

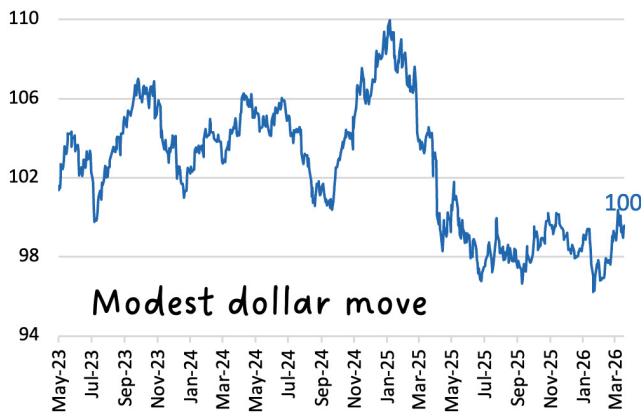


Authors: Crit Thomas, CFA, CAIA / Erik M. Aarts, CIMA / Tim Paulin, CFA

March 27, 2026

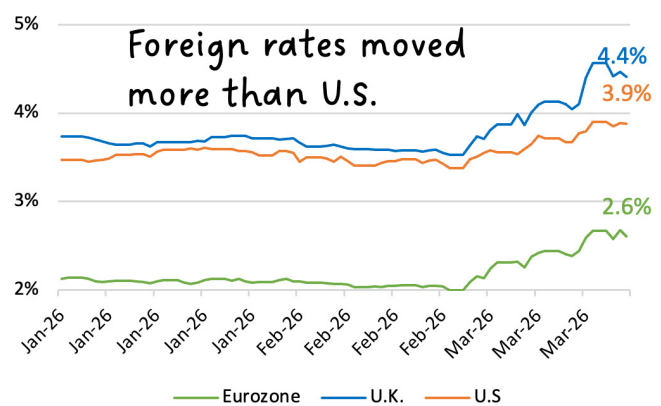
- ▶ The U.S. dollar moved higher with the start of the conflict in Iran. However, the move has been measured and does not resemble the type of sustained, fundamentals-driven appreciation typical of past dollar cycles. We continue to believe that it is unlikely to resume the secular rally that defined much of the past 15 years.
- ▶ Since the start of the conflict, rates for most countries have moved higher than U.S. rates. In isolation this would lead to a weaker dollar. The recent move in the dollar appears to be more about a flight to safety and we expect it to reverse once the conflict ends.
- ▶ The longer-term trend remains one of gradual diversification away from the dollar. While the dollar still accounts for roughly 58% of global reserves, near multi-decade lows, both geopolitical considerations and policy uncertainty continue to 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. Trade tensions, an increasingly isolationist posture, and the continued use of financial sanctions have heightened sensitivity to dollar dependence, even among traditional allies. These dynamics are structural and unlikely to reverse quickly.
- ▶ The trajectory of the U.S. budget deficit and the absence of credible fiscal consolidation continue to weigh on longer-term confidence in the dollar.
- ▶ Currency moves driven by risk aversion tend to be temporary and less supportive of global growth. In contrast, sustained dollar strength typically requires stronger U.S. fundamentals, which remain less compelling at current valuations.
- ▶ 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 the case for U.S.-based investors to maintain exposure to international equities.

U.S. Dollar Index



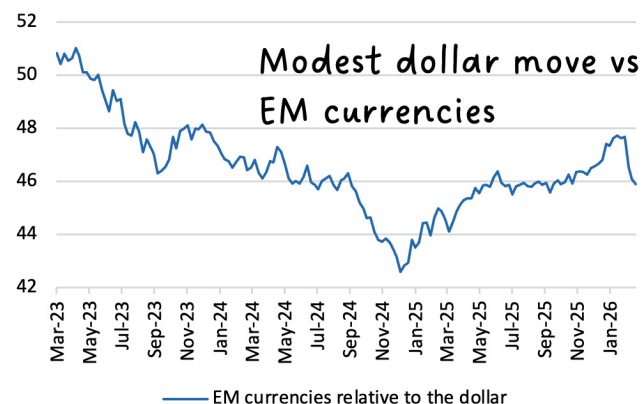
Source: Bloomberg. 3 years of daily data through Mar 25 2026.

