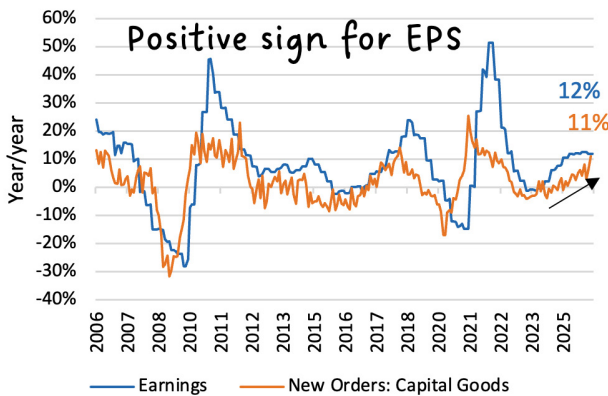




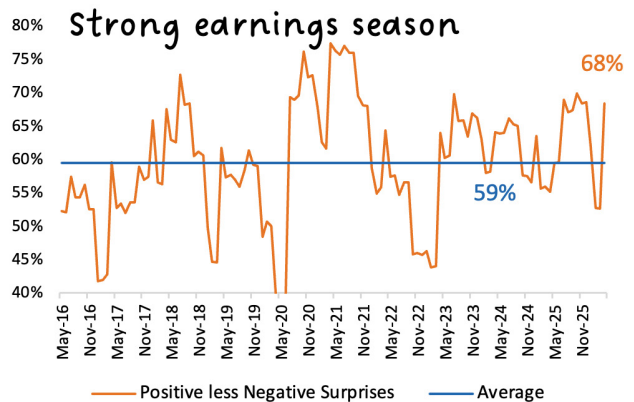
- ▶ We maintain a neutral stance on large cap blend equities.
- ▶ Markets rebounded sharply in April, with the S&P 500 reaching new highs. April's rally ranked among the strongest monthly gains seen in decades, placing it in the top 1%. While such rapid gains can be exciting, historically, they have often been followed by periods of consolidation.
- ▶ The S&P 500 has advanced on the back of strong fundamentals. The index is up roughly 8%, through May 11, broadly in line with the 8% increase in 2026 earnings expectations.
- ▶ First quarter earnings have been exceptional. Nearly 85% of companies have exceeded EPS estimates, well above historical averages. Notably, analysts are raising full year estimates. Typically, companies beat current quarter expectations but to guide cautiously, leading analysts to lower forward estimates. Not this quarter.
- ▶ However, while the fundamental backdrop remains supportive, that nature of returns has been less balanced. A relatively small group of companies and themes continue to drive a disproportionate share of both earnings growth and index performance. This combination of strong fundamentals and narrow leadership suggests that market may be increasingly vulnerable to short-term pullbacks, particularly given still elevated geopolitical risks and limited progress on opening the Strait of Hormuz.
- ▶ We believe the secular bull market remains intact. The earnings backdrop appears to justify year-to-date returns, but the pace and concentration of returns suggest the market may need to pause before advancing further.

### Durable Orders Tend to Lead EPS



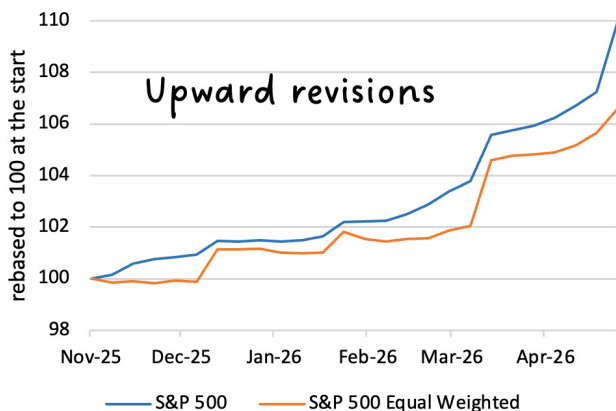
Source: Bloomberg. 20 years of monthly data through Apr 2026.  
Capital goods new orders exclude aircraft and defense.

