Domestic Equities

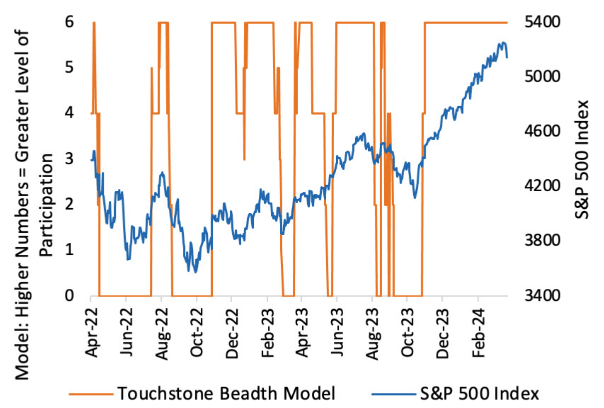
Large Cap

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

APRIL | 2024

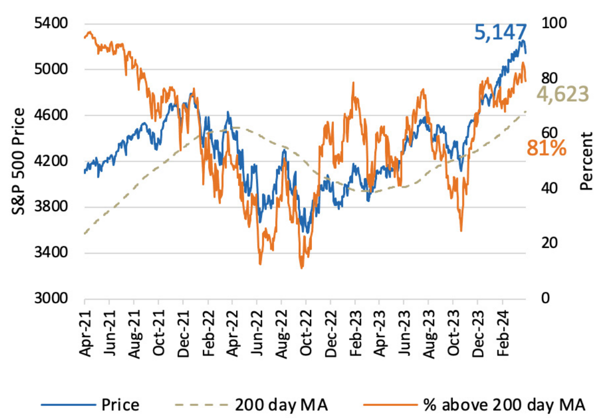
- Recent economic reports indicating robust economic activity and persistent inflation are a risk to the Federal Reserve's ability to lower interest rates. We would expect lower interest rates could provide additional momentum for risk assets or, at least, potentially create support for current risk asset prices.
- We raised our large cap allocation in February due to continued favorable economic data, reported earnings exceeding expectations, and reinforced favorable 2024 forecasts. The change does not mean the market is devoid of risks. The S&P 500 remains strongly influenced by the direction of a small number of technology related companies with valuations significantly above the overall index, but also stronger recent and expected earnings growth.
- The S&P 500 gained approximately 9% in the first quarter, or the equivalent of an average full year return. Market sentiment has improved significantly while the S&P 500 has been attaining new highs. Our sentiment model remains at two year highs and well into the "greed" range. However, this is tempered by favorable market breadth. More than 80% of S&P 500 constituents are now trading above their 200-day moving average.
- Large caps continue to be the performance leaders year-to-date but lagged mid-caps (as well as non-US developed and emerging markets) over the last month as the market looked beyond the handful of companies driving results at the beginning of the year.

S&P 500 Breadth Model



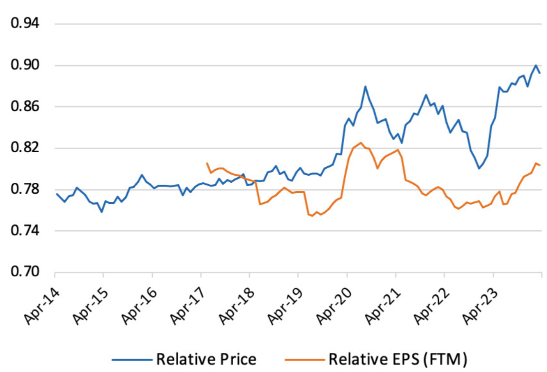
Source: Bloomberg. 2 years of daily data through Apr 4 2024; Model composed of measures of individual stock and sector participation.

S&P 500 Index Participation



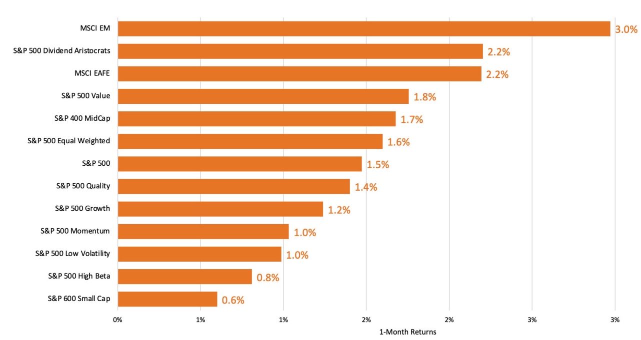
Source: Bloomberg. 3 years of daily data through Apr 3 2024. MA = Moving Average