2-year Sovereign Rates



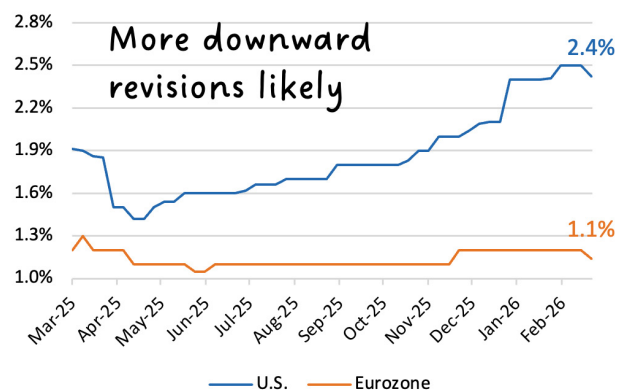
Source: Bloomberg. Year-to-date daily data through March 25, 2026.

J.P. Morgan EM Currency Index



Source: Bloomberg. 3 years of weekly data through Mar 20 2026.

2026 GDP Forecast



Source: Bloomberg. 1 year of weekly data through Mar 20 2026. Based on Bloomberg's survey of economists.

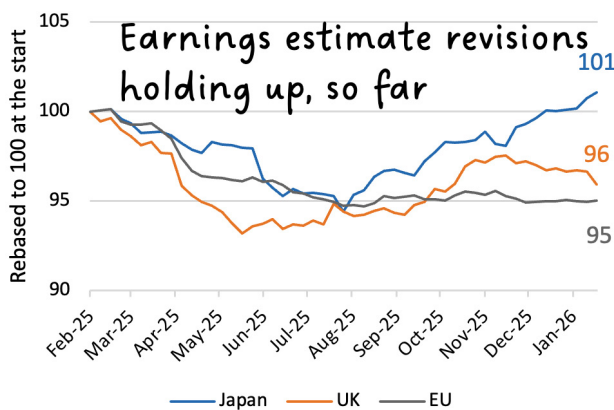


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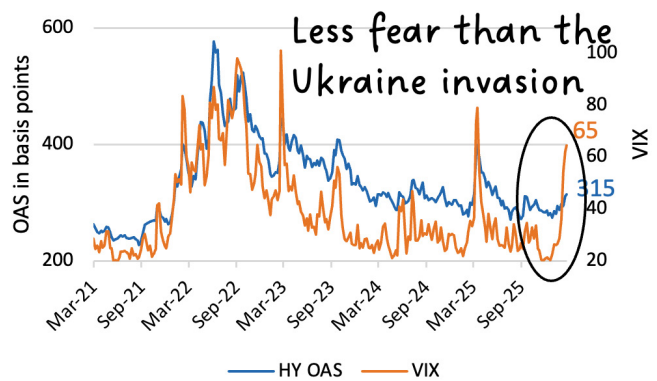
- ▶ We maintain a neutral strategic allocation to developed international equities. While the Iran conflict has introduced a new source of uncertainty, we do not view it as sufficient to alter the broader investment case.
- ▶ The primary risk channel is energy, though Europe and the UK are better positioned than in prior crises. Since the Russian invasion of Ukraine, energy sourcing has become more diversified, LNG capacity has expanded, and policymakers have demonstrated a greater willingness to adjust demand and storage requirements in real time.
- ▶ That said, the scale of the disruption can't be ignored. The IEA has characterized the current situation as a significant global energy shock, with potential supply disruptions lasting months. If sustained, this could place upward pressure on input costs and weigh on margins, particularly for energy-intensive industries.
- ▶ From an earnings perspective, recent results have been better than feared but remain uneven. European companies delivered modest EPS growth, though participation has narrowed and revenue trends remain soft. Meanwhile, Japanese companies saw strong EPS growth driven by margin expansion.
- ▶ Importantly, the MSCI EAFE index includes exposure to energy producers, which can benefit from higher prices, and many large cap constituents generate a significant share of revenues globally. As a result, earnings outcomes are not solely dependent on domestic economic conditions.
- ▶ Fiscal policy is also becoming more supportive. Increased defense spending and broader industrial policy initiatives are providing a tailwind to growth that can help offset some of the drag from higher energy costs.
- ▶ 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.

2026 EPS Revisions (local currency)



Source: Bloomberg. 6 months of weekly bottom-up analyst estimates through Mar 18 2026.