### S&P 500 Index Net Earnings Surprise



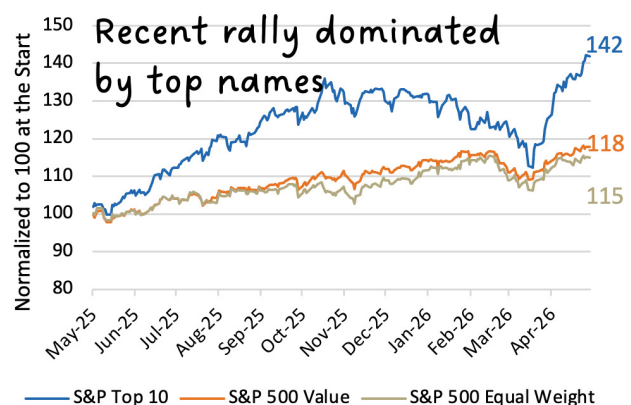
Source: Bloomberg. 10 year of monthly data through Apr 2026.

### 2026 Analyst EPS Estimate Revisions



Source: Bloomberg. 6 months of daily data through May 05 2026.

### 1 Year Price Returns

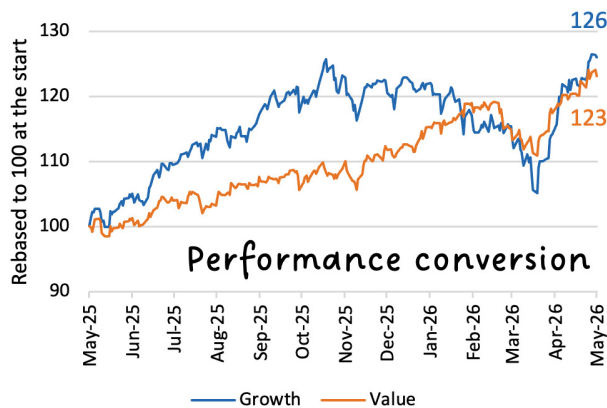


Source: Bloomberg. 1 year of daily data through May 11 2026.



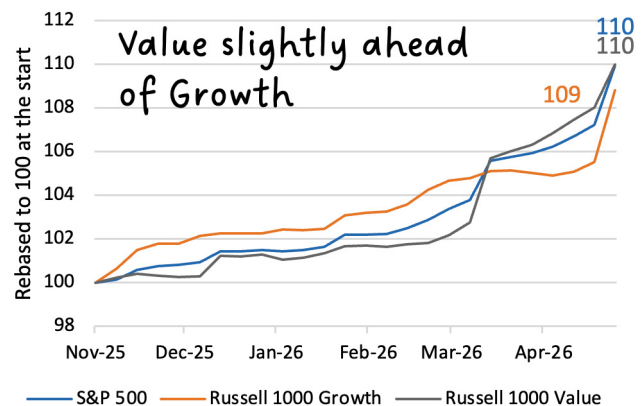
- ▶ We remain fully invested at our strategic Value and Growth weights. The fundamental backdrop remains supportive. Investment activity, particularly in AI-related infrastructure, continues to provide a meaningful tailwind to earnings growth, even as consumer spending shows signs of slowing.
- ▶ AI-related companies continue to generate most of the earnings growth. Firms tied to AI spending are driving more than 70% of first quarter earnings growth while representing just 45% of the S&P 500 by market cap.
- ▶ These AI-related firms are expected to grow earnings at roughly three times the pace of the rest of the S&P 500, supported by strong demand across the supply chain that feeds data center construction. Importantly these companies live in different equity styles.
- ▶ For example, AI-related companies such as AMD, SanDisk, and Intel delivered stand-out earnings, and all three currently reside in the Russell 1000 Value Index.
- ▶ Despite Growth's strong April rally, Russell 1000 Value remains well ahead on a year-to-date basis (through May 11). Upward earnings revisions for 2026 have Value and Growth participating equally. However, upward revisions can have a greater impact on Value stocks given lower starting valuations, which may help explain their year-to-date outperformance.
- ▶ There are risks to monitor. First is the disruptive potential across business models. For example, Software stocks have lagged as advances in AI coding may threaten some business models. 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.
- ▶ While AI remains the dominant earnings driver, its benefits are becoming more broadly distributed, reducing the case for a strong style bias and supportive of a more balanced approach.

