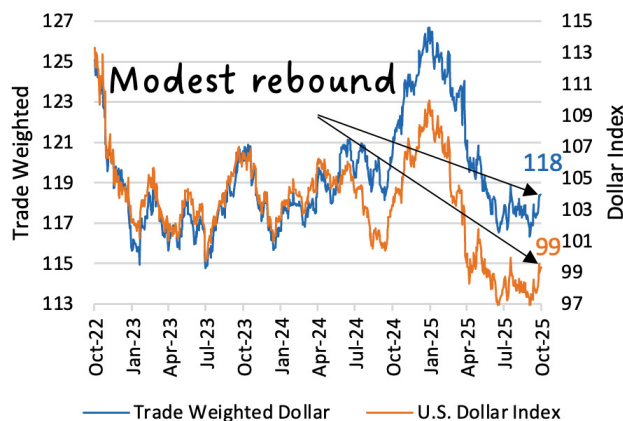




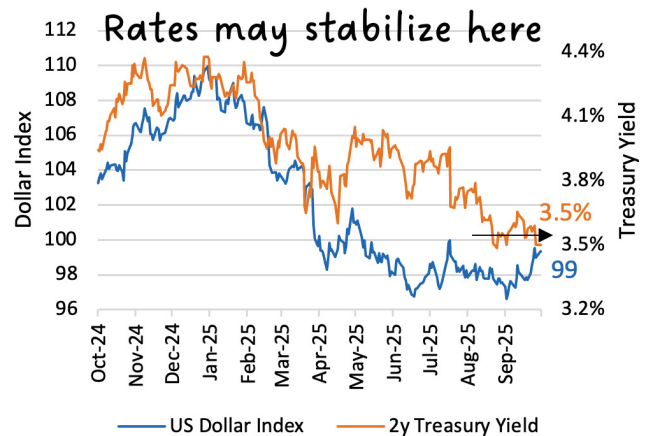
- ▶ After a sharp decline in the first half of the year, the U.S. dollar has stabilized. Its next move is uncertain, but we believe that it is unlikely to resume the secular rally that it has enjoyed over the last 15 years.
- ▶ The strong rally in gold could be interpreted as evidence that foreign central banks and investors are seeking alternatives to the dollar. While we believe this is true in a broad sense, the recent surge in gold prices appears largely speculative in nature. Over the past two months, gold has rallied more than 20%. Yet, during this same period, the dollar has edged higher and long-term Treasury yields have fallen, neither suggesting that investors are rotating out of U.S. assets in favor of gold.
- ▶ Fund flow data indicate that foreign investors have been reallocating away from U.S. equities. Dollar weakness seen in the first half has been a contributing factor, as it has reduced returns on U.S. stocks for foreign investors. In addition, foreign investors are increasingly wary of concentration risk in U.S. markets, elevated valuations, and rising country-specific risks under the second Trump presidency. Europe and Emerging equity markets have been the main beneficiaries of this reallocation.
- ▶ In the near term, we believe the dollar's direction will hinge on the Fed – specifically, how much and how soon the Fed decides to cut rates. Recent economic data point to resilience, suggesting that rate cuts may be fewer and later than expected. This could place modest upward pressure on the dollar in the short run.
- ▶ Over the longer term, we believe structural forces are likely to restrain the dollar. High valuations, widening trade and fiscal deficits, and uncertainty surrounding U.S. fiscal and trade policy are causing foreign investors to employ a greater degree of currency hedging and seek alternatives.
- ▶ Taken together, while the near-term outlook is less certain, the fundamentals point to longer-term vulnerability for the dollar, supporting the case for U.S.-based investors to maintain strategic allocations in international equities.

