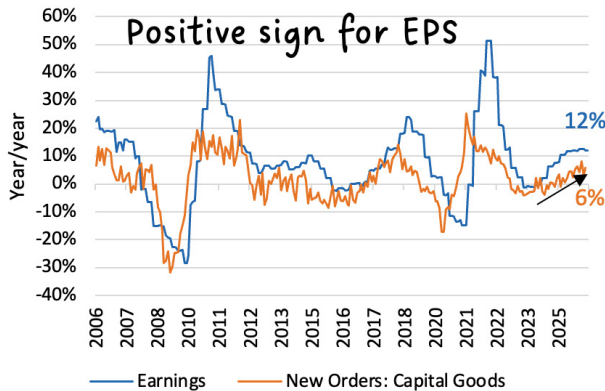




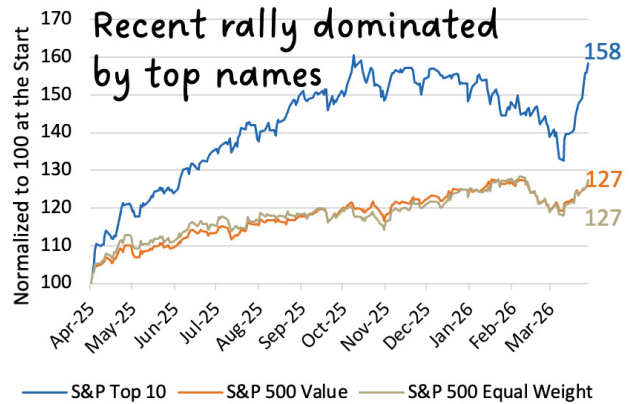
- ▶ We maintain a neutral stance on large cap blend equities. Markets have rebounded sharply in April, with the S&P 500 reaching new highs.
- ▶ The ceasefire talks with Iran has eased near-term concerns around global energy supply. However, the speed of the market's response has been breathtaking. The S&P 500's rally through April 17 ranks among the most extreme short-term moves. While similar episodes have historically been followed by stronger returns over the subsequent 6 to 12 months, they have typically occurred at major turning points rather than during ongoing uptrends.
- ▶ Gains so far in April have been dominated by growth stocks and concentrated in a limited group of stocks and themes, suggesting that while sentiment has improved, underlying market participation remains uneven.
- ▶ It is still early in the earnings season, but the results have been strong. With roughly 10% of the S&P 500 reporting through April 17, 88% exceeded EPS estimates. Positive surprises were seen in the Financials and Communications Services sectors. The message from the major financial centers has been one of economic resiliency.
- ▶ Even before the conflict, growth was moderating, with softer consumer spending and lingering inflation pressures. However, pockets of strength remain, particularly in business investment (an important signal for earnings growth). Durable goods orders have been supported by AI-related data center spending, and fiscal support may also be helping, with tax refunds tracking roughly 10% above last year's pace (however higher energy prices are eating into those gains).
- ▶ We believe the secular bull market remains intact. Fiscal and monetary conditions remain broadly supportive of economic and earnings growth. That said, we continue to monitor labor market conditions closely, as a sustained weakening could alter our outlook.

Durable Orders Tend to Lead EPS



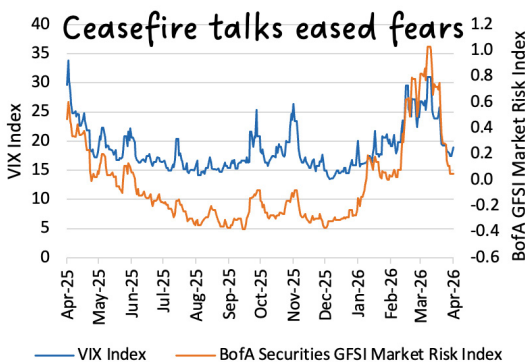
Source: Bloomberg. 20 years of monthly data through Mar 2026.
Capital goods new orders exclude aircraft and defense.

