Domestic Equities

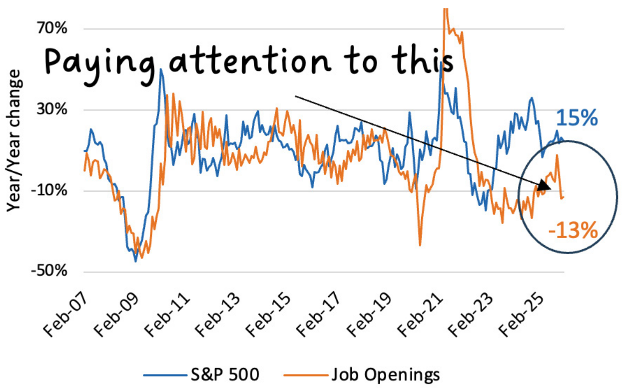
Large Cap

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

February 11, 2026

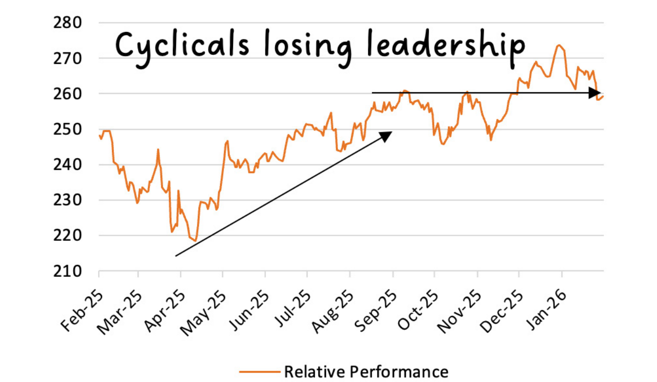
- We are maintaining a neutral stance on large cap blend equities. Large cap equities remain supported by earnings, but elevated valuations and concentrated leadership limit the scope for broad-based upside, shifting returns toward earnings durability and stock selection rather than multiple expansion.
- The U.S. economy entered 2026 with continued growth momentum and signs of a manufacturing re-acceleration. However, softness in the labor market bears watching, as a further deterioration could begin to threaten consumer resilience.
- 4Q earnings season has been solid. With roughly 59% of the S&P 500 companies having reported, blended Q4 earnings growth stands at 13% year over year.
- Market performance has broadened significantly year to date, with the equally weighted S&P 500 index outperforming the cap weighted index. While this is an encouraging development, we note a lack of clear fundamental drivers that would help explain this recent broadening.
- Earnings growth leadership remains quite narrow. Technology, Industrials, and Communication Services continue to drive the bulk of index-level earnings growth. Within Industrials, just two stocks (Boeing and GE Vernova) account for nearly all of the sector's earnings growth: excluding these two companies, sector earnings growth would be negative.
- Consumer Discretionary earnings growth is down slightly due to weakness in autos, housing related, and discretionary retailers, as lower income consumers continue to show signs of strain.
- Earnings expectations for the year have edged higher, with consensus now calling for approximately 14% growth. Valuations on those earnings remains well above long term averages, though, as noted last month, today's market exhibits more "growth oriented" characteristics than seen historically.
- 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.

Job Openings versus S&P 500 Index



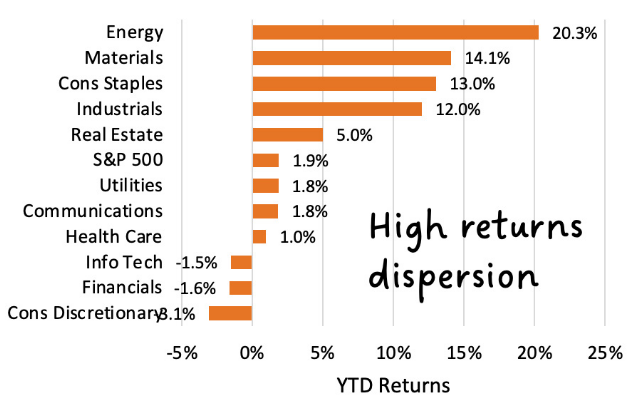
Source: Bloomberg. 20 years of monthly data through Jan 2026.

