

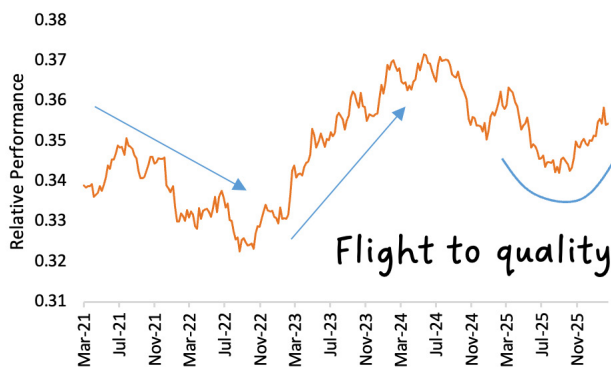


Authors: Crit Thomas, CFA, CAIA / Erik M. Aarts, CIMA / Tim Paulin, CFA

March 24, 2026

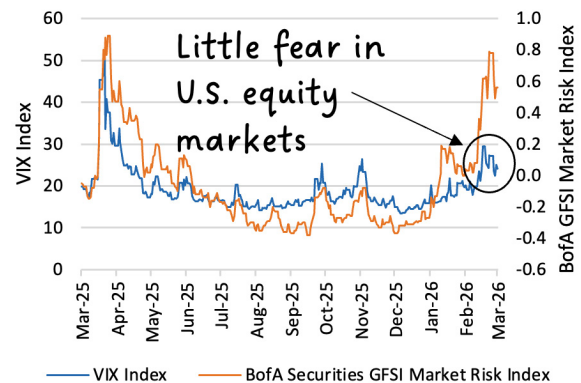
- ▶ We maintain a neutral stance on large-cap blend equities. Entering 2026, we expected a pause in markets to allow earnings to catch up to prices, with some risk of a correction. That correction may be underway, as the conflict in Iran has introduced stagflationary risks.
- ▶ The economic backdrop is mixed. Inflation has been moderating, but higher oil prices tied to the conflict are increasing the risk of renewed price pressures while weighing on consumers and supply chains. At the same time, the labor market has softened, with the U.S. losing 92,000 jobs in February and employment declining in several recent months.
- ▶ Even before the conflict, growth was slowing, 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.
- ▶ That said, visibility around the conflict remains limited, and the risk of further escalation, including a potential U.S. military ground incursion, has increased. While escalation raises the risk of a recession or bear market, we continue to view these as tail risks. Even under a more severe scenario, the U.S. economy appears better positioned than in past cycles to absorb an energy shock, reducing the likelihood that it alone would derail the expansion.
- ▶ Greater vulnerability may lie outside the U.S., particularly in regions more reliant on imported energy and already facing weaker growth. The risk of a more pronounced slowdown abroad has increased. We will address this in more detail in our forthcoming International Equities Monthly.
- ▶ 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.

MSCI USA Quality Index versus MSCI USA Index



Source: Bloomberg. 5 years of weekly data through Mar 18 2026.

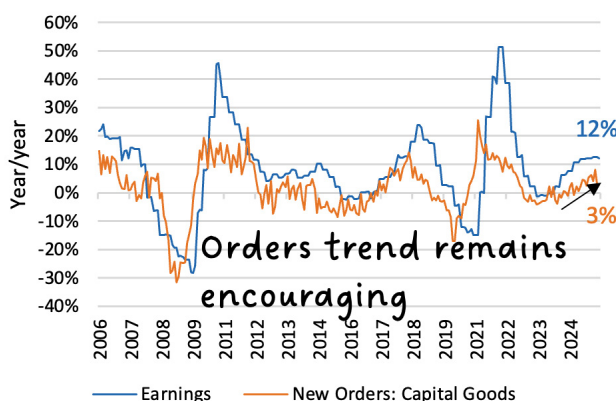
Market Risk Measures



Source: Bloomberg. 1 year of daily data through Mar 19 2026.

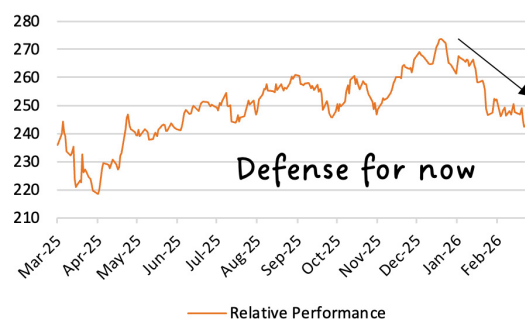
GFSI Market Risk Index is a measure of future price swings implied by option markets in global equities, rates, currencies and commodities. Levels greater (less) than 0 indicate more (less) stress than is normal.

