Domestic Equities

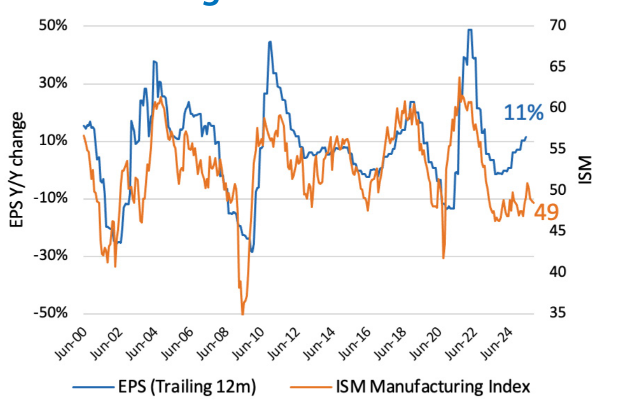
Large Cap

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

June 12, 2025

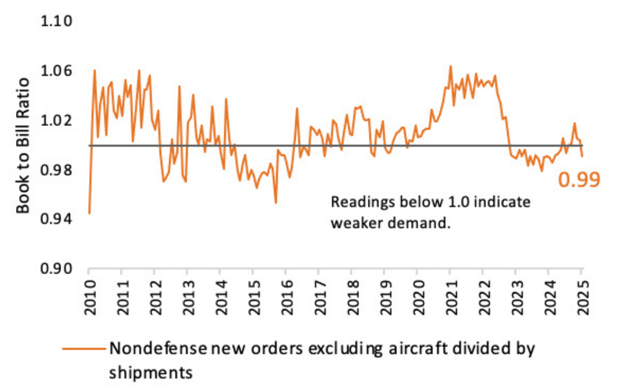
- We are maintaining our neutral stance on large cap blend equities. However, when including large cap Growth and Value exposure, we have a slight underweight overall. Our tactical positioning reflects the elevated risk environment stemming from restrictive monetary policy and Presidential directives, both of which continue to inject significant uncertainty into markets.
- Although equities have rebounded since Liberation Day, we remain cautious. High valuations, slowing economic growth, and unresolved tariff issues discourage us from chasing the recent rally.
- The rally that started when Liberation Day tariffs were put on pause has been led by the Mag 7, indicating their sensitivity to trade policy. The S&P 500 Index has, again, become more concentrated. By one measure of market concentration (Herfindahl-Hirschman Index), it is near all-time highs and significantly exceeding late 1990s levels. The most concentrated sectors include Materials, Technology, and Consumer (both Discretionary and Staples). Notably, a study by S&P Global found that highly concentrated sectors tend to mean-revert over time.
- We forecast low single-digit earnings growth for the S&P 500 in 2025, which is below the current analyst expectations. Following a strong Q1, analysts slashed their forward estimates by the most in two years, primarily for Q2, with second-half expectations largely unchanged.
- Corporate caution is becoming evident. Many firms are slowing capital expenditures and hiring. This is beginning to show up in the data. Capital goods orders declined in April and job creation has moderated in recent months.
- The macro outlook remains highly fluid with market sentiment vulnerable to sudden shifts, even based on social media posts. This environment could lead to periods of indiscriminate buying or selling, creating opportunities for active managers. We remain prepared to adjust positioning in response to further economic weakness or progress on tariff negotiations.

S&P 500 Index EPS and ISM Manufacturing



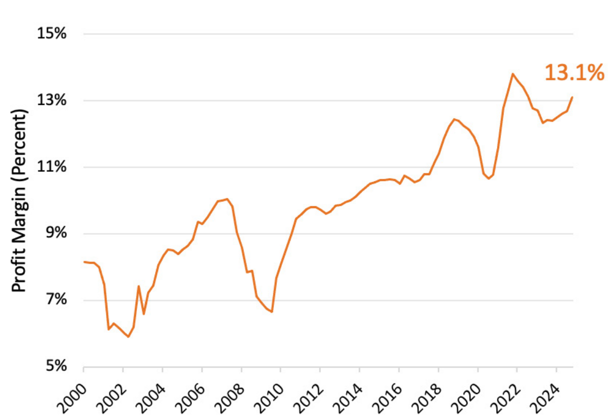
Source: Bloomberg. 26 years of monthly data through May 2025. ISM advanced 5 months.