Cyclical versus Defensive S&P 500 Sectors



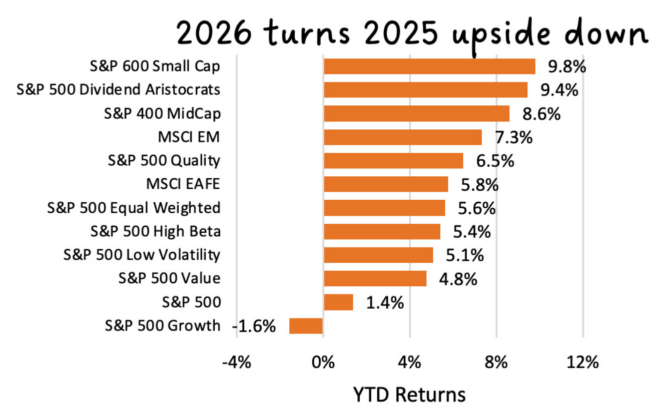
Source: Bloomberg. 1 year of daily data through Feb 09 2026. Cyclical sectors represented by Financials, Materials, Energy, Industrials, and Consumer Discretionary. Defensive sectors represented by Utilities, Consumer Staples, and REITS.

S&P 500 Index Sector Price Returns



Source: Bloomberg. All data as of Feb 5 2026.

Total Returns for Selected Indexes



Source: Bloomberg. All data as of Feb 5 2026.

Domestic Equities

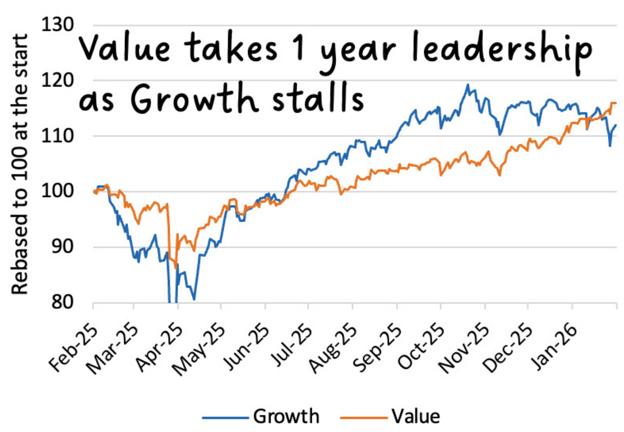
Growth and Value

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

February 11, 2026

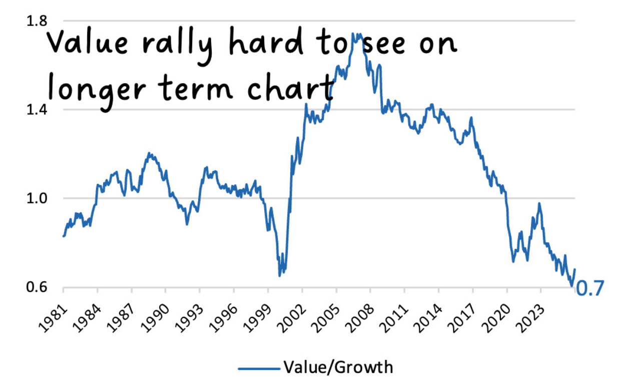
- We hold a moderate tactical underweight in Growth and remain neutral on Value. Growth/Value dynamics are increasingly driven by expectations rather than macro stress, with Growth under pressure from AI monetization and disruption concerns, while Value offers selective earnings upside where expectations remain conservative.
- After leading in 2025, the Growth style has underperformed in early 2026, largely reflecting investor scrutiny of AI related investment rather than a deterioration in near term fundamentals. Focus has shifted to the scale of data center capital spending and the ability of companies to monetize those investments. In addition, concerns have emerged around the potential for AI to disrupt the software as a service business model. We see this as a healthy market response given elevated valuations, though we believe it remains too early in the AI development cycle for investors to jump to definitive conclusions.
- While interest rates are not the primary driver of recent Growth underperformance, we note that Growth stocks remain longer-duration assets and are therefore more sensitive to upside rate risk. An inflationary re-acceleration or concerns around stimulative fiscal policy could place additional pressure on valuations, and this remains a risk we are monitoring.
- Earnings results for Growth-oriented sectors remain solid, with Technology and Communication Services accounting for a disproportionate share of profit growth. 4Q earnings growth for the Russell 1000 Growth index is on pace for 16% year over year, with cash flow growth closer to 20%. However, earnings leadership remains highly concentrated, amplifying sensitivity to changes in sentiment.
- Earnings results for the Value oriented sectors have been more mixed, though they are on track for 10% year over year growth, a significant increase from previous quarters. Financials and Materials have been the main contributors, while Healthcare and Energy have been growth detractors. That said, both sectors were able to surprise to the upside relative to depressed earnings expectations.

