

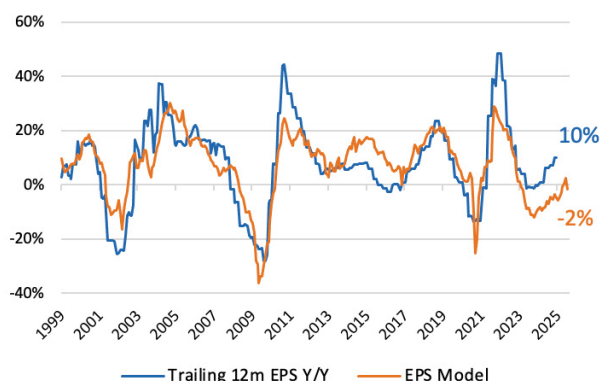


Authors: Crit Thomas, CFA, CAIA / Erik M. Aarts, CIMA / Brian Cheyne, CFA, CIMA

April 10, 2025

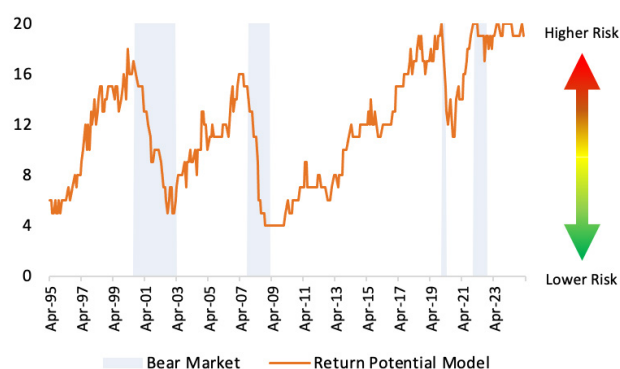
- ▶ We are maintaining our neutral large cap blend exposure, as tariffs have introduced significant risk and uncertainty into the markets.
- ▶ As we write this the Trump Administration announced a 90-day tariff pause for non-retaliating countries. While this is encouraging and points to the possibility of market-friendly negotiated settlements, many tariffs remain in place, and the inconsistent approach to them adds to this uncertain environment.
- ▶ While many countries have signaled willingness to negotiate, others—most notably China—have announced retaliatory tariffs. With no clear path to de-escalation, a prolonged tariff regime could increase recession risk and weigh on equities.
- ▶ Q1 earnings season has just begun. Amid uncertainty around tariffs, negotiations, and potential retaliation, we expect companies to offer limited forward guidance. We are currently projecting low single-digit S&P 500 earnings growth in 2025, which is below the current consensus.
- ▶ The S&P 500 fell nearly 20% from its 52-week high, with widespread valuation compression. While we've remained cautious on large caps due to valuations, indiscriminate selling may open opportunities for active managers to identify long term value.
- ▶ Thus far, tariff effects have primarily been felt in financial markets. We remain prepared to adjust positioning in response to further economic weakness, or signs of a negotiated resolution. The outlook remains fluid.

### Touchstone S&P 500 EPS Model



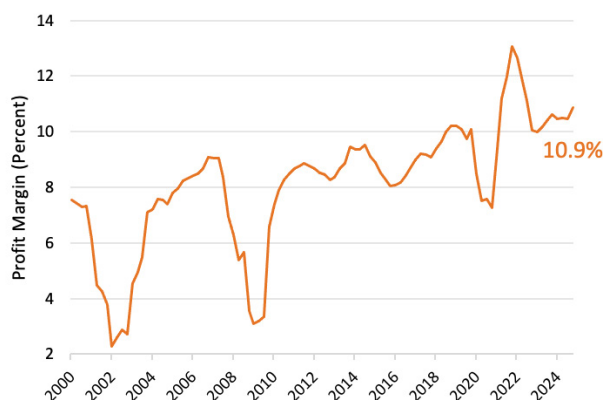
Source: Bloomberg. EPS Model looks forward 7 months, actual EPS through Mar 2025; Model composed of 10y Yield, LEI, and Mfg New Orders

### Touchstone Fundamental Equity Risk Model



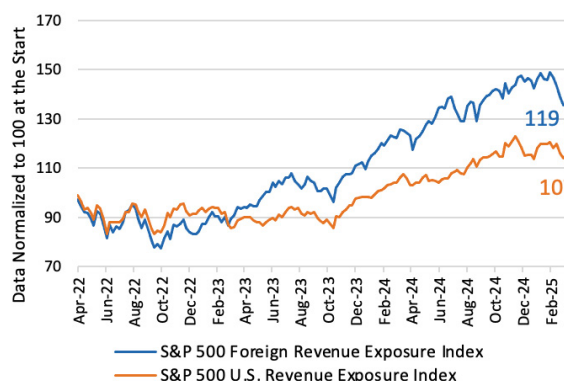
Source: Bloomberg. 30 years of monthly data through Feb 2025; Risk model based on S&P 500 Index valuation metrics (EV/EBITDA, P/S, P/CF) profit margins, Unemployment Rate and LEI.