Capital Goods Book to Bill Ratio



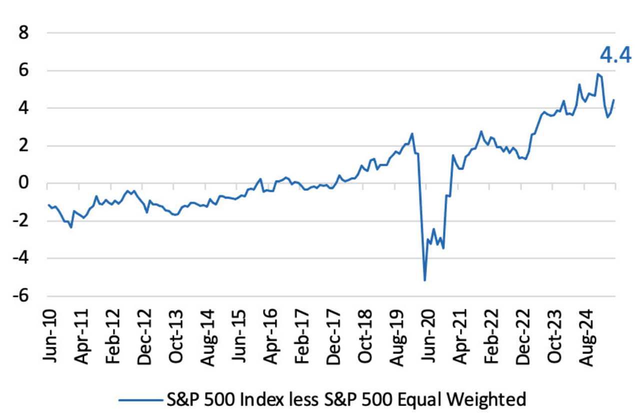
Source: Bloomberg. 15 years of monthly data through Apr 2025

S&P 500 Index Profit Margin



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

Forward P/E Multiple Difference



Source: Bloomberg. 15 years of monthly data through May 2025

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Growth and Value

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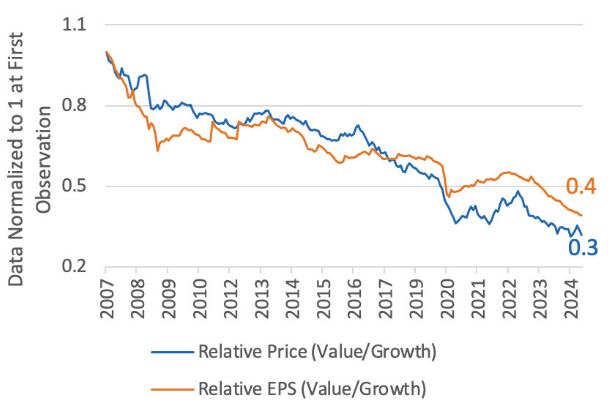
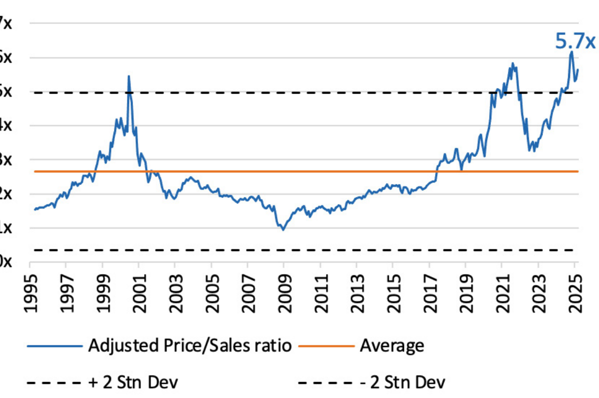
- We maintain a moderate underweight in Growth and a neutral weighting in Value.
- Over the past month, the Russell 1000 Growth index has closed most of its year-to-date performance gap with Value. The large cap growth index is dominated by companies with significant international exposure. Growth's relative performance has been tied to tariff announcements. The Growth index significantly underperformed Value until the April 9 Liberation Day pause and has since outperformed.
- 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-dominant markets often push growth style names into Value indexes, a dynamic seen in the late 1990s and again today. For instance, 86% 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.
- Looking ahead, we see progress, or lack thereof, in trade negotiations with Europe and China as a key driver for both styles. A prolonged standoff could trigger a global slowdown, pressuring earnings across both Growth and Value segments.

Russell 1000 Value and Growth Indexes



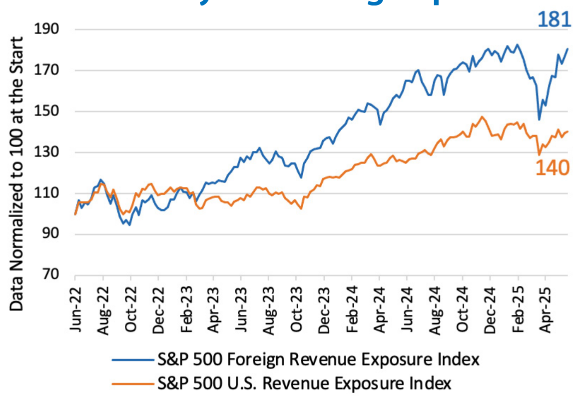
Source: Bloomberg. 18 years of monthly data through May 2025

Russell 1000 Growth Index



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

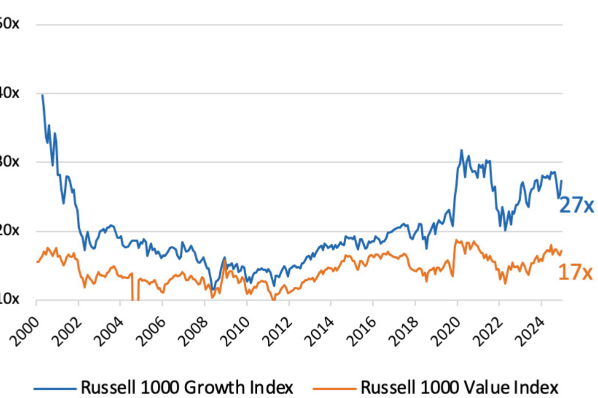
Performance by Prevailing Exposure



Source: Bloomberg. 3 years of weekly data through Jun 6 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.

