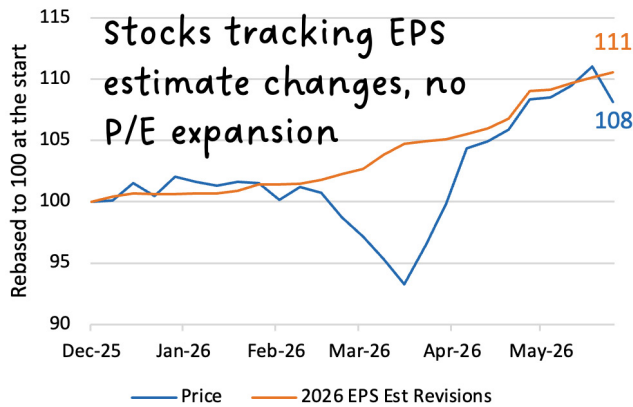




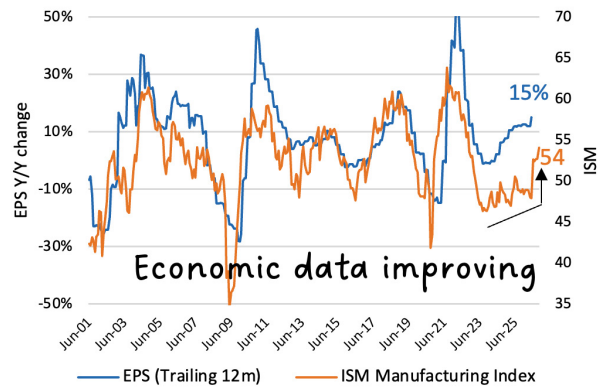
- ▶ We upgraded large cap blend equities to a moderate overweight following the recent market pullback. We view this as an upgrade to equities rather than a downgrade to fixed income, reflecting improving earnings prospects and a more attractive risk/reward profile.
- ▶ Market fundamentals remain exceptionally strong. First quarter earnings growth was among the strongest seen outside of recession recoveries, and analysts continue to raise both 2026 and 2027 earnings estimates. Importantly, earnings revisions have outpaced stock price appreciation.
- ▶ However, market leadership remains unusually dependent on one spending driver. As companies tied directly or indirectly to AI spending continues to account for a disproportionate share of earnings growth and index performance. While a single market driver alone does not end bull markets, it can contribute to higher volatility.
- ▶ Another developing consideration is equity supply. The anticipated SpaceX public offering, along with expected offerings from Anthropic and OpenAI, could introduce significant amounts of new equity issuance into the market. While these transactions may create periods of market digestion and short-term volatility, they do not alter the underlying earnings outlook that continues to support equities.
- ▶ Risks remain. A stronger-than-expected labor market and firm inflation data have increased concerns that the Federal Reserve could resume raising rates. The market's negative reaction to the recent employment report highlights investor sensitivity to interest rate expectations. While higher rates could create near-term volatility, we believe earnings growth remains the more important driver of long-term equity returns.
- ▶ We continue to believe the secular bull market remains intact. Strong earnings momentum, resilient economic activity, and broadening AI-related investment support our constructive outlook, although periods of consolidation should be expected given elevated valuations and concentrated leadership.

### S&P 500 Index



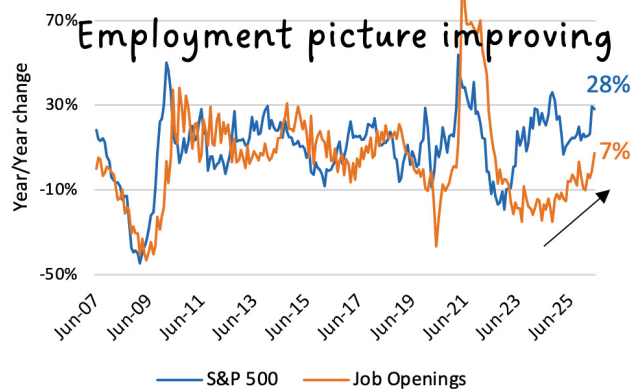
Source: Bloomberg. 6 months of weekly data through Jun 05 2026.

### S&P 500 Index EPS and ISM Manufacturing



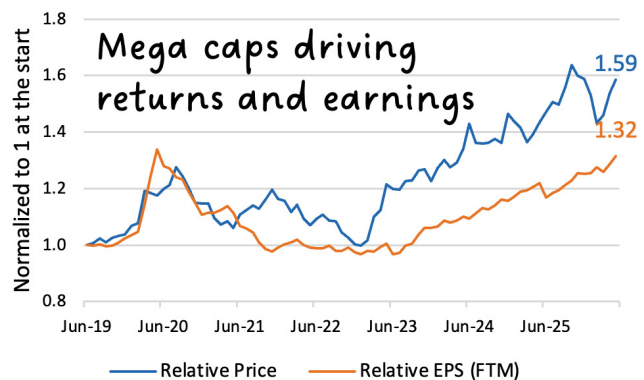
Source: Bloomberg. 26 years of monthly data through May 2026. ISM advanced 5 months.

