Touchstone Investments®
DISTINCTIVELY ACTIVE®

Domestic Equities

Large Cap

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

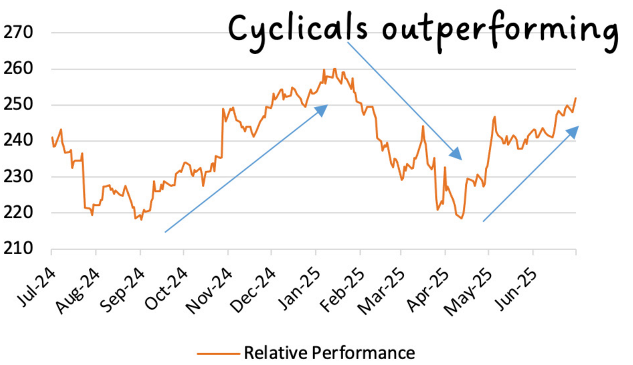
July 11, 2025

- We are maintaining our neutral stance on large cap blend equities. However, when including large cap Growth and Value exposure, we have a slight underweight overall. Our tactical positioning reflects the elevated risk environment stemming from moderately restrictive monetary policy and Presidential directives, both of which continue to inject significant uncertainty into markets.
- The S&P 500 index has surpassed its previous all-time high made in February 2025. But what's been driving stocks higher?
  - **Not earnings:** Since the previous peak, analysts' earnings estimates for 2025 and 2026 have drifted slightly lower.
  - **Not tariffs:** Although tariffs are lower than the Liberation Day announcement, they remain above expectations from earlier in the year (and may go higher).
  - **Not tax reform:** The One Big Beautiful Bill Act (OBBBA) did not include the anticipated corporate tax cuts. While it does provide a number of retroactive corporate benefits starting from January 2025, these are expected to boost S&P 500 earnings by only **0.5 to 1.0 percentage points**—a modest impact compared to the estimated **7–8 percentage point EPS boost** from the 2017 Tax Cuts and Jobs Act.
- Some characteristics of the post-Liberation Day rally indicate a resurgence in investor risk appetite. Quality stocks have lagged. Cyclical sectors have outperformed defensives. And unprofitable companies have outperformed profitable ones. However, the rally has lacked breadth (a measure of how broadly stocks have participated in the rally). While the cap-weighted S&P 500 index reached a new high, the equal weighted index did not, and only 40 stocks in the index made new highs on the same day, a narrow advance that undercuts the rally's strength.
- Current high market valuation would be consistent with investors anticipating a business cycle recovery. While the economy is likely to remain resilient, resilience is not the same as recovery. With earnings growth expected to stay moderate and valuations already elevated, future market returns are likely to be more pedestrian.
- The macro outlook does remain highly fluid, with market sentiment vulnerable to sudden shifts. This environment could lead to periods of indiscriminate buying or selling, creating opportunities for active managers.

MSCI USA Quality Index versus MSCI USA Index

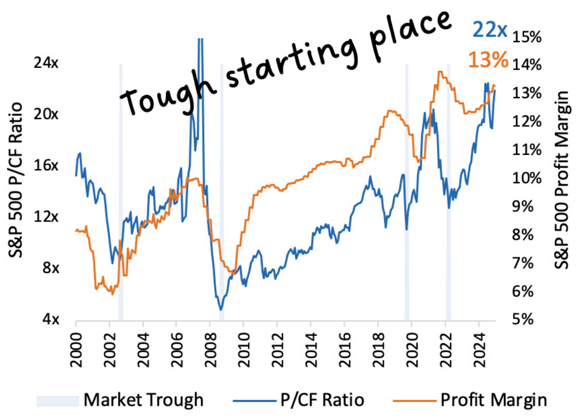
Source: Bloomberg. 5 years of weekly data through Jul 8 2025

Cyclical versus Defensive S&P 500 Sectors



Source: Bloomberg. 30 years of monthly data through Jul 2025. Cyclical sectors represented by Financials, Materials, Energy, Industrials, and Consumer Discretionary. Defensive sectors represented by Utilities, Consumer Staples, and REITS.

S&P 500 Index Troughs



Source: Bloomberg. 25 years of monthly data through Jun 2025. Average over the last 4 cycle troughs; Profit Margin 7%, P/CF 10.6x

Touchstone Equity Return Influencing Factors

Source: Bloomberg. 30 years of monthly data through May 2025; Influencing factors include: S&P 500 Index valuation metrics (EV/EBITDA, P/S, P/CF), profit margin, Unemployment Rate, and LEI.