Price/Earnings Ratios: Forward 12 Months



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

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Small and Mid-Caps

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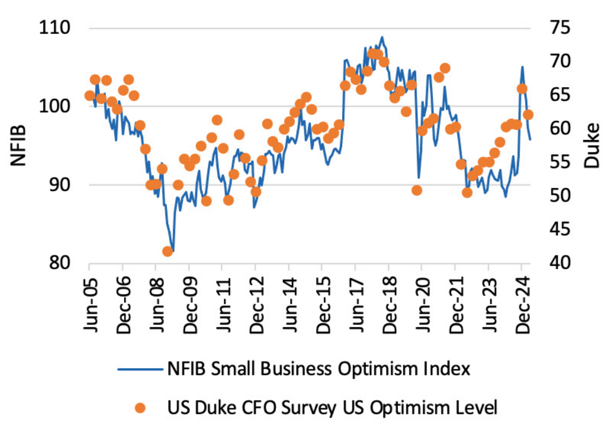
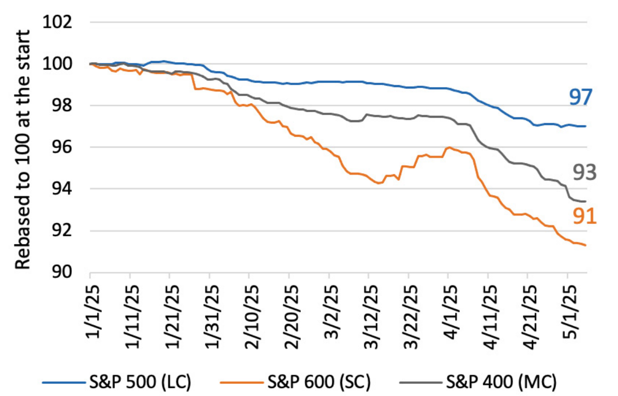
- We have slightly reduced our mid cap overweight due to rising near-term earnings risk from a slowing economy and to help fund a return to strategic weight for non-U.S. equities. We maintain a slight underweight in small caps.
- As we highlighted last month, cyclicality remains a major headwind. Over 60% of the S&P Small and Mid Cap Index constituents are in cyclical sectors, versus under 40% for large caps. An extended tariff regime could further delay a much needed earnings recovery.
- 2025 analyst earnings estimates for both small and mid caps have declined, suggesting no EPS growth. We see additional downside risk from a weakening economic backdrop.
- Despite these challenges, small and mid cap stocks continue to offer fertile ground for active managers. About 25% of stocks in these segments trade below 12x trailing earnings, similar to levels seen during the 2022 bear market.
- We continue to prefer mid caps, which we view as offering the best risk/reward trade-off. They are cheaper than large caps, more financially stable than small caps, and have lower international exposure, reducing trade retaliation risk. Earnings expectations are also more modest than large caps. Within this group, we favor companies with higher-quality attributes due to near-term economic risk.
- While tariff visibility remains limited, recent commentary from the administration has been more constructive. Small and mid caps rallied in May, though they lagged large caps slightly. We would need to see clear progress on trade negotiations before reassessing our small cap underweight. Conversely, a breakdown in tariff negotiations (particularly with Europe) could lead us to further reduce mid cap exposure.

CFO Optimism Surveys



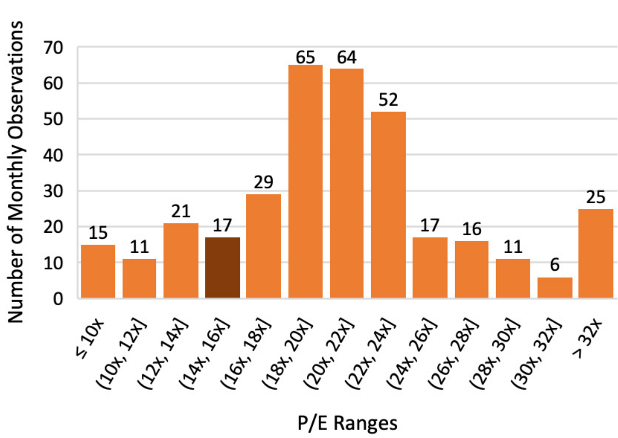
Source: Bloomberg. 20 years of observations. NFIB has monthly data through Mar 2025. Duke has quarterly data through Dec 2024.

