Touchstone Investments®
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International Equities

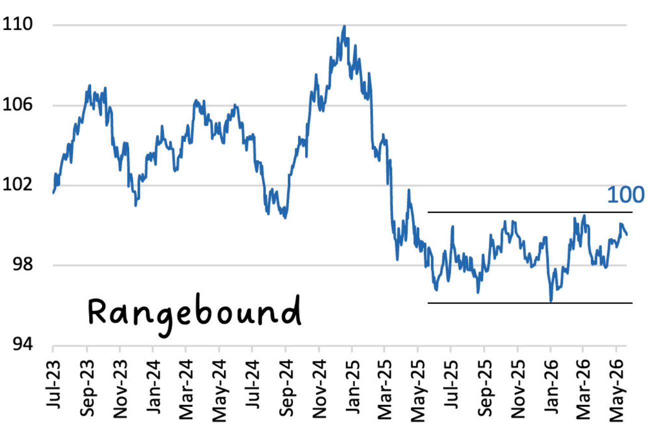
Currency Backdrop

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

June 17, 2026

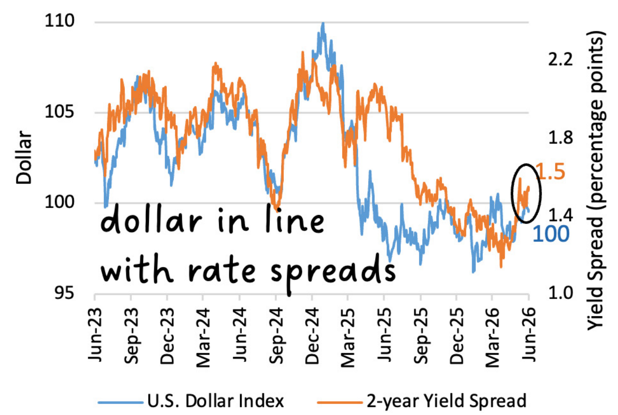
- Despite geopolitical stress that would typically support the dollar, it has remained broadly flat year-to-date, reflecting a balance of forces: still-supportive but no longer widening interest rate differentials; less concentrated safe-haven demand; and a gradual erosion of U.S. macro advantages at the margin.
- The U.S. Dollar Index has been range bound between 97 and 100 over the past year. While short-term dollar moves have generally tracked news surrounding the Strait of Hormuz, the magnitude of those dollar moves has been far smaller than the swings in oil, suggesting only a partial linkage between the two.
- The dollar rallied in May and into early June, supported by better-than-expected U.S. economic data and rising cost pressures that led investors to consider the possibility of Fed rate hikes. While these forces may keep the dollar near the upper end of its recent range, we do not yet see a compelling catalyst for a sustained breakout.
- More recently, a fragile truce with Iran has contributed to a modest dollar selloff. A reopening of the Strait would likely lower oil-related risk premiums, improve global risk appetite, and remove an important source of near-term dollar support.
- Over the longer term, we continue to believe the backdrop for the dollar remains challenged. Large fiscal deficits, elevated policy uncertainty, and gradual reserve diversification away from the dollar remain meaningful structural headwinds.
- Taken together, while near-term dollar movements may continue to swing with geopolitical headlines and relative interest rates, 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 backdrop for U.S.-based investors maintaining exposure to international equities.

U.S. Dollar Index



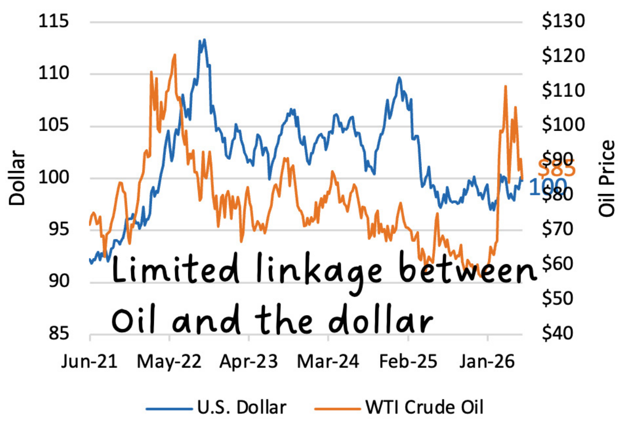
Source: Bloomberg. 3 years of daily data through Jun 16, 2026.

