

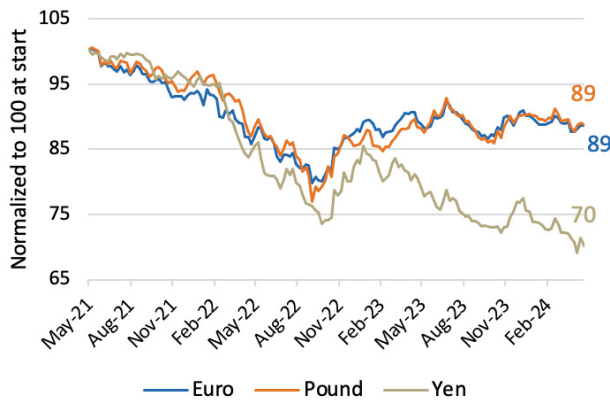


Authors: Crit Thomas, CFA, CAIA / Erik M. Aarts, CIMA / Brian Cheyne, CFA, CIMA

MAY | 2024

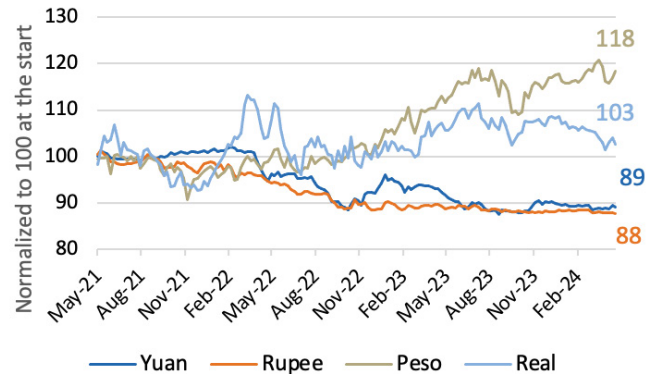
- ▶ Is that it? Since the higher-than-expected March CPI report that came out in April, the dollar index is up less than 1% (through May 14). That inflation report refuted Chair Powell's assertion that January and February's higher-than-expected inflation readings were likely just bumps. This pushed out the timing of the anticipated Fed pivot.
- ▶ Many have been concerned that the ECB and BoE may cut rates before the Fed does, thinking that it would put upward pressure on the dollar. But now, that scenario appears to be well-telegraphed, and the dollar has been contained.
- ▶ We believe that going forward, the dollar will be less of a headwind for international investors versus the euro and the pound, and could turn into a tailwind. The dollar index has not made a new high since it peaked in October 2023. This is despite significant strengthening versus the yen and the changed perception of the timing of a Fed pivot. The dollar looks overvalued on a fair value basis and there are structural headwinds in the form of growing dual U.S. trade and fiscal deficits.
- ▶ The March CPI report appeared to have even less impact on emerging market currencies. The MSCI EM Currency Index, whose country weights are based on the MSCI EM Equity Index, is unchanged since that CPI release date.
- ▶ China's yuan is the largest weight and China effectively manages their currency. The yuan looks overvalued versus the dollar given the wide interest rate differential. Yet China has been reluctant to let the yuan fall as it would harm trade optic.

Developed Currencies versus the Dollar



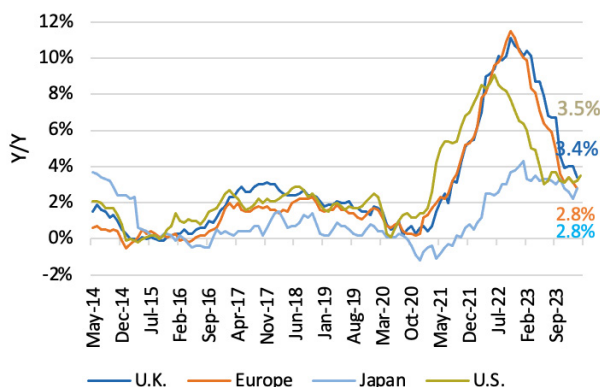
Source: Bloomberg. 3 years of weekly data through May 2024.

