

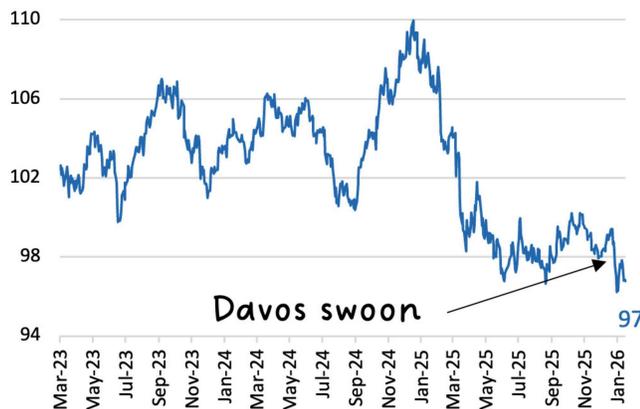


Authors: Crit Thomas, CFA, CAIA / Erik M. Aarts, CIMA / Tim Paulin, CFA

February 17, 2026

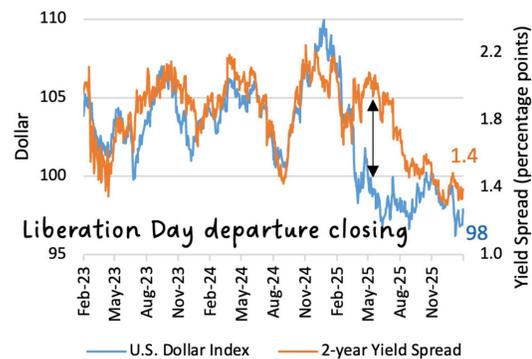
- ▶ The U.S. dollar entered 2026 on soft footing, with geopolitics serving as the dominant marginal driver. We continue to believe that it is unlikely to resume the secular rally that has persisted for much of the past 15 years.
- ▶ Much of the recent decline occurred in mid-January followed President Trump's Davos remarks regarding Greenland and broader territorial assertiveness, which raised geopolitical risk premiums. However, we note that the dollar has returned to levels that can be explained by shorter-term fundamentals such as rate differentials.
- ▶ Foreign central banks and investors continue to seek alternatives to the dollar. The IMF reports the dollar's share of global foreign exchange reserves has declined to around 58%, near 30-year lows. While the desire to reduce dollar exposure is real, the process will likely be gradual given the limited availability of viable alternatives.
- ▶ Dollar weakness driven by geopolitics is not necessarily a positive. European companies generate approximately 60% of revenue abroad, creating translation risk. A fundamentally driven currency move, supported by stronger growth and rising domestic demand, can be absorbed by corporate earnings. A politically driven move is less constructive.
- ▶ Over time, structural forces are likely to restrain the dollar. High valuations and uncertainty surrounding U.S. fiscal and trade policy are causing foreign investors to employ a greater degree of currency hedging and to seek alternatives to the dollar.
- ▶ 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 Index



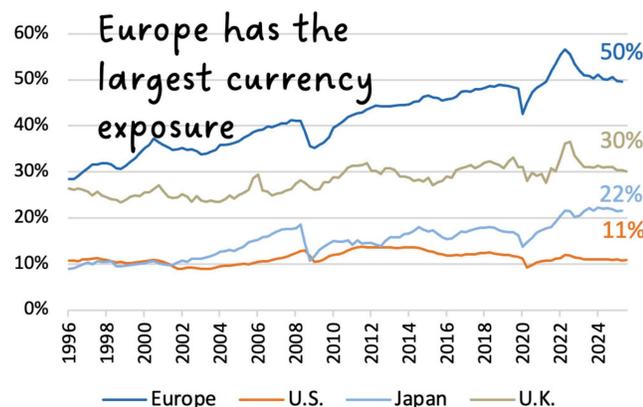
Source: Bloomberg. 3 years of daily data through Feb 12 2026.

