

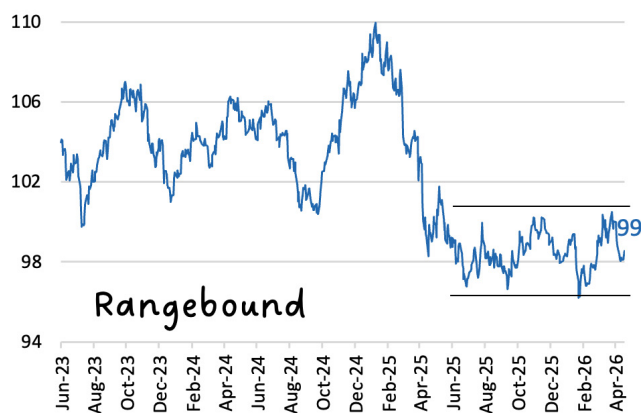


Authors: Crit Thomas, CFA, CAIA / Erik M. Aarts, CIMA / Tim Paulin, CFA

April 27, 2026

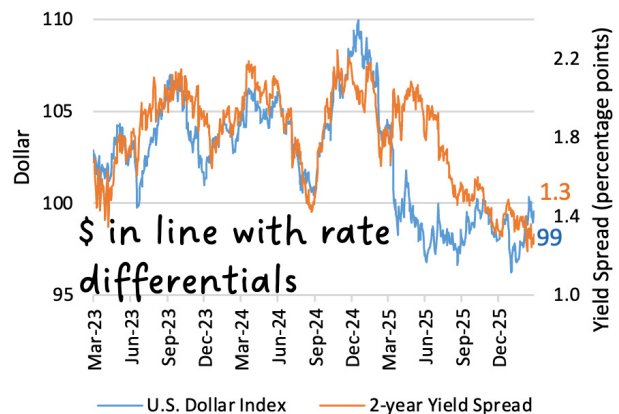
- ▶ Despite geopolitical stress, the dollar has remained broadly flat year-to-date, reflecting a balance of forces, including still-supportive but no longer widening rate differentials, less concentrated safe-haven demand, and a gradual erosion of U.S. macro advantages at the margin.
- ▶ In March, the dollar rallied above levels implied by rate differentials (based on 2-year yields). Following the ceasefire announcement, it moved back in line with those differentials.
- ▶ Last month, yields in many countries rose more than U.S. rates as central bank expectations shifted from broadly anticipated rate cuts to no rate cuts in the U.S. and rate increases outside of the U.S.
- ▶ Over the longer term, gradual diversification away from the dollar is likely to continue. While the dollar still accounts for roughly 58% of global reserves, both geopolitical considerations and policy uncertainty encourage central banks and sovereign investors to incrementally reduce exposure. This remains a slow-moving process given the lack of deep, liquid alternatives.
- ▶ Policy uncertainty in the U.S. has remained elevated, reinforcing this diversification trend. In addition, a persistently large fiscal deficit and the absence of credible fiscal consolidation continue to weigh on longer-term confidence in the dollar.
- ▶ That said, the U.S. is better positioned to withstand an energy crisis in the near term, which may provide some cyclical support to the dollar during the course of this crisis and could offset some of the broader headwinds discussed above.
- ▶ Taken together, while near-term dollar movements may be influenced by episodic geopolitical developments, we see little evidence that the structural headwinds facing the dollar have diminished. As a result, we maintain our view that the dollar has likely peaked on a secular basis, reinforcing a supportive ingredient for U.S.-based investors to maintain exposure to international equities.