Emerging Market Currencies versus the Dollar



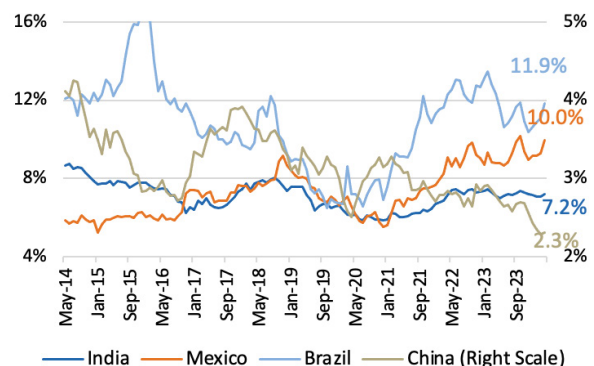
Source: Bloomberg. 3 years of weekly data through May 2024.

Headline Inflation (CPI by Region)



Source: Bloomberg. 10 years of monthly data through U.K. through Mar 2024, Europe through Mar 2024, Japan through Mar 2024, U.S. through Mar 2024.

10 Year Government Yields

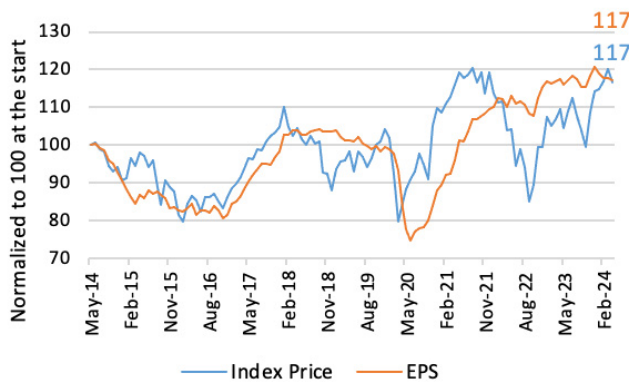


Source: Bloomberg. 10 years of monthly data through Apr 2024.



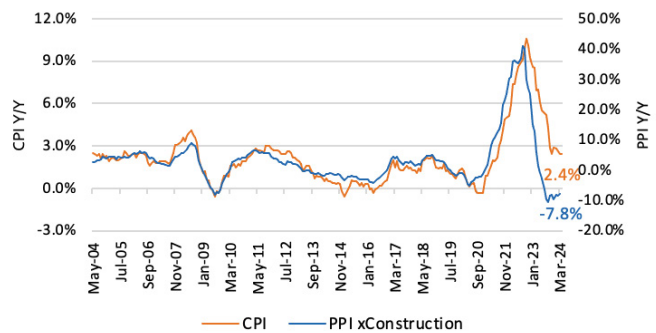
- ▶ We slightly reduced our underweight to developed international equities. We believe an opportunity for European outperformance may come in the second half of the year assuming central bank rate cuts.
- ▶ Through May 14, earnings for the MSCI EAFE Index have come in better than expected.
- ▶ 74% of the companies in the MSCI EAFE Index have reported 1Q EPS so far. 58% reported better than expected EPS, which is a good percentage as most international companies avoid the guidance game used by U.S. companies. It is also an improvement over the previous quarter.
- ▶ Representation of earnings surprises by sector was evenly distributed with most sectors reporting a surprise percentage near the overall average with only 2 lagging sectors: Communications and Utilities.
- ▶ By region, Europe had the greatest percentage of companies reporting with 57% of them surprising to the upside. Earnings from Japan are coming in at 59% above expectations, though we are still waiting on several Financial sector companies to report.
- ▶ Earnings revisions for 2024 have begun to move higher, though earnings are still expected to come in below 2023. As we move through the year, the focus will begin to shift toward 2025 where growth estimates remain modest. Given easier comparisons and expected monetary policy support (namely in Europe), we see the potential for 2025 earnings upside.

MSCI EAFE Index Price and Forward EPS



Source: Bloomberg. 10 years of monthly data through Apr 2024

Eurozone Inflation Measures



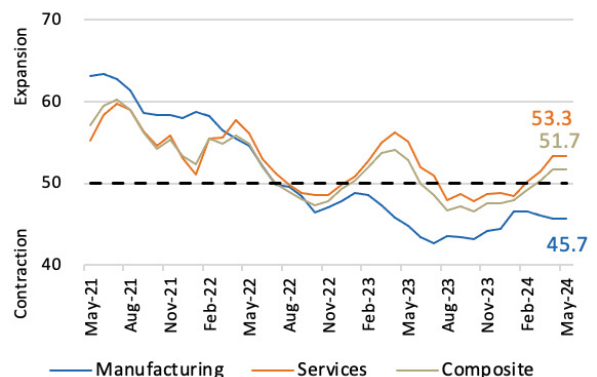
Source: Bloomberg. 20 years of monthly data through Apr 2024

Eurozone Earnings Cycles



Source: Bloomberg. 20 years of monthly data through Apr 2024. Order book data advanced 6 months.