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



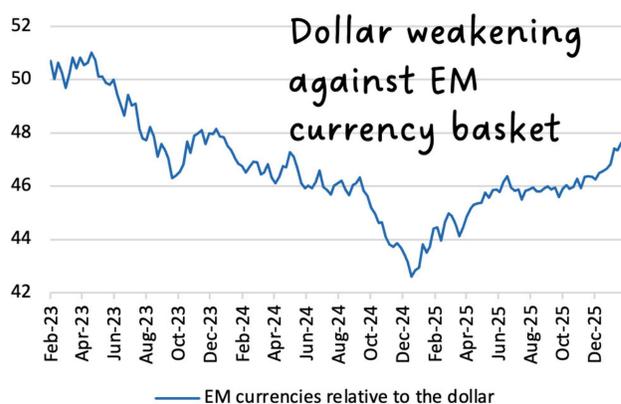
Source: Bloomberg. 3 years of daily data through Feb 18 2026. The weighted yield spread is the difference between U.S. 2-year Treasury yields and a weighted average of 2 year yields in other major developed markets.

Exports as a percent of GDP



Source: Bloomberg. 20 years of quarterly data: Europe through Sep 2025, U.S. through Dec 2025, Japan through Sep 2025, U.K. through Dec 2025.

J.P. Morgan EM Currency Index



Source: Bloomberg. 3 years of weekly data through Feb 06 2026.

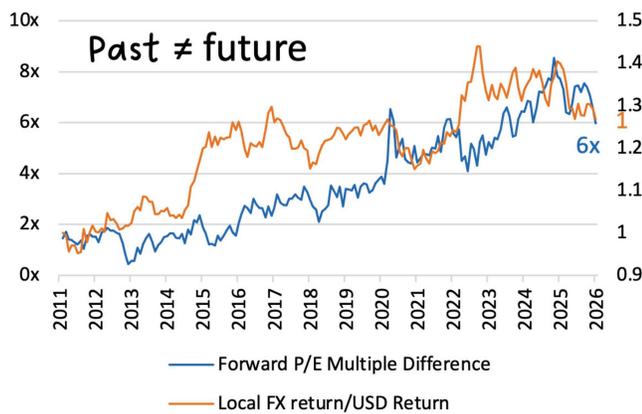


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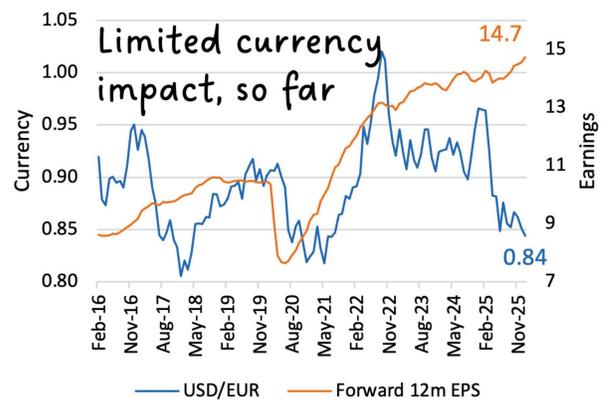
- ▶ We maintain a neutral strategic allocation to developed international equities. We don't expect U.S. dollar or U.S. large cap equity valuations to move higher, which puts developed international markets in a stronger position to compete with U.S. equities. In this environment, earnings and dividends are likely to be the primary drivers of returns.
- ▶ Market breadth has improved across Europe and Japan, with a rising share of stocks trading above their 50-day moving averages and making new highs. This suggests a shift back toward earnings and domestic fundamentals.
- ▶ Currency can be a double-edge sword for U.S. investors. A stronger euro or yen boosts dollar-based returns, but it can weigh on earnings for multinational exporters. As implied on the previous page, currency-driven equity gains are less durable if not supported by improving fundamentals.
- ▶ Euro strength has pressured margins but not demand. Mentions of "foreign exchange" on earnings calls have surged, reflecting corporate concern. However, earnings expectations have been trimmed rather than reset. The currency headwind is primarily margin compression, not a sign of broad economic weakness.
- ▶ After declining for much of last year despite rising rates, the Japanese yen has begun to strengthen. The main driver was the snap election that consolidated Prime Minister Takaichi's position. Her fiscally dovish stance, if implemented, could drive up inflation, rates, and, potentially, the yen. That said, Japanese equities are increasingly influenced by corporate governance reform, shareholder returns, and domestic reflation. As long as the yen rally remains broadly contained, Japan's equity outlook is tied more to structural progress. So far, earnings revision trends have been supportive of this view.
- ▶ Over the long term, developed international equities offer advantages including lower valuations, higher dividend yields, potential currency tailwinds, and less reliance on a narrow group of U.S. mega-cap stocks.