U.S. Dollar Indexes



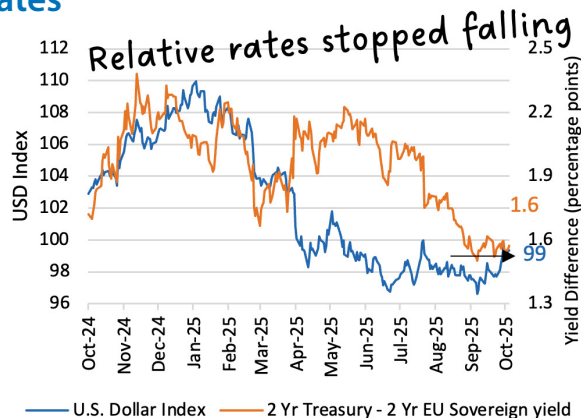
Source: Bloomberg. 3 years of daily data through Oct 14 2025

U.S. Dollar and Treasury Yields



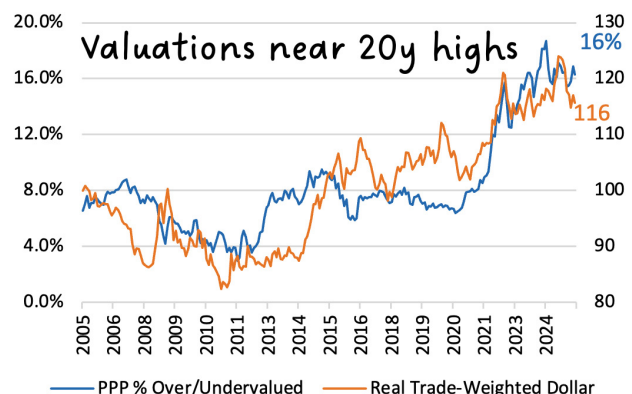
Source: Bloomberg. 1 year of daily data through Oct 14 2025

