# International Equities

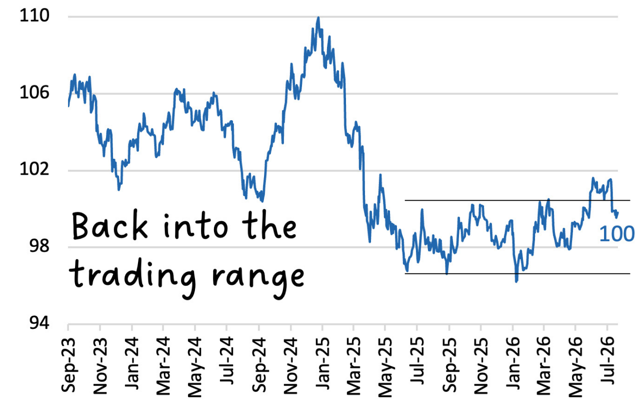
## Currency Backdrop

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

**August 12, 2026**

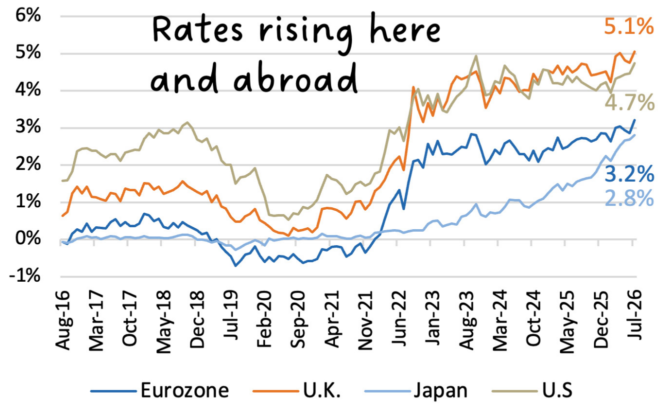
- The U.S. Dollar Index has fallen back below 100, returning to the trading range that contained it for roughly a year. Last month's modest breakout followed Chair Warsh's unexpectedly hawkish first FOMC meeting, which led investors to reassess the possibility of a Fed rate hike. The dollar's inability to sustain that move reinforces our view that the breakout was unlikely to mark the beginning of a renewed dollar rally.
- Interest rate differentials have also provided little support for further dollar strength. While 2-year yields have moved higher globally, yields in the other major developed markets represented in the Dollar Index have generally risen somewhat more than U.S. Treasury yields. As a result, our DXY-weighted 2-year yield spread narrowed over the past month, taking some of the steam out of the dollar's earlier move.
- The recent joint U.S.-Japan intervention provides another example of why interest rate fundamentals ultimately matter more than currency intervention. The yen initially strengthened sharply following the intervention but has since surrendered nearly half of those gains. A sustained yen recovery will likely require more than intervention, with investors increasingly focused on whether the Bank of Japan will raise rates more aggressively. Still, the U.S. Treasury's willingness to participate in its first yen intervention since 1998 suggests policymakers have become increasingly uncomfortable with further yen weakness and dollar strength.
- Prospects for a near term reopening of the Strait of Hormuz have diminished as U.S. and Iranian negotiating positions have hardened. Neither side currently appears willing to make the concessions necessary for a broader agreement, increasing the likelihood that shipping remains impaired. An Oman-brokered arrangement could provide a partial solution by allowing more ships to transit without resolving the broader conflict. While this could limit the economic impact, a prolonged disruption remains an important risk and could renew safe-haven demand for the dollar.
- Over the longer term, the structural backdrop for the dollar remains challenging. Large fiscal deficits, elevated policy uncertainty, relatively higher valuation, gradual reserve diversification, and greater currency hedging by international investors continue to limit the case for a renewed secular bull market.