1 Year Price Returns



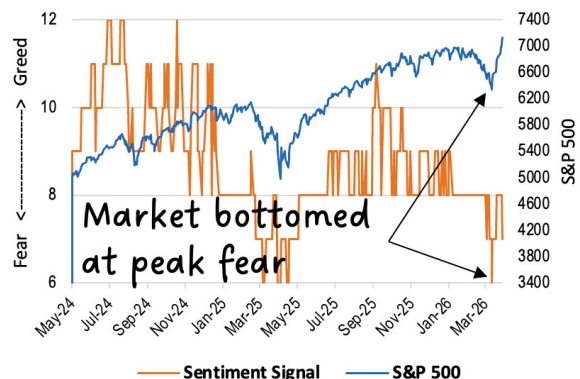
Source: Bloomberg. 1 year of daily data through Apr 17 2026.

Market Risk Measures



Source: Bloomberg. 1 year of daily data through Apr 20 2026.
GFSI Market Risk Index is a measure of future price swings implied by option markets in global equities, rates, currencies and commodities. Levels greater (less) than 0 indicate more (less) stress than is normal.

Touchstone S&P 500 Sentiment Signal



Source: Bloomberg. 2 years of daily data through April 17 2026; Sentiment signal based on deviations from trend, option activity, and AAIL surveys.

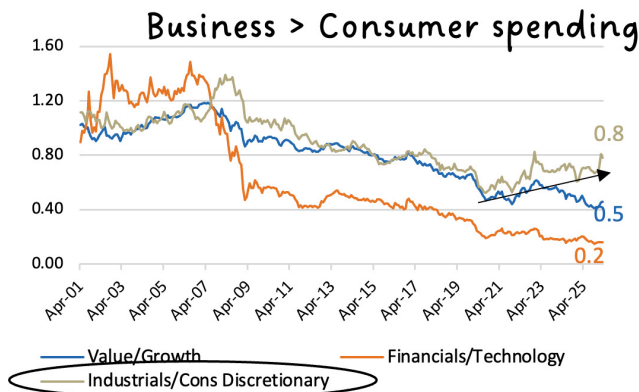


Authors: Crit Thomas, CFA, CAIA / Erik M. Aarts, CIMA / Tim Paulin, CFA

April 21, 2026

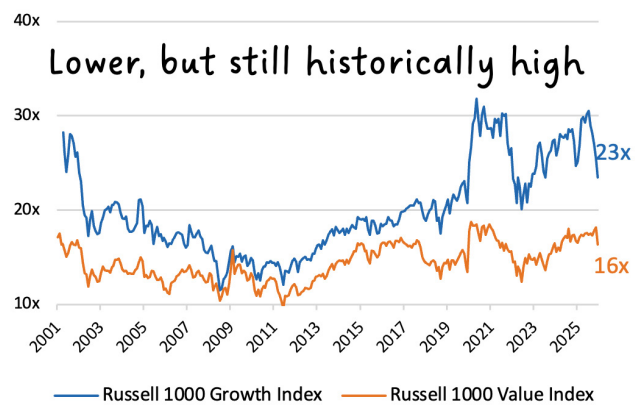
- ▶ Our addition to Growth last month proved timely. The fundamental backdrop remains supportive. Investment activity, particularly in AI-related infrastructure, continues to provide a meaningful tailwind to earnings growth, even as consumer spending shows signs of slowing.
- ▶ Month-to-date (through April 17), Growth has significantly outperformed Value as investors have re-embraced AI and its earnings growth potential. AI-related companies have been the primary contributors to index-level earnings growth and are expected to remain so in the near term. This concentration has supported market performance but has also increased reliance on a single theme to sustain earnings momentum.
- ▶ With respect to AI there are a few risks that need to be monitored. First is the disruptive potential across business models. For example, Software stocks have lagged as advances in coding raise concerns around the durability of margins in software-as-a-service companies. Another risk relates to potential delays in data center construction. According to the Financial Times, nearly 40% of data center projects due this year are at risk of falling behind schedule. This is due to shortages of power, labor, and equipment, as well as permitting challenges.
- ▶ Despite Growth's strong April rally, Value remains slightly ahead on a year-to-date basis (through April 17). While Energy has been a key contributor to Value's outperformance, another emerging theme is the so-called "HALO" (hard asset, low obsolescence) trade.
- ▶ Companies that fit the HALO profile tend to overlap with Value sectors, though it is not a traditional value trade. Rather, it reflects a shift toward business models perceived to be less exposed to AI-related disruption risk. In other words, HALO is a means to hedge AI concentration risk. It is less about cheapness and more about durability and defensibility.
- ▶ We now have a more balanced stance between Growth and Value as we find attractive characteristics in both, though neither appears sufficiently compelling enough to justify a significant overweight.