Durable Orders Tend to Lead EPS



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

Cyclical versus Defensive S&P 500 Sectors



Source: Bloomberg. 1 year of daily data through Mar 19 2026. Cyclical sectors represented by Financials, Materials, Energy, Industrials, and Consumer Discretionary. Defensive sectors represented by Utilities, Consumer Staples, and REITS.

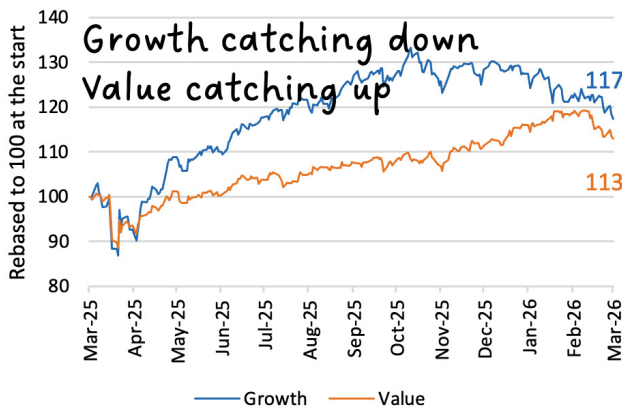


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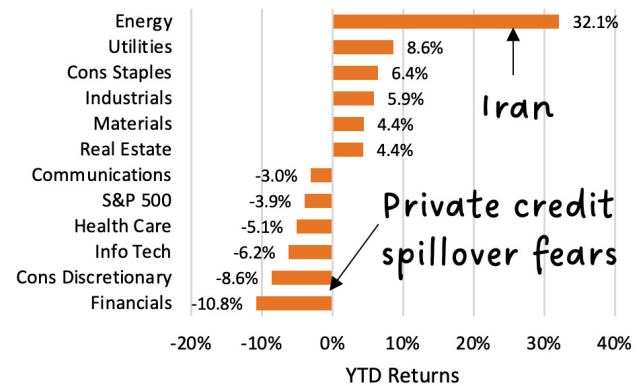
- ▶ We removed our moderate tactical underweight in Growth, reallocating from emerging markets. Large cap growth stocks have underperformed since October even as earnings revisions for 2026 have moved higher. We view Growth as relatively less exposed to higher energy prices, though risk considerations have kept us at neutral rather than moving to an overweight. Our Value positioning remains neutral.
- ▶ Growth has outperformed Value since the onset of the conflict, reflecting a rotation toward earnings visibility and perceived defensiveness. Large cap growth continues to benefit from durable AI-related spending, while software stocks entered the period already significantly devalued, leaving them less exposed to further downside. In contrast, Value performance has been mixed. Energy has led amid rising oil prices, while Financials have lagged due to concerns around private credit exposure and broader credit stress.
- ▶ Since October 2025, large cap growth stocks have declined roughly 13%, while 2026 earnings estimates have risen about 7%. Over that period the P/E multiple on the Russell 1000® Growth Index fell by five turns.
- ▶ Growth stocks face two primary risks. The first is higher interest rates, as growth stocks are more sensitive to rising yields. The second is the potential disruption to Asian semiconductor production tied to a prolonged closure of the Strait of Hormuz. This could lead to higher input costs and possible shipment delays for data centers. While chip prices have already jumped and production risks are increasing, these risks are more prominent for EM than for U.S. growth companies.
- ▶ Neither Growth nor Value appear sufficiently oversold to warrant increased exposure. We have yet to see the type of capitulation typically associated with durable buying opportunities. For example, we've seen fewer new 52-week lows in March than in February.

Russell 1000 Style Indexes



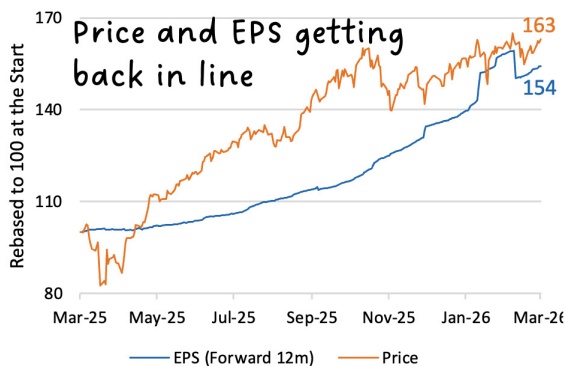
Source: Bloomberg. 1 year of daily data through Mar 19 2026.