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



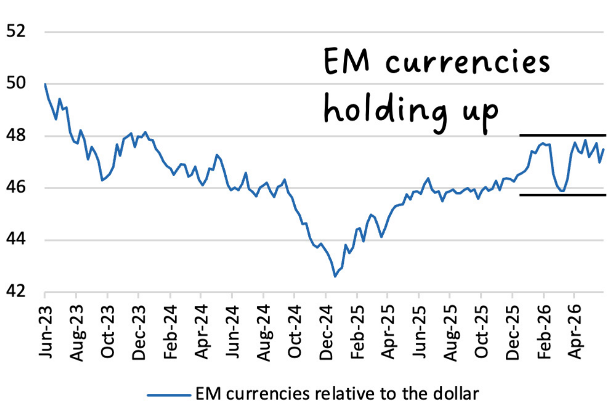
Source: Bloomberg. 3 years of daily data through Jun 15, 2026. The weighted yield spread is the difference between U.S. 2-year Treasury yields and the weighted average of 2-year yields from countries in the dollar index.

U.S. Dollar and Oil Prices



Source: Bloomberg. 5 years of weekly data through Jun 12, 2026. West Texas Intermediate (WTI) crude is primarily sourced in the U.S. Permian Basin.

J.P. Morgan EM Currency Index



Source: Bloomberg. 3 years of weekly data through Jun 12, 2026.

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Developed Ex-U.S.

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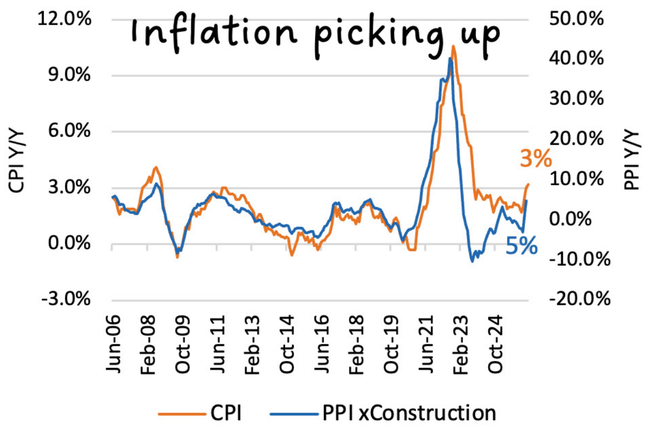
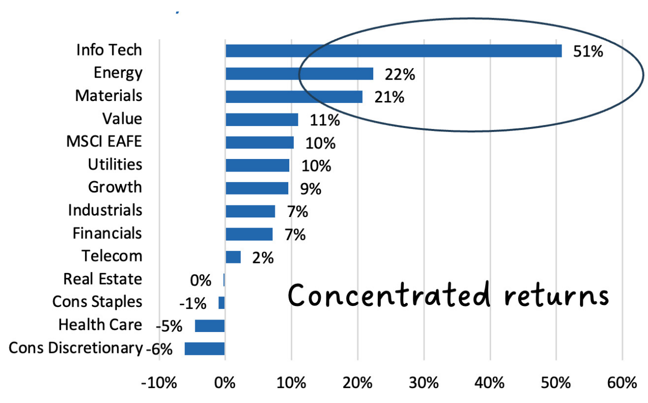
- We maintain a neutral strategic allocation to developed international equities. We believe the reopening of the Strait would likely improve the macro backdrop by reducing energy costs and easing inflation pressures, although higher European interest rates and an increasingly concentrated earnings picture keep us from getting too excited.
- The resilience of the euro during the extended Strait closure suggests Europe may not be as fragile as the macro narrative suggests. Historically, a combination of higher energy costs, slowing growth, rising inflation, and rising expectations for ECB tightening would likely have produced a weaker euro.
- That said, several of Europe's earlier sources of return strength–including autos, financials, luxury, and defense–appear less durable than they did earlier in the year. In addition, energy has been one of the largest contributors to positive earnings revisions, and falling oil prices may reduce that support going forward.
- Beyond Energy, the earnings growth story is becoming increasingly narrow. Just like here in the U.S., AI and AI infrastructure stocks are becoming a growing share of earnings growth and returns. Unlike the U.S., those companies make up a much smaller portion of the index.
- Japan presents a more encouraging picture. Consensus 2026 earnings estimates have seen strong upward revisions relative to Europe, supported by AI-related businesses and financials (due to rising rates). Japan has a number of companies that have strong global positions in automation, robotics, and semiconductor equipment which stand to benefit from AI spending and broader digitalization trends. Importantly, earnings revisions and market performance have shown broader participation across sectors than we are seeing in Europe.
- 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.