U.S. Dollar Index



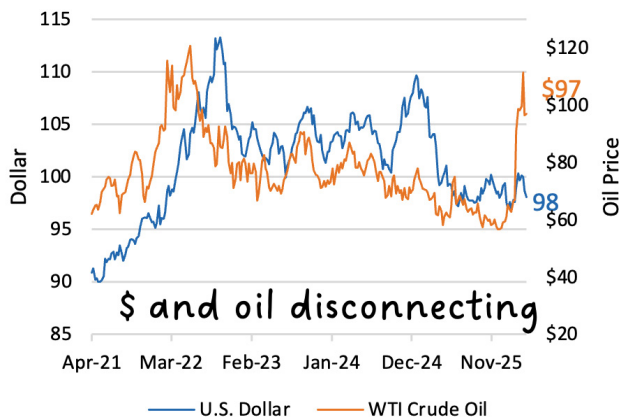
Source: Bloomberg. 3 years of daily data through Apr 22, 2026.

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



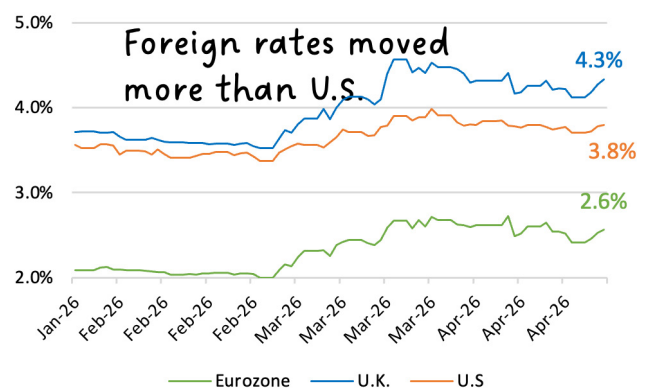
Source: Bloomberg. 3 years of daily data through Apr 21, 2026. The weighted yield spread is the difference between U.S. 2-year Treasury yields and a weighted average of 2-year yields in other major developed markets.

U.S. Dollar and Oil Prices



Source: Bloomberg. 5 years of weekly data through Apr 17, 2026. West Texas Intermediate (WTI) crude is primarily sourced in the U.S. Permian Basin.

2-year Sovereign Rates

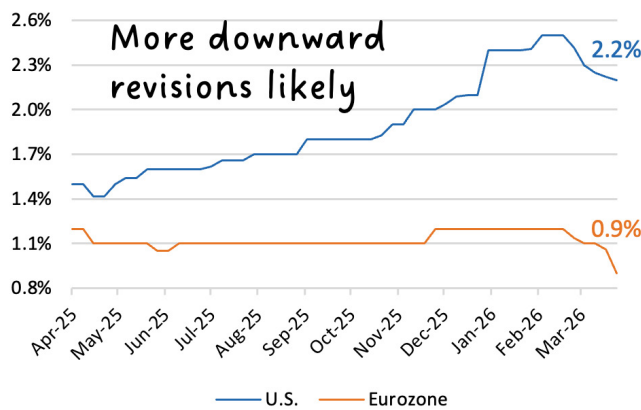


Source: Bloomberg. Year-to-date daily data through Apr 22, 2026.