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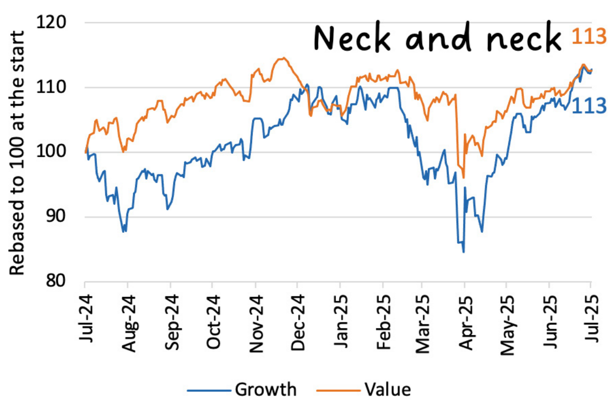
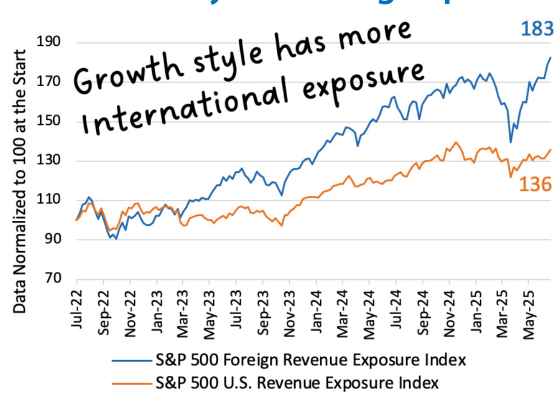
- We maintain a moderate underweight in Growth and a neutral weighting in Value.
- Year-to-date, performance across style indexes has converged. Growth significantly lagged prior to Liberation Day but has since closed the gap. The large cap growth index is dominated by companies with significant international exposure. Growth's relative performance has broadly been tied to tariff announcements and the dollar.
- Earnings have played a part. Earnings for the Russell 1000 Growth Index have held steady since the start of the year, while Value earnings estimates have declined, likely due to slower expected economic growth.
- The flat trajectory of Growth earnings is noteworthy, since 2022, upward revisions were largely driven by AI-related optimism, but that momentum now appears to be stalling.
- Growth stocks remain historically expensive. The Russell 1000 Growth Index trades at two standard deviations above its historical average on a price-to-sales basis. And as noted, high international exposure of Large Growth stocks also makes them vulnerable in a trade war, raising questions about near-term outperformance.
- Value stocks also appear expensive, but this reflects index construction quirks. Since most Growth and Value indexes split the total market cap evenly, growth-dominated markets often push growth style names into Value indexes, a dynamic seen in the late 1990s and again today. For instance, 87% of Russell 1000 stocks have representation in the Value index, diluting its representation of true value characteristics. This can be seen in the valuation gap between the cap-weighted and equal-weighted S&P 500. While the Value index includes many attractively priced names, index level valuation measures don't capture this reality.
- We are beginning to see evidence of active managers adding value versus their indexes, especially for the Value style. We believe that economic growth is decelerating while the market is migrating into a more trendless setting with lots of cross currents. This backdrop should benefit stock pickers.

Russell 1000 Style Indexes



Source: Bloomberg. 1 year of daily data through Jul 09 2025

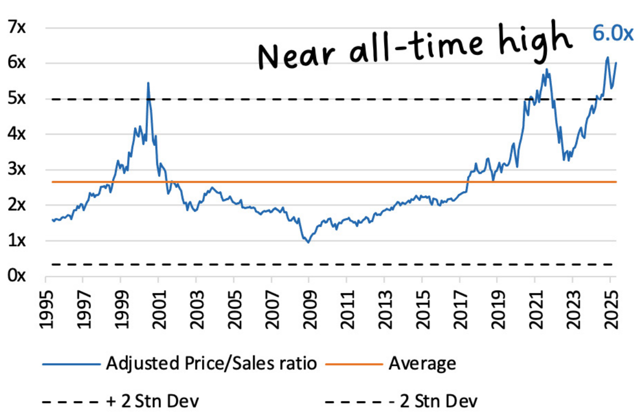
Performance by Prevailing Exposure



Source: Bloomberg. 3 years of weekly data through Jul 4 2025

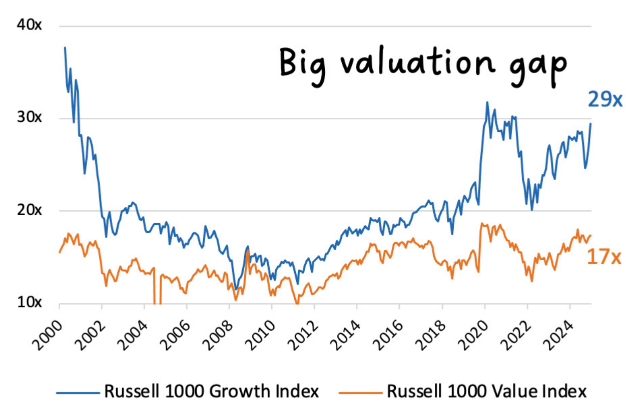
The S&P 500 Foreign Revenue Exposure Index is designed to measure the performance of companies in the S&P 500 with higher than average revenue exposure to regions outside the U.S., while the U.S. Revenue Exposure index is composed of companies with greater than average U.S. exposure.