### U.S. Dollar Index



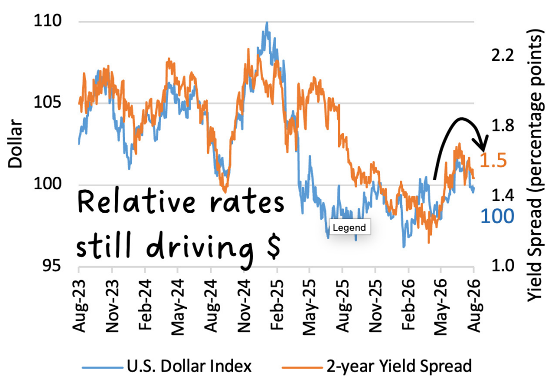

*Source: Bloomberg. 3 years of daily data through Aug 07, 2026. The weighted yield spread is the difference between U.S. 2-year Treasury yields and the weighted average of 2-year yields from countries in the dollar index.*

### 10 year Government Yields



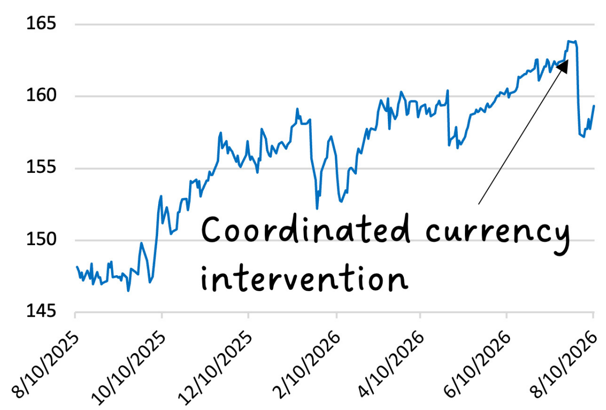

*Source: Bloomberg. 1 year of daily data through Aug 10 2026.*

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




*Source: Bloomberg. 3 years of weekly data through Jul 17, 2026.*

### Japanese Yen




*Source: Bloomberg. 20 years of monthly data through Jun 30, 2026.*

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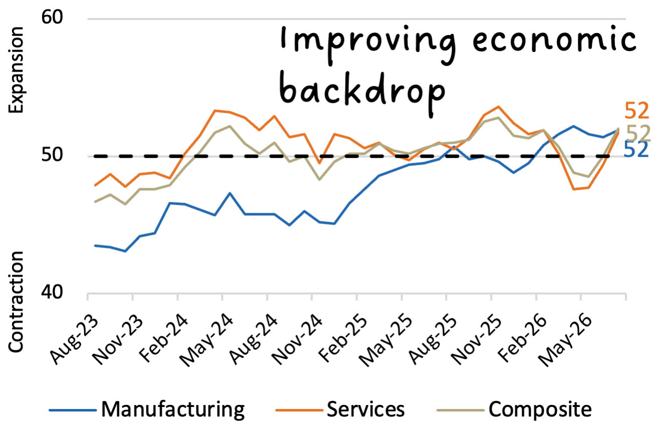
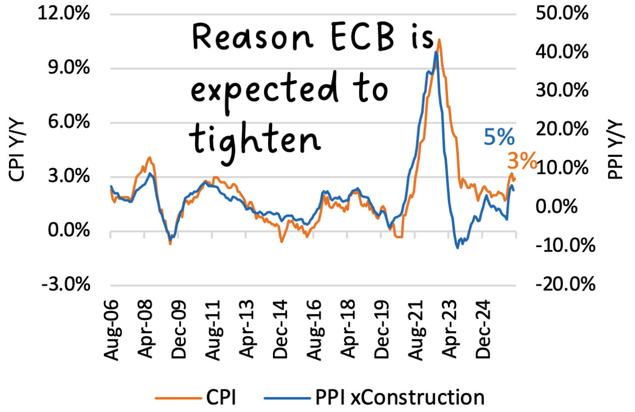
- We remain neutral on developed international equities, though the fundamental backdrop has become more constructive. European growth has proved more resilient than expected, while earnings have been considerably stronger than anticipated despite elevated energy prices. However, the risk of a prolonged period of higher energy costs has increased.
- Europe's earnings season has been surprisingly strong despite the challenging energy backdrop. STOXX Europe 600 companies are on track to deliver roughly 22% year-over-year earnings growth, with strength extending beyond Energy into Financials, Technology, and Industrials. However, full year earnings estimates have not equally moved higher. This suggests analysts remain reluctant to extrapolate the current quarter's strength.
- Japan continues to offer differentiated earnings drivers. Japanese companies occupy important positions across semiconductor equipment, factory automation, robotics, and other parts of the AI supply chain. A weak yen has supported exporters, but recent currency intervention and expectations for additional Bank of Japan rate hikes introduce the possibility of a stronger yen. Higher domestic rates however, could benefit financials and broaden the sources of earnings growth.
- Developed international equities also provide an increasingly important complement to U.S. exposure. Bloomberg Intelligence estimates that companies with significant AI exposure represent roughly 36% of the S&P 500 but contribute 58% of its overall risk. By comparison, AI-related companies represent less than 8% of developed ex-U.S. markets and contribute about 14% of risk. International markets therefore provide exposure to AI beneficiaries while reducing dependence on the theme.
- Taken together, improving fundamentals and differentiated earnings drivers support maintaining international exposure. However, limited upward earnings revisions and possibly a more prolonged energy shock keeps us from moving to an overweight, while regional and company-level differences continue to reinforce the case for an active approach.