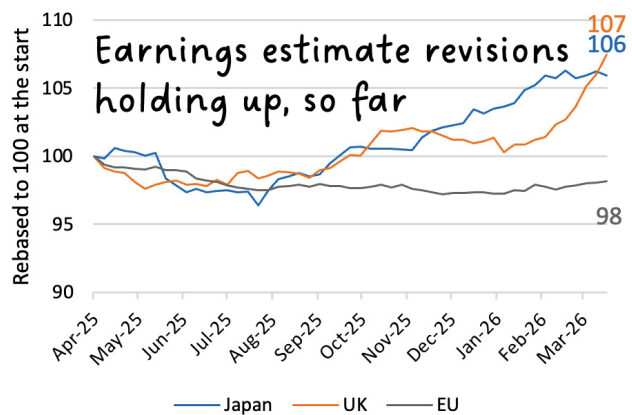
- ▶ We maintain a neutral strategic allocation to developed international equities. While the Iran conflict has introduced a new source of uncertainty, we see enough offsets to maintain a strategic allocation.
- ▶ The primary transmission channel of this new source of uncertainty is energy, though Europe and the UK are better positioned than in prior crises. Since Russia's invasion of Ukraine, energy sourcing has become more diversified, LNG capacity has expanded, and policymakers have shown greater flexibility in managing demand and storage.
- ▶ That said, the scale of the disruption should not be overlooked. The IEA has characterized the current environment as a significant global energy shock, with potential supply disruptions lasting months. If sustained, this could pressure input costs and harm margins, particularly in energy-intensive industries.
- ▶ Year-to-date through April 21, the MSCI EAFE Index has outperformed U.S. equities, extending a trend that began last year. UK and Japanese markets have led, supported by upward earnings revisions.
- ▶ Importantly, the MSCI EAFE Index has meaningful exposure to energy producers, which can benefit from higher prices, and many large-cap constituents generate a significant share of revenue globally. As a result, earnings are not solely tied to domestic economic conditions.
- ▶ Fiscal policy is also becoming more supportive. Increased defense spending and broader industrial policy initiatives are providing a tailwind to growth, helping to offset some of the drag from higher energy costs.
- ▶ Over the longer term, developed international equities continue to offer attractive characteristics, including lower valuations, higher dividend yields, potential currency tailwinds, and less reliance on a narrow group of U.S. mega-cap stocks.

2026 GDP Forecast



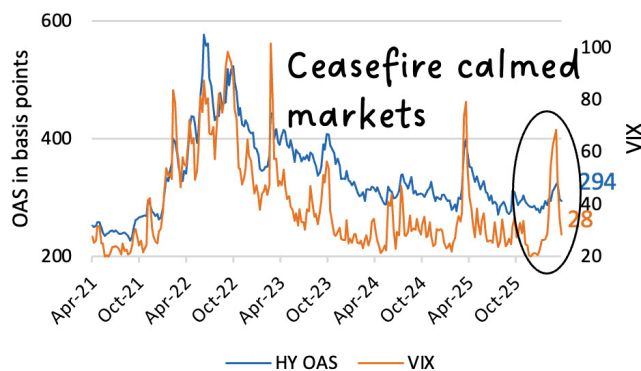
Source: Bloomberg. 1 year of weekly data through Apr 17, 2026. Based on Bloomberg's survey of economists.

2026 EPS Revisions (local currency)



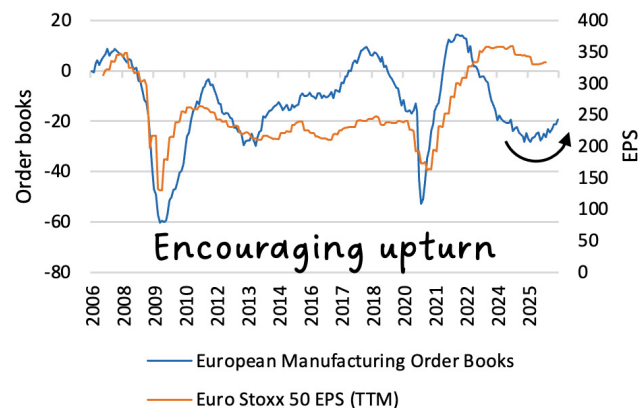
Source: Bloomberg. 6 months of weekly bottom-up analyst estimates through Apr 15, 2026.

EU: High Yield OAS and Equity Implied Volatility



Source: Bloomberg. 5 years of weekly data through Apr 17, 2026.