### 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 Apr 4 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.

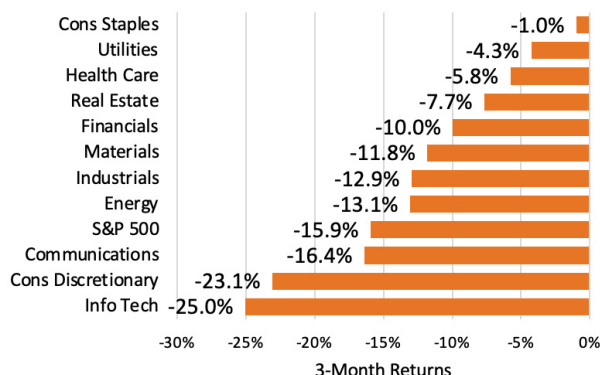


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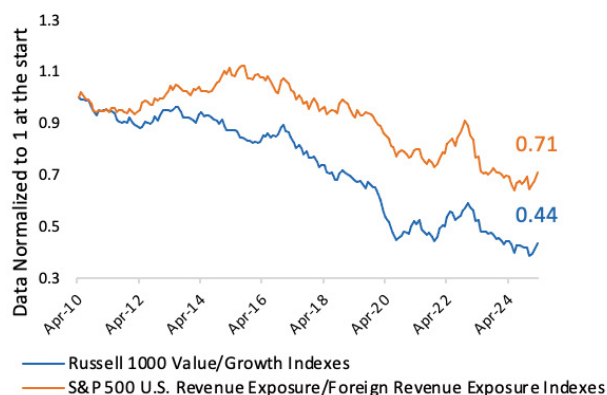
- ▶ In March, we reduced our modest Value overweight to neutral and maintained a moderate underweight in Growth.
- ▶ From their 52-week highs through April 7, the Russell 1000 Growth and Value indices declined 22% and 15%, respectively. Valuation compression has been more pronounced in Growth: the trailing Price/Sales ratio is down roughly 25%, while Value's P/E has declined 20%.
- ▶ Under the surface, opportunities for active management appear more abundant in Value. The number of Value stocks trading below 12x trailing P/E has risen by nearly two-thirds since the market peak, compared to only a 15% increase in Growth stocks with similar valuations.
- ▶ Value earnings are projected to decline 1% in 2025. Tariffs will likely weigh on manufacturing heavy firms. The Industrials sector, 13% of the Russell 1000 Value Index, is particularly exposed. For example, roughly 30% of a Boeing 787 is globally sourced, which could pressure margins.
- ▶ Growth earnings are projected to rise 25% in 2025. However, the Mag 7, which make up 45% of the Russell 1000 Growth Index, derives about 45% of revenue overseas. For other companies with international exposure, the median is 36%.
- ▶ We see rising vulnerability in U.S. services exports amid escalating trade tensions, particularly with Europe. This includes cloud computing companies (e.g., Amazon, Microsoft) and entertainment (e.g., Disney, Netflix).
- ▶ We believe the key market driver will be progress, or lack thereof, in negotiations with Europe and China. Prolonged escalation could usher in a global slowdown.

## S&P 500 Index Sector Price Returns



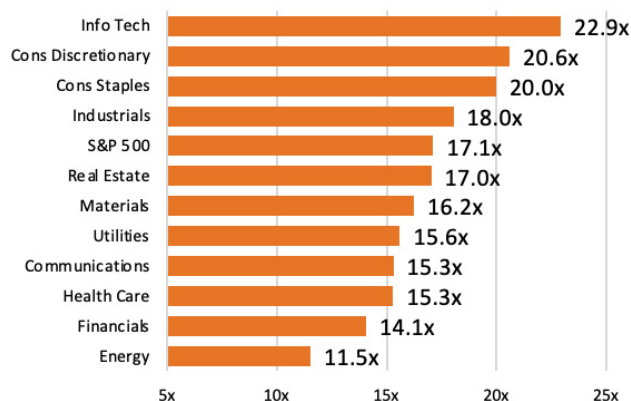
Source: Bloomberg. All data as of Apr 7 2025

