



## Executive Summary

- ▶ We believe the rise in yields in response to the war in Iran is an unusual reaction, as bonds typically rally on safe-haven demand. The rise in yields suggests inflationary risk. While a sustained rise in oil prices can create headline inflation risk, we are skeptical that higher oil prices allow firms outside the energy sector to pass through price increases.
- ▶ U.S. equity leadership is shifting as investors reassess the impact of AI across industries. Investors are increasingly taking AI's potential more seriously and have begun to distinguish between companies positioned to improve margins and productivity through AI and those facing potential disruption. This has increased return dispersion which should create a more favorable environment for active management.
- ▶ International stocks are likely to see near term underperformance due to the war in Iran given expected dollar strength and higher oil prices. These headwinds are likely to unwind quickly once a resolution is found. An extended closure of the Strait of Hormuz is a risk, though difficult to handicap.

Asset Class	Weight	Change	Commentary
<b>Fixed Income</b>	Neutral	↓ (9/25)	We maintain a neutral stance as lower yields and tighter spreads modestly reduce expected returns, but bonds continue to play a critical strategic role as portfolio ballast and a source of stable income.
<b>Duration</b>	Slight Overweight	↑ (3/26)	We shifted to a slightly overweight duration stance. For a fully diversified fixed income portfolio, we characterize this change as moving closer to the overall duration of the Bloomberg U.S. Aggregate Bond Index.
<b>U.S. Taxable Investment Grade</b>	Moderate Overweight	↓ (9/25)	We are tactically overweight, drawn by higher yields and lower economic sensitivity, which offer appealing risk-adjusted return prospects relative to recent history.
<b>U.S. Taxable Non-Investment Grade</b>	Moderate Underweight	↓ (6/25)	We are underweight high-yield bonds, given tight credit spreads. However, loose financial conditions, higher index quality, and little sign of distress (in the public markets) reduce the need for a more defensive stance.
<b>Equities</b>	Neutral	↑ (9/25)	We maintain a neutral allocation, reflecting a balance between risk and opportunity. Markets have responded positively to the Fed's resumption of rate cuts, though policy uncertainty remains elevated.
<b>U.S. LC Blend</b>	Neutral	↓ (2/25)	The S&P 500 has risen roughly 75% over the past 3 years on a price basis, with earnings contributing less than half of those gains. The market has become choppy, as stocks mark time while earnings catch up.
<b>U.S. LC Growth</b>	Moderate Underweight	↓ (8/24)	We remain underweight Growth due to elevated stock-specific risks among top constituents, including valuations that seemingly require sustained earnings acceleration. New AI product introductions have created significant return dispersion within Growth. We believe selectivity is critical.
<b>U.S. LC Value</b>	Neutral	↓ (3/25)	We maintain our neutral weight to Value. Greater economic sensitivity and limited valuation support are balanced by sector-specific opportunities in oversold Healthcare, and in Financials supported by deregulation and a steeper yield curve.
<b>U.S. Mid Cap</b>	Slight Overweight	↓ (11/25)	We hold a slight overweight, supported by more attractive valuations and potential earnings growth. Within mid caps, we prefer high-quality companies with strong cash generation.
<b>U.S. Small Cap</b>	Neutral	↑ (9/25)	We have a neutral weight. Third-quarter earnings were strong, with top-line upside the driver; however, softer labor conditions and uneven demand suggest patience is warranted.
<b>International Developed</b>	Neutral	↑ (6/25)	We remain at our strategic weight, supported by reduced currency risk, attractive relative valuations, and lower prospective U.S. returns. However, Europe's fragmented capital markets and regulatory burdens temper our enthusiasm.
<b>International Emerging</b>	Slight Overweight	↑ (11/25)	We maintain a slight overweight. Emerging markets are benefiting from Fed rate cuts and offer meaningful exposure to the less economically sensitive Technology sector, including key companies in the AI supply chain.