Russell 1000 Growth Index



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

Price/Earnings Ratios: Forward 12 Months



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

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Small and Mid-Caps

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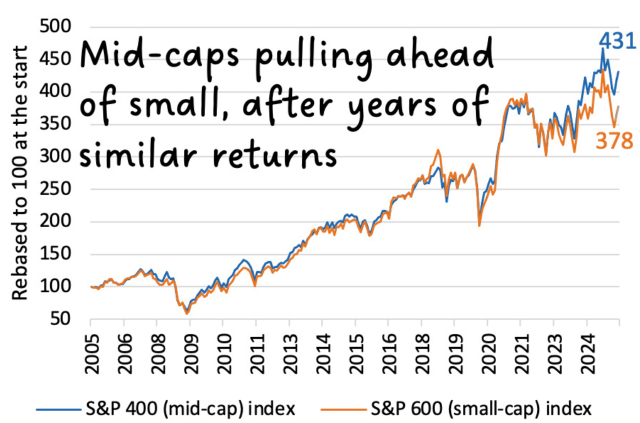
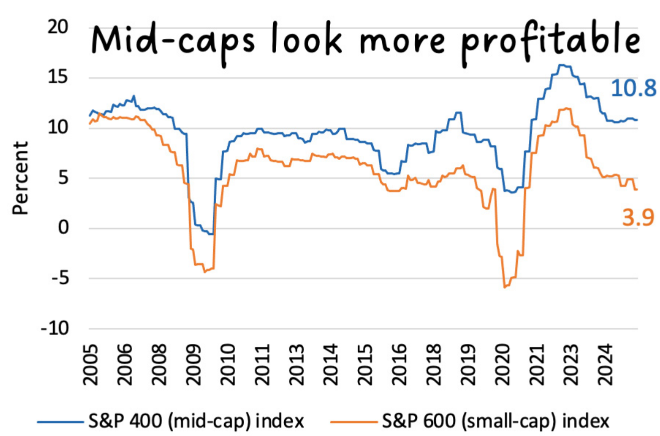
- We continue to emphasize mid caps over small caps, which we see as offering the best risk/reward balance in the current market.
- Historically, small and mid cap indexes trade in close proximity, but that relationship has decoupled over the past five years as mid caps outperformed. Several factors help explain this shift:
  - **Structural & Sector Differences:** Mid caps have greater exposure to industrials, technology, and health care sectors that have benefited from both structural and cyclical tailwinds. Small caps are more heavily weighted toward low-growth cyclicals and financials, which are struggling amid rate volatility and tighter credit. This sector tilt gives mid caps a higher exposure to quality and growth factors.
  - **Superior Profitability & Financial Strength:** Mid caps now exhibit operating margins and returns on equity that are nearly double those of small caps, an important divergence from the pre-2019 norm. And unlike mid caps, small caps carry higher leverage and are more exposed to floating-rate debt, increasing their vulnerability to rising rates.
- While small caps have diverged from mid caps, mid caps are beginning to look more and more like the equal-weighted S&P 500 (which makes sense as indices like the S&P 500 and Russell 1000 are mid-to-large cap indexes). Mid caps provide similar sector diversification and profitability metrics, yet currently trade at a notable discount. We believe that mid caps may offer a compelling substitute for broad large cap exposure, particularly for investors seeking diversification, quality, and valuation discipline.
- In a slowing economy with uncertain policy trajectories, investors may benefit from allocating more toward mid cap equities for their balance of opportunity and risk, profitability resilience, and less extreme beta characteristics. While small caps could offer strong returns in a sharp recovery or aggressive Fed easing cycle, we believe mid caps present a better quality-for-risk tradeoff in the near term.

Relative Price Performance



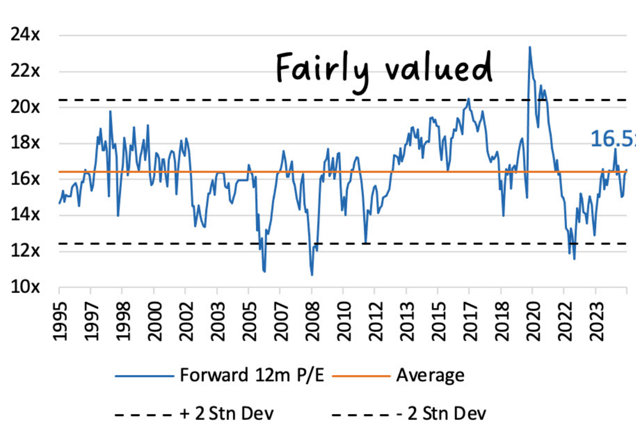
Source: Bloomberg. 20 years of monthly data through Jun 2025.