## Performance by Style and Exposure



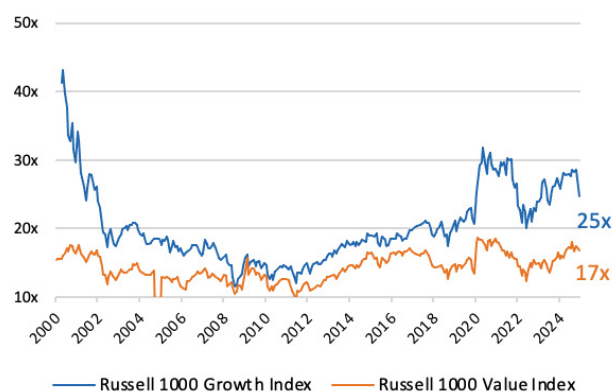
Source: Bloomberg. 5 years of monthly data through Mar 2025

## S&P 500 Index Sector Forward P/E Ratios



Source: Bloomberg. All data as of Apr 7 2025

## Price/Earnings Ratios: Forward 12 Months



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

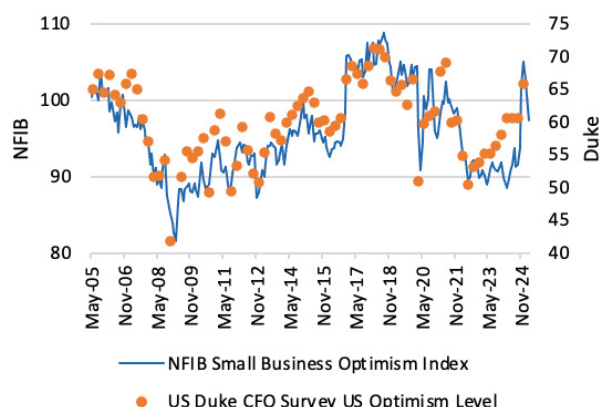


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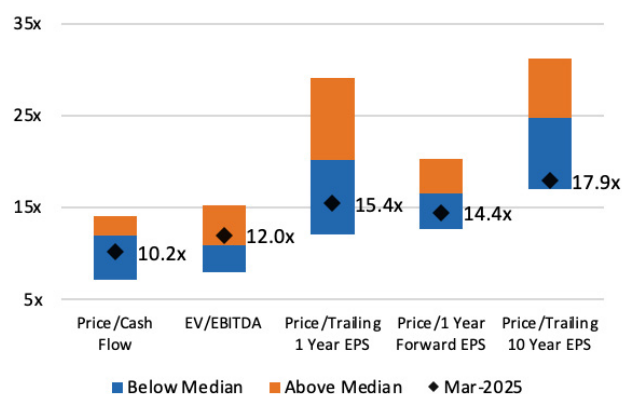
- ▶ We are maintaining a slight underweight in small caps and an overweight in mid caps.
- ▶ As highlighted last month, cyclicality remains a headwind: nearly 50% of the S&P 600 Small Cap Index is in cyclical sectors, compared to less than 30% for large caps. A deepening trade conflict could further pressure the economy. The S&P 600 is down 27% from its peak, reflecting investor concerns.
- ▶ 2025 earnings estimates for small and mid caps have declined even before the recent escalation in China tensions. Forecasts now sit in the low single digits for mid caps and are negative for small caps. We see downside risk to earnings, although much of this appears priced in.
- ▶ Historically, smaller cap segments have provided fertile ground for active managers. Since the November peak, the share of small cap stocks trading below 12x trailing earnings has nearly doubled to 37%.
- ▶ We continue to favor mid caps, which offer a compelling risk/reward profile: they are meaningfully cheaper than large caps, more financially stable than small caps, have lower international exposure (limiting retaliation risk), and carry more modest earnings expectations. Within mid caps, we favor a quality tilt.
- ▶ The latest tariff announcements have darkened the near-term outlook, and both small and mid caps have seen meaningful declines. Progress on tariff negotiations may allow us to revisit our small cap underweight.

## CFO Optimism Surveys



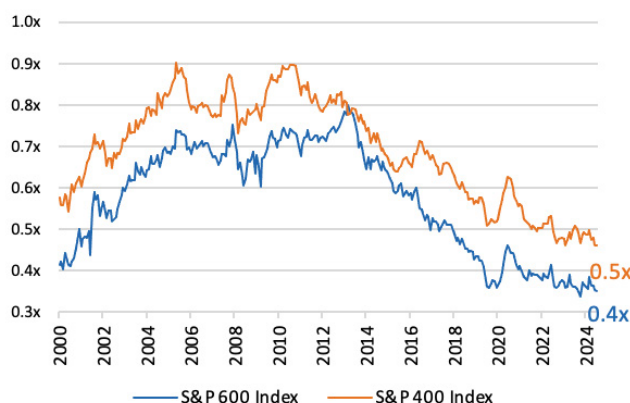
Source: Bloomberg. 20 years of observations. NFI has monthly data through Jan 2025. Duke has quarterly data through Dec 2024.