S&P 500 Relative Performance by Style and Sector



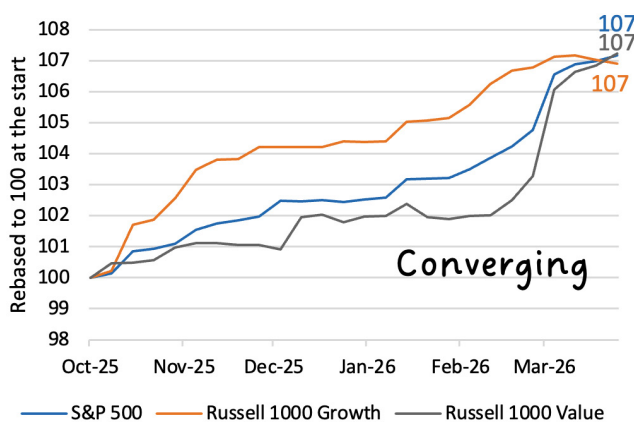
Source: Bloomberg. 25 years of monthly data through Mar 2026.

Price/Earnings Ratios: Forward 12 Months



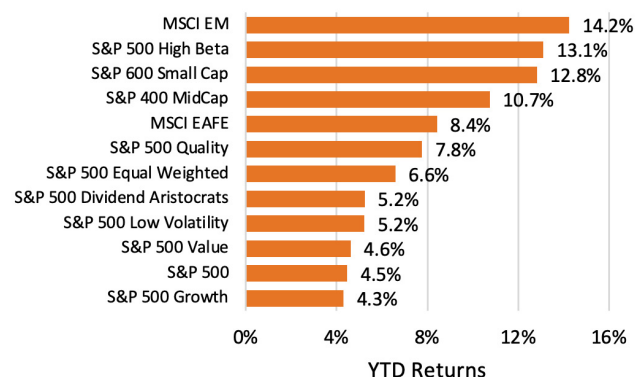
Source: Bloomberg. 25 years of monthly data through Mar 2026.

2026 Analyst EPS Estimate Revisions



Source: Bloomberg. 6 months of weekly data through Apr 13 2026.

Total Returns for Selected Indexes

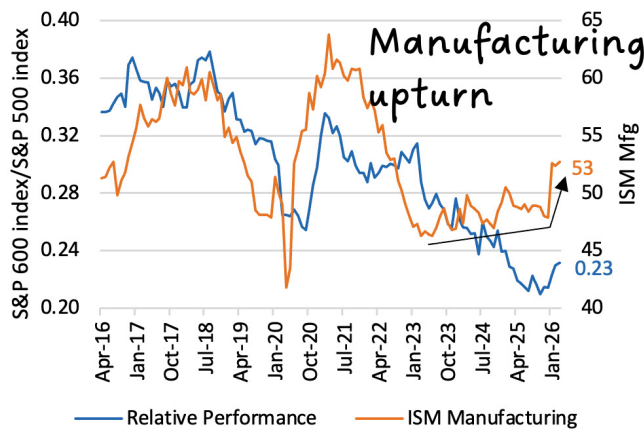


Source: Bloomberg. All data as of Apr 17 2026.



