

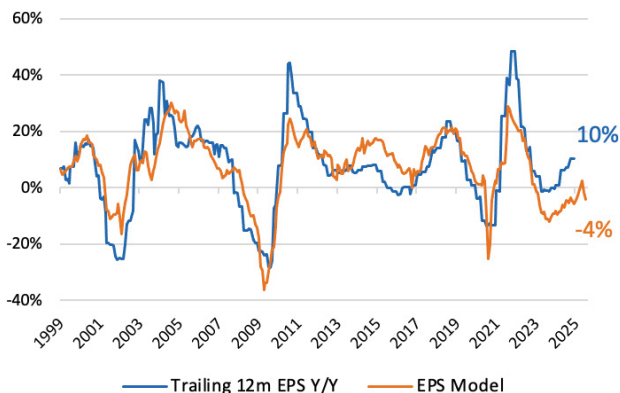


Authors: Crit Thomas, CFA, CAIA / Erik M. Aarts, CIMA / Tim Paulin, CFA

May 8, 2025

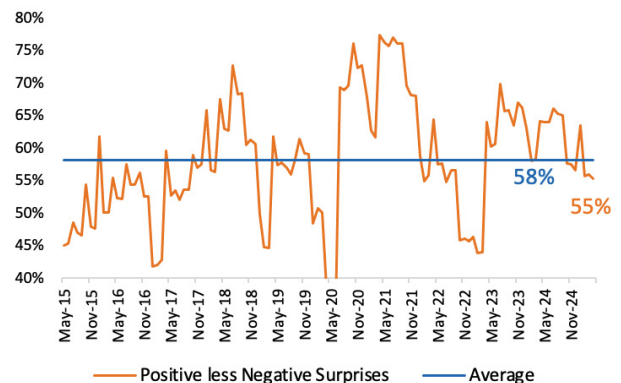
- ▶ We are maintaining our neutral exposure to large cap blend equities, as Presidential directives and restrictive monetary policy continue to inject risk and uncertainty into markets.
- ▶ While stocks have recovered nearly all their losses since Liberation Day, we remain cautious. Slowing economic growth and unresolved tariff issues prevent us from chasing the rally.
- ▶ On a positive note, earnings have been strong. As of May 2, 72% of S&P 500 companies have reported Q1 results, with 76% beating estimates. Year-over-year EPS growth is tracking at 13%, well above original expectations. However, the upside has been driven mainly by margin expansion, as revenue beats were less impressive. We question the sustainability of these margin gains considering tariff pressures and slowing growth, although further expansion appears embedded in analyst estimates.
- ▶ Despite strong Q1 results, analysts have been lowering full-year forecasts, particularly for cyclical sectors like Energy, Materials, Consumer Discretionary, and Industrials. We expect S&P 500 earnings growth in 2025 to be in the low single digits, below the current analyst estimates.
- ▶ As expected, most companies refrained from offering forward guidance due to tariff uncertainties. Many are pausing capital spending and hiring, which will likely weigh on 2Q earnings.
- ▶ The outlook remains highly fluid and subject to abrupt changes. This unpredictability could create periods of indiscriminate buying or selling, which may open opportunities for active managers. We remain prepared to adjust positioning in response to further economic weakness or progress on tariff negotiations.

## Touchstone S&P 500 EPS Model



Source: Bloomberg. EPS Model looks forward 7 months, actual EPS through Apr 2025; Model composed of 10y Yield, LEI, and Mfg New Orders

## S&P 500 Index Net Earnings Surprise



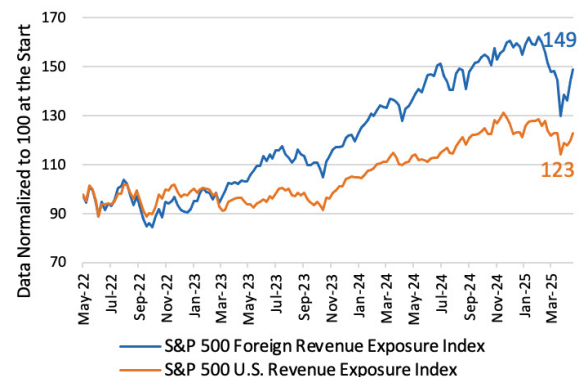
Source: Bloomberg. 10 years of monthly data through Apr 2025.