### Job Openings versus S&P 500 Index



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

### S&P Top 50 Index versus S&P 500 Equal Weighted Index



Source: Bloomberg. 7 years of monthly data through May 2026.

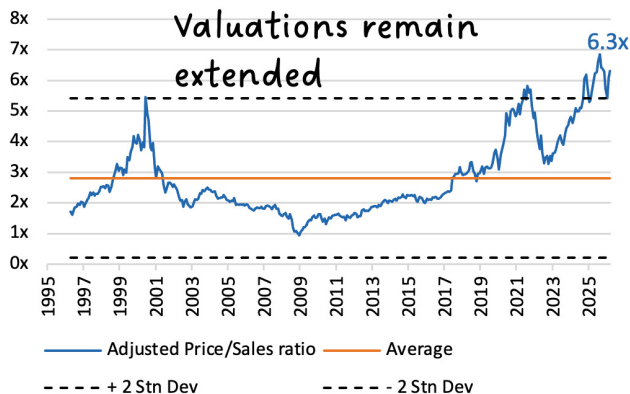


Authors: Crit Thomas, CFA, CAIA / Erik M. Aarts, CIMA / Tim Paulin, CFA

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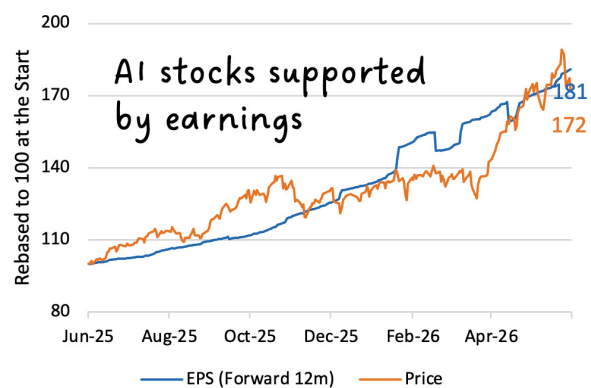
- ▶ We remain at our strategic allocations between Value and Growth despite recently increasing our overall exposure to U.S. equities. While both styles continue to benefit from a supportive earnings backdrop, we do not currently see a compelling case to meaningfully favor one over the other.
- ▶ Growth continues to benefit from the AI infrastructure buildout, but exposure has become increasingly concentrated around a single investment theme. While earnings growth remains strong, reliance on AI-related spending increases sensitivity to changes in investor expectations, valuation assumptions, or capital spending plans.
- ▶ We considered increasing Value exposure. Value stocks offer more attractive valuations and include many of the industrial, power, materials, and infrastructure companies supporting AI development. However, several of the companies that have contributed to recent Russell Value outperformance are expected to leave the index during Russell's upcoming reconstitution. Alphabet, Micron Technology, AMD, and Sandisk are all expected to migrate out of the Value index.
- ▶ Where the Value universe may become more attractive is in the next phase of the AI investment cycle, when the focus shifts from building AI computing capacity to identifying the industries most likely to benefit from using AI tools. Financials and Health Care, both significant weights in the Value index, are believed to be significant beneficiaries of AI-driven productivity gains.
- ▶ 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 market theme, we continue to favor a balanced approach between Value and Growth. The opportunity set is broadening, but not yet enough to justify a significant style tilt in either direction.

## Russell 1000 Growth Index



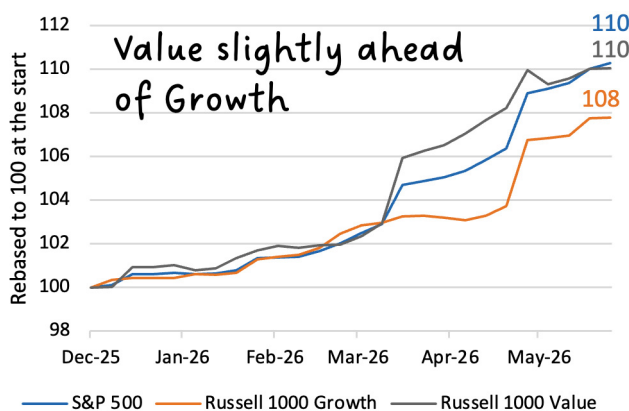
Source: Bloomberg. 30 years of monthly data through May 2026.