Russell 1000 Style Indexes



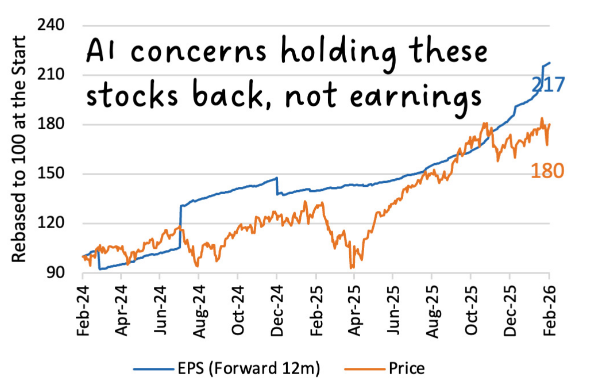
Source: Bloomberg. 1 year of daily data through Feb 09 2026.

Relative Total Returns: Russell 1000 Value Index/Russell 1000 Growth Index



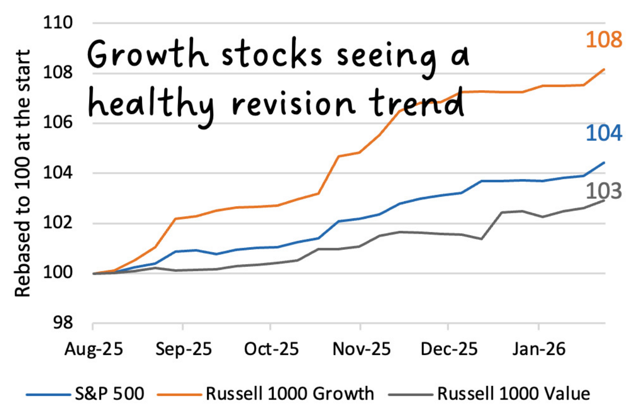
Source: Bloomberg. 45 years of monthly data through Jan 2026.

Goldman Sachs TMT AI Basket Index



Source: Bloomberg. 2 years of daily data through Feb 09 2026. The index consists of companies that are pursuing AI or enabling new technologies across Technology, Media, and Telecom (TMT).

2026 Analyst EPS Estimate Revisions



Source: Bloomberg. 6 months of weekly data through Feb 02 2026.