S&P Top 50 Index versus S&P 500 Index



Source: Bloomberg. 10 years of monthly data through Mar 2024

Total Returns for Selected Indexes



Source: Bloomberg. All data as of Apr 4 2024

Domestic Equities

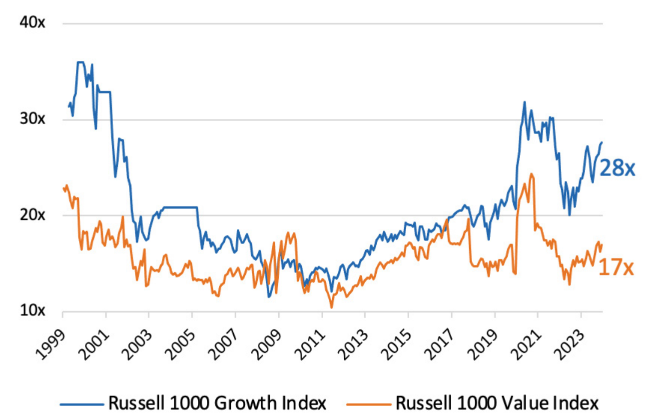
Growth and Value

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

APRIL | 2024

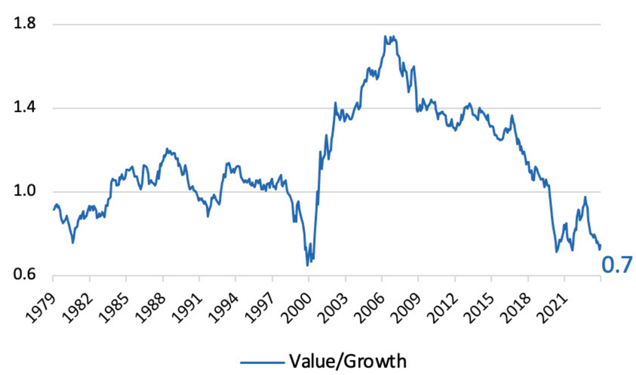
- In December, we modestly increased our Value stock exposure and reduced Growth to reduce exposure to high multiple mega cap tech and in anticipation of a more economically friendly monetary policy. Monetary policy tailwinds could be at risk if the Fed takes a more measured pace to reduce interest rates. We entered 2024 believing the market's expectations of 6 Fed Fund cuts was too aggressive. Recent economic data has pointed to a longer path to lower rates. As of this writing the Fed expects more rate cuts than the market. Value stocks are generally biased to cyclical companies that benefit from expectations of economic rebounds and lower rates.
- Our allocation shift was modest as we see near term economic risk, and Value stocks as measured by the index are not attractive relative to their own history but remain attractive relative to Growth stocks. Growth has outperformed Value year-to-date on favorable earnings reports and are expected to have significantly higher earnings growth in 2024 (15% growth versus 5% growth for Value stocks).
- We recognize an overweight to Value, even a slight one, is akin to walking on a tightrope given current market conditions. Nothing has changed the fact that the S&P 500 is top heavy with mega cap growth. The most recent jobs numbers continue to suggest a strong economy. A soft landing implies no recession, and thus no cyclical rebound. Higher for longer interest rates put more pressure on asset intensive businesses, which are much more likely to be Value companies.

Price/Earnings Ratios: Trailing 12 Months



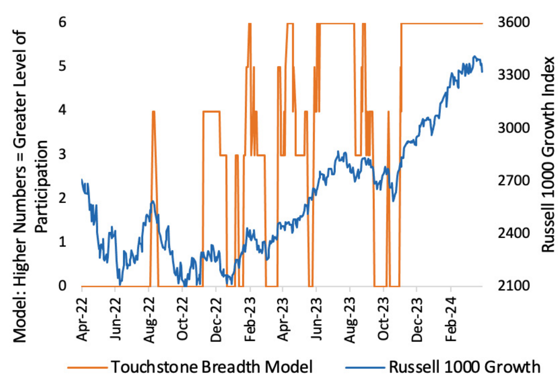
Source: Bloomberg. 25 years of monthly data through Mar 2024