Eurozone: IHS Markit Diffusion Indexes

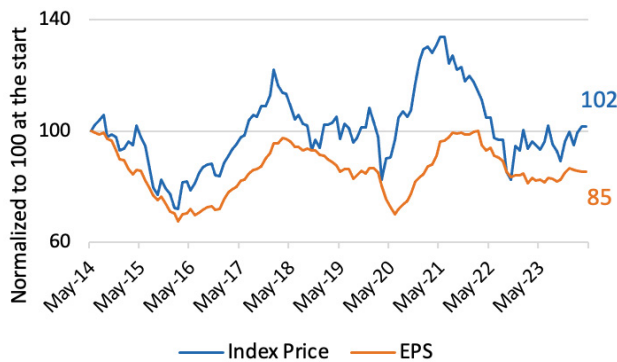


Source: Bloomberg. 20 years of monthly data through May 2024



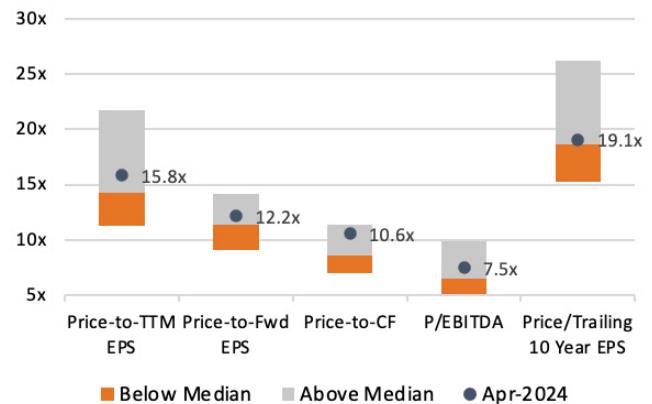
- ▶ We remain neutrally weighted in emerging market equities, but do have moderate concerns surrounding the potential for a prolonged Fed pause. We have already seen the Indonesian central bank raise rates to support their currency.
- ▶ Earnings reports through May 14 for companies in the MSCI EM index have been slightly disappointing. Of the 84% of companies that reported, just 46% had better-than-expected earnings. However, it was an improvement over the previous quarter.
- ▶ The Energy, Communications, and Real Estate sectors saw the greatest number of earnings misses. By country, China had the least number of upside surprises, and the Communication and Real Estate sectors have a high representation of Chinese companies.
- ▶ The Consumer Staples, Financials, and Healthcare sectors saw the greatest number of earnings surprises. By country, Korea, Taiwan, Mexico, and Brazil all posted better-than-average upside surprises.
- ▶ Earnings growth for the index is on track to be 2% for the quarter. It doesn't sound like much, but earnings declined by double digits in each of the last 2 years. This past earnings strain is making historical valuations look abnormally high.
- ▶ Earnings growth is expected to accelerate through the rest of this year and next. Using current bottom-up analysts' estimates, the MSCI EM Index is expected to grow EPS 18% this year and 15% in 2025.

MSCI EM Index Price and Forward EPS (in USD)



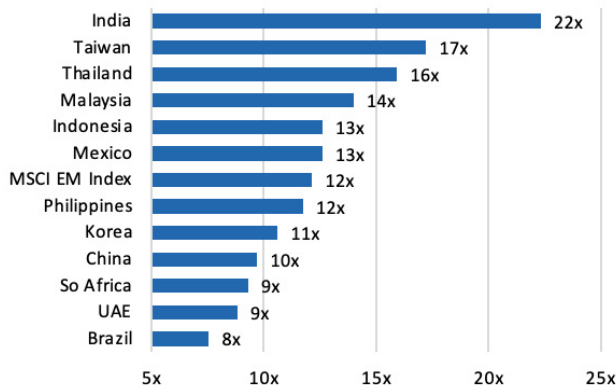
Source: Bloomberg. 10 years of monthly data through Apr

