

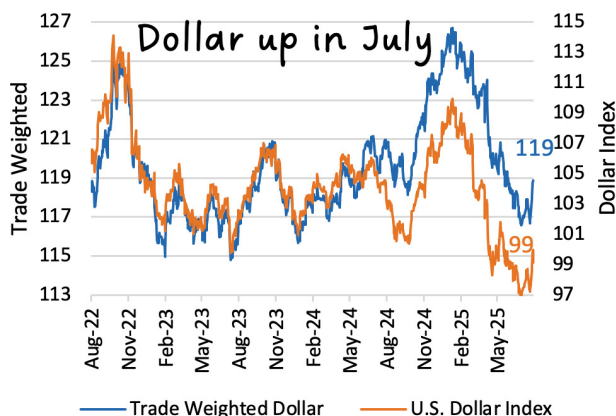


Authors: Crit Thomas, CFA, CAIA / Erik M. Aarts, CIMA / Tim Paulin, CFA

August 5, 2025

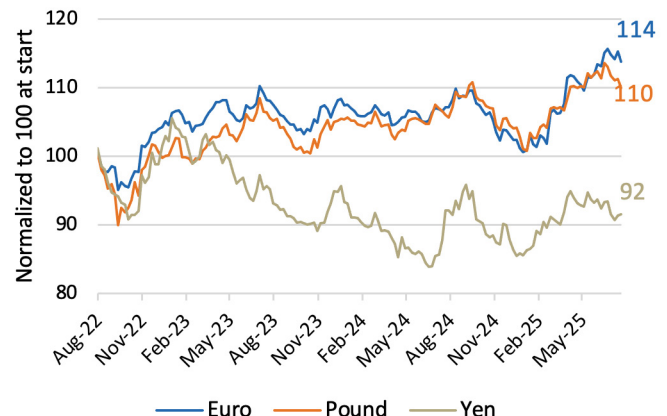
- ▶ The U.S. dollar found support in July. The passage of the budget bill, front-loaded with stimulus, along with resilient economic data (not including the August 1 employment report), helped stabilize economic growth expectations. Additionally, newly retained tariff agreements helped reduce some uncertainty in the short term.
- ▶ The dollar appeared to be returning to fundamentals. Higher U.S. yields, relative to other developed markets, reversed a previous trend that began when the Liberation Day tariffs were introduced. Although U.S. economic growth slowed in the first half, it still outpaced Europe and parts of Asia. Lastly, the dollar regained its safe-haven status on days of heightened geopolitical tension.
- ▶ Despite July's rebound, we do not view it as the start of a sustained strengthening trend. Over the medium term, we continue to see reasons for the dollar to stay in check.
- ▶ From a valuation perspective, the dollar appears vulnerable. It remains overvalued relative to many major currencies on a purchasing power parity basis. Moreover, the real trade-weighted dollar has also begun to turn lower, hinting at a potential shift toward a secular decline.
- ▶ Structural imbalances, including the "twin deficits" (fiscal and current account), add further pressure. The U.S. depends on constant foreign capital inflows to fund these deficits; if global demand falters, the dollar could weaken.
- ▶ Foreign appetite for U.S. assets appears to be cooling, especially among large asset holders such as sovereign wealth funds and global central banks. While total foreign holdings remain high, recent increases have come primarily from the private sector.
- ▶ In summary, while July's rally was notable, longer-term fundamentals suggest continued vulnerability for the dollar. This supports maintaining a strategic allocation to international equities for U.S.-based investors.