S&P 500 Index Sector Price Returns



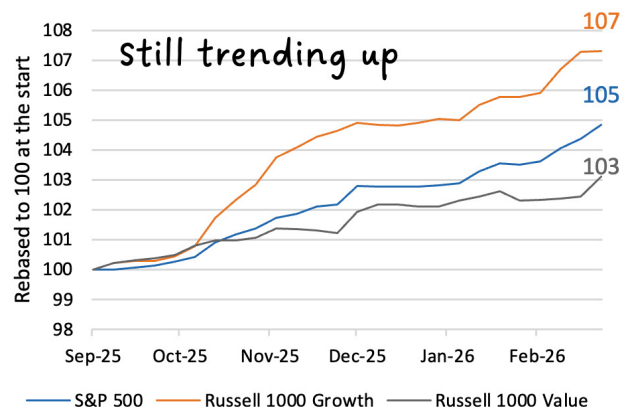
Source: Bloomberg. All data as of Mar 17 2026.

Goldman Sachs TMT AI Basket Index



Source: Bloomberg. 1 year of daily data through Mar 19 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 Mar 12 2026.

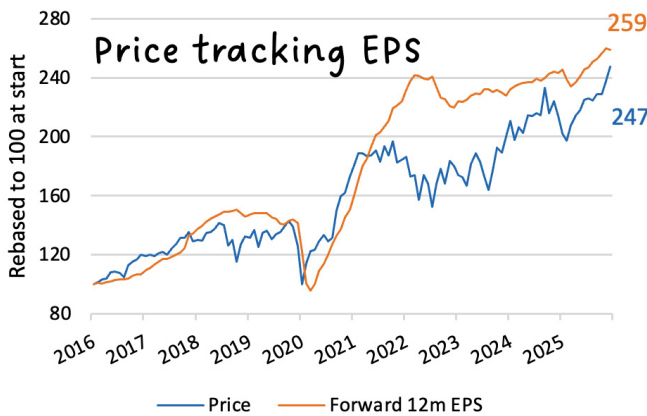


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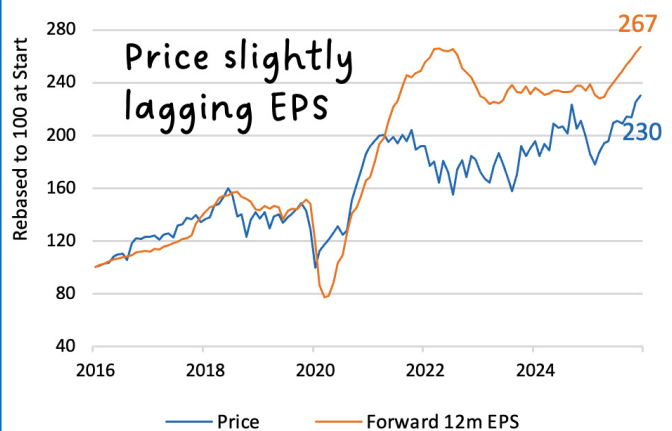
- ▶ We continue to favor mid caps over small caps, viewing them as offering a more attractive risk/reward profile, though the Iran conflict complicated this positioning in the near-term.
- ▶ Small and mid cap remain ahead of large cap stocks year-to-date but have given back a meaningful portion of that outperformance in March. This recent weakness reflects their greater sensitivity to the domestic economic cycle rather than direct energy exposure. Rising input costs and tighter financial conditions can amplify that cyclicality, leaving these segments more exposed as growth expectations soften.
- ▶ Unlike large caps, where style performance has been driven by sector-specific factors such as AI-related earnings strength and weakness in Financials, small and mid cap stocks are more uniformly tied to the domestic economy. As a result, since the start of the conflict macro factors have dominated, leading to limited performance dispersion between Growth and Value.
- ▶ Similar to large caps, the recent selloff has been orderly, with limited signs of fear or capitulation. While valuations remain attractive relative to large caps, they are less compelling relative to their own history.
- ▶ Earnings revisions have stabilized over the last six months, though that is an improvement over the declines seen over the last few years. If mid and small cap companies are able to deliver on low teens earnings growth expectations, outperformance is possible. However, persistently high oil prices and a weakening labor market present meaningful risks, particularly for these more cyclical segments.
- ▶ We expect these near-term 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 are staying relatively close to our strategic weights.

S&P 400 Index



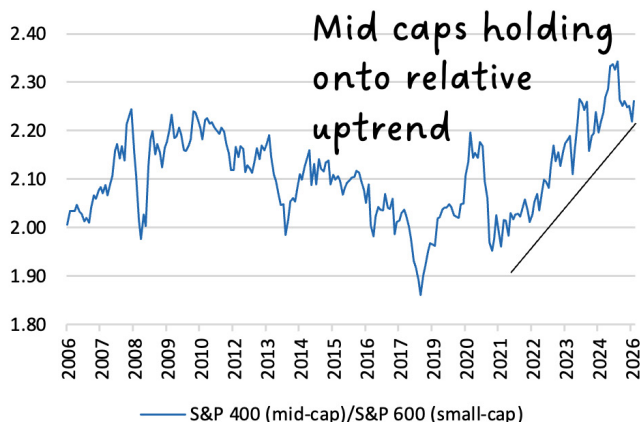
Source: Bloomberg. 10 years of monthly data through Feb 2026.