Eurozone Inflation Measures



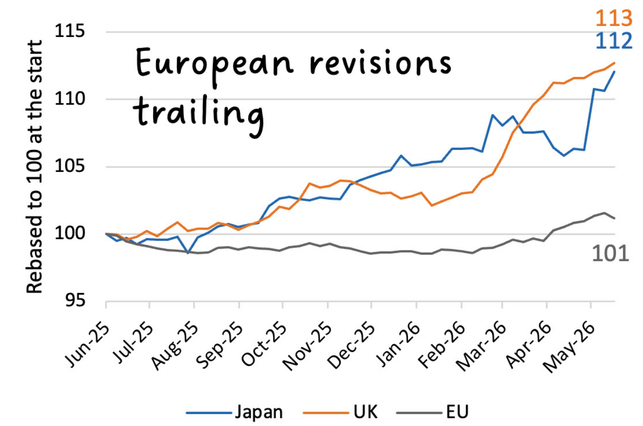
Source: Bloomberg. 20 years of monthly data through May 2026.

YTD Total Return (in USD) by Sector (MSCI EAFE Index)



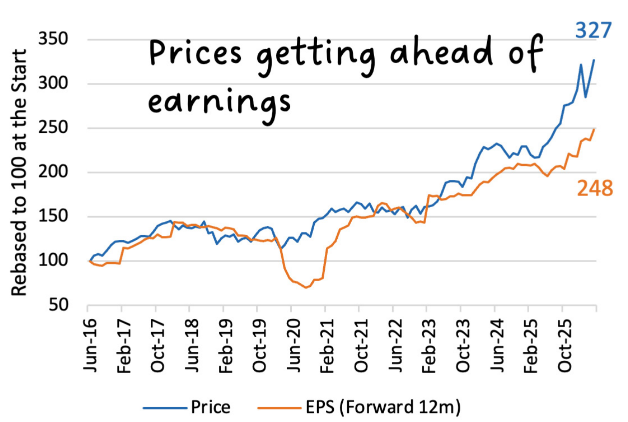
Source: Bloomberg. Data as of Jun 12 2026.

2026 EPS Revisions (local currency)



Source: Bloomberg. 6 months of weekly bottom-up analyst estimates through Jun 09 2026.

MSCI Japan Index (local currency)



