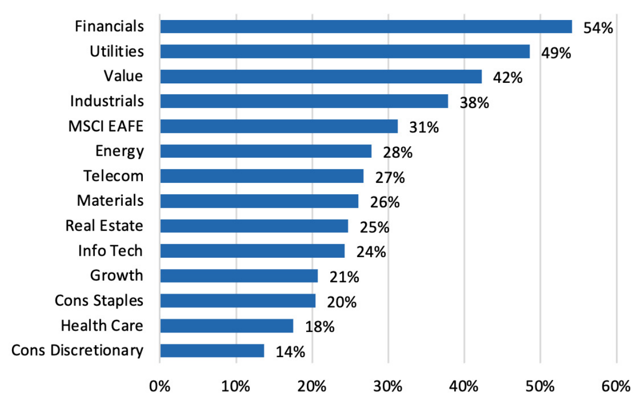
Source: Bloomberg. All data as of Dec 31 2025.

Total Returns: MSCI EAFE Style Indexes



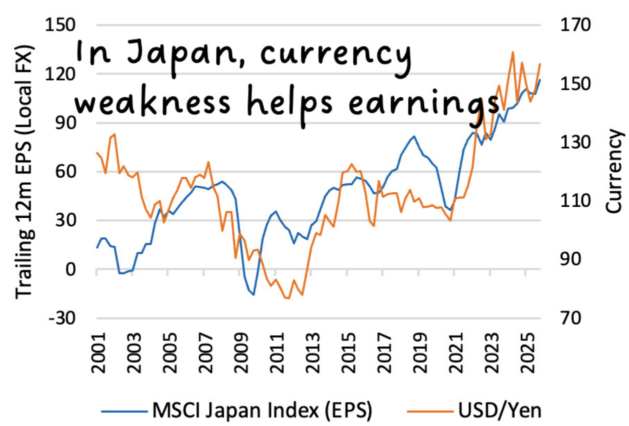
Source: Bloomberg. Total returns over the last 5 years through Dec 2025.

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



Source: Bloomberg. All data as of Dec 31 2025.

Japan Earnings and Currency



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

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Emerging Markets

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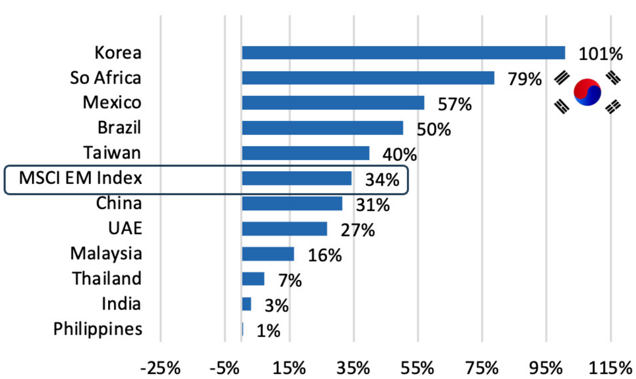
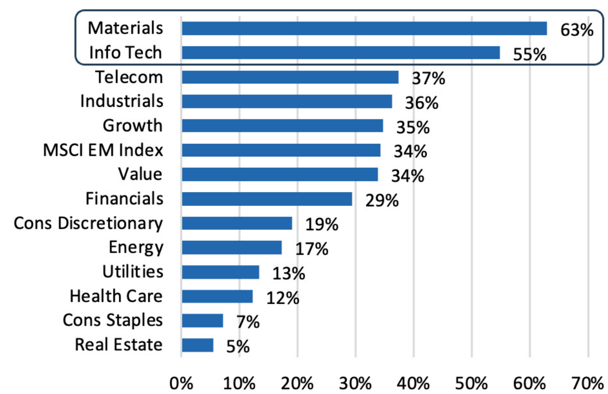
- The MSCI EM index returned 34.3% for U.S. investors in 2025. In local currencies, the return was 32.1%, meaning currency effects contributed a modest 2.2 percentage points for U.S. investors.
- Style returns were closely aligned. The MSCI EM Growth index returned 34.7%, while the Value index returned 33.8%. This balance is reflected in the two top-performing sectors, Materials and Technology. Materials benefited from strong performance in precious-metal and copper miners, while Technology gains were driven by AI supply chain companies as well as a reawakening of a number of past China favorites such as Tencent and Baidu.
- Earnings growth appeared modest at roughly 8%, which may seem low relative to overall returns. However, this headline figure masks important regional differences. China, the largest index weight, was the primary drag on earnings growth, but entered 2025 trading at historically depressed valuations amid growth and tariff concerns. Sentiment on China improved over the course of the year as growth surprised to the upside and amid signs of an ability to manage tariff threats. Earnings for other EM countries were much stronger.
- Korea and Taiwan were significant contributors to performance, reflecting the performance of leading contributors to the AI supply chain. Semiconductor companies TSMC, Samsung, and SK Hynix consistently exceeded earnings expectations and raised guidance.
- Currency effects played a bigger role for Mexico and Brazil. In Mexico, market gains were anchored by solid earnings as healthy trade with the U.S. helped support the economy. Brazil's performance was more valuation-driven. Equities began the year deeply discounted, and sentiment improved as metal and agricultural commodity prices rose while growth expectations improved.
- EM's robust performance in 2025 does not preclude further gains. Valuations remain attractive relative to developed markets, and low-teens earnings growth expectations appear reasonable and supportive.