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



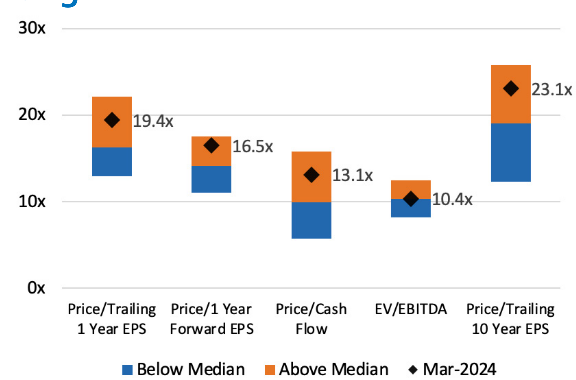
Source: Bloomberg. 45 years of monthly data through Mar 2024

Russell 1000 Growth Index Market Breadth



Source: Bloomberg. 2 years of daily data through Apr 4 2024; Model composed of measures of individual stock and sector participation.

Russell 1000 Value 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: 79% as of Mar 2024.

Domestic Equities

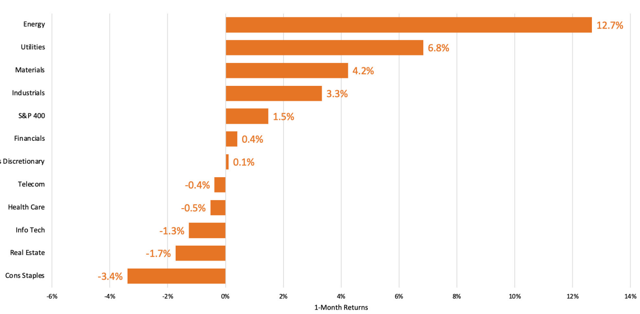
Small and Mid-Caps

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

APRIL | 2024

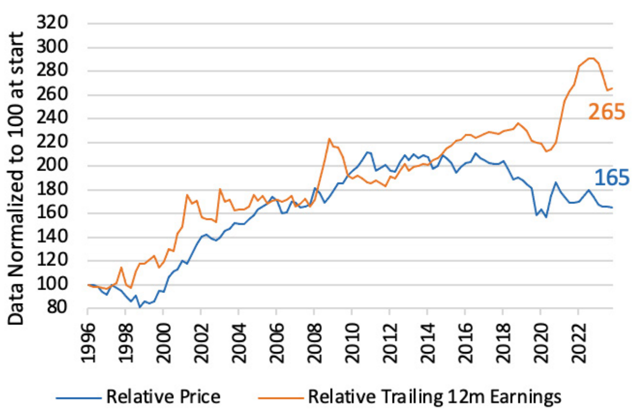
- Year-to-date mid and small caps have lagged large caps. However, over the past month small and mid cap stocks have taken divergent paths. Mid caps outperformed large caps and have narrowed large cap's lead. The gap of relative earnings and stock prices between large and mid caps narrowed more quickly than in recent months. Small caps had positive returns in March but still lagged large caps.
- We remain overweight mid and small caps as current valuations are low relative to their own histories. The potential for the Fed to reduce interest rates more slowly is a risk to our small cap overweight. Small cap companies have historically utilized a greater share of floating rate financing structures rather than fixed rate bonds typically used by large caps. Continued high rates would likely impede some small cap companies' capacity to grow earnings.
- Using the S&P indexes, 2024 small and mid cap earnings forecasts have improved marginally since late March. Small cap earnings are expected to be flat, while mid caps are expected to experience 6% earnings growth, both of which are consistent with their recession like valuations. However, both small and mid cap stocks are expected to have significantly higher earnings growth in 2025 than large caps. The Russell 2000 Index has much stronger earnings growth expectations than S&P 600 after experiencing a deeper decline in 2023. Approximately 40% of the constituents have negative earnings over the past 12 months, which gives the index a lower base from which to rebound.

S&P 400 Index Sector Price Returns



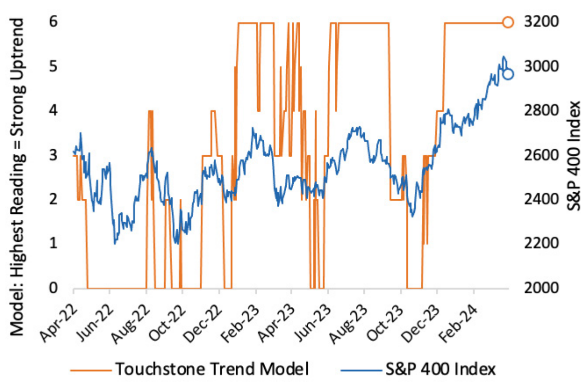
Source: Bloomberg. All data as of Apr 4 2024

