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December 16, 2024

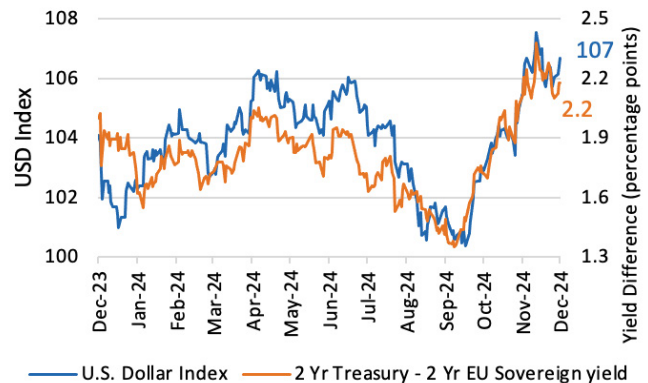
- ▶ The dollar may retest its 2022 highs in 2025. While we initially believed the rally was over, a GOP sweep introduced near-term factors such as deregulation, lower taxes, and tariffs that could strengthen the dollar.
- ▶ Trump has expressed a desire for a weaker U.S. dollar, though many of his policy proposals would work against that wish. There are longer-term currency drivers that would support a weaker dollar, such as fair value measures and a widening budget deficit. However, relative interest rates and tariffs that favor the dollar will likely prevail in the short term.
- ▶ Looking back at the first Trump term, the dollar rose nearly 15% after tariffs were introduced in 2018. While tariffs weren't the sole factor, they were important. We are more concerned about the tariff proposals outlined during this campaign as they were significantly greater than seen previously.
- ▶ We also expect dollar strength against emerging markets. During the last tariff war with China, the yuan fell about 10%. Current policy proposals suggest greater pressure on China, and broader risks to other emerging markets due to potential cross-the-board tariffs.
- ▶ Our cautious stance on international currencies reflects uncertainties surrounding policy implementation and monetary actions. The outcomes will depend heavily on how closely the Trump administration adheres to its policy proposals.

U.S. Dollar Index



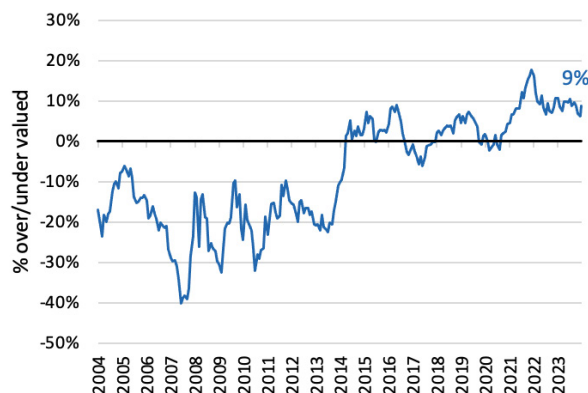
Source: Bloomberg. Daily data since 2022 through Dec 11, 2024

U.S. Dollar Index and Relative Interest Rates



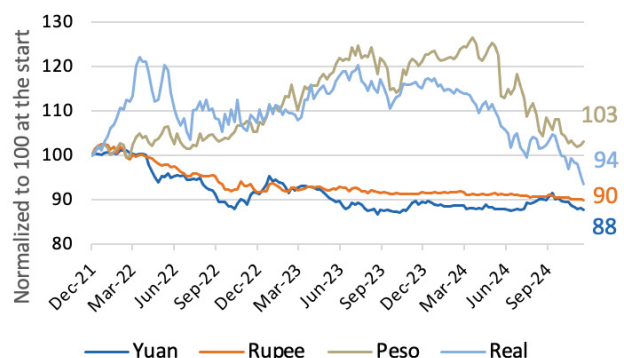
Source: Bloomberg. 1 year of daily data through Dec 11, 2024