## Goldman Sachs TMT AI Basket Index



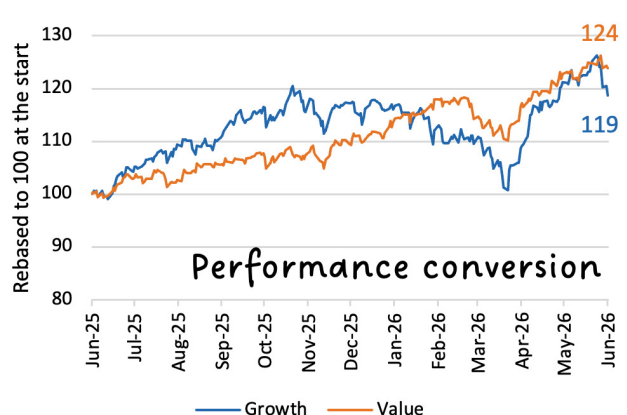
Source: Bloomberg. 1 year of daily data through June 10 2026. The index consists of companies that are pursuing AI or enabling new technologies across Technology, Media, and Telecom (TMT).

## 2026 Analyst EPS Estimate Revisions



Source: Bloomberg. 6 months of weekly data through Jun 03 2026.

## Russell 1000 Style Indexes

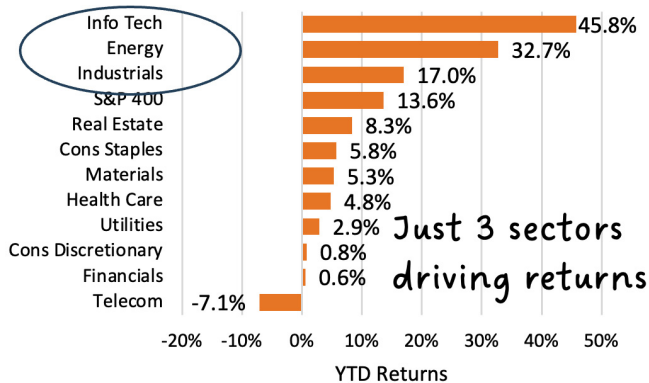


Source: Bloomberg. 1 year of daily data through Jun 09 2026.



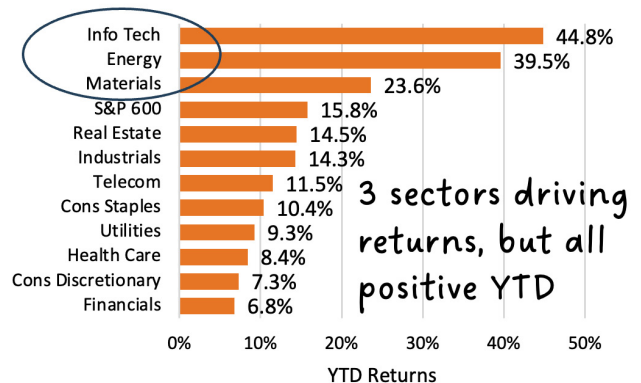
- ▶ We continue to favor mid caps over small caps, viewing them as offering a more attractive balance between cyclical participation and fundamental quality.
- ▶ Leadership for small and mid caps remains concentrated. Technology and AI-related beneficiaries continue to drive a disproportionate share of earnings growth and market returns, although participation has broadened modestly across other sectors. The Energy sector has also seen strong gains year-to-date, due to rising oil prices.
- ▶ Earnings revisions have moved modestly higher, and analysts expect both small and mid-cap companies to deliver attractive earnings growth in 2026. In addition, many smaller companies remain leveraged to business investment spending, which continues to benefit from AI-related infrastructure development and manufacturing activity.
- ▶ Preliminary data on Russell's June reconstitution indicate that a meaningful number of companies will graduate from the Russell 2000 into the Russell 1000, particularly within the Technology and Industrial sectors. As a result, passive index investors will soon be handing those winners off to larger cap indexes for a new cohort of smaller companies.
- ▶ We continue to monitor the impact of higher interest rate expectations. Smaller companies are generally more sensitive to financing costs and economic conditions than large caps. Any renewed increase in Fed tightening expectations could create periods of relative volatility.
- ▶ While improving fundamentals are encouraging, we would like to see broader participation across sectors. For now, we remain relatively close to our strategic allocations while maintaining a preference for mid caps.

### S&P 400 Index Sector Price Returns



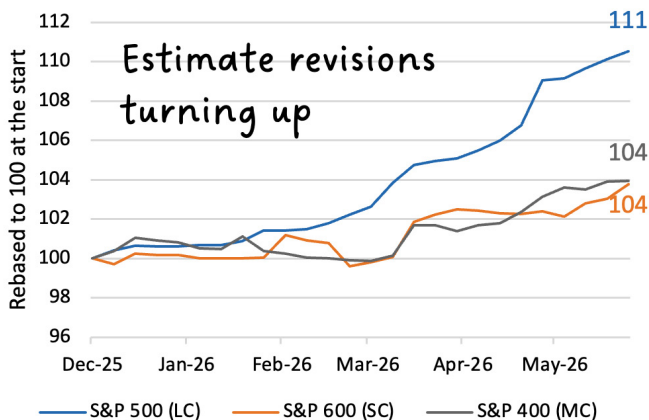
Source: Bloomberg. All data as of Jun 9 2026.