Eurozone Earnings Cycles



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

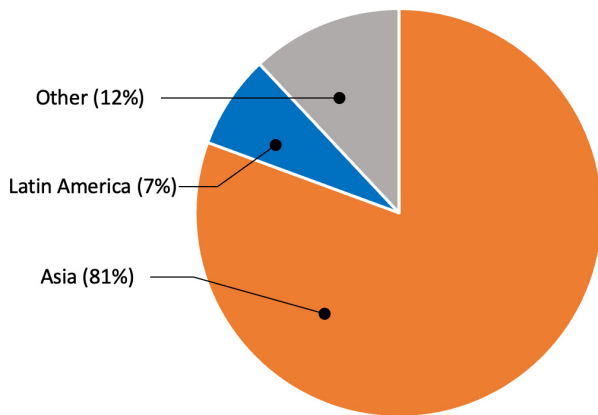


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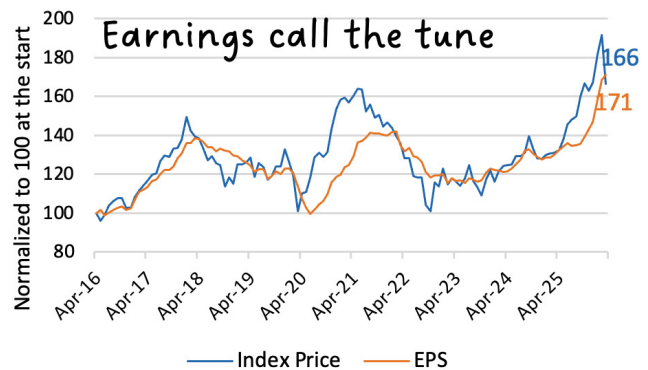
- ▶ In March, we shifted from a slight overweight to a slight underweight in emerging market (EM) equities. While the long-term case for EM remains intact, near-term risks have increased, driven primarily by the energy shock stemming from the Iran conflict.
- ▶ Asia represents roughly 80% of the MSCI EM index and remains particularly exposed given its reliance on imported energy from the Middle East. Disruptions to the Strait of Hormuz are raising prices and constraining supply. This may lead to slower economic growth via demand destruction.
- ▶ Even in a de-escalation scenario, normalization will take time, suggesting that elevated costs are likely to persist longer than the conflict itself.
- ▶ Dependence on other key imports from the middle east, including helium and fertilizer, add to the region's vulnerability. These are critical inputs for semiconductors and agriculture and could further pressure costs.
- ▶ Despite these headwinds, EM equities have outperformed year-to-date, driven by a narrow set of markets. Korea and Taiwan have benefited from strong semiconductor demand, while Brazil has outperformed as a net energy exporter.
- ▶ This underscores the concentrated nature of EM performance. A small number of stocks are driving returns, increasing stock- and sector-specific risk. While semiconductor demand remains strong, the pace of recent outperformance in Korea and Taiwan may be difficult to sustain given elevated expectations.
- ▶ While Latin America and other commodity exporters may benefit from higher energy prices, they represent a smaller share of the overall index and are unlikely to offset broader pressures in Asia.
- ▶ Taken together, EM fundamentals remain constructive over the long term, but narrow leadership and elevated energy-related risks support our more cautious tactical positioning.

MSCI EM Index Regional Exposure



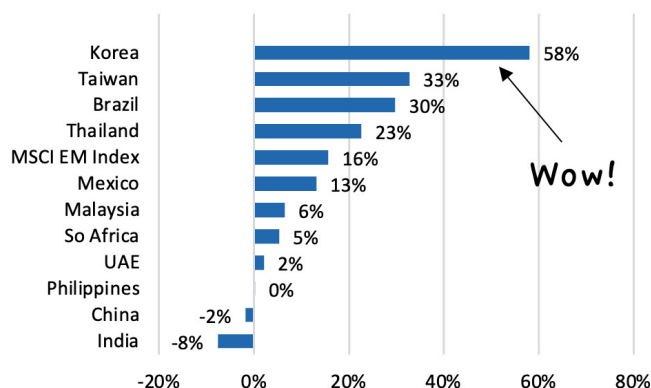
Source: MSCI. Data as of Feb 2026.