S&P 400 Index / S&P 500 Index



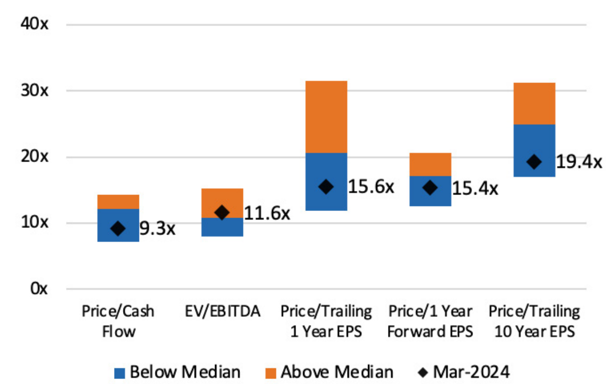
Source: Bloomberg. 28 years of quarterly data through Mar 2024

S&P 400 Trend Model



Source: Bloomberg. 2 years of daily data through Apr 4 2024. Model based on moving averages and price trends.

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: 25% as of Mar 2024.

Domestic Equities

Market Characteristics

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

APRIL | 2024

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	
	March 2024	YTD	2023	2022	2021	2020	2024	2025
S&P 500 Index	5.3%	7.1%	18.8%	-18.1%	28.7%	18.4%	10%	12%
S&P 500 Index Equal Weighted	4.2%	3.3%	6.0%	-11.5%	29.6%	12.8%	6%	12%
S&P 500 Value Index	3.0%	3.4%	14.2%	-5.2%	24.9%	1.4%	6%	10%
Russell 1000 Value Index	3.7%	3.8%	6.0%	-7.5%	25.2%	2.8%	4%	11%
S&P 500 Growth Index	7.3%	10.4%	23.1%	-29.4%	32.0%	33.5%	15%	15%
Russell 1000 Growth Index	6.8%	9.5%	31.7%	-29.1%	27.6%	38.5%	21%	15%
S&P 400 Index	5.9%	4.1%	6.6%	-13.1%	24.8%	13.7%	6%	15%
S&P 600 Index	3.3%	-0.8%	6.0%	-16.1%	26.8%	11.3%	0%	16%
Russell 2000 Index	5.7%	1.5%	6.5%	-20.4%	14.8%	20.0%	31%	28%

Valuations	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
S&P 500 Index	24.4x	86%	18.7x	75%	17.4x	94%	2.8x	96%
S&P 500 Index Equal Weighted	19.9x	71%	15.1x	51%	12.2x	84%	1.7x	85%
S&P 500 Value Index	18.4x	77%	14.7x	69%	13.1x	85%	1.7x	89%
Russell 1000 Value Index	18.5x	77%	14.3x	53%	12.6x	87%	1.8x	93%
S&P 500 Growth Index	33.1x	94%	24.1x	90%	23.7x	95%	5.8x	97%
Russell 1000 Growth Index	33.9x	84%	24.6x	80%	24.6x	86%	4.7x	94%
S&P 400 Index	18.9x	27%	13.8x	19%	11.0x	44%	1.4x	89%
S&P 600 Index	18.4x	21%	12.5x	12%	9.3x	19%	1.0x	58%
Russell 2000 Index	36.4x	69%	18.5x	38%	12.3x	38%	1.3x	86%

Fundamentals	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
S&P 500 Index	1.4%	14%	10.7%	95%	18.2%	96%	1.3	14%
S&P 500 Index Equal Weighted	1.9%	64%	7.2%	82%	13.0%	84%	2.5	50%
S&P 500 Value Index	2.3%	48%	8.5%	93%	14.0%	90%	1.7	19%
Russell 1000 Value Index	2.2%	26%	8.6%	89%	12.6%	61%	1.8	12%
S&P 500 Growth Index	0.7%	13%	16.8%	94%	31.7%	94%	0.7	25%
Russell 1000 Growth Index	0.7%	10%	13.1%	96%	35.2%	97%	0.7	19%
S&P 400 Index	1.6%	59%	6.5%	91%	11.6%	76%	2.4	36%
S&P 600 Index	1.9%	93%	3.1%	46%	5.5%	30%	3.7	84%
Russell 2000 Index	1.5%	61%	1.6%	31%	2.4%	29%	4.0	62%

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

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

APRIL | 2024

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.

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.