Domestic Equities

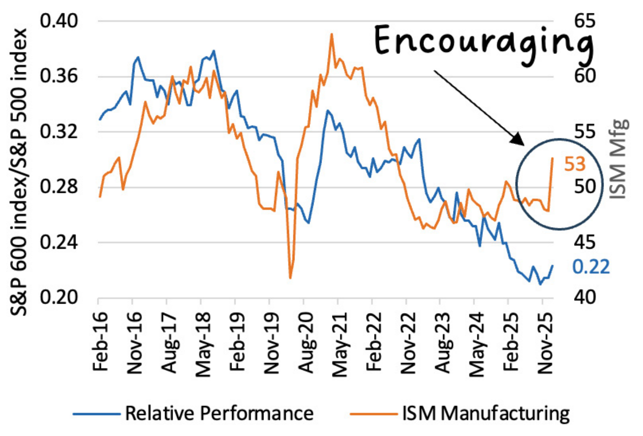
Small and Mid Caps

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

February 11, 2026

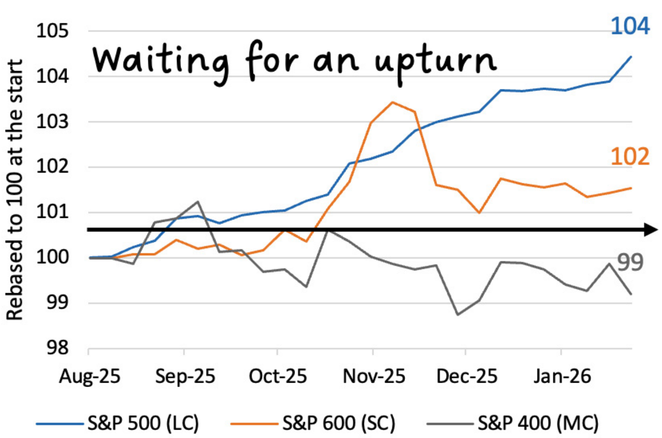
- We favor mid caps over small caps, viewing them as offering the most attractive risk/reward balance in the current market.
- Small and mid cap outperformance has outpaced fundamental earnings confirmation. We are hesitant to call this outperformance as the start of a longer term rotation, given the lack of upward earnings estimate revisions, though we were encouraged by the recent uptick in manufacturing data.
- From an earnings perspective, conditions are improving, but not yet decisive. Earnings surprises for both small and mid caps have trended higher over recent quarters, with the improvement more pronounced in small caps. However, unlike large caps, full-year earnings estimates have remained largely unchanged. It is possible that analysts are reluctant to raise estimates further, given that consensus already implies a high bar for 2026.
- On the macro front, recent data have been more supportive. January's sharp rebound in manufacturing PMI is notable, as manufacturing activity has historically served as a leading indicator for small cap performance. Whether this signal proves durable remains an open question, particularly considering softer labor market trends.
- Mid cap fundamentals remain more balanced than small caps, offering what we continue to view as a more attractive risk–reward profile. While mid cap earnings growth has been steadier and less volatile, the group remains sensitive to industrial activity, credit conditions, and domestic demand—all areas where visibility remains mixed.
- Overall, we see reasons for cautious optimism, particularly if earnings momentum improves and manufacturing strength proves durable. However, with limited confirmation from earnings revisions and ongoing uncertainty around employment trends, we prefer to remain patient before increasing exposure. For now, recent outperformance alone is insufficient to warrant a more aggressive positioning shift.

Small Cap Cyclicality



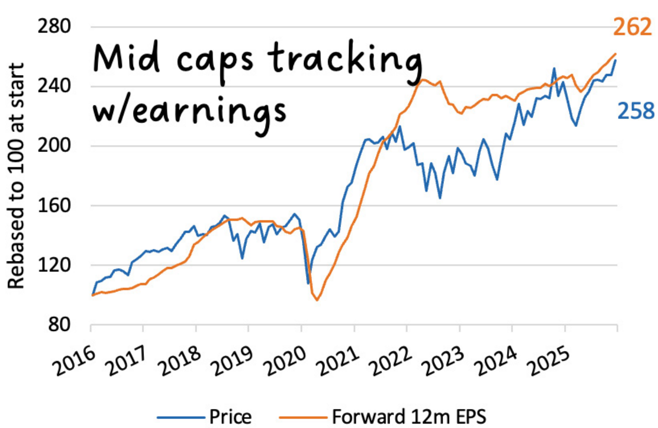
Source: Bloomberg. 10 years of monthly data through Jan 2026.

2026 Analyst EPS Estimate Revision



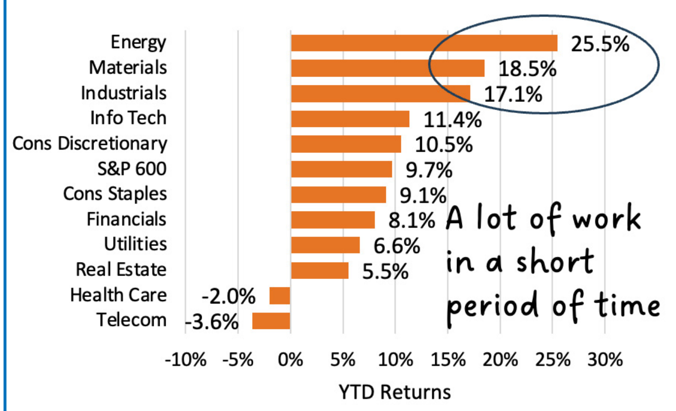
Source: Bloomberg. 6 months of weekly data through Feb 02 2026.

