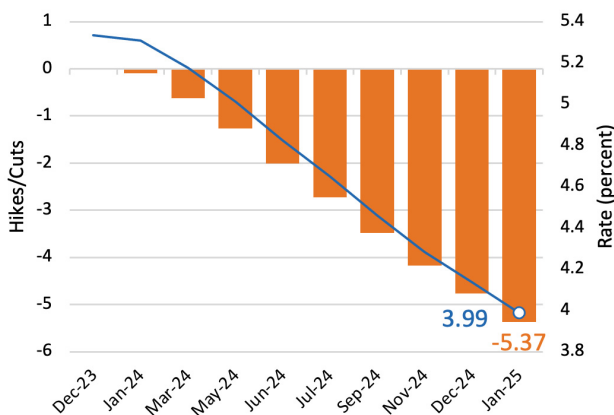




- ▶ We believe we remain in the late stages of the economic cycle and that the risk of a recession (likely mild) is high. This is despite recent economic releases that has spurred a Goldilocks soft-landing narrative where inflation continues to retreat and the economy slows, but skirts a recession. This narrative has pulled forward Fed rate cut expectations.
- ▶ Yet one-time factors that helped the economy to-date are likely to fade and tight monetary conditions pull down more vulnerable sectors of the economy, creating a risk that economic strains spread to less vulnerable sectors.
- ▶ The labor market has remained healthy in the face of monetary tightening, though labor conditions tend to be a coincident indicator at best. The Confidence Labor Differential has begun to turn and has served as a good leading indicator for the unemployment rate. This signal measures the difference between survey respondents stating that jobs are plentiful versus those responding that jobs are hard to get.
- ▶ The Leading Economic Indicators and Manufacturing PMI also point to recession risk. And the demand for commercial and industrial loans are at recessionary levels indicating that high interest rates are discouraging borrowing.
- ▶ If inflation keeps coming down, the Fed may have time to pivot and catch the economy. But, we believe, time is short.

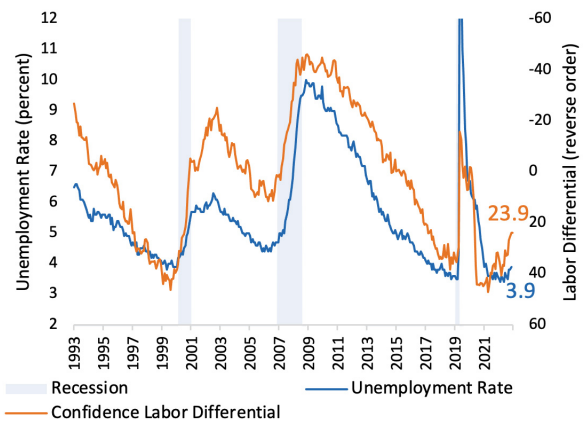
Federal Funds Rate

Implied Overnight Rate & Number of 25bp Hikes/Cuts



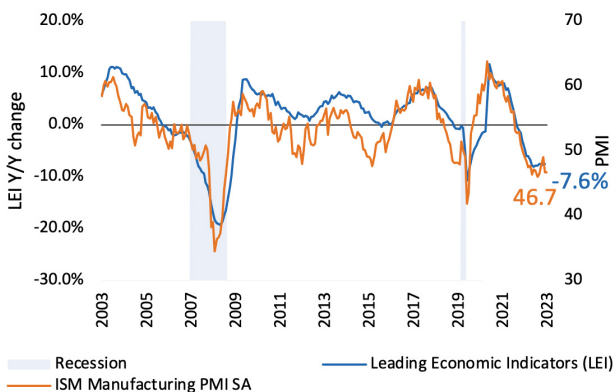
Source: Bloomberg. Data as of Nov 30, 2023

Employment Trends



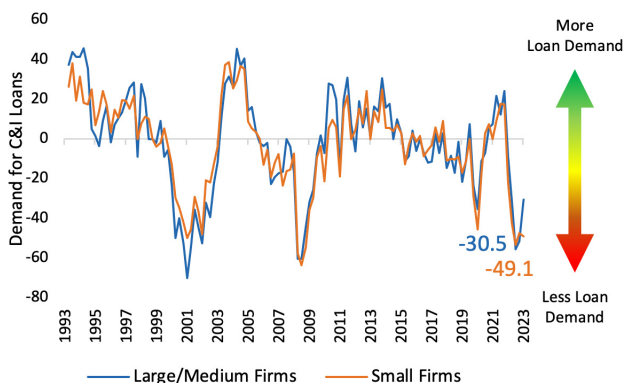
Source: Bloomberg. 30 years of monthly data through Nov 2023, Unemployment through Sep 2023