US Dollar Indexes



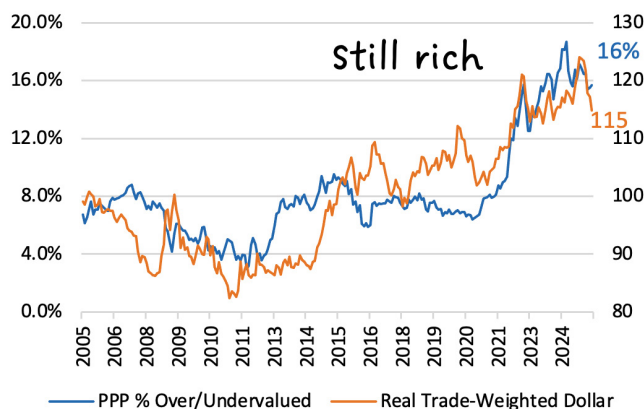
Source: Bloomberg. 3 years of daily data through Aug 1 2025

Developed Currencies versus the Dollar



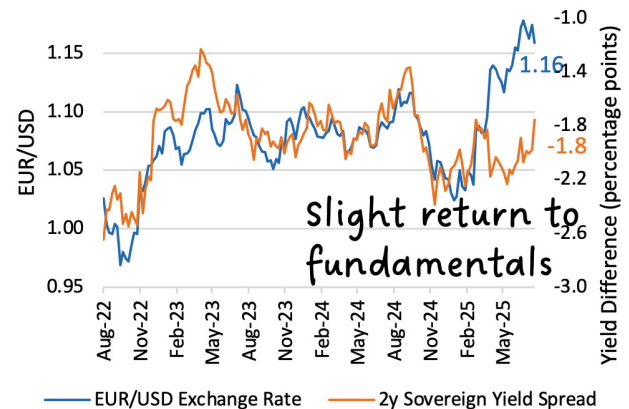
Source: Bloomberg. 3 years of weekly data through Aug 01 2025

U.S. Dollar Valuation Measures



Source: Bloomberg. 20 years of monthly data through Jul 31 2025

Euro/Dollar and Yield Spread

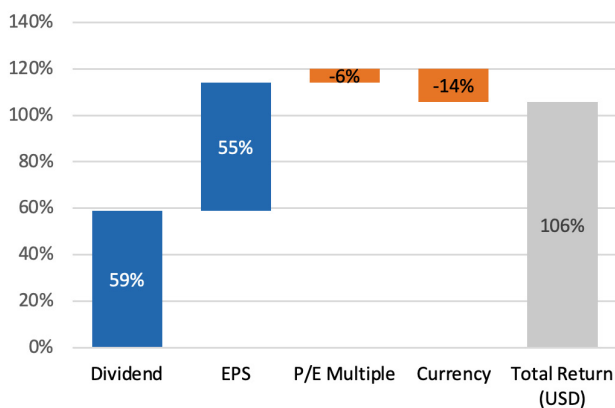


Source: Bloomberg. 3 years of weekly data through Aug 01 2025



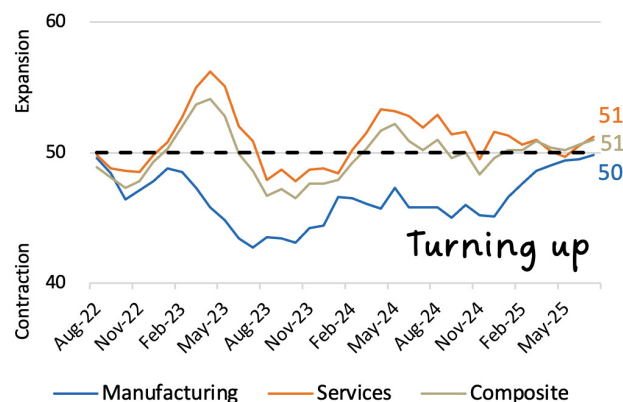
- ▶ We maintain a neutral stance on developed international equities.
- ▶ Recent tariff agreements with Japan and Europe were generally received positively by the markets, removing worst-case trade scenarios, at least for now. Nonetheless, both Japan and Europe still face trade headwinds with the U.S. and China.
- ▶ We believe that traditional headwinds, such as currency volatility and an expanding valuation discount, are unlikely to be performance drags going forward and may even turn into tailwinds. With these pressures easing, developed international equities are better positioned to compete with U.S. stocks, with earnings and dividends as the primary drivers of returns.
- ▶ Additionally, the Trump administration's renewed focus on brokering a truce between Russia and Ukraine would be a clear positive for Europe if meaningful progress is made.
- ▶ In contrast, U.S. equities face several headwinds: stretched valuations, elevated profit margins, and the likelihood of continued slow economic growth, all pointing to more subdued future returns.
- ▶ Meanwhile, the international backdrop continues to improve. Germany's suspension of its debt brake paves the way for fiscal stimulus, and Japan continues to push for more shareholder-friendly corporate behavior. Meanwhile, moderating inflation has allowed Europe's central bank to ease policy more aggressively than the Fed.
- ▶ However, risks persist. Global trade tensions remain unresolved, and growth in key export markets, particularly the U.S. and China, remains tepid. The U.S. is the EU's largest export partner, accounting for about 5% of the EU's GDP.
- ▶ Looking ahead, we would consider overweighting developed international equities if Europe were to pursue deeper structural reforms, especially deregulation and capital markets integration.