U.S. Dollar Index and Relative Interest Rates



Source: Bloomberg. 1 year of daily data through Oct 13 2025

U.S. Dollar Valuation Measures



Source: Bloomberg. 20 years of monthly data through Sep 30 2025

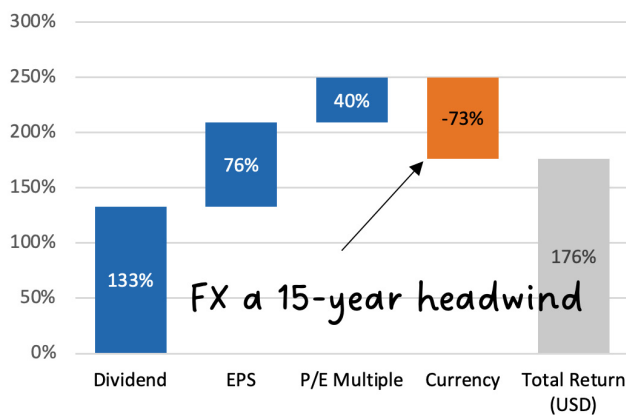


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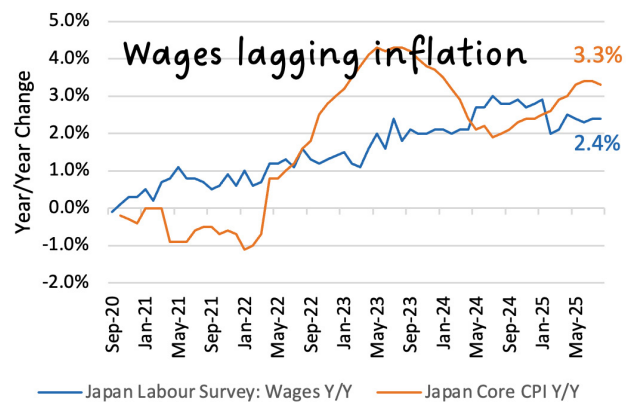
- ▶ We maintain a neutral strategic allocation to developed international equities.
- ▶ Traditional headwinds such as currency volatility and expanding valuation discounts are easing and may even become tailwinds. With these pressures subsiding, developed international markets are better positioned to compete with U.S. equities, with earnings and dividends expected to be the primary drivers of returns.
- ▶ Europe's economy remains constrained, with 3Q GDP expected to grow just 1.0% year over year, while revenue and earnings are projected to be flat. Forward guidance will be key for setting expectations for 2026, when earnings are forecast to grow 11% after three years of stagnation. Strong price and earnings performance from European banks has been a healthy sign for Europe's economy, and Germany's suspension of its debt brake opens the door to fiscal stimulus
- ▶ Near-term conditions for the U.K. appear more fragile, as commodity-linked sectors continue to face headwinds. However, given low expectations and depressed valuations, U.K. equities have upside potential heading into 2026.
- ▶ Japan's markets have so far shrugged off political noise and signs of slower growth. That could change if the Bank of Japan (BOJ) turns more hawkish and raises rates to rein in nagging inflation. The BOJ is currently expected to hike once at the end of the year, but we believe slowing growth and negative real wage growth will keep it from adopting a more aggressive stance. If we are wrong, higher rates could strengthen the yen, offsetting one of corporate Japan's competitive advantages.
- ▶ Performance for the MSCI EAFE index has diverged significantly from that of the S&P 500. Performance for the MSCI EAFE has been driven by the Value style. In fact, the MSCI EAFE Value index has meaningfully outperformed the S&P 500 over the past one and three years and matched it over five years. S&P 500 performance has been dominated by the Growth style. Differentiated return streams are generally seen as a positive from an asset-allocation standpoint.
- ▶ Looking ahead, we believe a strategic allocation to developed international equities should benefit longer-term investors due to potential diversification benefits, lower valuations, a possible currency tailwind, and less reliance on a narrow set of U.S. mega cap stocks.

MSCI EAFE Index Return Composition



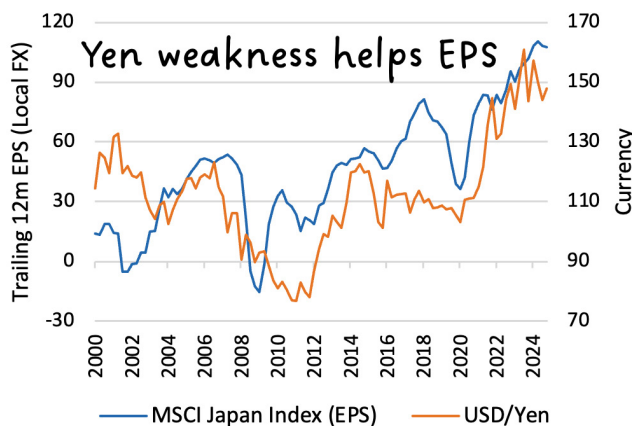
Source: Bloomberg. Cumulative total returns over the last 15 years through Sep 2025

Japan Wages and Inflation



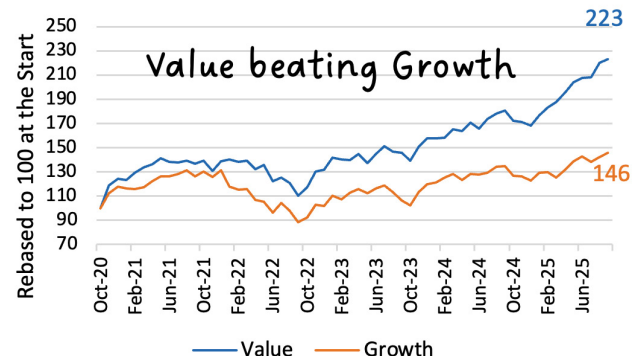
Source: Bloomberg. 5 years of monthly data through Aug 2025