Past International Headwinds



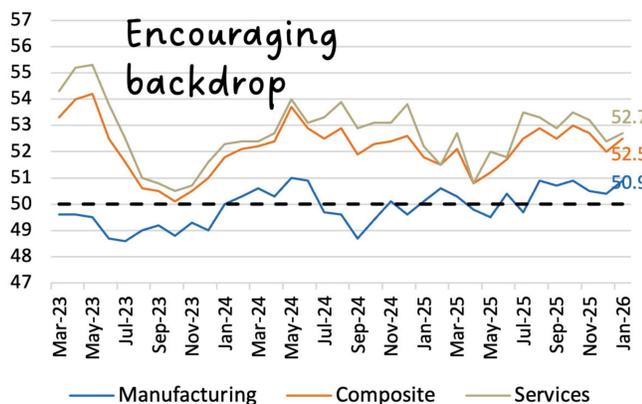
Source: Bloomberg. 15 years of monthly data through Jan 2026. Data based on MSCI EAFE and S&P 500 indices.

European Earnings and Currency



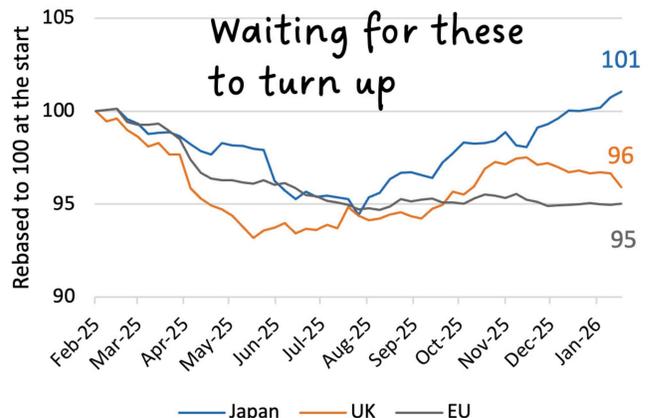
Source: Bloomberg. 10 years of monthly data through Jan 2026.

IHS Markit Global Diffusion Indexes



Source: Bloomberg. 20 years of monthly data through Jan 2026.

2026 EPS Revisions (local currency)



Source: Bloomberg. 6 years of weekly bottom-up analyst estimates through Feb 05 2026.