U.S. Dollar Purchasing Power Parity



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

Emerging Market Currencies versus the Dollar

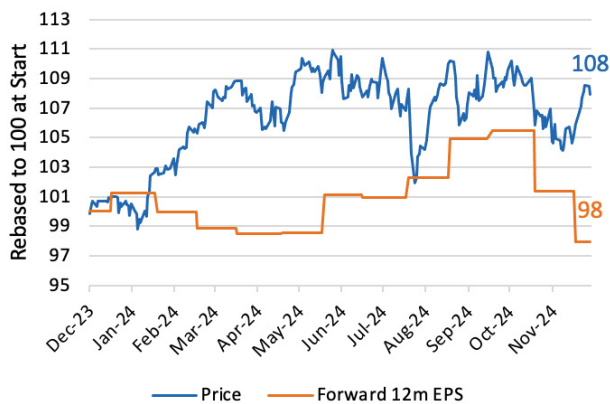


Source: Bloomberg. 3 years of weekly data through Dec 06 2024



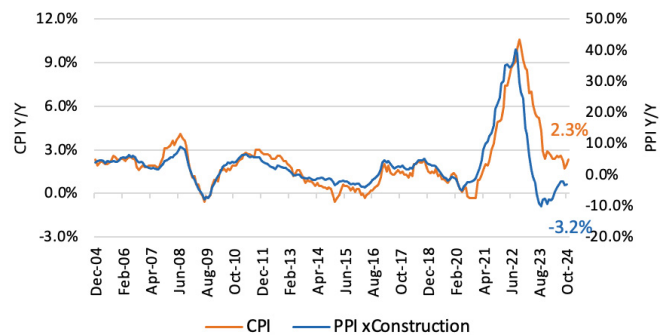
- ▶ We remain slightly underweight developed international markets, revising earlier plans to move to neutral or overweight.
- ▶ Europe’s economy continues to face sluggish growth. This weakness is likely to be compounded by expected tariff policies. Additionally, many European nations are under pressure to curb fiscal spending which could further hinder growth. However, the ECB’s December rate cut – its fourth - included some meaningful wording changes that indicated a more dovish posture going forward. Bloomberg Economics projects EU inflation to fall below 2% in spring 2025, possibly prompting further rate cuts that could become economically stimulative. While near-term conditions remain unappetizing, further currency weakness and stimulative monetary policy could put European industries in a more competitive position later in 2025.
- ▶ In local currency terms, Japan has experienced strong equity performance, though when converted to dollars, more than half of the return goes away. While earnings drove local currency returns in 2024, earnings growth estimates for 2025 suggest no growth. The negative correlation between currency and earnings complicates unhedged investments for U.S. investors.
- ▶ With few catalysts for outperformance, we maintain a slightly underweight position. However, current valuations reflect many of our concerns. The MSCI EAFE index trades at just 14x 2025 EPS estimates, compared to 23x for the S&P 500.

MSCI European Union Index



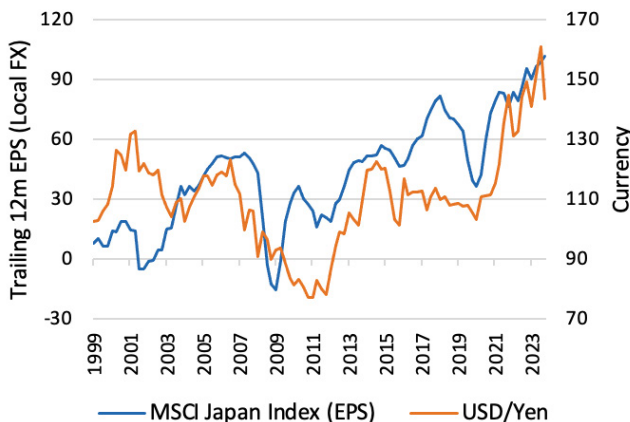
Source: Bloomberg. 1 year of daily observations through Dec 10 2024

Eurozone Inflation Measures



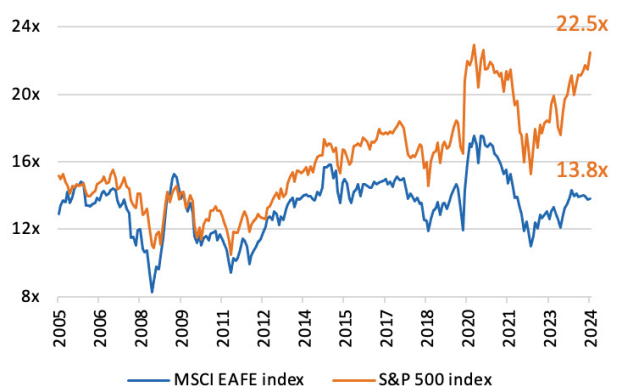
Source: Bloomberg. 20 years of monthly data through Nov 2024