Japan Earnings and Currency



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

Total Returns: MSCI EAFE Style Indexes



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

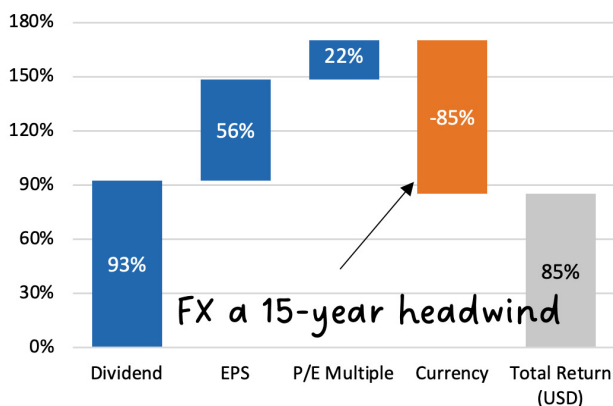


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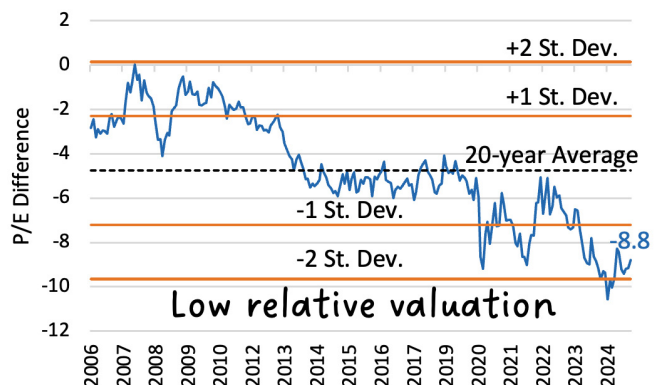
- ▶ We maintain a strategic weight in emerging market (EM) equities, reflecting a balanced risk/reward profile relative to U.S. equities.
- ▶ As in international developed markets, currency and valuation headwinds are easing, meaning they are less likely to weigh on returns, they may even enhance returns. With these headwinds easing, we see dividends and earnings driving EM equity, putting them on more even footing with U.S. stock return drivers.
- ▶ Expected Fed rate cuts should support EM assets by allowing local policymakers more room to stimulate growth and could boost capital flows. Historically, EM equities have outperformed both U.S. and developed international stocks during Fed easing cycles that did not coincide with recessions.
- ▶ EMs also provide significant exposure to the technology sector (the largest MSCI EM index sector weight) and AI. The index includes key companies in the global AI semiconductor supply chain. And investors gain exposure to China's differentiated approach to AI (open source), which may broaden the investable universe by spreading AI adoption more rapidly and widely.
- ▶ Looking ahead, we believe EM earnings growth appears well-positioned to rival U.S. earnings growth over the next decade, supported by favorable demographics and a more growth-oriented index composition versus history. Valuations remain compelling, with broad discounts to the S&P 500 on earnings and book value (India being the main exception). Lower labor costs and less saturation in technology and services create room for future operating leverage.
- ▶ EM investing is not without risks. Tariffs are likely to remain a growth headwind at the same time that China's economic growth is slowing. Heightened political uncertainty seen in several countries is also something of a constant for EM.
- ▶ In summary, EM equities should remain a strategic holding, offering diversification and long-term growth potential, despite ongoing risks.

MSCI EM Index Return Composition



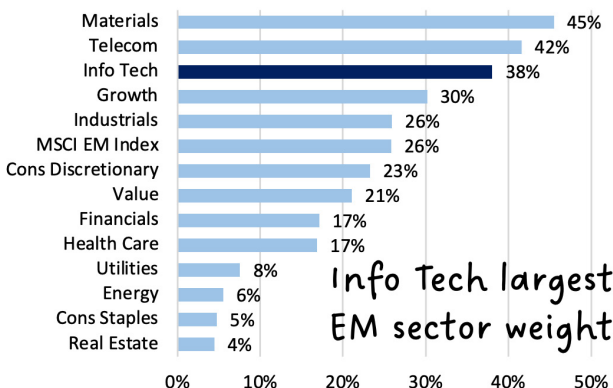
Source: Bloomberg. Cumulative total returns over the last 15 years through Sep 2025