YTD Total Returns (in USD) by Country



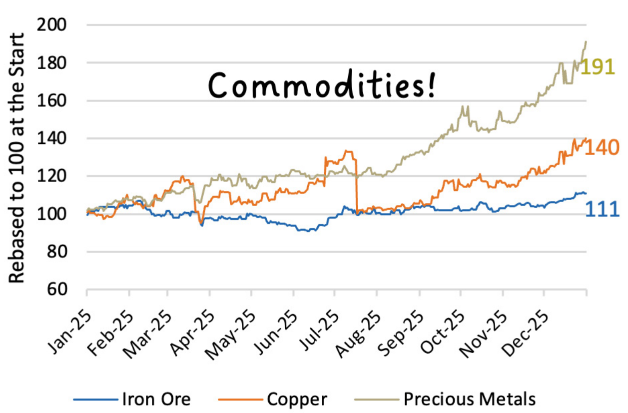
Source: Bloomberg. All data as of Dec 31 2025.

YTD Price Return (in USD) by Sector



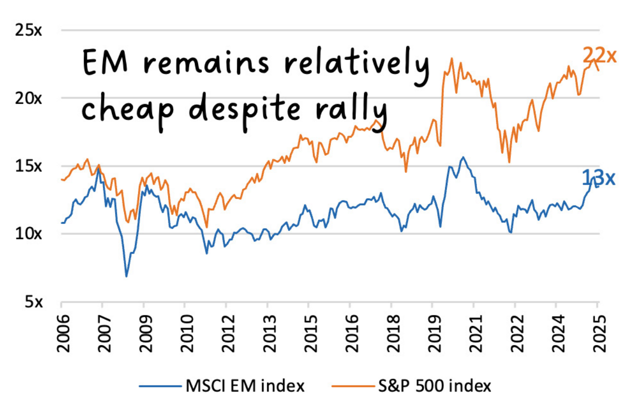
Source: Bloomberg. All data as of Dec 31 2025.

Commodity Prices



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

Forward P/E Ratios



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

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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	
	December 2025	YTD	2024	2023	2022	Index Weight	2025	2026
MSCI EAFE	**3.0%**	**31.9%**	**4.3%**	**18.9%**	**-13.9%**	**100%**	**NA***	**NA***
MSCI United Kingdom	3.8%	35.1%	7.5%	14.1%	-4.2%	15%	11%	8%
MSCI Japan	0.6%	25.1%	8.7%	20.8%	-15.7%	22%	4%	8%
MSCI Europe	4.0%	36.6%	1.0%	22.7%	-16.7%	54%	1%	10%
MSCI EM	**3.0%**	**34.4%**	**8.1%**	**10.3%**	**-19.2%**	**100%**	**NA***	**NA***
MSCI China	-1.2%	31.4%	19.7%	-11.0%	-21.8%	28%	3%	13%
MSCI India	-0.5%	4.3%	12.4%	21.3%	-6.2%	15%	16%	8%
MSCI Taiwan	5.9%	39.8%	35.1%	31.3%	-29.5%	21%	23%	22%
MSCI Korea	12.7%	100.8%	-23.1%	23.6%	-28.9%	13%	33%	67%

Valuations

	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
MSCI EAFE	**17.5x**	**54%**	**16.3x**	**87%**	**10.9x**	**86%**	**1.8x**	**100%**
MSCI United Kingdom	15.6x	62%	13.8x	69%	9.1x	51%	1.7x	91%
MSCI Japan	17.8x	53%	17.8x	74%	10.7x	83%	1.5x	100%
MSCI Europe	17.7x	51%	16.5x	89%	11.4x	89%	1.8x	99%
MSCI EM	**17.0x**	**81%**	**13.6x**	**92%**	**12.1x**	**98%**	**1.9x**	**98%**
MSCI China	15.0x	66%	12.7x	70%	12.7x	84%	1.5x	54%
MSCI India	26.3x	91%	21.6x	93%	19.4x	93%	2.9x	93%
MSCI Taiwan	23.0x	74%	19.3x	94%	15.8x	90%	2.5x	89%
MSCI Korea	16.4x	80%	9.6x	73%	9.2x	91%	1.5x	100%

Fundamentals

	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
MSCI EAFE	**2.8%**	**44%**	**10.4%**	**99%**	**11.5%**	**70%**	**2.0**	**20%**
MSCI United Kingdom	3.2%	20%	11.2%	89%	10.3%	35%	1.0	16%
MSCI Japan	2.0%	64%	8.2%	100%	10.0%	95%	-1.3	10%
MSCI Europe	2.9%	45%	10.5%	98%	12.7%	68%	3.6	16%
MSCI EM	**2.3%**	**33%**	**11.6%**	**94%**	**13.0%**	**64%**	**2.3**	**94%**
MSCI China	2.1%	30%	11.2%	59%	11.7%	33%	4.3	99%
MSCI India	1.2%	20%	12.3%	76%	16.0%	54%	2.4	45%
MSCI Taiwan	2.0%	28%	11.0%	91%	17.2%	93%	0.2	8%
MSCI Korea	1.3%	22%	9.4%	97%	9.5%	56%	2.6	37%

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 December; EPS growth estimates based on consensus bottom-up analyst estimates.

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Authors: Crit Thomas, CFA, CAIA / Erik M. Aarts, CIMA / Tim Paulin, CFA **January 16, 2026**

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