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

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Emerging Markets

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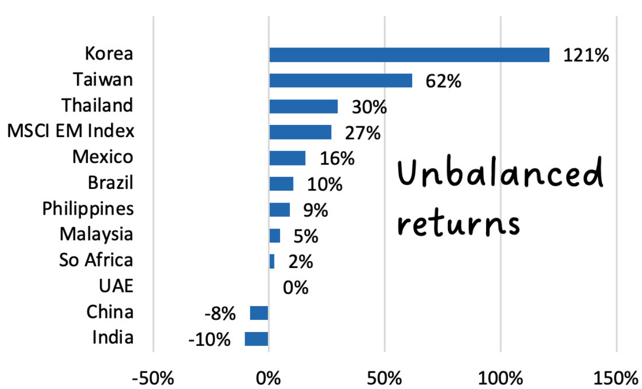
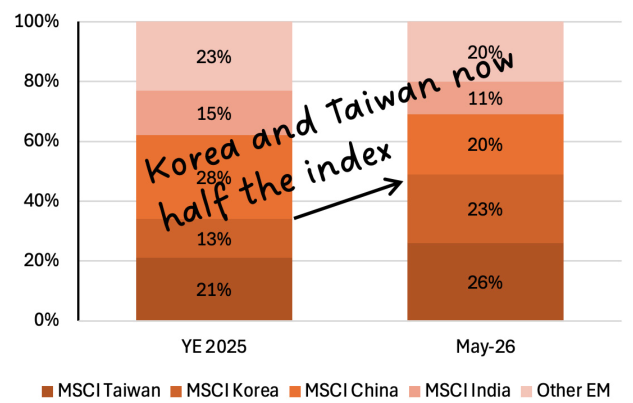
- Emerging markets have a more complicated picture. In late March we tactically reduced our emerging market (EM) allocation because we believed a prolonged closure of the Strait of Hormuz would disproportionately affect many EM economies. We became increasingly concerned about elevated near-term risks stemming primarily from the energy shock tied to the Iran conflict.
- Asia represents roughly 80% of the MSCI EM index and remains particularly exposed because of its dependance on imported Middle Eastern energy. Disruptions to the Strait of Hormuz raised energy costs and created meaningful headwinds for growth, inflation, and external balances across the region.
- While that assessment proved broadly correct from an economic perspective, it did not lead to relative market underperformance. Instead, EM outperformed with returns becoming increasingly concentrated in a small number of AI-related semiconductor companies: TSMC, Samsung, and SK Hynix. Excluding those three stocks, the broader EM index looked much weaker. At the same time, they cannot now be ignored, as together they account for nearly 30% of the index. Even a passive investor is implicity taking active bets on these three stocks.
- Looking ahead, the gradual reopening of the Strait removes an important macro headwind for many EM economies and should improve the outlook for energy importing countries across Asia.
- However, we are not yet convinced this warrants a return to an overweight position. EM leadership is now unusually narrow, with a handful of stocks driving a disproportionate share of returns. While semiconductor demand remains strong, the pace of recent outperformance may be difficult to sustain given elevated expectations.
- We also note that economic conditions in China have softened despite efforts to minimize the impact of higher oil prices. As such, lower oil prices may not provide the same degree of support for China that may be seen in other Asian countries.
- Taken together, while a reopening of the Strait may benefit a number of EM economies, narrow leadership and divergent country level fundamentals support our slightly more cautious tactical positioning.

YTD Total Returns (in USD) by Country

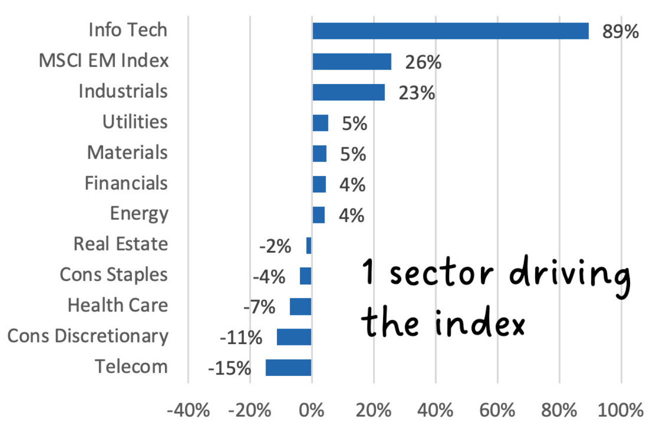


Source: Bloomberg. MSCI EM index data as of Jun 12, 2026.

MSCI EM Index: YTD Weight Changes

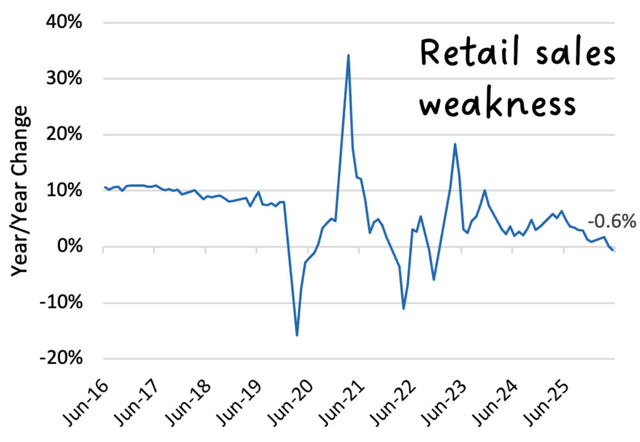


YTD Price Return by Sector



Source: Bloomberg. MSCI EM index data as of Jun 12 2026.