### Russell 1000 Style Indexes



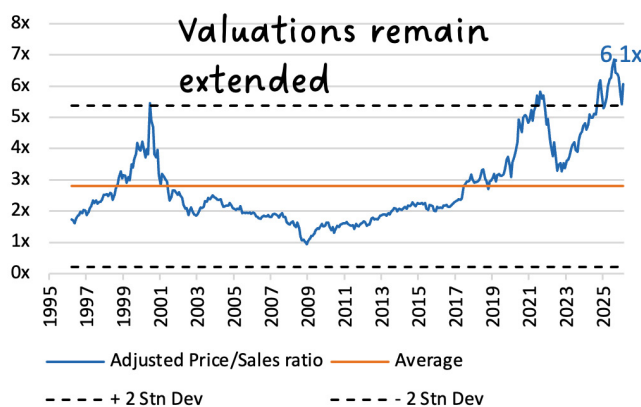
Source: Bloomberg. 1 year of daily data through May 12 2026.

### 2026 Analyst EPS Estimate Revisions



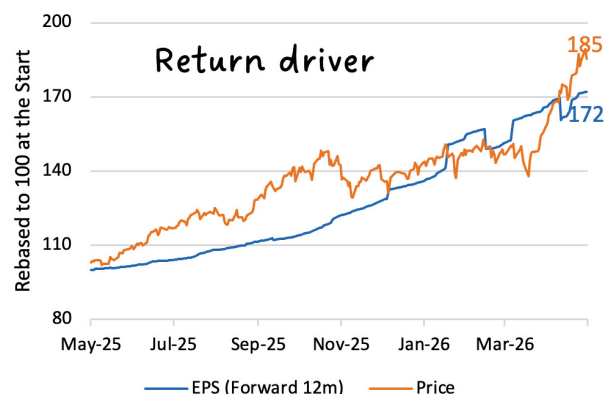
Source: Bloomberg. 6 months of weekly data through May 05 2026.

### Russell 1000 Growth Index



Source: Bloomberg. 30 years of monthly data through Apr 2026.

### Goldman Sachs TMT AI Basket Index

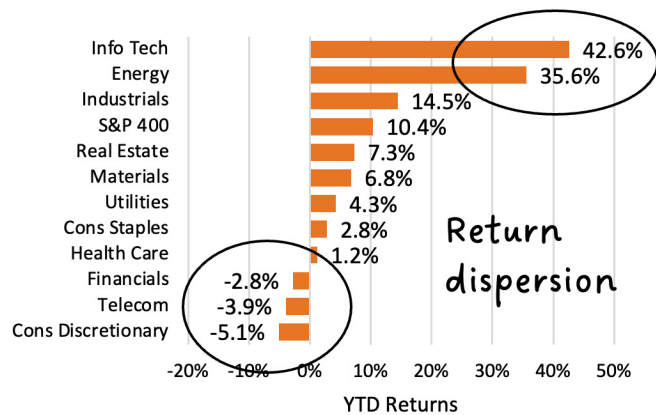


Source: Bloomberg. 1 year of daily data through May 12 2026. The index consists of companies that are pursuing AI or enabling new technologies across Technology, Media, and Telecom (TMT).



