Touchstone Investments®
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# Touchstone Asset Allocation

Guidance – August 2026

## Executive Summary

- **The markets have hit an AI speed bump.** We believe this is largely a function of investor expectations for growth and AI adoption getting ahead of the fundamentals. For example, memory chipmaker SK hynix's operating profit surged an astounding 557%, and somehow, that still wasn't enough. Transformative technologies often follow a familiar pattern. Investors tend to overestimate the speed of impact, while underestimating the lasting effect they ultimately have on businesses and the economy.
- Last month, it looked as though the prospects for reopening of the Strait of Hormuz were improving. Since then, expanding hostilities have weighed on markets and pushed energy prices higher, making a quick resolution seem unlikely. At the same time, Chair Warsh's less-is-more approach to Fed communication has added another layer of uncertainty for investors.
- Despite these headwinds, the broader earnings picture remains encouraging. Earnings continue to surprise, even across Europe. The U.S. consumer has remained resilient despite elevated fuel prices, and we are seeing positive news beyond AI, including healthy volume growth from Coca-Cola. **We see recent market weakness as more of a stumble than a fall.**

| Asset Class | Weight | Change | Commentary |
|---|---|---|---|
| **Fixed Income** | Moderate Underweight | ↓ (6/26) | We maintain moderate tactical underweight as we continue to see more attractive return opportunities in equities. While bond yields remain appealing, inflation risks and a less communicative Fed add uncertainty to the outlook. |
| **Duration** | Slight Overweight | ↑ (3/26) | We maintain a slight overweight to duration. While inflation risks have increased, today's higher yields provide a more meaningful income cushion than in recent years, and we do not believe inflation pressures will be sufficient to drive a sustained rise in long-term yields. |
| **U.S. Taxable Investment Grade** | Neutral | ↓ (6/26) | We remain neutral on investment grade. Attractive yields and lower economic sensitivity continue to make high-quality corporate and securitized credit an appealing source of income and portfolio stability. |
| **U.S. Taxable Non-Investment Grade** | Moderate Underweight | ↓ (6/25) | We remain underweight high-yield bonds. Credit spreads remain near historic lows, while yield sits only modestly above historical averages, leaving little cushion should inflation remain elevated or economic growth begins to slow. |
| **Equities** | Moderate Overweight | ↑ (6/26) | We maintain a moderate overweight to equities, supported by resilient economic data and continued earnings strength. While AI remains the dominant market driver, we are beginning to see encouraging signs that earnings growth is broadening beyond AI-related companies. |
| **U.S. LC Blend** | Moderate Overweight | ↑ (6/26) | Strong earnings growth and continued AI-related investment have supported equity markets. 2Q earnings are off to a very strong start, and forward estimates continue to move higher. |
| **U.S. LC Growth** | Neutral | ↑ (3/26) | We remain neutral on Growth. AI continues to be a powerful earnings driver, but expectations have also become increasingly demanding. Risks include delays in data center construction, slower-than-expected enterprise AI adoption, and AI's potential to disrupt existing business models. |
| **U.S. LC Value** | Neutral | ↓ (3/25) | The Value index contains a diverse mix of defensive, cyclical, and even growth-oriented companies that have migrated from Growth benchmarks. While we see attractive opportunities within the universe, we believe they are best captured through active management rather than passive. |
| **U.S. Mid Cap** | Slight Overweight | ↓ (11/25) | We maintain a slight overweight, supported by attractive valuations and improving earnings prospects. Within mid caps, we continue to favor high-quality companies with strong balance sheets and consistent cash generation. |
| **U.S. Small Cap** | Neutral | ↑ (9/25) | We remain neutral but continue to see reasons for increased optimism. Earnings revisions have improved, participation has broadened beyond AI beneficiaries, and rising M&A activity could provide an additional tailwind for valuations. |
| **International Developed** | Neutral | ↑ (6/25) | We remain neutral on developed international equities, though the outlook has improved modestly. Europe has been a relative laggard, but this earnings season has surprised to the upside and economic growth modestly exceeding expectations. We continue to believe active management offers the best opportunity to capitalize on the region's diverse opportunities and challenges. |
| **International Emerging** | Slight Underweight | ↓ (3/26) | We remain slightly underweight. With roughly 80% of the index concentrated in Asia, emerging markets remain sensitive to energy prices and external demand. In addition, significant exposure to the more commodity-like segments of the AI supply chain may contribute to higher volatility. |

| | Conservative | | Moderately Conservative | | Moderate | | Moderately Aggressive | | Aggressive | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Strategic | Tactical (PPT)* | Strategic | Tactical (PPT) | Strategic | Tactical (PPT) | Strategic | Tactical (PPT) | Strategic | Tactical (PPT) |
| **Fixed Income** | 90% | -1.0 | 60% | -2 | 40% | -2 | 25% | -2 | 10% | -1 |
| **U.S. Investment Grade** | 70% | +3 | 42% | +1 | 24% | | 7% | | 3% | -1 |
| **U.S. Non-Investment Grade** | 18% | -4 | 16% | -3 | 14% | -2 | 16% | -2 | 5% | |
| **Cash** | 2% | | 2% | | 2% | | 2% | | 2% | |
| **Equities** | 10% | +1 | 40% | +2 | 60% | +2 | 75% | +2 | 90% | +1 |
| **Domestic** | 8% | +1 | 30% | +3 | 45% | +3 | 56% | +3 | 67% | +2 |
| **Large Cap Blend** | 6% | +1 | 9% | +2 | 11% | +2 | 14% | +2 | 17% | +1 |
| **Large Cap Growth** | | | 6% | +1 | 11% | | 15% | | 17% | |
| **Large Cap Value** | | | 7% | | 11% | | 12% | | 14% | |
| **Mid Cap** | 2% | | 6% | | 9% | +1 | 11% | +1 | 14% | +1 |
| **Small Cap** | | | 2% | | 3% | | 4% | | 5% | |
| **International** | 2% | | 10% | -1 | 15% | -1 | 19% | -1 | 23% | -1 |
| **Developed** | 2% | | 6% | | 10% | | 12% | | 14% | |
| **Emerging** | | | 4% | -1 | 5% | -1 | 7% | -1 | 9% | -1 |

**Reflects percentage point difference*
*Source: Touchstone Investments; assessments are made using data and information through July 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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