## Eurozone: IHS Market Diffusion Indexes



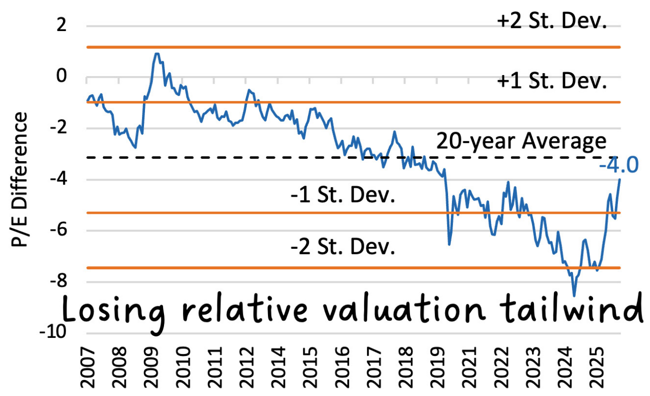

*Source: Bloomberg. 20 years of monthly data through Jul 2026.*

## Eurozone Inflation Measures



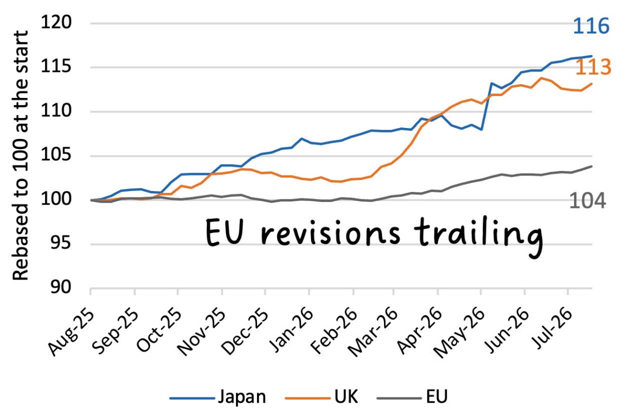

*Source: Bloomberg. 20 years of monthly data through Jul 2026.*

## Relative Forward P/E: MSCI EAFE vs S&P 5000




*Source: Bloomberg. 25 years of quarterly data through Jun 2026.*

## 2026 EPS Revisions (local currency)




*Source: Bloomberg. 6 months of weekly bottom-up analyst estimates through Aug 03 2026.*