Japan Earnings and Currency



Source: Bloomberg. 25 years of quarterly data through Sep 2024

Forward P/E Ratios



Source: Bloomberg. 20 years of monthly observations through Nov 2024

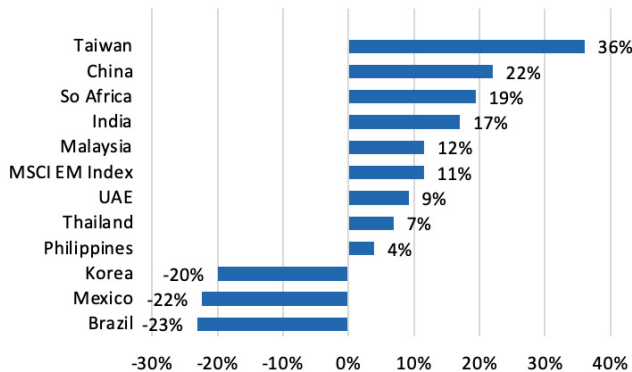


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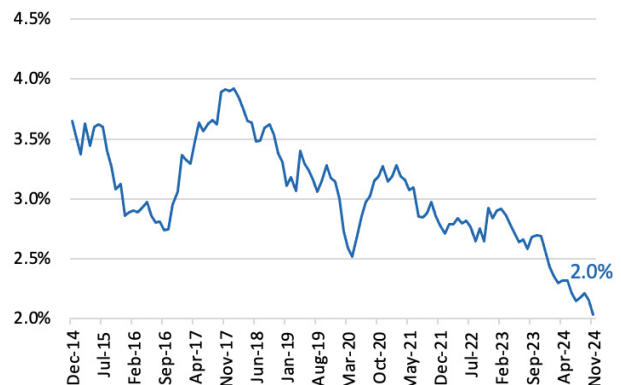
- ▶ We shifted to a slight underweight in EM following the U.S. election. Tariff risks and slower Fed rate cuts create headwinds, especially for China. A more hawkish Fed could hinder foreign direct investment inflows. Trump's tariff proposals are much broader this time, and EM beyond China may be at risk.
- ▶ China's 2024 stimulus has focused on monetary stimulus which has been less effective in improving the economy. That may change in 2025 given recent statements at a Politburo meeting, where fiscal plans were introduced. China has the capacity to stimulate fiscally. While China is considered highly indebted, public debt (including hidden liabilities) represents 68% of GDP, which is at the low end of most countries.
- ▶ Slower than expected GDP growth in India led to a revised central bank forecast. Restrictive policies have hindered growth, but signs of easing could spur a recovery in 2025. Additionally, India's limited trade exposure with the U.S. reduces its vulnerability to tariffs.
- ▶ Latin American countries remain challenged. Mexico has struggled with currency and earnings challenges, with 2024 earnings revised down by 18%. Concerning tariff threats, the U.S. buys more than 80% of Mexico's exports and is its largest foreign investor. The Brazilian central bank warned that they could be in a prolonged rate hiking cycle. Brazil's currency fell to a record low in December due to concerns over public finances. The inflation outlook in Brazil has worsened given resilient economic growth, tight labor conditions, and fiscal policies that have raised wages and encouraged consumption.
- ▶ Despite challenges, EM valuations remain attractive at a 12x forward P/E ratio. These low valuations suggest numerous opportunities exist within the EM universe for an active manager.

YTD Total Returns (in USD) by Country



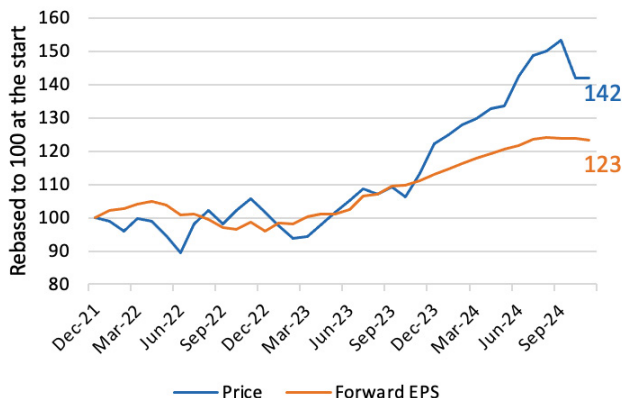
Source: Bloomberg. Data as of Dec 10 2024