	Conservative		Moderately Conservative		Moderate		Moderately Aggressive		Aggressive	
	Strategic	Tactical (PPT)*	Strategic	Tactical (PPT)	Strategic	Tactical (PPT)	Strategic	Tactical (PPT)	Strategic	Tactical (PPT)
<b>Fixed Income</b>	90%		60%	+1.0	40%		25%		10%	
<b>U.S. Investment Grade</b>	70%	+4.0	42%	+3.0	24%	+2.0	7%	+2.0	3%	
<b>U.S. Non-Investment Grade</b>	18%	-4.0	16%	-2.0	14%	-2.0	16%	-2.0	5%	
<b>Cash</b>	2%		2%		2%		2%		2%	
<b>Equities</b>	10%		40%	-1.0	60%		75%		90%	
<b>Domestic</b>	8%		30%	-1.0	45%	-1.0	56%	-1.0	67%	-2.0
<b>Large Cap Blend</b>	6%		9%		11%		15%		17%	
<b>Large Cap Growth</b>			6%	-1.0	11%	-2.0	12%	-2.0	17%	-3.0
<b>Large Cap Value</b>			7%		11%		11%		14%	
<b>Mid Cap</b>	2%		6%		9%	+1.0	4%	+1.0	14%	+1.0
<b>Small Cap</b>			2%		3%		4%		5%	
<b>International</b>	2%		10%		15%	+1.0	19%	+1.0	23%	+2.0
<b>Developed</b>	2%		6%		10%		12%		14%	
<b>Emerging</b>			4%		5%	+1.0	7%	+1.0	9%	+2.0

\*Reflects percentage point difference

Source: Touchstone Investments; assessments are made using data and information through February 2026. For illustrative purposes only. Diversification does not guarantee investment returns and does not eliminate the risk of loss. Diversification among investment options and asset classes may help to reduce overall volatility.

# Touchstone Asset Allocation Guidance

**Strategic:** Strategic asset allocation is a baseline allocation between asset classes established with a longer term focus and congruent with an investor's investment goals and objectives. The allocation is meant to optimize the asset mix through methodical diversification in an attempt to maximize return and lessen risk.

**Tactical:** Tactical asset allocation is differentiated from strategic asset allocation by having a much shorter time horizon and the goal of adding alpha beyond what would be allowed through static strategic weights. Markets tend to be more volatile over shorter time horizons, while longer time frames tend to smooth out that volatility. That enhanced volatility in the short term creates the opportunity for either return enhancement and/or risk reduction by adding to or reducing weights of different asset classes.

## Word About Risk

Fixed-income securities 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 may be downgraded by a Nationally Recognized Statistical Rating Organization to below investment grade status. Non-investment grade debt securities are considered speculative with respect to the issuers' ability to make timely payments of interest and principal, may lack liquidity and has had more frequent and larger price changes than other debt securities. Equities are subject to market volatility and loss. Growth stocks may be more volatile than investing in other stocks and may underperform when value investing is in favor. Value stocks may not appreciate in value as anticipated or may experience a decline in value. Stocks of large-cap companies may be unable to respond quickly to new competitive challenges. Stocks of small- and mid-cap companies may be subject to more erratic market movements than stocks of larger, more established companies. Investments in foreign, and emerging market 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. The risks associated with investing in foreign markets are magnified in emerging markets, due to their smaller and less developed economies.

## Index Definitions

**S&P 400® Index** is an index that measures the performance of 400 mid-sized companies in the United States.

**S&P 500® Index** is a group of 500 widely held stocks and is commonly regarded to be representative of the large capitalization stock universe.

**S&P 600® Index** is an unmanaged index considered representative of U.S. small-capitalization stocks.

**Bloomberg U.S. Aggregate Bond Index** is an unmanaged index comprised of U.S. investment grade, fixed rate bond market securities, included in government agency, corporate and mortgage-backed securities between one and ten years.

**Russell 1000 Index** measures the performance of the 1000 largest companies in the Russell 3000 Index

**Alpha** is the portion of a fund's total return that is unique to that fund and is independent of movements in the benchmark

In accordance with Rule 22c-2 under the 1940 Act, Touchstone Funds has no arrangements to permit any investor to trade frequently in shares of the Funds, nor will they enter into any such arrangement in the future.

**Fed** is abbreviated for the U.S. Federal Reserve Board.

**AI** is abbreviated for artificial intelligence.

The information provided reflects the research and opinion of Touchstone Investments as of the date indicated, and is subject to change without prior notice. Past performance is not indicative of future results. There is no assurance any of the trends mentioned will continue or forecasts will occur. Investing in certain sectors may involve additional risks and may not be appropriate for all investors.

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

**Please consider the investment objectives, risks, charges and expenses of the fund carefully before investing. The prospectus and the summary prospectus contain this and other information about the Fund. To obtain a prospectus or a summary prospectus, contact your financial professional or download and/or request one on the resources section or call Touchstone at 800.638.8194. Please read the prospectus and/or summary prospectus carefully before investing.**

*Investment return and principal value of an investment in a Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. All investing involves risk.*

Touchstone Funds are distributed by **Touchstone Securities, LLC**

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