## S&P 500 Index Profit Margin



Source: Bloomberg. 25 years of quarterly data through Mar 2025

## Performance by Prevailing Exposure



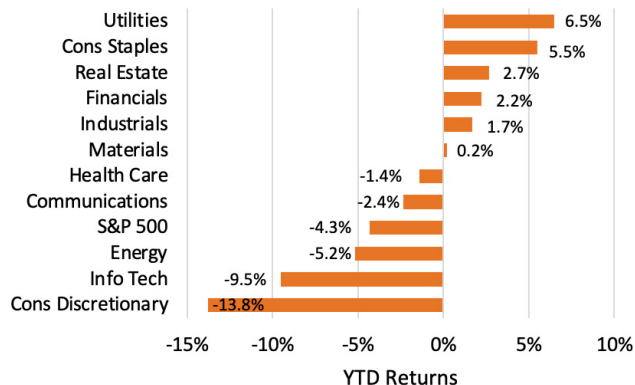
Source: Bloomberg. 3 years of weekly data through May 2 2025

The S&P 500 Foreign Revenue Exposure Index is designed to measure the performance of companies in the S&P 500 with higher than average revenue exposure to regions outside the U.S., while the U.S. Revenue Exposure index is composed of companies with greater than average U.S. exposure.



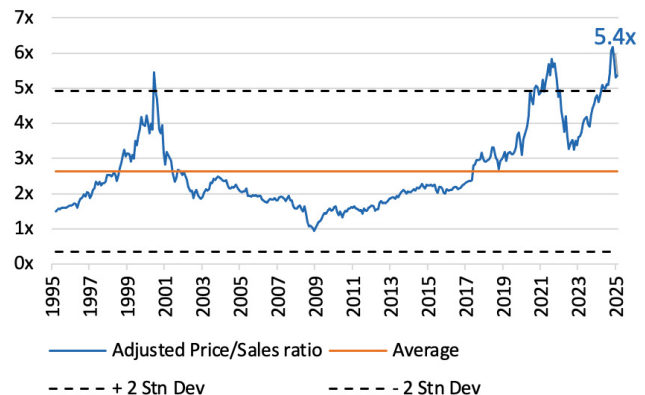
- ▶ We maintain a moderate underweight in Growth and a neutral weighting in Value.
- ▶ Through May 2, the Russell 1000 Growth has delivered a total return of -6.4% versus 0% for the Value index. However, earnings revisions tell the opposite story: estimates for the Value index have declined, while Growth index estimates remain near their starting levels for the year. Growth stocks are priced for improved earnings guidance, leaving little room for disappointment.
- ▶ Growth stocks remain historically expensive. The Russell 1000 Growth Index trades two standard deviations above its historical average on a price-to-sales basis. Their high international exposure also makes them vulnerable in a trade war, raising questions about near-term outperformance.
- ▶ Value stocks also appear expensive, but this is largely a function of index construction. Since most Growth and Value indexes split market cap evenly, growth-style stocks can be forced into the Value index when they dominate the market – as happened in the late 1990s and again today. The growth bias can be seen in comparing the P/E multiple of the cap weighted S&P 500 versus the equal weighted version. Currently, 86% of Russell 1000 stocks have representation in the Value index. While the Value index includes many attractively priced names, the index itself is less representative of true Value characteristics.
- ▶ We believe the key market driver will be progress — or lack thereof — in trade negotiations with Europe and China. A prolonged conflict could trigger a global slowdown, pressuring earnings across both Growth and Value segments.

## S&P 500 Index Sector Price Returns



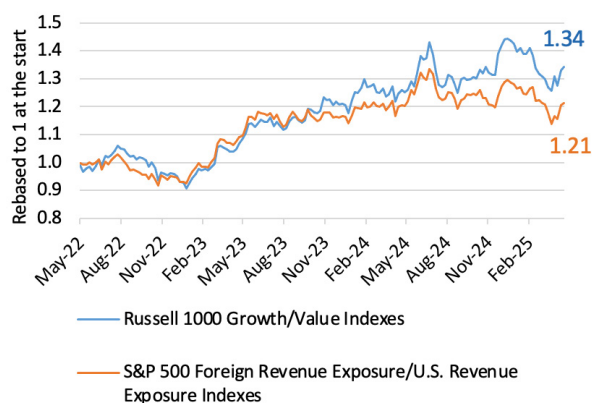
Source: Bloomberg. All data as of May 5 2025