# International Equities

## Emerging Markets

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

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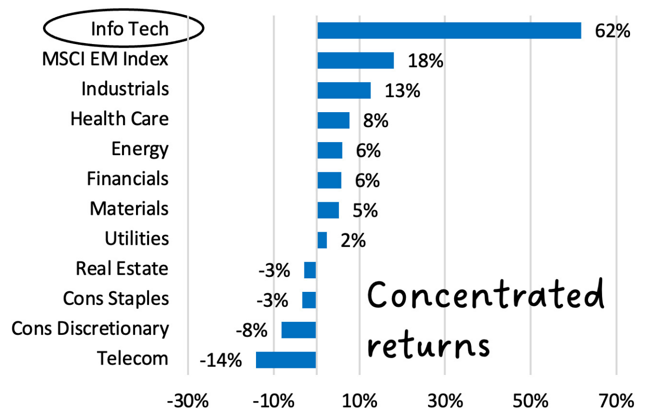
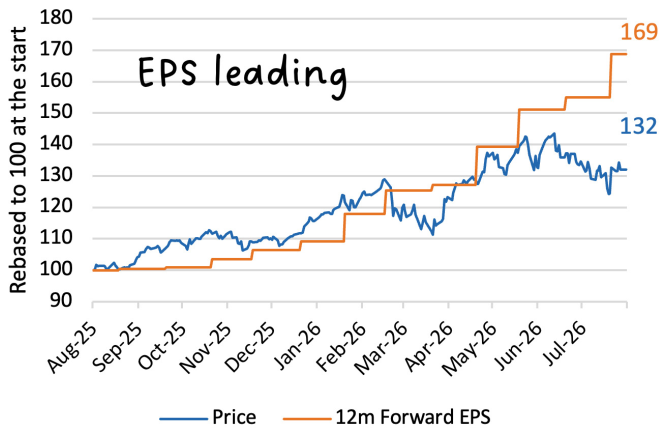
- We remain slightly underweight emerging market equities, although recent developments have made that position less clear-cut. Our original concern, that prolonged disruption in the Strait of Hormuz would disproportionately affect energy-importing Asian economies, remains relevant and may have increased as prospects for a near-term normalization of shipping have diminished. However, the fundamental earnings picture has continued to improve.
- MSCI EM companies reporting second quarter results are delivering earnings roughly 19% above expectations, while forward earnings estimates have continued to rise. In July alone, MSCI EM Asia declined more than 4% even as forward EPS estimates rose more than 7%, with the decline driven primarily by multiple compression. Bloomberg also finds that several Asian technology companies experienced substantial valuation declines despite continued earnings upgrades.
- Concentration remains our primary concern. Information Technology still represents roughly 40% of MSCI EM, while Korea and Taiwan together account for a disproportionate share of benchmark risk. Bloomberg estimates the two markets represent 42% of the index but nearly 67% of its risk. The recent correction also highlighted how leverage and crowded positioning can amplify volatility even when underlying earnings remain healthy.
- We are seeing early signs that participation may be broadening. Nearly 60% of MSCI EM constituents advanced recently despite weakness among several large technology stocks, while participation improved across Materials, Industrials, and Health Care. China's upcoming earnings season could prove particularly important in determining whether leadership expands beyond the semiconductor-heavy markets of Korea and Taiwan.
- Taken together, the case for remaining underweight has weakened, but not disappeared. Strong earnings and potentially improving breadth are encouraging, while elevated energy risk and benchmark concentration argue for patience. We remain underweight for now, but continued earnings strength and broader market participation could provide the catalyst to revisit that position.