Leading Economic Indicators



Source: Bloomberg. 20 years of monthly data through Oct 2023

Senior Loan Officer Surveys

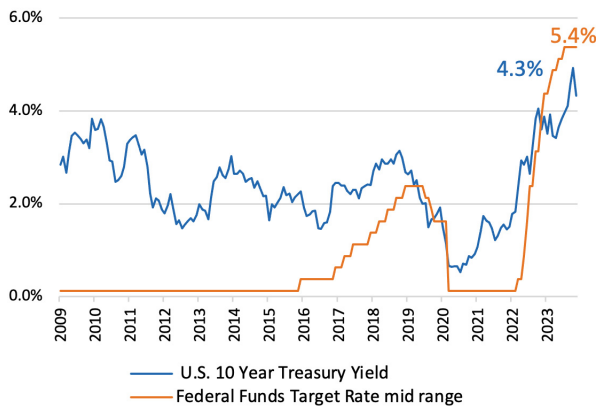


Source: Bloomberg. 30 years of quarterly data through Oct 2023.



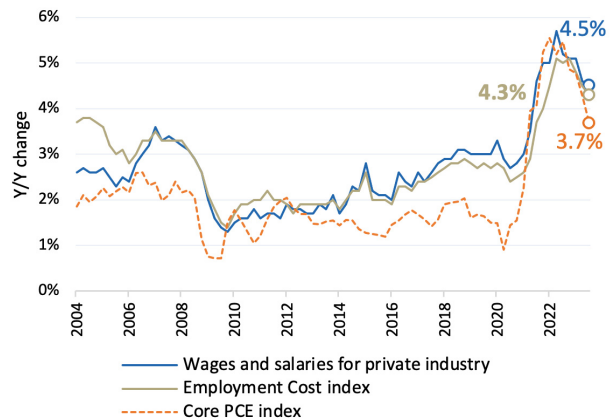
- ▶ Fixed income rallied last month on supportive economic data, including a better-than-expected CPI report, a softer employment report, and the Treasury statement regarding continued Treasury Bill issuance. We had advised taking advantage of higher rates and continue to advocate moving out the curve. November returns support those views.
- ▶ Ongoing return momentum is predicated on Fed policy cooperating and inflation continuing to slow. The market expects a dovish policy pivot in early 2024 and the FOMC will need to validate this view near-term. While we believe the Fed is done hiking, we also think they intend to hold rates higher for longer to drive inflation toward target, risking a pause in the rally.
- ▶ Even after a significant move lower last month real yields have risen dramatically. The 10 year TIPS yield remains near its highest level in 15 years. For comparison, just two years ago the yield was -1%. There is room for real yields to fall.
- ▶ We suggest bond returns improve as signs of economic weakness begin to proliferate. We think signs of stress at the lower levels of the credit spectrum expand upward, especially as long as the Fed keeps rates at current levels.
- ▶ Investors have experienced a breathtaking fixed income drawdown over the past three years. Given the yield reset underway and the notion that starting yield may drive forward return, it is our view that three years from now the trend will have reversed allowing fixed income to deliver attractive income, diversification and capital preservation.

Interest Rates



Source: Bloomberg. 15 years of monthly data through Nov 2023

Wages and Salaries



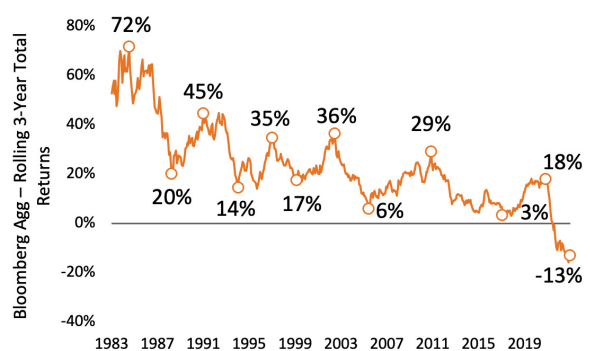
Source: Bloomberg. 20 years of quarterly data through Sep 2023