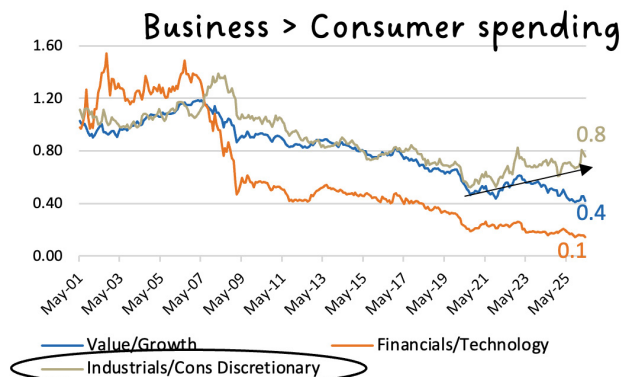
- ▶ We continue to favor mid caps over small caps, viewing them as offering a more attractive risk/reward profile, though both segments have outperformed year-to-date.
- ▶ Leadership year-to-date has been very concentrated with the technology and energy sectors driving the majority of the upside. This reflects the influence of both AI-related spending and rising energy prices.
- ▶ Fundamentals are showing signs of improvement. Earnings revisions have stabilized after a prolonged period of downgrades, and both segments are expected to deliver low-teens growth.
- ▶ 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 growth.
- ▶ Our analysis indicates that both mid and small cap earnings are more closely tied to business equipment spending than consumer durable goods spending. This helps explain recent outperformance, given strength in business spending and equipment orders.
- ▶ The momentum style factor has been an important theme for mid caps. Historically, mid cap momentum has delivered stronger returns with less extreme valuations and more moderate drawdowns than large caps. Year-to-date performance has echoed the historical pattern with midcap momentum significantly outperforming large cap momentum.
- ▶ While improving fundamentals are encouraging, we would like to see broader participation across sectors. For now, we remain relatively close to our strategic allocations.

## S&P 400 Index Sector Price Returns



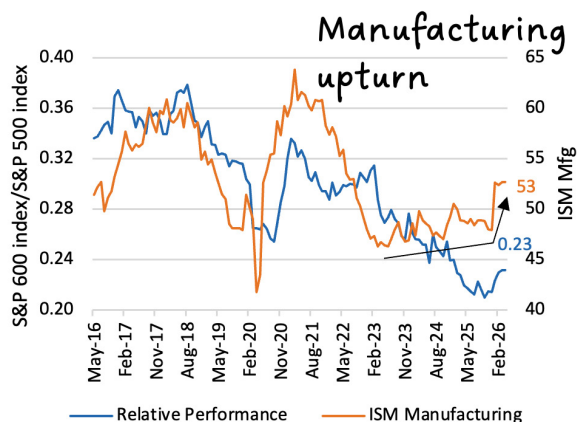
Source: Bloomberg. All data as of May 11 2026.

## S&P 500 Relative Performance by Style and Sector



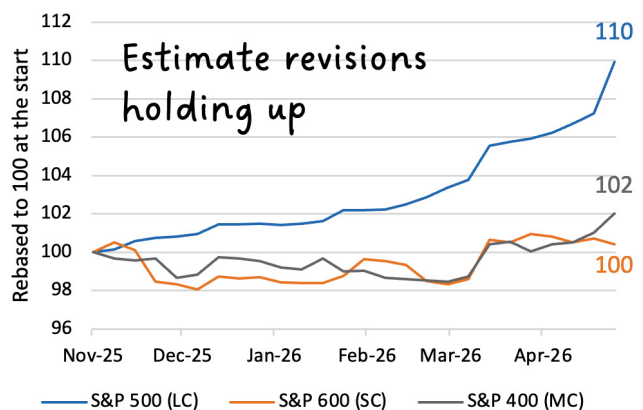
Source: Bloomberg. 25 years of monthly data through Apr 2026.

## Small Cap Cyclicity



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

## 2026 Analyst EPS Estimate Revisions



Source: Bloomberg. 6 months of weekly data through May 05 2026.