MSCI EM Index Price and Forward EPS (in USD)



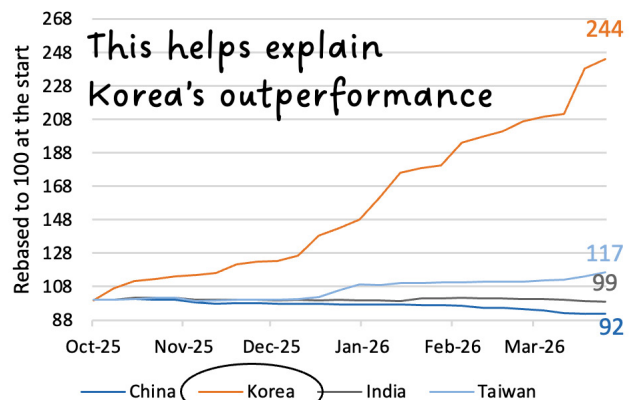
Source: Bloomberg. 10 years of monthly data through Mar 2026.

YTD Total Returns (in USD) by Country



Source: Bloomberg, MSCI EM index data as of Apr 20, 2026.

2026 EPS Revisions (local currency)



Source: Bloomberg. 6 years of weekly bottom-up analyst estimates through Apr 15, 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	
	March 2026	YTD	2025	2024	2023	Index Weight	2026	2027
MSCI EAFE	-10.2%	-1.1%	31.9%	4.3%	18.9%	100%	NA*	NA*
MSCI United Kingdom	-7.7%	2.0%	35.1%	7.5%	14.1%	14%	18%	6%
MSCI Japan	-12.3%	1.5%	25.1%	8.7%	20.8%	23%	8%	13%
MSCI Europe	-10.4%	-4.0%	36.6%	1.0%	22.7%	53%	10%	10%
MSCI EM	-13.0%	-0.1%	34.4%	8.1%	10.3%	100%	NA*	NA*
MSCI China	-7.7%	-8.9%	31.4%	19.7%	-11.0%	25%	25%	14%
MSCI India	-14.9%	-18.1%	4.3%	12.4%	21.3%	13%	6%	14%
MSCI Taiwan	-12.9%	9.1%	39.8%	35.1%	31.3%	23%	43%	23%
MSCI Korea	-25.4%	16.7%	100.8%	-23.1%	23.6%	16%	243%	25%

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
MSCI EAFE	17.3x	54%	14.9x	77%	10.9x	85%	1.8x	99%
MSCI United Kingdom	15.7x	63%	12.6x	66%	9.5x	64%	1.7x	91%
MSCI Japan	18.6x	56%	16.2x	68%	11.1x	86%	1.5x	99%
MSCI Europe	17.1x	45%	14.8x	76%	11.1x	84%	1.8x	98%
MSCI EM	16.5x	79%	10.6x	49%	12.0x	97%	1.9x	98%
MSCI China	13.9x	52%	9.2x	47%	11.8x	74%	1.4x	43%
MSCI India	22.6x	67%	18.8x	70%	16.9x	80%	2.5x	78%
MSCI Taiwan	24.2x	76%	17.1x	90%	17.1x	91%	2.8x	93%
MSCI Korea	17.7x	82%	6.0x	3%	10.5x	98%	1.8x	99%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
MSCI EAFE	2.9%	45%	10.5%	100%	11.5%	72%	2.1	16%
MSCI United Kingdom	3.2%	29%	11.4%	92%	12.6%	52%	2.0	36%
MSCI Japan	2.0%	58%	8.2%	99%	9.5%	86%	-0.8	17%
MSCI Europe	3.0%	50%	10.6%	99%	12.5%	67%	3.3	11%
MSCI EM	2.4%	17%	11.8%	84%	12.8%	58%	2.0	77%
MSCI China	2.2%	41%	10.6%	30%	10.6%	23%	3.9	99%
MSCI India	1.4%	41%	12.3%	79%	16.1%	61%	2.5	46%
MSCI Taiwan	1.9%	27%	11.8%	95%	17.4%	93%	0.1	5%
MSCI Korea	1.1%	11%	10.2%	99%	10.1%	59%	2.4	24%

For Index Definitions see: [TouchstoneInvestments.com/insights/investment-terms-and-index-definitions](https://www.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 March; 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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