EU: High Yield OAS and Equity Implied Volatility



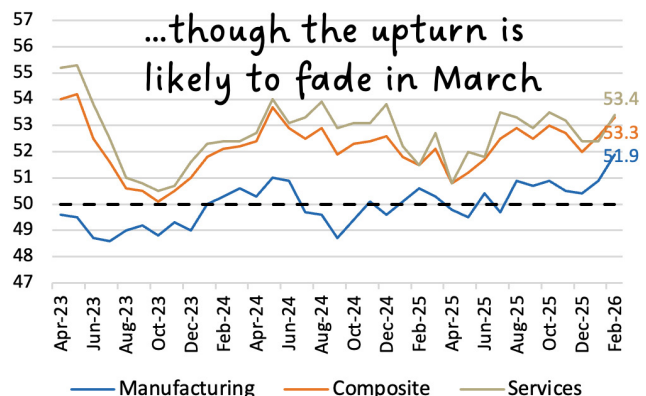
Source: Bloomberg. 5 years of weekly data through Mar 20 2026.

Eurozone Earnings Cycles



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

IHS Markit Global Diffusion Indexes



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

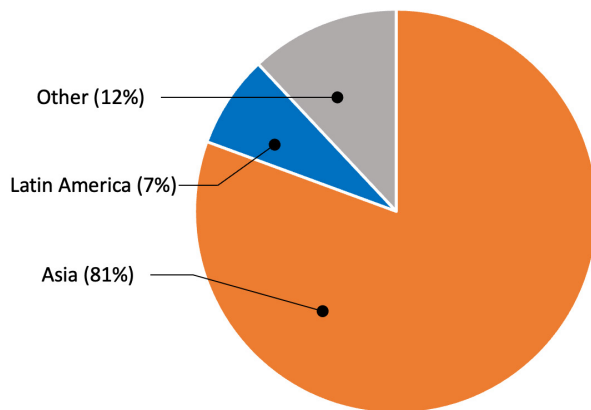


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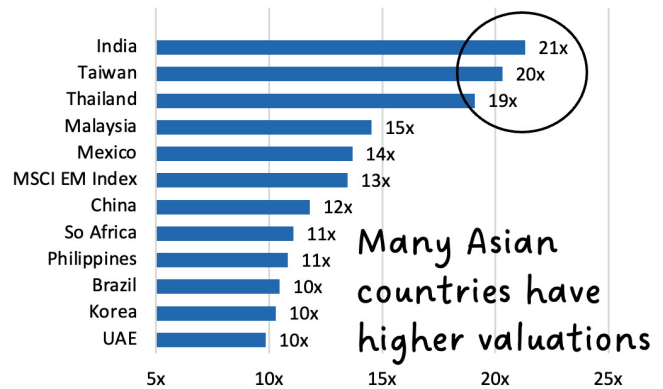
- ▶ We have shifted from a slight overweight to a slight underweight in emerging market (EM) equities. While the long-term case for EM remains intact, near-term risks have increased, driven primarily by the energy shock stemming from the Iran conflict.
- ▶ Asia represents roughly 80% of the MSCI EM Index and is particularly exposed given its reliance on imported energy from the Middle East. Disruptions to the Strait of Hormuz are raising prices and constraining physical access to supply.
- ▶ Even in a de-escalation scenario, repairs to key energy facilities and the normalization of trade flows will take time, suggesting that elevated costs are likely to persist longer than the conflict itself.
- ▶ Other important imports from the middle east include helium and fertilizer, critical inputs for semiconductors and agriculture. Asia's heavy fertilizer usage and limited helium stockpiles, particularly for semiconductor production, increase vulnerability.
- ▶ China appears relatively better positioned, supported by higher energy reserves and signs of improving domestic momentum. Recent data point toward healthy exports and state-led investment.
- ▶ In contrast, more energy-dependent economies such as India face greater near-term headwinds. Even with resolution, supply disruptions and higher input costs are expected to linger, limiting the scope for a rapid recovery.
- ▶ 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 the current environment introduces greater near-term uncertainty, warranting our more cautious positioning.

MSCI EM Index Regional Exposure



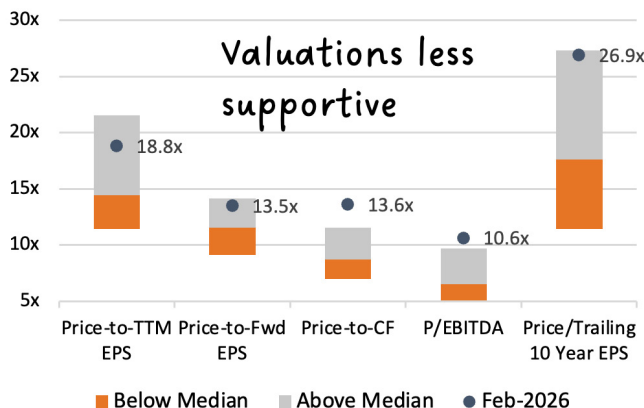
Source: MSCI. Data as of Feb 2026.