S&P 400 Index



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

S&P 600 Index Sector Price Returns



Source: Bloomberg. All data as of Feb 6 2026..

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

February 11, 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	
	January 2026	YTD	2025	2024	2023	2022	2025	2026
S&P 500 Index	1.5%	1.5%	17.9%	25.0%	26.3%	-18.1%	15%	13%
S&P 500 Index Equal Weighted	3.4%	3.4%	11.4%	13.0%	13.8%	-11.5%	8%	9%
S&P 500 Value Index	2.5%	2.5%	13.2%	12.3%	22.2%	-5.3%	8%	6%
Russell 1000 Value Index	4.6%	4.6%	15.9%	14.4%	11.4%	-7.6%	8%	10%
S&P 500 Growth Index	0.5%	0.5%	22.2%	36.1%	30.0%	-29.4%	17%	22%
Russell 1000 Growth Index	-1.5%	-1.5%	18.6%	33.4%	42.7%	-29.1%	14%	19%
S&P 400 Index	4.1%	4.1%	7.5%	13.9%	16.4%	-13.1%	0%	17%
S&P 600 Index	5.6%	5.6%	6.0%	8.7%	15.9%	-16.1%	7%	14%
Russell 2000 Index	5.4%	5.4%	12.8%	11.5%	16.9%	-20.4%	2%	18%

Valuations

	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
S&P 500 Index	27.7x	93%	22.2x	96%	22.1x	97%	3.6x	100%
S&P 500 Index Equal Weighted	21.4x	84%	17.3x	92%	13.7x	91%	1.8x	93%
S&P 500 Value Index	22.1x	94%	19.1x	100%	17.1x	91%	2.3x	100%
Russell 1000 Value Index	21.6x	93%	17.7x	98%	16.6x	96%	2.2x	99%
S&P 500 Growth Index	35.5x	96%	26.0x	92%	29.5x	98%	6.7x	99%
Russell 1000 Growth Index	38.5x	88%	27.9x	87%	29.9x	96%	6.3x	99%
S&P 400 Index	20.9x	54%	16.4x	73%	12.7x	84%	1.5x	95%
S&P 600 Index	22.5x	53%	15.3x	51%	12.0x	48%	1.3x	98%
Russell 2000 Index	59.4x	92%	23.7x	88%	16.2x	92%	1.5x	96%

Fundamentals

	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
S&P 500 Index	1.1%	3%	13.8%	99%	18.8%	96%	1.6	37%
S&P 500 Index Equal Weighted	1.8%	56%	9.5%	87%	12.0%	63%	2.5	51%
S&P 500 Value Index	1.8%	7%	11.1%	98%	14.6%	92%	2.0	41%
Russell 1000 Value Index	1.8%	1%	11.3%	94%	13.3%	72%	2.1	21%
S&P 500 Growth Index	0.5%	9%	20.5%	97%	29.2%	86%	0.7	35%
Russell 1000 Growth Index	0.5%	6%	18.0%	98%	36.6%	97%	0.6	14%
S&P 400 Index	1.3%	34%	8.0%	85%	10.2%	51%	2.6	51%
S&P 600 Index	1.6%	77%	7.2%	97%	4.1%	17%	4.0	83%
Russell 2000 Index	1.2%	13%	4.4%	63%	0.0%	19%	4.9	85%

For Index Definitions see: 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 January; EPS growth estimates based on consensus bottom-up analyst estimates.

Touchstone Investments®
DISTINCTIVELY ACTIVE®

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

February 11, 2026

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.

Performance data quoted represents past performance, which is no guarantee of future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than performance data given. ***For performance information current to the most recent month-end, visit TouchstoneInvestments.com/mutual-funds.***

Please consider the investment objectives, risks, charges and expenses of a fund carefully before investing. The prospectus and the summary prospectus contain this and other information about a fund. To obtain a prospectus or a summary prospectus, contact your financial professional or download and/or request one at TouchstoneInvestments.com/resources or call Touchstone at 800.638.8194. Please read the prospectus and/or summary prospectus carefully before investing.