MSCI EAFE Index Return Composition



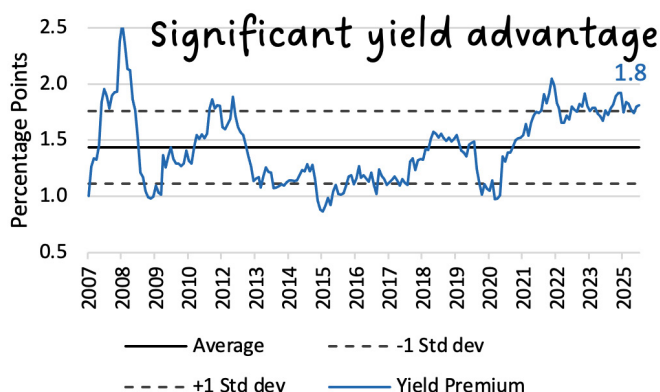
Source: Bloomberg. Cumulative total returns over the last 10 years through Jul 2025

Eurozone: IHS Markit Diffusion Indexes



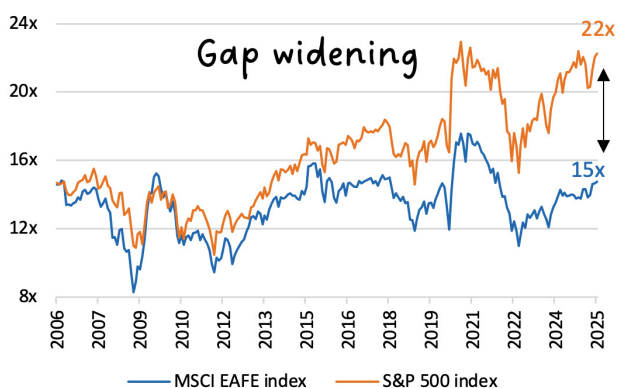
Source: Bloomberg. 20 years of monthly data through Jul 2025

Difference in Dividend Yield: MSCI EAFE Index - S&P 500 Index



Source: Bloomberg. 18 years of monthly data through Jul 2025. MSCI EAFE Index month end yield 3.1%. S&P 500 Index month end yield 1.3%.