U.S. Treasury Inflation-Protected (TIPS) Yields



Source: Bloomberg. 15 years of monthly data through Nov 2023

Bloomberg U.S. Aggregate Bond Index: Rolling 3-Year Total Returns

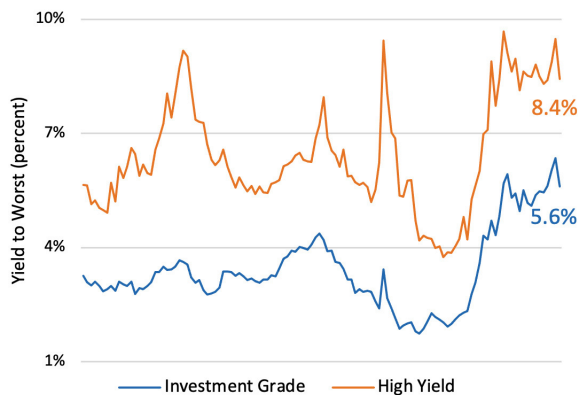


Source: Bloomberg. 40 years of monthly data through Nov 2023



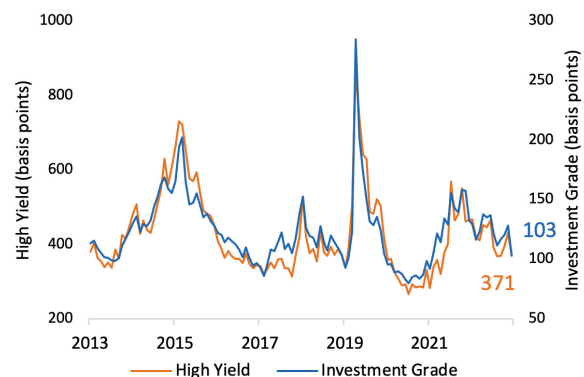
- ▶ Credit risk rallied alongside the overall bond market last month. Yields fell aggressively, reversing the recent rising trend. High quality corporate and securitized credit outperformed lower quality credit, as duration led the way. We noted recently that investment grade yields were at their highest level since the Great Financial Crisis. While lower now, they remain attractive.
- ▶ Corporate credit spreads narrowed in sympathy with the soft landing narrative. High yield credit spreads dropped back below 400 bps and investment grade credit spreads fell to levels not seen since early 2022. At these spreads, we don't believe that investors are getting enough of a discount given tight credit conditions.
- ▶ Corporate bankruptcies have moved higher while manufacturing surveys suggest economic contraction. Both measures point to the potential for corporate spread widening and we are seeing signs of stress at the lower levels of the credit spectrum.
- ▶ While we expect defaults in the high yield to rise modestly, we do not expect a spike as has been experienced in other economic slowdowns given the higher quality bias of the sector today, continued strong fundamentals, and moderate near-term refinancing needs.
- ▶ We are emphasizing quality in credit positioning today. We find investment grade corporate bonds more attractive at these absolute yield levels. Although the absolute yield for high yield is also attractive and may act as a buffer we remain cautious as we do not feel that spreads compensate investors for the tighter financial conditions we are experiencing.

Bloomberg U.S. Corporate Bond Indexes: Yields



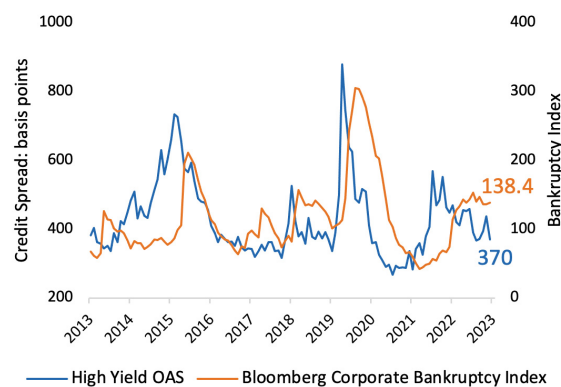
Source: Bloomberg. Trailing 10 years of monthly data through Nov 2023

Bloomberg U.S. Corporate Bond Indexes: Option Adjusted Spreads



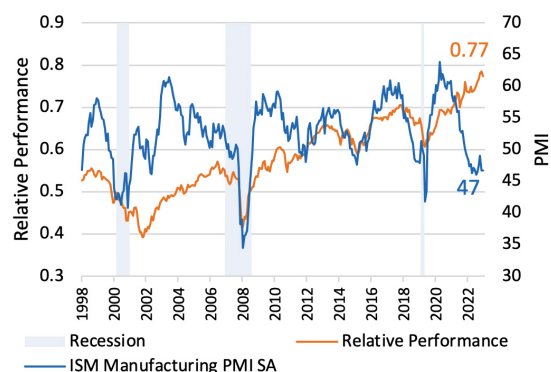
Source: Bloomberg. Trailing 10 years of monthly data through Nov 2023

U.S. Corporate Bankruptcies



Source: Bloomberg. Trailing 10 years of monthly data through Nov 2023

Bloomberg U.S. Corporate Bond Indexes High Yield Bond Index/Investment Grade Bond Index



Source: Bloomberg 25 years of monthly data through Nov 2023.

Fixed Income Indexes Characteristics

The Indexes mentioned are unmanaged statistical composites of stock market or bond market performance. Investing in an index is not possible.