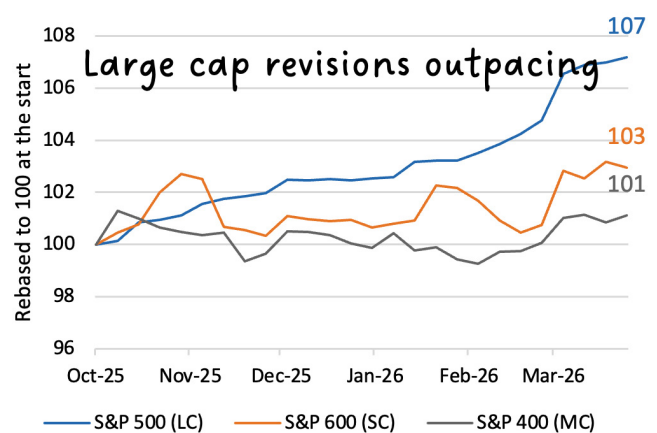
- ▶ We continue to favor mid caps over small caps, viewing them as offering a more attractive risk/reward profile, though both segments have outperformed year-to-date.
- ▶ Small and mid cap equities remain more closely tied to the domestic economic cycle and have been more sensitive to recent changes in growth expectation and financial conditions.
- ▶ The broader economic outlook remains constructive, but the composition of that growth is shifting. Slowing income growth and higher energy prices are expected to weigh on consumption, while business investment, particularly in technology and AI, has become a more important driver of activity.
- ▶ Our analysis indicates that both mid and small cap earnings are more closely correlated with business equipment spending than consumer durable goods spending. We have seen an encouraging uptick in business spending and orders.
- ▶ Regional banks are reporting a pick up in commercial-and-industrial loans. Cincinnati-based Fifth Third Bank, noted that it experienced strong lending activity “in manufacturing and construction supported by reshoring and infrastructure investment.”
- ▶ That said, Energy has been an important contributor to year-to-date small and mid cap outperformance, which may not be sustainable depending on what happens with the Strait of Hormuz. While small and mid caps earnings are more closely tied to business investment, they remain exposed to consumer demand and broader economic conditions, and here the backdrop is less clear.
- ▶ Earnings revisions have stabilized over the last six months, an encouraging sign after a number of years of downward revisions. If mid and small cap companies are able to deliver on low-teens earnings growth expectations, outperformance remains possible.
- ▶ We expect near-term energy risks will moderate over time, after which we expect greater clarity on the relative prospects heading into year-end and into 2027. For now, we remain relatively close to our strategic allocations.

Small Cap Cyclicity



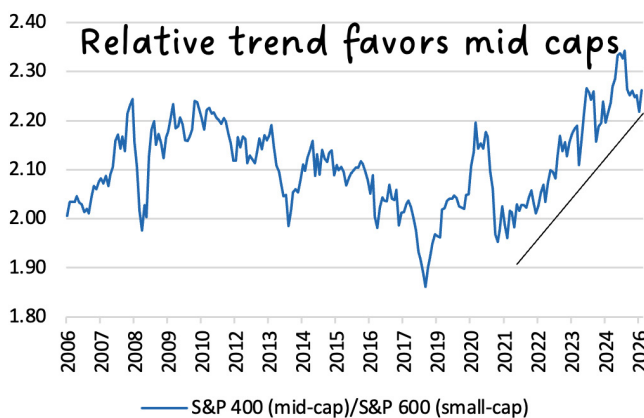
Source: Bloomberg. 10 years of monthly data through Mar 2026.