China Retail Sales



Source: Bloomberg. 10 years of monthly observations through May 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

	May 2026	YTD	2025	2024	2023	Index Weight	EPS Growth Estimate 2026	EPS Growth Estimate 2027
MSCI EAFE	**3.2%**	**9.7%**	**31.9%**	**4.3%**	**18.9%**	**100%**	**NA***	**NA***
MSCI United Kingdom	-0.3%	7.0%	35.1%	7.5%	14.1%	14%	21%	6%
MSCI Japan	5.0%	16.3%	25.1%	8.7%	20.8%	24%	13%	15%
MSCI Europe	3.7%	7.4%	36.6%	1.0%	22.7%	53%	11%	9%
MSCI EM	**9.7%**	**25.7%**	**34.4%**	**8.1%**	**10.3%**	**100%**	**NA***	**NA***
MSCI China	-3.0%	-8.5%	31.4%	19.7%	-11.0%	20%	6%	16%
MSCI India	-0.6%	-11.1%	4.3%	12.4%	21.3%	11%	7%	13%
MSCI Taiwan	16.5%	60.5%	39.8%	35.1%	31.3%	26%	47%	26%
MSCI Korea	35.3%	118.2%	100.8%	-23.1%	23.6%	23%	323%	34%

Valuations

	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
MSCI EAFE	**18.3x**	**61%**	**15.2x**	**87%**	**11.6x**	**90%**	**1.9x**	**99%**
MSCI United Kingdom	15.7x	62%	12.3x	55%	9.3x	60%	1.7x	92%
MSCI Japan	20.9x	65%	16.6x	80%	12.7x	94%	1.7x	99%
MSCI Europe	18.1x	52%	15.4x	88%	11.7x	90%	1.9x	99%
MSCI EM	**18.6x**	**88%**	**10.7x**	**71%**	**14.1x**	**99%**	**2.3x**	**99%**
MSCI China	13.7x	48%	10.1x	44%	11.5x	72%	1.4x	42%
MSCI India	24.3x	80%	18.5x	75%	18.5x	86%	2.6x	80%
MSCI Taiwan	31.9x	86%	20.0x	97%	23.6x	98%	3.8x	99%
MSCI Korea	21.9x	88%	6.7x	20%	15.1x	100%	3.1x	100%

Fundamentals

	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
MSCI EAFE	**2.7%**	**40%**	**10.8%**	**100%**	**11.8%**	**78%**	**2.3**	**20%**
MSCI United Kingdom	3.2%	26%	11.4%	91%	12.3%	50%	2.0	37%
MSCI Japan	1.8%	48%	8.6%	100%	9.9%	94%	-0.7	17%
MSCI Europe	2.9%	44%	10.8%	99%	12.8%	70%	3.9	22%
MSCI EM	**1.9%**	**2%**	**12.5%**	**88%**	**13.6%**	**71%**	**2.1**	**79%**
MSCI China	2.3%	48%	10.5%	27%	10.7%	24%	4.7	100%
MSCI India	1.3%	29%	12.2%	85%	15.3%	47%	2.3	30%
MSCI Taiwan	1.3%	22%	12.1%	96%	18.2%	96%	0.2	8%
MSCI Korea	0.7%	0%	14.3%	100%	13.7%	89%	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 May; EPS growth estimates based on consensus bottom-up analyst estimates.

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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.

A Word About Risk

Investing in equities is subject to market volatility and loss. Investing in foreign and emerging markets securities carry the associated risks of economic and political instability, market liquidity, currency volatility and accounting standards that differ from those of U.S. markets and may offer less protection to investors. The risks associated with investing in foreign markets are magnified in emerging markets due to their smaller economies. Events in the U.S. and global financial markets, including actions taken to stimulate or stabilize economic growth may at times result in unusually high market volatility, which could negatively impact asset class performance. Banks and financial services companies could suffer losses if interest rates rise or economic conditions deteriorate.

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