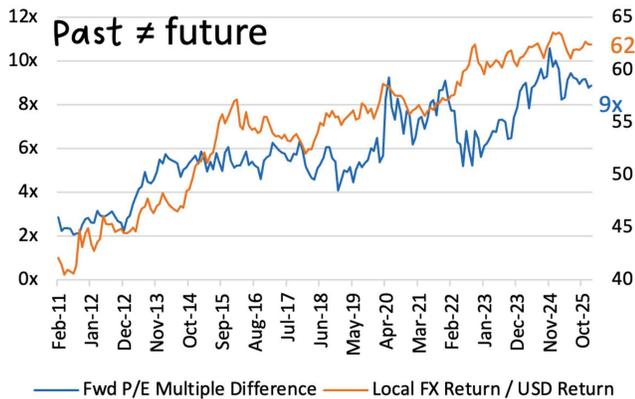


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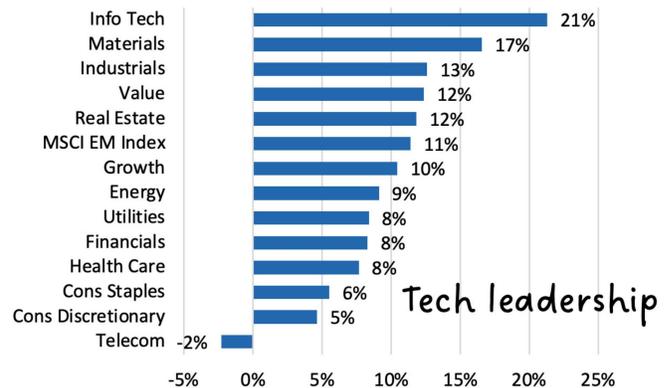
- ▶ We maintain our slight overweight to emerging market (EM) equities, reflecting an attractive risk/reward profile relative to U.S. equities.
- ▶ Currency and valuation headwinds are easing. With these headwinds subsiding, earnings and dividends should increasingly drive EM performance, putting them on more even footing with U.S. stock return drivers.
- ▶ A weaker dollar and additional Fed rate cuts should support EM assets by giving local policymakers more room to stimulate growth, potentially attracting capital flows. In January, capital flows into EM equities and debt approached \$100 billion; the second highest monthly total in the last two decades. Attractive relative valuations, cyclical tailwinds, a weaker dollar, and growing scrutiny of US exceptionalism strengthen the case for investors seeking diversification.
- ▶ EM also provides significant exposure to Technology and AI, the largest weight in the MSCI EM index. The index includes major players in the global AI semiconductor supply chain. And investors gain exposure to China's differentiated approach to AI (open source), which may accelerate adoption and broaden investment opportunities.
- ▶ India recently announced two important trade agreements with the EU and the U.S. While both are structured to be implemented gradually, deeper integration into both the U.S. and European value chains reduces country specific risk and enhances India's structural importance within EM allocations.
- ▶ Earnings revisions for 2026 are improving, though the gains are concentrated in specific industries and companies. The index trades at just 13.4x expected 2026 earnings, a 40% discount to the S&P 500. Lower labor costs and less saturation in technology and services create room for future operating leverage.
- ▶ In summary, EM equities offer diversification and long-term growth potential, despite ongoing risks that come with this volatile asset category.

Past Performance Headwinds



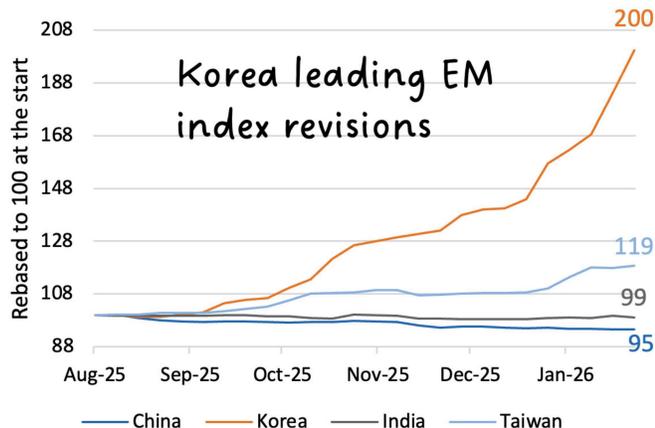
Source: Bloomberg. 15 years of monthly data through Jan 2026. Data based on MSCI EM and S&P 500 indices.

