



Executive Summary

- ▶ The situation in the Strait of Hormuz remains highly fluid. As a result, any near-term outlook must be framed with humility, as today's assumptions may not hold tomorrow. Rather than anchor to a single outcome, we believe the timing of a resolution is likely the key driver of market behavior. A quicker resolution would likely support a more pro-cyclical response, while a belated resolution is likely to weigh on growth and earnings, particularly outside the U.S.
- ▶ The Q1 U.S. GDP report reinforces this tension. Growth held up at a 2% pace, supported by a surge in business investment, up 10.4%, largely driven by AI-related spending. However, outside of AI-driven investment, the backdrop appears softer. Consumer spending slowed despite stronger tax refunds, suggesting underlying demand is losing momentum, and the recent rise in energy prices has yet to fully filter through the data.
- ▶ Taken together, the outlook remains mixed. AI-driven investment is providing meaningful support, but the broader economy appears more vulnerable if cost pressures persist. Our tactical positioning reflects this balance: remaining fully invested to participate in continued resilience, while maintaining a quality bias in fixed income and a domestic bias in equities to help manage downside risk if the Strait remains closed for an extended period.

Asset Class	Weight	Change	Commentary
Fixed Income	Neutral	↓ (9/25)	We maintain a neutral stance as bonds continue to serve a critical strategic role as portfolio ballast and a source of stable income.
Duration	Slight Overweight	↑ (3/26)	We maintained a slight overweight duration stance. Within a diversified fixed income portfolio, this represents a move closer to the duration of the Bloomberg U.S. Aggregate Bond Index.
U.S. Taxable Investment Grade	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.
U.S. Taxable Non-Investment Grade	Moderate Underweight	↓ (6/25)	We remain underweight high-yield bonds. In April, Credit spreads fell back toward historic lows, which appears inconsistent with expectations for slowing economic growth and risks presented by sustained high energy prices.
Equities	Neutral	↑ (9/25)	We maintain a neutral allocation, reflecting a balance between risk and opportunity. We shifted to a domestic bias after incorporating a longer time frame for the conflict in Iran as we see U.S. equities as less exposed.
U.S. LC Blend	Neutral	↓ (2/25)	Strong earnings and AI spending have supported stocks and assuaged fears of higher energy prices. We don't believe we are out of the woods, but this earnings season has been one to celebrate.
U.S. LC Growth	Neutral	↑ (3/26)	We removed our underweight to Growth in March after valuations improved. AI remains a key earnings driver, though, risks persist given potential delays in data center construction and AI's potential to disrupt industries.
U.S. LC Value	Neutral	↓ (3/25)	Value equities face a more challenging backdrop if growth slows further, and prior sector-specific support in Healthcare and Financials have weakened. While elevated energy prices provide a partial offset and valuations remain attractive relative to Growth, we maintain a neutral stance as we await a clearer catalyst.
U.S. Mid Cap	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.
U.S. Small Cap	Neutral	↑ (9/25)	We have a neutral weight. Small caps enjoyed a strong ceasefire rally, though first-quarter earnings are coming in more mixed with weakness seen in the consumer sectors.
International Developed	Neutral	↑ (6/25)	Developed international equities are more exposed to the current energy shock, creating near-term risks to growth and margins. However, these headwinds are balanced by more attractive valuations and supportive policy dynamics, including increased defense spending. We maintain a neutral allocation.
International Emerging	Slight Underweight	↓ (3/26)	We maintained a slight underweight. With roughly 80% of the index concentrated in Asia, emerging markets are particularly exposed to energy disruptions and higher input costs. Even with a resolution, normalization may take time, supporting a more cautious near-term stance.

	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%		60%		40%		25%		10%	
U.S. Investment Grade	70%	+4	42%	+3	24%	+2	7%	+2	3%	
U.S. Non-Investment Grade	18%	-4	16%	-3	14%	-2	16%	-2	5%	
Cash	2%		2%		2%		2%		2%	
Equities	10%		40%		60%		75%		90%	
Domestic	8%		30%	+1	45%	+1	56%	+1	67%	+1
Large Cap Blend	6%		9%		11%		14%		17%	
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 April 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.

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