2026 Analyst EPS Estimate Revisions



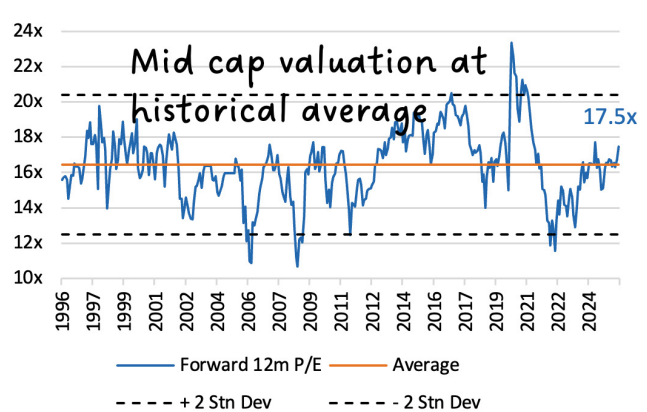
Source: Bloomberg. 6 months of weekly data through Apr 13 2026.

Relative Price Performance



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

S&P 400 Mid-Cap Index



Source: Bloomberg. 30 years of monthly data through Mar 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 Returns								EPS Growth Estimate	
	March 2026	YTD	2025	2024	2023	2022	2025	2026	
S&P 500 Index	-5.0%	-4.3%	17.9%	25.0%	26.3%	-18.1%	17%	15%	
S&P 500 Index Equal Weighted	-6.0%	0.7%	11.4%	13.0%	13.8%	-11.5%	12%	11%	
S&P 500 Value Index	-4.6%	0.0%	13.2%	12.3%	22.2%	-5.3%	9%	10%	
Russell 1000 Value Index	-4.8%	2.1%	15.9%	14.4%	11.4%	-7.6%	16%	11%	
S&P 500 Growth Index	-5.3%	-8.1%	22.2%	36.1%	30.0%	-29.4%	30%	21%	
Russell 1000 Growth Index	-5.2%	-9.8%	18.6%	33.4%	42.7%	-29.1%	21%	21%	
S&P 400 Index	-5.4%	2.5%	7.5%	13.9%	16.4%	-13.1%	18%	14%	
S&P 600 Index	-4.1%	3.5%	6.0%	8.7%	15.9%	-16.1%	15%	18%	
Russell 2000 Index	-5.0%	0.9%	12.8%	11.5%	16.9%	-20.4%	15%	16%	

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
S&P 500 Index	25.6x	84%	17.5x	65%	20.4x	95%	3.3x	98%
S&P 500 Index Equal Weighted	20.1x	66%	14.6x	35%	12.6x	79%	1.8x	91%
S&P 500 Value Index	21.4x	91%	16.5x	93%	15.7x	87%	2.1x	95%
Russell 1000 Value Index	20.9x	91%	14.9x	66%	16.4x	94%	2.2x	98%
S&P 500 Growth Index	31.2x	85%	18.6x	59%	28.5x	97%	7.2x	99%
Russell 1000 Growth Index	33.3x	77%	20.7x	61%	25.2x	83%	5.4x	95%
S&P 400 Index	20.6x	50%	14.1x	26%	12.4x	78%	1.5x	94%
S&P 600 Index	20.2x	37%	12.5x	9%	10.9x	31%	1.2x	88%
Russell 2000 Index	45.8x	86%	17.2x	27%	15.8x	89%	1.5x	95%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
S&P 500 Index	1.2%	6%	14.0%	100%	18.9%	96%	1.5	24%
S&P 500 Index Equal Weighted	1.9%	38%	9.8%	90%	11.8%	59%	2.6	54%
S&P 500 Value Index	1.9%	6%	10.6%	91%	14.8%	94%	2.1	49%
Russell 1000 Value Index	1.9%	2%	11.3%	94%	13.0%	68%	2.0	17%
S&P 500 Growth Index	0.6%	3%	24.7%	100%	27.8%	81%	0.3	3%
Russell 1000 Growth Index	0.6%	9%	17.9%	96%	36.1%	95%	0.6	9%
S&P 400 Index	1.4%	42%	8.0%	86%	10.0%	50%	2.4	39%
S&P 600 Index	1.7%	82%	6.8%	91%	4.5%	24%	3.9	80%
Russell 2000 Index	1.3%	24%	4.2%	52%	0.6%	25%	4.6	75%

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 March; 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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