## Russell 1000 Growth Index



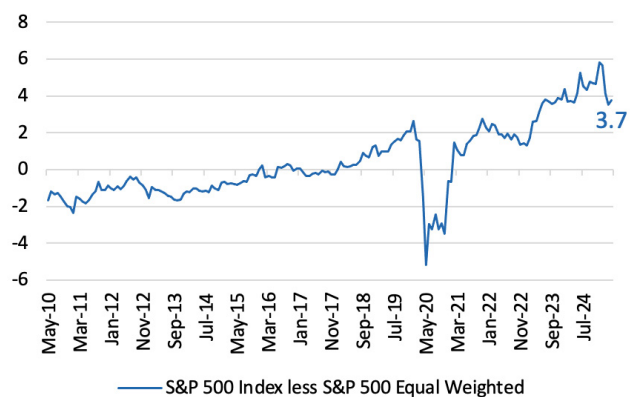
Source: Bloomberg. 30 years of monthly data through Apr 2025

## Performance by Style and Exposure



Source: Bloomberg. 3 years of weekly data through May 02 2025

## Forward P/E Multiple Difference

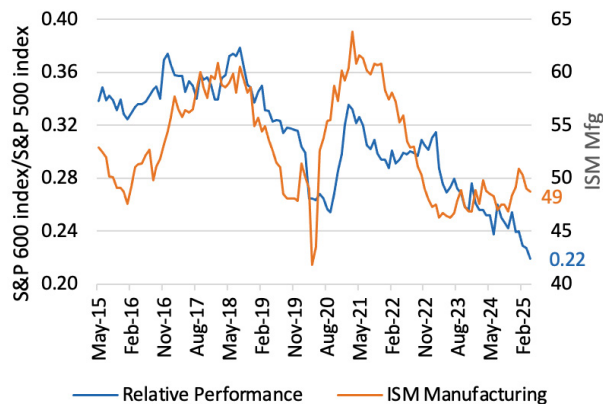


Source: Bloomberg. 15 years of monthly data through Apr 2025

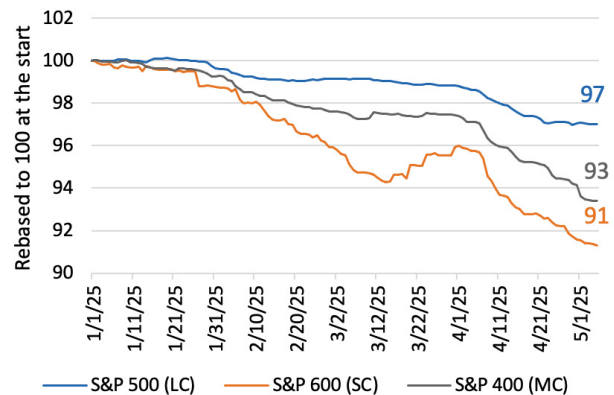


- ▶ We are maintaining a slight underweight in small caps and an overweight in mid caps.
- ▶ As noted last month, high cyclicality remains a headwind: over 60% of the S&P Small and Mid Cap Index constituents are in cyclical sectors, compared to less than 40% for large caps. An extended period of tariffs could increase economic pressure.
- ▶ Analyst earnings estimates for 2025 continue to decline, with EPS growth for both segments now projected in the low single digits. We see further downside risk to earnings, due to expected slowing economic conditions.
- ▶ Historically, small- and mid-caps have provided fertile ground for active managers. Roughly 25% of small and mid cap stocks are trading below 12x trailing earnings, comparable to the 2022 bear market lows.
- ▶ We continue to prefer mid caps, which offer a compelling risk/reward profile. They are significantly cheaper than large caps, more financially stable than small caps, and have lower international exposure, reducing the risk of trade retaliation. Expectations for earnings growth are also more modest. Within mid caps, we favor companies with high-quality attributes.
- ▶ While tariff visibility remains low, recent commentary from the administration has been somewhat more constructive. Both small and mid caps rallied in April, but we would need to see real progress on tariff negotiations before reconsidering our small cap underweight. A breakdown in tariff negotiations (especially with Europe) could lead us to reduce our mid cap exposure.