Forward P/E Ratios



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

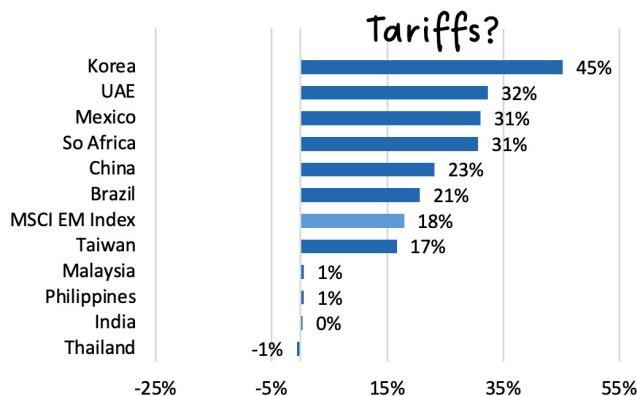


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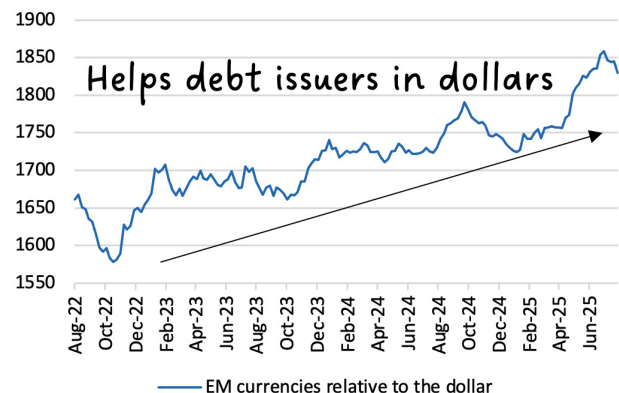
- ▶ We remain neutral on emerging market (EM) equities, holding a strategic weight due to a more balanced risk/reward profile relative to U.S. equities.
- ▶ As with international developed markets, currency risk and valuation discounts are less likely to weigh on returns and may even enhance returns. With these headwinds easing, EM equities appear more competitive, with dividends and earnings expected to drive returns.
- ▶ **What tariffs?** EM equities have rallied strongly year-to-date through July: South Korea is up 45%, China 23%, and the broader EM index is up 18%. While this rally may seem at odds with a backdrop of global trade tensions and tariffs, there are some plausible explanations.
 - EM underperformed in 2024, setting the stage for a rebound on both valuation and sentiment grounds.
 - Supply chain realignment has benefited some EM countries. For instance, Mexican stocks are up 31%.
 - Developed market central banks have paused or cut rates. Emerging markets tend to benefit from flows into riskier assets when there is sufficient liquidity created by central banks. Additional help has come from EM central bank easing, such as in Korea and China.
 - Many emerging markets have seen solid earnings growth. EM is on track to deliver higher earnings growth than developed markets, including the US, in 2025 and 2026.
 - A weaker dollar has eased pressure on many EM countries that issue debt denominated in dollars.
- ▶ Many EM companies are domestically focused and thus less exposed to U.S. tariffs.
- ▶ That said, the tariffs remain unsettling, and given the strong rally in these markets, a pause may be warranted.
- ▶ Looking ahead, we believe EM earnings are well-positioned to rival U.S. earnings over the next decade, supported by favorable demographics and a more growth-oriented index composition. Valuations remain compelling. Equities continue to trade at a meaningful discount to the S&P 500 on both earnings and book value (India being the exception). Lower wage pressures and less saturation in tech and services allow for future operating leverage.
- ▶ In our view, EM equities should remain a strategic holding, offering diversification and long-term growth potential.

YTD Total Returns (in USD) by Country



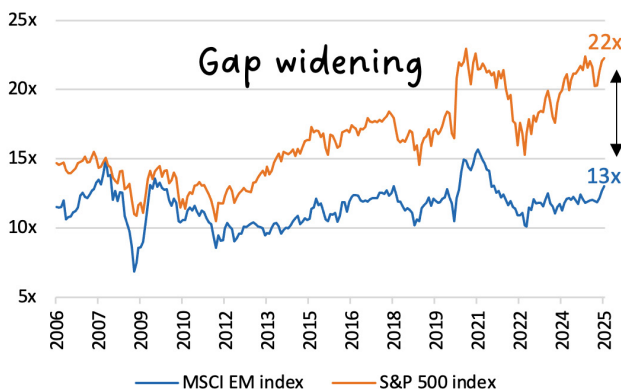
Source: Bloomberg. Data as of Jul 31 2025