Year-to-Date 2025 EPS Revisions



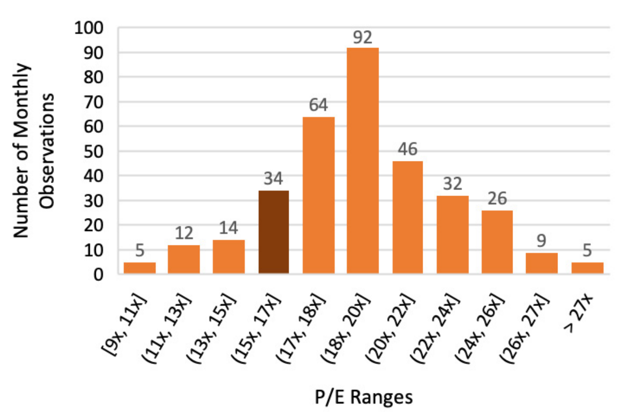
Source: Bloomberg. Daily bottom-up analyst estimates through Jun 10 2025

S&P 600 Index P/E Distribution



Source: Bloomberg. Based on monthly TTM P/E observations over the last 30 years. TTM P/E as of May 2025 was 15.6x

S&P 400 Index P/E Distribution



Source: Bloomberg. 15 years of monthly data through May 2025

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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	
	May 2025	YTD	2024	2023	2022	2021	2024	2025
S&P 500 Index	6.3%	1.1%	25.0%	26.3%	-18.1%	28.7%	7%	12%
S&P 500 Index Equal Weighted	4.3%	1.3%	13.0%	13.8%	-11.5%	29.6%	2%	12%
S&P 500 Value Index	3.0%	-0.4%	12.3%	22.2%	-5.3%	24.9%	4%	11%
Russell 1000 Value Index	3.5%	2.5%	14.4%	11.4%	-7.6%	25.2%	3%	12%
S&P 500 Growth Index	9.4%	2.4%	36.1%	30.0%	-29.4%	32.0%	11%	14%
Russell 1000 Growth Index	8.8%	-0.3%	33.4%	42.7%	-29.1%	27.6%	10%	14%
S&P 400 Index	5.4%	-3.3%	13.9%	16.4%	-13.1%	24.8%	0%	17%
S&P 600 Index	5.2%	-8.2%	8.7%	15.9%	-16.1%	26.8%	1%	19%
Russell 2000 Index	5.3%	-6.8%	11.5%	16.9%	-20.4%	14.8%	16%	34%

Valuations

	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
S&P 500 Index	25.1x	84%	20.0x	84%	20.9x	98%	3.1x	97%
S&P 500 Index Equal Weighted	20.2x	69%	15.8x	62%	13.1x	89%	1.6x	70%
S&P 500 Value Index	20.3x	89%	16.6x	97%	16.5x	92%	2.0x	96%
Russell 1000 Value Index	19.4x	80%	15.7x	81%	15.9x	95%	1.9x	93%
S&P 500 Growth Index	31.9x	89%	24.6x	88%	27.5x	100%	5.9x	94%
Russell 1000 Growth Index	33.9x	81%	25.5x	81%	26.0x	89%	5.7x	98%
S&P 400 Index	18.7x	24%	14.3x	29%	11.0x	44%	1.3x	83%
S&P 600 Index	20.5x	38%	12.8x	14%	10.7x	29%	1.1x	68%
Russell 2000 Index	49.4x	87%	19.3x	55%	14.5x	74%	1.3x	81%

Fundamentals

	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
S&P 500 Index	1.3%	11%	13.3%	97%	18.5%	96%	1.5	25%
S&P 500 Index Equal Weighted	1.9%	61%	9.1%	65%	11.5%	55%	2.6	53%
S&P 500 Value Index	2.0%	25%	10.8%	95%	14.3%	91%	2.0	37%
Russell 1000 Value Index	2.1%	20%	10.4%	86%	12.2%	57%	2.1	20%
S&P 500 Growth Index	0.6%	16%	19.7%	98%	29.2%	86%	0.6	23%
Russell 1000 Growth Index	0.6%	9%	18.1%	100%	35.7%	97%	0.6	8%
S&P 400 Index	1.6%	61%	8.2%	88%	10.8%	59%	2.4	38%
S&P 600 Index	1.9%	91%	6.8%	93%	3.9%	13%	4.1	87%
Russell 2000 Index	1.5%	62%	4.2%	52%	0.8%	24%	4.6	85%

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

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June 12, 2025

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