### S&P 600 Index Sector Price Returns



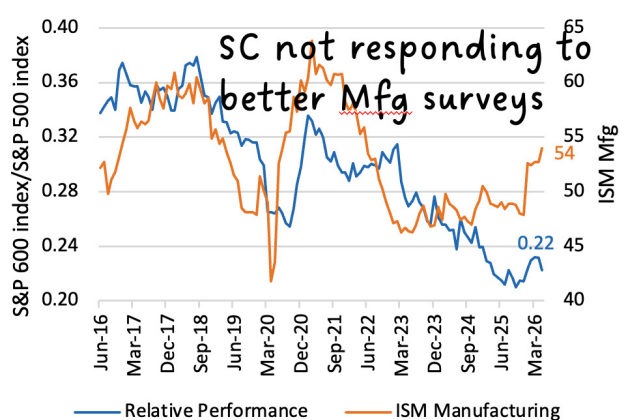
Source: Bloomberg. All data as of Jun 9 2026.

### 2026 Analyst EPS Estimate Revisions



Source: Bloomberg. 6 months of weekly data through Jun 03 2026.

### Small Cap Cyclicity



Source: Bloomberg. 10 years of monthly data through May 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	
	May 2026	YTD	2025	2024	2023	2022	2025	2026	
S&P 500 Index	5.3%	11.3%	17.9%	25.0%	26.3%	-18.1%	23%	15%	
S&P 500 Index Equal Weighted	2.7%	9.5%	11.4%	13.0%	13.8%	-11.5%	14%	11%	
S&P 500 Value Index	2.0%	8.0%	13.2%	12.3%	22.2%	-5.3%	12%	9%	
Russell 1000 Value Index	2.9%	13.7%	15.9%	14.4%	11.4%	-7.6%	20%	11%	
S&P 500 Growth Index	8.1%	14.0%	22.2%	36.1%	30.0%	-29.4%	38%	22%	
Russell 1000 Growth Index	7.2%	8.2%	18.6%	33.4%	42.7%	-29.1%	28%	21%	
S&P 400 Index	2.5%	13.3%	7.5%	13.9%	16.4%	-13.1%	20%	13%	
S&P 600 Index	1.0%	15.5%	6.0%	8.7%	15.9%	-16.1%	18%	17%	
Russell 2000 Index	4.4%	18.2%	12.8%	11.5%	16.9%	-20.4%	17%	17%	

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
S&P 500 Index	27.8x	93%	19.4x	78%	21.6x	95%	3.7x	100%
S&P 500 Index Equal Weighted	20.6x	71%	15.6x	57%	13.3x	87%	1.9x	93%
S&P 500 Value Index	22.2x	94%	17.3x	96%	15.7x	86%	2.2x	98%
Russell 1000 Value Index	22.1x	93%	15.9x	81%	16.6x	96%	2.3x	100%
S&P 500 Growth Index	35.1x	94%	21.5x	78%	31.1x	99%	8.5x	100%
Russell 1000 Growth Index	36.4x	83%	23.8x	75%	27.8x	93%	6.3x	99%
S&P 400 Index	21.1x	56%	15.2x	48%	13.0x	90%	1.6x	96%
S&P 600 Index	21.6x	46%	13.8x	24%	12.1x	52%	1.2x	95%
Russell 2000 Index	77.8x	94%	21.3x	69%	18.6x	99%	1.7x	99%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
S&P 500 Index	1.1%	0%	14.5%	100%	20.0%	98%	1.6	39%
S&P 500 Index Equal Weighted	1.7%	12%	10.0%	98%	12.6%	78%	2.6	58%
S&P 500 Value Index	1.8%	1%	10.7%	91%	15.3%	96%	2.3	53%
Russell 1000 Value Index	1.7%	0%	11.5%	96%	13.6%	74%	2.2	27%
S&P 500 Growth Index	0.5%	0%	26.0%	100%	29.7%	88%	0.4	5%
Russell 1000 Growth Index	0.5%	4%	18.9%	100%	38.2%	99%	0.6	10%
S&P 400 Index	1.3%	31%	8.7%	93%	11.2%	67%	2.4	41%
S&P 600 Index	1.5%	71%	7.2%	97%	5.2%	32%	4.2	89%
Russell 2000 Index	1.2%	10%	4.5%	64%	0.9%	27%	5.1	87%

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 May; 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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