China 10 Year Government Bond Yield



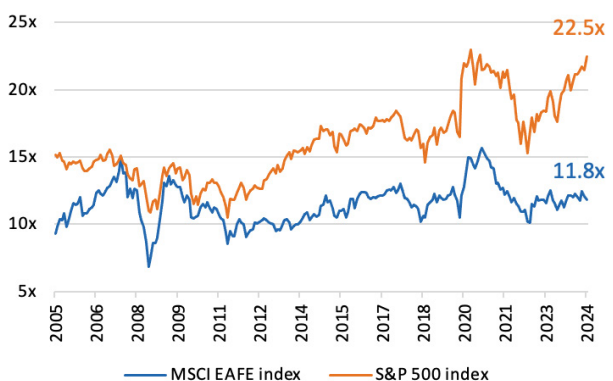
Source: Bloomberg. 10 years of monthly data through Nov 2024

MSCI India Index (local currency)



Source: Bloomberg. 3 years of monthly data through Nov 2024

Forward P/E Ratios



Source: Bloomberg. 20 years of monthly observations through Nov 2024



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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	
	November 2024	YTD	2023	2022	2021	Index Weight	2024	2025
MSCI EAFE	-0.6%	6.8%	18.4%	14.0%	11.8%	100%	-1%	4%
MSCI United Kingdom	1.4%	10.6%	13.0%	-4.8%	18.5%	14%	-10%	3%
MSCI Japan	0.7%	9.0%	21.5%	-16.3%	2.0%	23%	22%	0%
MSCI Europe	-2.6%	3.4%	21.6%	-17.3%	16.5%	48%	-7%	7%
MSCI EM	-3.6%	8.1%	10.1%	-19.7%	-2.2%	100%	15%	14%
MSCI China	-4.4%	16.5%	-11.3%	-21.8%	-21.6%	25%	18%	9%
MSCI India	-0.4%	15.7%	21.3%	-7.5%	26.7%	19%	32%	16%
MSCI Taiwan	-4.5%	29.4%	31.3%	-29.1%	26.8%	19%	38%	17%
MSCI Korea	-5.7%	-17.1%	23.6%	-28.9%	-7.9%	10%	20%	21%

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
MSCI EAFE	15.2x	22%	14.3x	50%	9.7x	64%	1.4x	93%
MSCI United Kingdom	13.1x	26%	11.7x	32%	8.2x	29%	1.4x	74%
MSCI Japan	14.5x	23%	15.4x	46%	8.6x	50%	1.2x	96%
MSCI Europe	15.5x	26%	14.7x	61%	10.5x	80%	1.5x	91%
MSCI EM	15.4x	66%	12.1x	60%	10.3x	85%	1.4x	66%
MSCI China	12.9x	38%	10.1x	27%	10.4x	64%	1.2x	32%
MSCI India	27.0x	94%	22.9x	96%	20.2x	97%	2.8x	92%
MSCI Taiwan	21.9x	69%	16.7x	86%	13.5x	78%	2.1x	78%
MSCI Korea	11.2x	41%	7.8x	8%	5.6x	36%	0.8x	76%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
MSCI EAFE	3.1%	59%	8.3%	89%	11.0%	73%	1.8	12%
MSCI United Kingdom	3.9%	59%	7.0%	45%	9.6%	28%	1.0	14%
MSCI Japan	2.3%	81%	7.2%	98%	9.8%	94%	-0.9	12%
MSCI Europe	3.2%	63%	8.6%	90%	12.2%	72%	3.3	10%
MSCI EM	2.6%	56%	9.3%	59%	11.7%	47%	2.0	85%
MSCI China	2.5%	58%	9.7%	29%	11.3%	31%	3.5	100%
MSCI India	1.1%	19%	10.1%	64%	15.7%	50%	2.6	60%
MSCI Taiwan	2.3%	33%	9.6%	77%	14.3%	83%	0.2	10%
MSCI Korea	2.3%	85%	6.2%	72%	7.3%	32%	2.7	47%

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