MSCI EM Currency Index



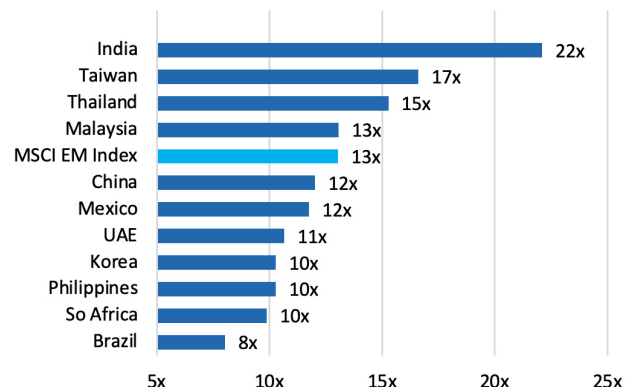
Source: Bloomberg. 3 years of weekly data through Aug 01 2025

Forward P/E Ratios



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

Forward P/E by Country



Source: Bloomberg. Data as of Jul 31 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	
	July 2025	YTD	2024	2023	2022	Index Weight	2025	2026
MSCI EAFE	-1.4%	18.3%	4.3%	18.9%	-13.9%	100%	NA*	NA*
MSCI United Kingdom	0.9%	20.3%	7.5%	14.1%	-4.2%	14%	-5%	9%
MSCI Japan	-1.4%	10.4%	8.7%	20.8%	-15.7%	22%	-7%	12%
MSCI Europe	-2.5%	21.9%	1.0%	22.7%	-16.7%	55%	-1%	11%
MSCI EM	2.0%	17.9%	8.1%	10.3%	-19.2%	100%	NA*	NA*
MSCI China	4.8%	23.1%	19.7%	-11.0%	-21.8%	26%	4%	13%
MSCI India	-5.0%	1.2%	12.4%	21.3%	-6.2%	18%	5%	18%
MSCI Taiwan	5.6%	16.6%	35.1%	31.3%	-29.5%	19%	12%	14%
MSCI Korea	4.0%	45.3%	-23.1%	23.6%	-28.9%	11%	18%	17%

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
MSCI EAFE	16.5x	45%	16.1x	76%	10.3x	81%	1.7x	99%
MSCI United Kingdom	13.8x	38%	13.9x	61%	8.5x	38%	1.5x	84%
MSCI Japan	16.7x	44%	17.4x	65%	9.8x	73%	1.3x	100%
MSCI Europe	16.9x	43%	16.3x	77%	10.8x	82%	1.7x	95%
MSCI EM	15.5x	68%	14.0x	91%	10.8x	92%	1.8x	88%
MSCI China	14.0x	54%	12.5x	64%	12.0x	78%	1.5x	54%
MSCI India	25.8x	88%	24.4x	91%	19.0x	91%	2.9x	92%
MSCI Taiwan	19.2x	60%	18.0x	88%	13.0x	74%	2.0x	76%
MSCI Korea	12.4x	58%	11.1x	72%	6.6x	60%	1.1x	95%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
MSCI EAFE	3.0%	51%	10.2%	97%	10.7%	66%	1.8	13%
MSCI United Kingdom	3.4%	43%	11.1%	88%	9.9%	31%	1.0	16%
MSCI Japan	2.2%	79%	7.7%	98%	9.6%	91%	-1.2	9%
MSCI Europe	3.1%	58%	10.4%	99%	11.7%	63%	3.4	12%
MSCI EM	2.6%	49%	11.3%	93%	12.6%	61%	2.0	80%
MSCI China	2.3%	42%	11.5%	64%	11.7%	37%	3.3	98%
MSCI India	1.2%	25%	11.0%	63%	14.6%	32%	2.4	43%
MSCI Taiwan	2.5%	36%	10.9%	91%	16.9%	94%	0.1	6%
MSCI Korea	1.9%	62%	8.7%	95%	9.0%	50%	2.7	47%

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 July; 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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