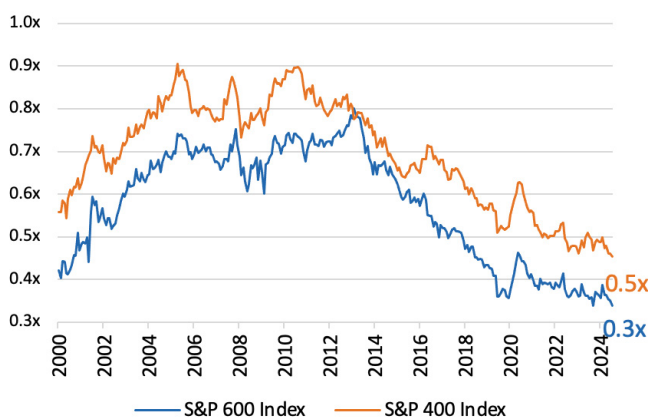
## Small Cap Cyclicity



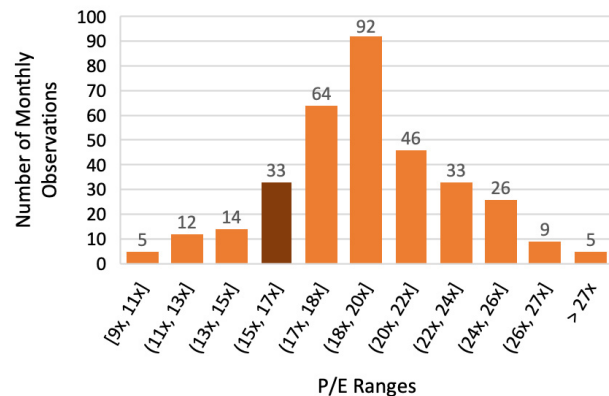
## Year-to-Date 2025 EPS Revisions



## Price/Sales Relative to S&P 500 Index



## S&P 400 Index P/E Distribution





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May 8, 2025

The Indexes mentioned are unmanaged statistical composites of stock market or bond market performance. Investing in an index is not possible.

Total Returns								
	April 2025	YTD	2024	2023	2022	2021	EPS Growth Estimate	
							2024	2025
S&P 500 Index	-0.7%	-4.9%	25.0%	26.3%	-18.1%	28.7%	8%	12%
S&P 500 Index Equal Weighted	-2.3%	-2.9%	13.0%	13.8%	-11.5%	29.6%	3%	12%
S&P 500 Value Index	-3.6%	-3.3%	12.3%	22.2%	-5.3%	24.9%	5%	11%
Russell 1000 Value Index	-3.0%	-1.0%	14.4%	11.4%	-7.6%	25.2%	5%	11%
S&P 500 Growth Index	2.2%	-6.4%	36.1%	30.0%	-29.4%	32.0%	12%	14%
Russell 1000 Growth Index	1.8%	-8.4%	33.4%	42.7%	-29.1%	27.6%	14%	14%
S&P 400 Index	-2.3%	-8.2%	13.9%	16.4%	-13.1%	24.8%	4%	15%
S&P 600 Index	-4.2%	-12.7%	8.7%	15.9%	-16.1%	26.8%	4%	19%
Russell 2000 Index	-2.3%	-11.6%	11.5%	16.9%	-20.4%	14.8%	17%	36%

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
S&P 500 Index	23.8x	81%	18.8x	77%	19.0x	93%	3.0x	94%
S&P 500 Index Equal Weighted	18.7x	50%	15.1x	49%	12.7x	85%	1.5x	57%
S&P 500 Value Index	19.6x	85%	16.0x	91%	15.3x	88%	2.0x	96%
Russell 1000 Value Index	18.5x	72%	15.1x	72%	14.2x	90%	1.8x	91%
S&P 500 Growth Index	30.1x	85%	22.4x	83%	24.6x	95%	5.5x	91%
Russell 1000 Growth Index	32.1x	76%	23.3x	75%	24.9x	85%	5.4x	97%
S&P 400 Index	17.2x	13%	13.3x	14%	10.2x	24%	1.3x	78%
S&P 600 Index	17.4x	17%	12.0x	6%	9.7x	22%	1.0x	52%
Russell 2000 Index	52.4x	88%	17.9x	38%	14.8x	78%	1.2x	75%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
S&P 500 Index	1.4%	16%	13.1%	95%	18.2%	95%	1.4	16%
S&P 500 Index Equal Weighted	2.0%	72%	8.9%	63%	11.5%	54%	2.7	60%
S&P 500 Value Index	2.1%	31%	10.7%	94%	14.0%	89%	1.8	25%
Russell 1000 Value Index	2.2%	23%	10.4%	84%	12.3%	57%	2.0	16%
S&P 500 Growth Index	0.7%	19%	19.3%	94%	29.1%	86%	0.6	15%
Russell 1000 Growth Index	0.7%	10%	17.9%	99%	35.4%	96%	0.6	6%
S&P 400 Index	1.7%	74%	8.2%	88%	11.0%	61%	2.2	28%
S&P 600 Index	2.0%	95%	6.6%	89%	4.9%	25%	3.8	82%
Russell 2000 Index	1.6%	76%	3.7%	40%	0.3%	20%	4.7	85%

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 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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