Return on Common Equity



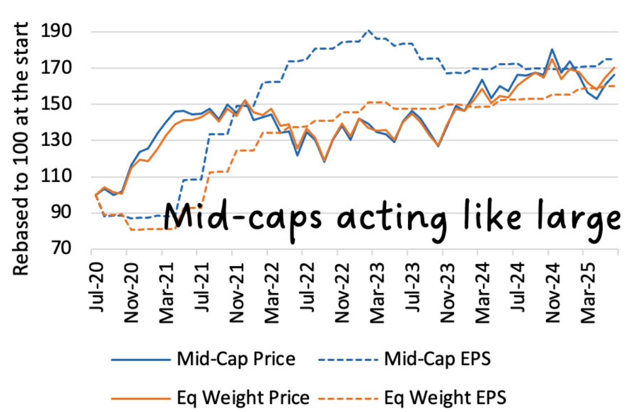
Source: Bloomberg. 20 years of monthly data through Jun 2025

S&P 400 Mid-Cap Index



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

S&P 400 vs. S&P 500 Equal Weighted



Source: Bloomberg. 5 years of monthly data through Jun 2025. EPS measured over rolling trailing 12 months.

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Market Characteristics

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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	
	June 2025	YTD	2024	2023	2022	2021	2024	2025
S&P 500 Index	5.1%	6.2%	25.0%	26.3%	-18.1%	28.7%	7%	12%
S&P 500 Index Equal Weighted	3.4%	4.8%	13.0%	13.8%	-11.5%	29.6%	4%	12%
S&P 500 Value Index	3.7%	3.3%	12.3%	22.2%	-5.3%	24.9%	4%	11%
Russell 1000 Value Index	3.4%	6.0%	14.4%	11.4%	-7.6%	25.2%	4%	12%
S&P 500 Growth Index	6.3%	8.9%	36.1%	30.0%	-29.4%	32.0%	12%	14%
Russell 1000 Growth Index	6.4%	6.1%	33.4%	42.7%	-29.1%	27.6%	8%	16%
S&P 400 Index	3.6%	0.2%	13.9%	16.4%	-13.1%	24.8%	1%	17%
S&P 600 Index	4.0%	-4.5%	8.7%	15.9%	-16.1%	26.8%	1%	19%
Russell 2000 Index	5.4%	-1.8%	11.5%	16.9%	-20.4%	14.8%	-4%	25%

Valuations

	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
S&P 500 Index	26.4x	89%	20.9x	89%	22.0x	98%	3.3x	100%
S&P 500 Index Equal Weighted	20.8x	77%	16.0x	65%	13.6x	91%	1.7x	81%
S&P 500 Value Index	21.0x	92%	17.1x	98%	17.1x	93%	2.1x	98%
Russell 1000 Value Index	20.1x	87%	16.2x	86%	16.5x	96%	1.9x	94%
S&P 500 Growth Index	33.9x	93%	26.0x	93%	29.2x	100%	6.2x	97%
Russell 1000 Growth Index	36.1x	85%	28.2x	89%	27.7x	94%	6.0x	99%
S&P 400 Index	19.3x	32%	14.7x	40%	11.5x	56%	1.4x	86%
S&P 600 Index	21.4x	44%	13.5x	19%	11.1x	34%	1.1x	75%
Russell 2000 Index	52.6x	88%	19.6x	59%	15.1x	82%	1.3x	88%

Fundamentals

	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
S&P 500 Index	1.2%	7%	13.3%	96%	18.4%	95%	1.5	25%
S&P 500 Index Equal Weighted	1.9%	65%	9.1%	66%	11.4%	54%	2.6	57%
S&P 500 Value Index	2.0%	18%	10.8%	94%	14.2%	91%	2.0	38%
Russell 1000 Value Index	2.0%	9%	10.5%	87%	12.1%	57%	2.1	21%
S&P 500 Growth Index	0.6%	13%	19.7%	98%	29.2%	86%	0.6	23%
Russell 1000 Growth Index	0.5%	4%	18.1%	100%	35.7%	96%	0.6	8%
S&P 400 Index	1.5%	53%	8.2%	87%	10.8%	59%	2.4	39%
S&P 600 Index	1.8%	89%	6.7%	93%	3.9%	13%	4.1	87%
Russell 2000 Index	1.5%	61%	4.1%	51%	-0.1%	19%	4.6	83%

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 June; EPS growth estimates based on consensus bottom-up analyst estimates

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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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