Relative Forward P/E: MSCI EM vs S&P 500



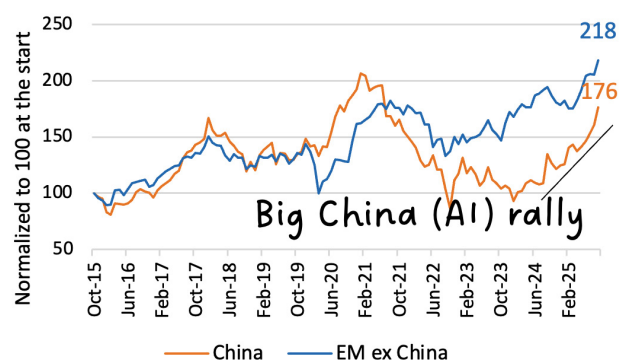
Source: Bloomberg. 20 years of monthly observations through Sep 2025

YTD Price Return (in USD) by Sector



Source: Bloomberg. MSCI EM index data as of Oct 13 2025

Total Returns in USD using MSCI Indexes



Source: Bloomberg. 10 years of monthly data through Sep 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	
	September 2025	YTD	2024	2023	2022	Index Weight	2025	2026
MSCI EAFE	2.0%	25.7%	4.3%	18.9%	-13.9%	100%	NA*	NA*
MSCI United Kingdom	1.3%	26.3%	7.5%	14.1%	-4.2%	14%	-3%	10%
MSCI Japan	2.6%	21.1%	8.7%	20.8%	-15.7%	22%	-3%	12%
MSCI Europe	2.2%	28.8%	1.0%	22.7%	-16.7%	55%	-1%	11%
MSCI EM	7.2%	28.2%	8.1%	10.3%	-19.2%	100%	NA*	NA*
MSCI China	9.8%	41.9%	19.7%	-11.0%	-21.8%	25%	-1%	15%
MSCI India	0.5%	-0.5%	12.4%	21.3%	-6.2%	16%	5%	16%
MSCI Taiwan	9.4%	26.6%	35.1%	31.3%	-29.5%	19%	12%	18%
MSCI Korea	10.5%	57.6%	-23.1%	23.6%	-28.9%	11%	19%	25%

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
MSCI EAFE	17.1x	53%	16.8x	85%	10.6x	83%	1.7x	99%
MSCI United Kingdom	14.9x	55%	14.1x	65%	8.8x	46%	1.5x	88%
MSCI Japan	17.3x	50%	18.3x	71%	10.2x	81%	1.4x	100%
MSCI Europe	17.4x	48%	17.0x	86%	11.1x	86%	1.7x	97%
MSCI EM	16.4x	79%	15.5x	94%	11.6x	97%	1.8x	88%
MSCI China	15.8x	72%	14.5x	84%	13.7x	89%	1.6x	61%
MSCI India	25.6x	87%	24.9x	84%	19.0x	91%	2.8x	88%
MSCI Taiwan	20.8x	66%	21.1x	93%	14.0x	83%	2.2x	86%
MSCI Korea	13.7x	70%	12.9x	81%	7.4x	73%	1.1x	97%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
MSCI EAFE	2.9%	47%	10.1%	97%	11.0%	71%	1.7	12%
MSCI United Kingdom	3.4%	39%	10.9%	86%	10.4%	35%	1.0	16%
MSCI Japan	2.1%	72%	7.7%	99%	9.6%	91%	-1.2	10%
MSCI Europe	3.1%	52%	10.3%	97%	12.2%	65%	3.1	6%
MSCI EM	2.4%	36%	11.2%	91%	12.9%	65%	2.0	76%
MSCI China	2.0%	23%	11.2%	59%	11.9%	39%	3.1	97%
MSCI India	1.2%	24%	11.5%	66%	14.9%	38%	2.3	39%
MSCI Taiwan	2.3%	32%	10.8%	87%	17.8%	95%	0.1	4%
MSCI Korea	1.7%	47%	8.5%	94%	9.0%	47%	2.7	44%

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 September; 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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