YTD Price Return (in USD) by Sector



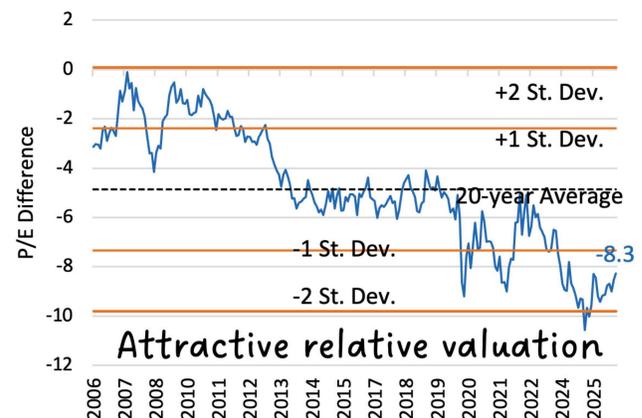
Source: Bloomberg. All data as of Feb 10 2026.

2026 EPS Revisions (local currency)



Source: Bloomberg. 6 months of weekly bottom-up analyst estimates through Feb 05 2026.

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



Source: Bloomberg. 20 years of monthly observations through Jan 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	
	January 2026	YTD	2025	2024	2023	Index Weight	2025	2026
MSCI EAFE	5.2%	5.2%	31.9%	4.3%	18.9%	100%	NA*	NA*
MSCI United Kingdom	5.2%	5.2%	35.1%	7.5%	14.1%	15%	-4%	11%
MSCI Japan	6.6%	6.6%	25.1%	8.7%	20.8%	22%	7%	6%
MSCI Europe	4.3%	4.3%	36.6%	1.0%	22.7%	54%	1%	8%
MSCI EM	8.9%	8.9%	34.4%	8.1%	10.3%	100%	NA*	NA*
MSCI China	4.7%	4.7%	31.4%	19.7%	-11.0%	28%	3%	13%
MSCI India	-5.1%	-5.1%	4.3%	12.4%	21.3%	15%	16%	7%
MSCI Taiwan	11.2%	11.2%	39.8%	35.1%	31.3%	21%	24%	35%
MSCI Korea	28.1%	28.1%	100.8%	-23.1%	23.6%	13%	34%	136%

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
MSCI EAFE	18.0x	58%	17.0x	90%	11.3x	89%	1.8x	100%
MSCI United Kingdom	15.8x	65%	14.4x	74%	9.2x	56%	1.7x	92%
MSCI Japan	18.6x	55%	17.3x	77%	11.1x	86%	1.5x	100%
MSCI Europe	18.1x	52%	16.7x	92%	11.7x	90%	1.9x	99%
MSCI EM	18.3x	87%	13.4x	92%	13.1x	99%	2.0x	98%
MSCI China	15.5x	70%	12.4x	77%	13.1x	86%	1.6x	61%
MSCI India	25.4x	84%	19.1x	83%	18.7x	88%	2.8x	90%
MSCI Taiwan	25.7x	80%	16.5x	96%	17.8x	93%	2.8x	95%
MSCI Korea	21.0x	88%	7.6x	80%	11.9x	100%	1.9x	100%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
MSCI EAFE	2.7%	41%	10.4%	100%	11.5%	73%	2.1	17%
MSCI United Kingdom	3.1%	19%	11.3%	90%	10.9%	41%	2.5	52%
MSCI Japan	1.9%	55%	8.2%	100%	10.0%	96%	-1.3	11%
MSCI Europe	2.8%	44%	10.5%	98%	12.7%	70%	3.6	16%
MSCI EM	2.2%	21%	11.6%	81%	12.9%	59%	2.3	92%
MSCI China	2.0%	25%	11.3%	61%	11.5%	32%	4.4	99%
MSCI India	1.2%	21%	12.3%	76%	16.0%	55%	2.4	45%
MSCI Taiwan	1.8%	27%	11.0%	91%	17.2%	93%	0.2	7%
MSCI Korea	1.1%	8%	9.4%	97%	9.5%	56%	2.6	36%

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 January; 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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