## S&P 600 Index Valuation Ranges



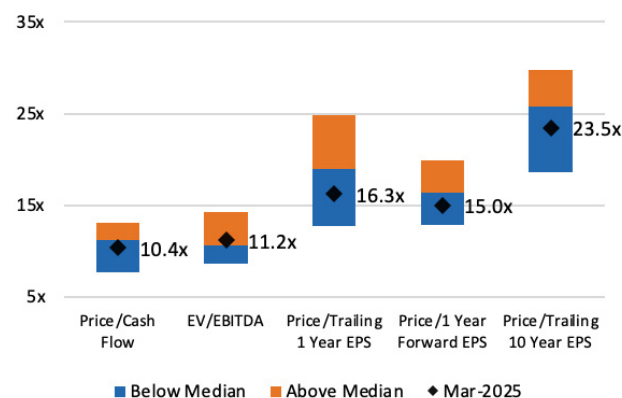
Source: Bloomberg. Monthly data starting in 1996. The minimum and maximum ranges are set to the 5th and 95th percentiles, respectively, to remove outliers. Average percentile rank: 26% as of Mar 2025

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



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

## S&P 400 Index Valuation Ranges



Source: Bloomberg. Monthly data starting in 1996. The minimum and maximum ranges are set to the 5th and 95th percentiles, respectively, to remove outliers. Average percentile rank: 31% as of Mar 2025



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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								
	March 2025	YTD	2024	2023	2022	2021	EPS Growth Estimate	
							2024	2025
S&P 500 Index	-5.6%	-4.3%	25.0%	26.3%	-18.1%	28.7%	11%	10%
S&P 500 Index Equal Weighted	-3.4%	-0.6%	13.0%	13.8%	-11.5%	29.6%	5%	6%
S&P 500 Value Index	-3.0%	0.3%	12.3%	22.2%	-5.3%	24.9%	7%	7%
Russell 1000 Value Index	-2.8%	2.1%	14.4%	11.4%	-7.6%	25.2%	-1%	7%
S&P 500 Growth Index	-8.2%	-8.5%	36.1%	30.0%	-29.4%	32.0%	7%	13%
Russell 1000 Growth Index	-8.4%	-10.0%	33.4%	42.7%	-29.1%	27.6%	25%	15%
S&P 400 Index	-5.5%	-6.1%	13.9%	16.4%	-13.1%	24.8%	2%	7%
S&P 600 Index	-6.1%	-8.9%	8.7%	15.9%	-16.1%	26.8%	-8%	6%
Russell 2000 Index	-6.8%	-9.5%	11.5%	16.9%	-20.4%	14.8%	-17%	23%

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
S&P 500 Index	24.0x	81%	18.4x	76%	19.1x	94%	3.0x	94%
S&P 500 Index Equal Weighted	19.2x	58%	15.0x	46%	13.0x	89%	1.6x	63%
S&P 500 Value Index	20.3x	89%	16.1x	92%	15.9x	90%	2.1x	98%
Russell 1000 Value Index	19.2x	79%	15.1x	72%	14.7x	92%	1.9x	93%
S&P 500 Growth Index	29.5x	85%	21.6x	81%	24.0x	93%	5.4x	91%
Russell 1000 Growth Index	31.6x	76%	22.5x	72%	24.4x	83%	5.3x	97%
S&P 400 Index	17.6x	14%	13.0x	11%	10.4x	27%	1.3x	83%
S&P 600 Index	18.2x	20%	12.1x	7%	10.2x	25%	1.0x	64%
Russell 2000 Index	43.8x	84%	17.6x	34%	14.3x	70%	1.3x	80%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
S&P 500 Index	1.4%	14%	10.9%	94%	18.2%	95%	1.4	16%
S&P 500 Index Equal Weighted	1.9%	65%	6.0%	48%	11.5%	55%	2.7	60%
S&P 500 Value Index	2.1%	28%	8.4%	90%	14.0%	90%	1.8	25%
Russell 1000 Value Index	2.1%	18%	8.0%	79%	12.3%	57%	2.0	16%
S&P 500 Growth Index	0.7%	20%	17.3%	94%	29.1%	86%	0.6	16%
Russell 1000 Growth Index	0.7%	10%	15.8%	100%	35.4%	96%	0.6	6%
S&P 400 Index	1.6%	67%	6.1%	88%	11.0%	61%	2.2	27%
S&P 600 Index	1.9%	93%	2.9%	40%	4.9%	25%	3.8	82%
Russell 2000 Index	1.5%	70%	0.7%	24%	0.9%	22%	4.4	75%

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 March; 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 Brian Cheyne, CFA, CIMA – Senior Investment Strategy Specialist, 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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