### TYD Price Return by Sector



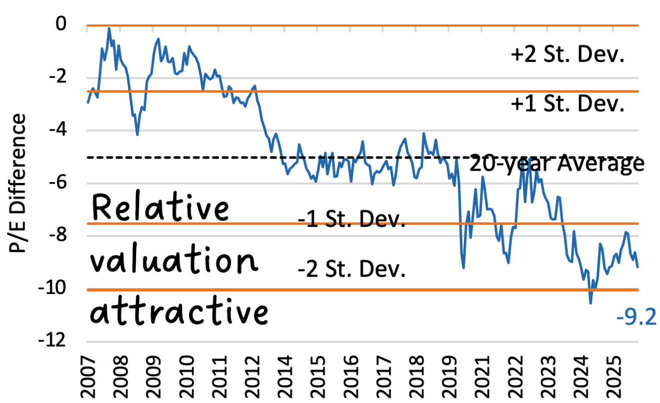

*Source: Bloomberg. MSCI EM index data as of Aug 06 2026.*

### MSCI EM Index (in USD)



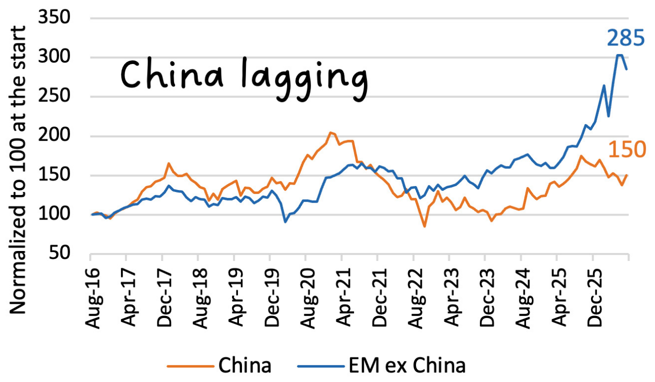

*Source: Bloomberg. 1 year of daily data through Aug 10 2026.*

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




*Source: Bloomberg. 20 years of monthly observations through Jul 2026.*

### Total Returns in USD using MSCI Indexes




*Source: Bloomberg. 10 years of monthly data through Jul 2026.*

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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 | |
|---|---|---|---|---|---|---|---|---|
| | July 2026 | YTD | 2025 | 2024 | 2023 | Index Weight | 2026 | 2027 |
| **MSCI EAFE** | **2.0%** | **12.0%** | **31.9%** | **4.3%** | **18.9%** | **100%** | **NA*** | **NA*** |
| MSCI United Kingdom | 5.3% | 11.9% | 35.1% | 7.5% | 14.1% | 15% | 23% | 4% |
| MSCI Japan | 1.0% | 17.2% | 25.1% | 8.7% | 20.8% | 23% | 22% | 9% |
| MSCI Europe | 0.6% | 9.6% | 36.6% | 1.0% | 22.7% | 53% | 12% | 10% |
| **MSCI EM** | **-3.0%** | **20.3%** | **34.4%** | **8.1%** | **10.3%** | **100%** | **NA*** | **NA*** |
| MSCI China | 9.0% | -7.2% | 31.4% | 19.7% | -11.0% | 21% | 6% | 15% |
| MSCI India | 1.8% | -8.1% | 4.3% | 12.4% | 21.3% | 12% | 8% | 11% |
| MSCI Taiwan | -5.3% | 54.0% | 39.8% | 35.1% | 31.3% | 27% | 61% | 29% |
| MSCI Korea | -17.1% | 81.5% | 100.8% | -23.1% | 23.6% | 20% | 376% | 38% |

**Valuations**

| | P/E (TTM) | Percent Rank | P/E (FTM) | Percent Rank | P/CF | Percent Rank | P/S | Percent Rank |
|---|---|---|---|---|---|---|---|---|
| **MSCI EAFE** | **18.8x** | **65%** | **15.5x** | **86%** | **11.7x** | **90%** | **2.0x** | **100%** |
| MSCI United Kingdom | 16.5x | 70% | 12.8x | 61% | 9.6x | 68% | 1.8x | 93% |
| MSCI Japan | 21.0x | 66% | 16.4x | 73% | 12.4x | 93% | 1.7x | 99% |
| MSCI Europe | 18.5x | 56% | 15.7x | 90% | 11.8x | 90% | 2.0x | 99% |
| **MSCI EM** | **17.7x** | **86%** | **9.3x** | **24%** | **13.1x** | **98%** | **2.2x** | **98%** |
| MSCI China | 14.1x | 53% | 10.3x | 47% | 11.6x | 72% | 1.4x | 46% |
| MSCI India | 23.9x | 78% | 19.3x | 77% | 18.0x | 84% | 2.7x | 84% |
| MSCI Taiwan | 31.3x | 84% | 17.5x | 95% | 23.1x | 97% | 3.6x | 99% |
| MSCI Korea | 17.2x | 81% | 4.0x | 1% | 11.6x | 98% | 2.4x | 99% |

**Fundamentals**

| | Dividend Yield | Percent Rank | Profit Margin | Percent Rank | ROE | Percent Rank | Net Debt / EBITDA | Percent Rank |
|---|---|---|---|---|---|---|---|---|
| **MSCI EAFE** | **2.7%** | **39%** | **10.8%** | **99%** | **11.7%** | **76%** | **2.3** | **22%** |
| MSCI United Kingdom | 3.1% | 20% | 11.8% | 95% | 13.1% | 57% | 1.4 | 19% |
| MSCI Japan | 1.8% | 46% | 8.4% | 99% | 9.6% | 86% | -0.5 | 22% |
| MSCI Europe | 2.8% | 42% | 10.9% | 99% | 12.8% | 71% | 3.9 | 23% |
| **MSCI EM** | **2.0%** | **4%** | **12.6%** | **89%** | **13.6%** | **73%** | **2.1** | **80%** |
| MSCI China | 2.3% | 43% | 10.6% | 30% | 10.8% | 24% | 4.8 | 100% |
| MSCI India | 1.3% | 30% | 12.4% | 87% | 15.1% | 43% | 2.3 | 34% |
| MSCI Taiwan | 1.4% | 23% | 13.7% | 96% | 21.0% | 99% | 0.0 | 3% |
| MSCI Korea | 0.8% | 1% | 14.3% | 99% | 13.7% | 88% | 2.0 | 9% |

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

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