MSCI EM Index Valuation Ranges



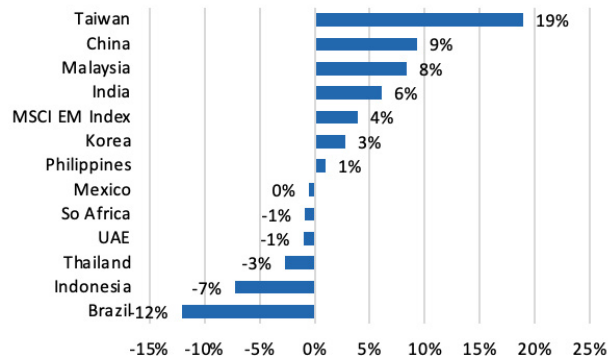
Source: Bloomberg. Monthly data starting in 1996. The minimum and maximum ranges are set to the 5th and 95th percentiles, respectively, to remove outliers. Average percentile rank: 75% as of Apr 2024.

Forward P/E by Country



Source: Bloomberg. Data as of May 09 2024

YTD Price Returns (in USD) by Country



Source: Bloomberg. Data as of May 09 2024



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MAY | 2024

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	
	April 2024	YTD	2023	2022	2021	Index Weight	2024	2025
MSCI EAFE	-2.6%	3.1%	18.2%	-14.5%	11.3%	100%	-2%	8%
MSCI United Kingdom	2.8%	7.0%	7.7%	7.2%	19.6%	14%	-9%	5%
MSCI Japan	-4.9%	5.6%	20.3%	-16.7%	1.7%	23%	12%	8%
MSCI Europe	-3.0%	2.7%	19.9%	-15.1%	16.3%	47%	-5%	10%
MSCI EM	0.4%	2.8%	9.8%	-20.1%	-2.5%	100%	18%	15%
MSCI China	6.6%	4.3%	-11.2%	-21.9%	-21.7%	24%	13%	13%
MSCI India	2.3%	8.5%	20.8%	-8.0%	26.2%	18%	34%	15%
MSCI Taiwan	-2.3%	9.8%	30.4%	-29.8%	26.1%	17%	21%	19%
MSCI Korea	-5.8%	-4.2%	23.2%	-29.4%	-8.4%	12%	20%	25%

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
MSCI EAFE	15.5x	27%	15.0x	56%	9.9x	70%	1.4x	94%
MSCI United Kingdom	12.5x	20%	12.2x	31%	8.0x	23%	1.3x	69%
MSCI Japan	16.7x	43%	16.6x	66%	9.8x	70%	1.2x	99%
MSCI Europe	15.8x	30%	15.4x	65%	10.4x	78%	1.6x	93%
MSCI EM	15.8x	73%	12.9x	73%	10.6x	91%	1.4x	63%
MSCI China	12.7x	33%	10.7x	24%	10.6x	67%	1.1x	20%
MSCI India	25.9x	92%	23.1x	96%	19.1x	95%	2.8x	92%
MSCI Taiwan	22.7x	73%	19.0x	92%	13.5x	79%	2.0x	78%
MSCI Korea	20.9x	87%	10.9x	76%	8.3x	84%	0.9x	92%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
MSCI EAFE	3.0%	52%	8.1%	87%	11.1%	74%	1.2	5%
MSCI United Kingdom	3.8%	59%	7.7%	60%	11.4%	42%	0.6	9%
MSCI Japan	1.9%	60%	6.9%	94%	9.4%	88%	-1.3	7%
MSCI Europe	3.0%	52%	8.6%	91%	12.7%	74%	2.4	2%
MSCI EM	2.7%	71%	8.3%	40%	10.5%	24%	1.9	84%
MSCI China	2.7%	65%	8.2%	11%	9.8%	19%	2.7	96%
MSCI India	1.1%	13%	9.7%	56%	15.8%	49%	2.7	65%
MSCI Taiwan	2.6%	37%	8.3%	63%	12.2%	52%	0.3	12%
MSCI Korea	2.1%	79%	4.7%	41%	6.0%	25%	3.0	66%

For Index Definitions see: [TouchstoneInvestments.com/insights/investment-terms-and-index-definitions](https://www.touchstoneinvestments.com/insights/investment-terms-and-index-definitions)

Source: Bloomberg. Percent ranks are based on 30 years of monthly data as of the end of April; 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 Brian Cheyne, CFA, CIMA – Senior Investment Strategy Specialist, 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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