Total Returns						
	November 2023	YTD	2022	2021	2020	Duration years
Bloomberg Long Term Treasury	9.2%	-5.1%	-29.3%	-4.6%	13.6%	15.6
Bloomberg U.S. TIPS	2.7%	1.2%	-11.8%	6.0%	11.0%	6.7
Bloomberg U.S. Aggregate	4.5%	1.6%	-13.0%	-1.5%	7.5%	6.2
Bloomberg U.S. Agg Corporate	6.0%	4.0%	-15.8%	-1.0%	9.9%	7.1
Bloomberg U.S. Agg ABS	1.7%	3.6%	-4.3%	-0.3%	4.5%	2.7
Bloomberg U.S. Agg MBS	5.2%	0.7%	-11.8%	-1.0%	3.9%	6.0
Bloomberg U.S. Agg CMBS	3.0%	2.2%	-10.9%	-0.9%	8.1%	4.3
Bloomberg Municipal Bond	6.3%	4.0%	-8.5%	1.5%	5.2%	6.0
Bloomberg 1-3 year Corporate	1.5%	4.1%	-3.3%	-0.1%	1.3%	1.9
ICE BofA Listed Preferreds	8.0%	7.2%	-18.1%	7.7%	8.6%	NA
Bloomberg High Yield	4.5%	9.4%	-11.2%	5.3%	7.1%	3.9
Morningstar LSTA Leveraged Loan	1.2%	11.5%	-0.6%	5.2%	3.1%	NA
Bloomberg Global Agg	5.0%	1.5%	-16.2%	-4.7%	9.2%	6.6
Bloomberg Emerging Markets USD	5.3%	4.7%	-15.3%	-1.7%	6.5%	6.2

Yields						
	November 2023	YTD Change bps	Last 10 years			
			Current Percentile	Median	Min	Max
10 year Treasury	4.3%	45	98	2.3%	0.5%	5.0%
2 year Treasury	4.7%	25	95	1.2%	0.1%	5.2%
10 year TIPS	2.1%	51	99	0.4%	-1.2%	2.5%
Bloomberg U.S. Aggregate	5.1%	37	97	2.4%	1.0%	5.7%
Bloomberg U.S. Agg Corporate	5.6%	18	96	3.2%	1.7%	6.4%
Bloomberg U.S. Agg ABS	5.5%	37	97	1.8%	0.4%	6.0%
Bloomberg U.S. Agg MBS	5.3%	55	98	2.8%	0.9%	6.1%
Bloomberg U.S. Agg CMBS	6.0%	55	98	2.6%	1.4%	6.6%
Bloomberg Municipal Bond	3.6%	2	94	2.2%	0.9%	4.5%
Bloomberg 1-3 year Corporate	5.6%	33	95	2.0%	0.5%	6.2%
Bloomberg High Yield	8.4%	-53	86	6.2%	3.5%	11.7%
Morningstar LSTA Leveraged Loan	9.7%	63	99	5.3%	3.6%	13.1%
Bloomberg Global Agg	3.9%	20	97	1.7%	0.8%	4.4%
Bloomberg Emerging Markets USD	7.6%	10	95	5.1%	3.5%	8.7%

Option Adjusted Spreads (bps)						
	November 2023	YTD Change	Last 10 years			
			Current Percentile	Median	Min	Max
Bloomberg U.S. Corporate Agg	103	-27	23	120	80	373
Bloomberg 1-3 year Corporate	74	2	62	65	31	390
Bloomberg U.S. Agg ABS	72	-3	92	52	22	325
Bloomberg U.S. Agg MBS	56	5	89	31	7	132
Bloomberg U.S. Agg CMBS	146	17	91	95	62	275
Bloomberg High Yield	371	-97	37	393	262	1100
Bloomberg Emerging Markets USD	307	-138	41	315	211	720

For Index Definitions see: [TouchstoneInvestments.com/insights/investment-terms-and-index-definitions](https://touchstoneinvestments.com/insights/investment-terms-and-index-definitions)

2020 – Pandemic. Fed in massive stimulus mode. Interest rates dropped precipitously. Credit rallied after Fed started buying junk bonds and fiscal stimulus measures appeared to be more than enough to offset economic downturn.

2021 – Pandemic continued in waves. Fed held rates near zero and continued to grow its balance sheet at a moderate pace. Long duration bonds sold off while Treasury Inflation Protected Securities rallied on inflation concerns. Exclusive of duration credit exposed securities generally earned their yield.

2022 – The Fed embarked on one of its most aggressive tightening paths seen in decades as the inflation rate surged well above their goal. Interest rates rose across all maturities leading to one of the worst years for fixed income returns.

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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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.

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