S&P 600 Index



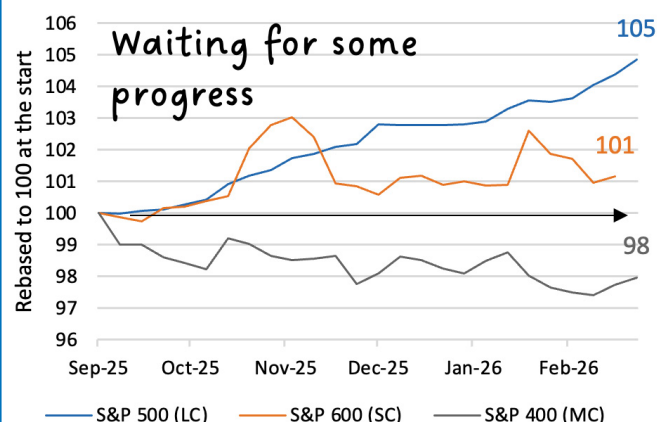
Source: Bloomberg. 10 years of monthly data through Feb 2026.

Relative Price Performance



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

2026 Analyst EPS Estimate Revisions



Source: Bloomberg. 6 months of weekly data through Mar 12 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	
	February 2026	YTD	2025	2024	2023	2022	2025	2026	
S&P 500 Index	-0.8%	0.7%	17.9%	25.0%	26.3%	-18.1%	14%	15%	
S&P 500 Index Equal Weighted	3.5%	7.1%	11.4%	13.0%	13.8%	-11.5%	9%	12%	
S&P 500 Value Index	2.3%	4.8%	13.2%	12.3%	22.2%	-5.3%	6%	11%	
Russell 1000 Value Index	2.6%	7.3%	15.9%	14.4%	11.4%	-7.6%	11%	11%	
S&P 500 Growth Index	-3.4%	-2.9%	22.2%	36.1%	30.0%	-29.4%	25%	20%	
Russell 1000 Growth Index	-3.4%	-4.8%	18.6%	33.4%	42.7%	-29.1%	21%	20%	
S&P 400 Index	4.1%	8.3%	7.5%	13.9%	16.4%	-13.1%	16%	13%	
S&P 600 Index	2.2%	7.9%	6.0%	8.7%	15.9%	-16.1%	13%	19%	
Russell 2000 Index	0.8%	6.2%	12.8%	11.5%	16.9%	-20.4%	16%	16%	

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
S&P 500 Index	26.9x	89%	19.0x	76%	21.6x	96%	3.5x	99%
S&P 500 Index Equal Weighted	21.4x	83%	16.0x	63%	13.6x	91%	1.9x	94%
S&P 500 Value Index	22.5x	95%	17.5x	97%	16.6x	90%	2.2x	98%
Russell 1000 Value Index	21.9x	94%	16.4x	88%	17.5x	97%	2.3x	100%
S&P 500 Growth Index	32.9x	88%	20.8x	75%	30.3x	99%	7.6x	100%
Russell 1000 Growth Index	34.9x	81%	22.4x	68%	26.5x	90%	5.7x	96%
S&P 400 Index	22.5x	76%	15.1x	47%	13.4x	95%	1.6x	96%
S&P 600 Index	21.0x	42%	13.1x	15%	11.6x	41%	1.2x	94%
Russell 2000 Index	55.3x	89%	18.7x	44%	14.5x	73%	1.6x	97%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
S&P 500 Index	1.2%	3%	14.0%	100%	18.8%	95%	1.5	21%
S&P 500 Index Equal Weighted	1.8%	18%	9.8%	90%	11.7%	58%	2.6	53%
S&P 500 Value Index	1.8%	2%	10.6%	91%	14.7%	94%	2.1	49%
Russell 1000 Value Index	1.8%	0%	11.3%	94%	13.0%	67%	2.0	17%
S&P 500 Growth Index	0.6%	2%	24.7%	100%	27.8%	81%	0.3	3%
Russell 1000 Growth Index	0.5%	7%	17.9%	96%	36.1%	95%	0.6	9%
S&P 400 Index	1.3%	32%	8.0%	86%	10.3%	52%	2.4	35%
S&P 600 Index	1.6%	76%	6.8%	91%	4.4%	24%	3.9	80%
Russell 2000 Index	1.2%	12%	4.3%	54%	1.1%	28%	4.2	65%

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 February; 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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