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

May 15, 2026

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	
	April 2026	YTD	2025	2024	2023	2022	2025	2026	
S&P 500 Index	10.5%	5.7%	17.9%	25.0%	26.3%	-18.1%	22%	14%	
S&P 500 Index Equal Weighted	6.0%	6.7%	11.4%	13.0%	13.8%	-11.5%	14%	10%	
S&P 500 Value Index	5.9%	5.9%	13.2%	12.3%	22.2%	-5.3%	11%	9%	
Russell 1000 Value Index	8.2%	10.4%	15.9%	14.4%	11.4%	-7.6%	19%	10%	
S&P 500 Growth Index	14.8%	5.5%	22.2%	36.1%	30.0%	-29.4%	36%	19%	
Russell 1000 Growth Index	11.9%	1.0%	18.6%	33.4%	42.7%	-29.1%	26%	19%	
S&P 400 Index	7.9%	10.6%	7.5%	13.9%	16.4%	-13.1%	20%	13%	
S&P 600 Index	10.4%	14.3%	6.0%	8.7%	15.9%	-16.1%	15%	19%	
Russell 2000 Index	12.2%	13.2%	12.8%	11.5%	16.9%	-20.4%	12%	20%	

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
S&P 500 Index	28.2x	94%	18.9x	75%	22.5x	98%	3.6x	100%
S&P 500 Index Equal Weighted	21.3x	81%	15.4x	53%	13.3x	88%	1.9x	93%
S&P 500 Value Index	22.7x	95%	17.3x	96%	16.6x	90%	2.2x	98%
Russell 1000 Value Index	22.5x	95%	15.9x	80%	17.8x	97%	2.3x	100%
S&P 500 Growth Index	35.8x	96%	20.7x	75%	32.7x	100%	8.2x	100%
Russell 1000 Growth Index	37.2x	85%	22.9x	70%	28.1x	93%	6.1x	97%
S&P 400 Index	22.2x	73%	15.0x	45%	13.6x	96%	1.6x	96%
S&P 600 Index	22.3x	53%	13.6x	22%	12.1x	52%	1.3x	98%
Russell 2000 Index	55.2x	89%	20.2x	62%	17.8x	99%	1.7x	98%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
S&P 500 Index	1.1%	1%	13.9%	100%	18.9%	96%	1.5	24%
S&P 500 Index Equal Weighted	1.8%	19%	9.8%	90%	11.8%	59%	2.6	53%
S&P 500 Value Index	1.8%	2%	10.7%	91%	14.8%	93%	2.1	49%
Russell 1000 Value Index	1.7%	0%	11.3%	94%	13.0%	68%	2.0	17%
S&P 500 Growth Index	0.5%	0%	24.6%	99%	27.8%	81%	0.3	3%
Russell 1000 Growth Index	0.5%	6%	17.8%	96%	36.1%	95%	0.6	8%
S&P 400 Index	1.3%	34%	8.0%	86%	10.0%	51%	2.4	39%
S&P 600 Index	1.5%	72%	6.8%	91%	4.5%	24%	3.9	80%
Russell 2000 Index	1.2%	14%	4.3%	55%	0.6%	25%	4.6	76%

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 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 fixed-income securities which can experience reduced liquidity during certain market events, lose their value as interest rates rise and are subject to credit risk which is the risk of deterioration in the financial condition of an issuer and/or general economic conditions that can cause the issuer to not make timely payments of principal and interest also causing the securities to decline in value and an investor can lose principal. When interest rates rise, the price of debt securities generally falls. Longer term securities are generally more volatile. Investment grade debt securities which may be downgraded by a Nationally Recognized Statistical Rating Organization (NRSRO) to below investment grade status. U.S. government agency securities which are neither issued nor guaranteed by the U.S. Treasury and are not guaranteed against price movements due to changing interest rates. Mortgage-backed securities and asset-backed securities are subject to the risks of prepayment, defaults, changing interest rates and at times, the financial condition of the issuer. Foreign 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. Emerging markets securities which are more likely to experience turmoil or rapid changes in market or economic conditions than developed countries.**

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