Forward P/E by Country



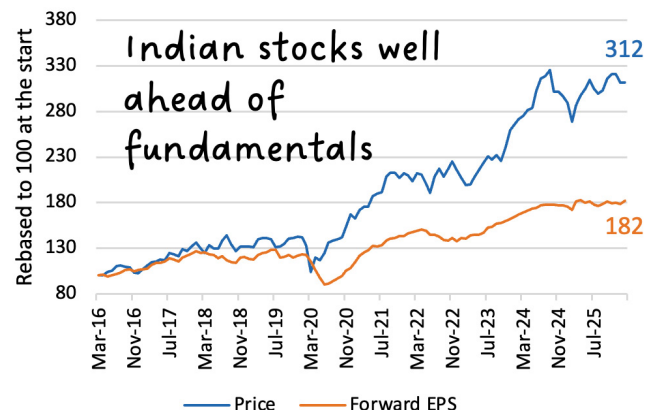
Source: MSCI EM index data as of Mar 23 2026.

MSCI EM Index Valuation Ranges



Source: Bloomberg. Monthly data starting in 1996. The minimum and maximum ranges are set to the 5th and 95th percentiles, respectively, to remove outliers. Average percentile rank: 95% as of Feb 2026.

MSCI India Index (local currency)



Source: Bloomberg. 10 years of monthly data through Feb 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	
	February 2026	YTD	2025	2024	2023	Index Weight	2026	2027
MSCI EAFE	4.6%	10.1%	31.9%	4.3%	18.9%	100%	NA*	NA*
MSCI United Kingdom	5.1%	10.5%	35.1%	7.5%	14.1%	15%	14%	9%
MSCI Japan	8.6%	15.7%	25.1%	8.7%	20.8%	22%	10%	10%
MSCI Europe	2.8%	7.1%	36.6%	1.0%	22.7%	54%	9%	11%
MSCI EM	5.5%	14.9%	34.4%	8.1%	10.3%	100%	NA*	NA*
MSCI China	-5.8%	-1.3%	31.4%	19.7%	-11.0%	24%	10%	15%
MSCI India	1.4%	-3.7%	4.3%	12.4%	21.3%	13%	10%	13%
MSCI Taiwan	12.8%	25.3%	39.8%	35.1%	31.3%	23%	36%	22%
MSCI Korea	22.1%	56.4%	100.8%	-23.1%	23.6%	18%	181%	22%

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
MSCI EAFE	18.8x	64%	14.1x	93%	11.9x	92%	2.0x	100%
MSCI United Kingdom	16.9x	73%	12.2x	79%	10.0x	78%	1.8x	94%
MSCI Japan	20.5x	63%	15.5x	86%	12.3x	92%	1.7x	100%
MSCI Europe	18.6x	56%	14.0x	93%	12.1x	93%	1.9x	99%
MSCI EM	18.8x	89%	10.3x	91%	13.6x	99%	2.2x	98%
MSCI China	14.4x	58%	9.9x	59%	12.1x	77%	1.5x	56%
MSCI India	25.4x	84%	17.0x	82%	18.7x	88%	2.8x	88%
MSCI Taiwan	27.5x	82%	16.0x	97%	19.3x	95%	3.2x	98%
MSCI Korea	23.7x	91%	6.5x	71%	13.9x	100%	2.3x	100%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
MSCI EAFE	2.6%	37%	10.5%	100%	11.6%	75%	2.2	19%
MSCI United Kingdom	2.9%	17%	11.3%	90%	10.9%	41%	2.6	53%
MSCI Japan	1.8%	44%	8.2%	100%	9.5%	87%	-0.7	18%
MSCI Europe	2.7%	41%	10.6%	99%	12.7%	69%	3.5	16%
MSCI EM	2.1%	5%	11.6%	81%	12.9%	58%	2.3	93%
MSCI China	2.1%	31%	11.3%	61%	11.5%	32%	4.5	100%
MSCI India	1.2%	22%	12.2%	79%	16.0%	61%	2.4	46%
MSCI Taiwan	1.6%	26%	12.0%	95%	18.1%	96%	-0.2	1%
MSCI Korea	0.9%	1%	10.6%	100%	10.8%	71%	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 February; 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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