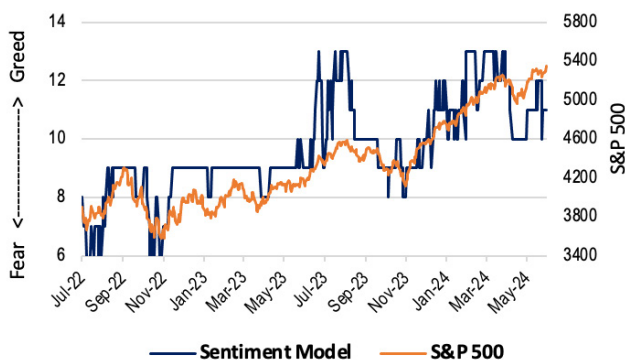




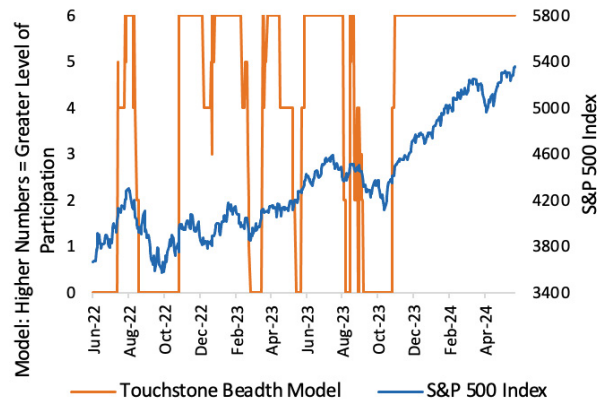
- ▶ Headline economic reports in May showed moderating conditions. Less-than-expected retail sales, manufacturing activity, and employment, all gave reasons to believe an economic slowdown could temper inflation without significant negative impacts to employment. Inflation, though, has remained sticky creating something of a conundrum for the Fed.
- ▶ The S&P 500 Index gained 5% in May, essentially offsetting April's decline. We attribute the rally to weaker economic reports that brought forward expectations for a Fed pivot. Yet, the bias toward the largest stocks in the index remained. In May, the top 50 stocks in the index outperformed the S&P 500 by approximately 1.5 percentage points while the equal weighted S&P 500 Index underperformed.
- ▶ Market sentiment followed the market up in May, though remains below the highs made earlier this year. Market breadth remained high with all 10 sectors staying above their 200-day moving average. 72% of stocks in the S&P 500 were trading above their 200-day moving average at the end of May.
- ▶ We maintain a fully invested large cap allocation (i.e. strategic weight). While large cap stock valuations remain a potential headwind, other factors such as better than expected earnings, improving profit margins, lower odds of a recession, and the Fed biased towards easing, all help to alleviate valuation concerns.

Touchstone S&P 500 Sentiment Model



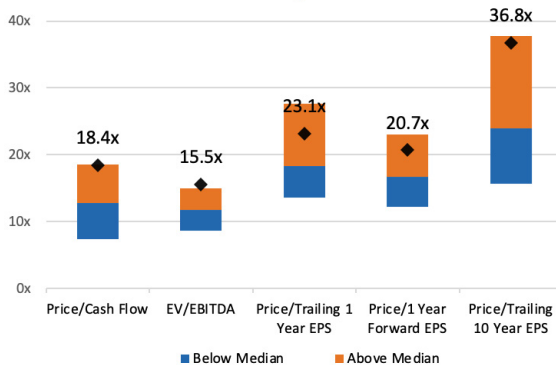
Source: Bloomberg. 2 years of daily data through June 6 2024; Model based on deviations from trend, option activity, AAI surveys, and the Credit Suisse Fear Barometer.

S&P 500 Breadth Model



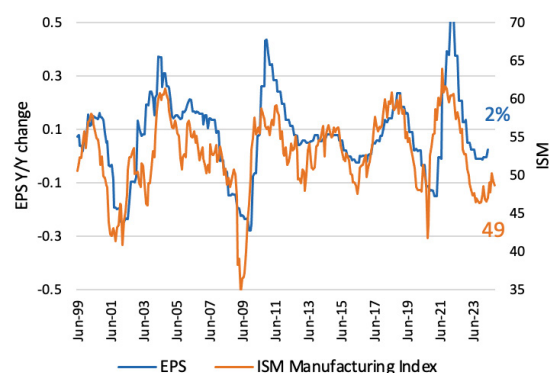
Source: Bloomberg. 2 years of daily data through June 6 2024. Model composed of measures of individual stock and sector participation.

S&P 500 Index Valuation Ranges



Source: Bloomberg. Based on monthly observations starting in 1996. The minimum and maximum ranges are set to the 5th and 95th percentiles, respectively, to remove outliers. Average percentile rank: 85% as of May 2024

S&P 500 Index EPS and ISM Manufacturing

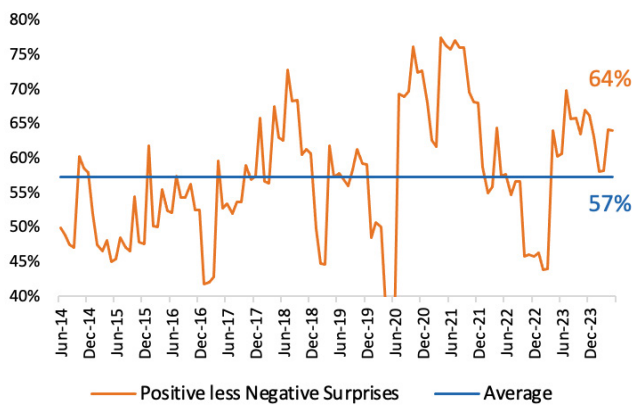


Source: Bloomberg. 26 years of monthly data through May 2024. ISM advanced 5 months.



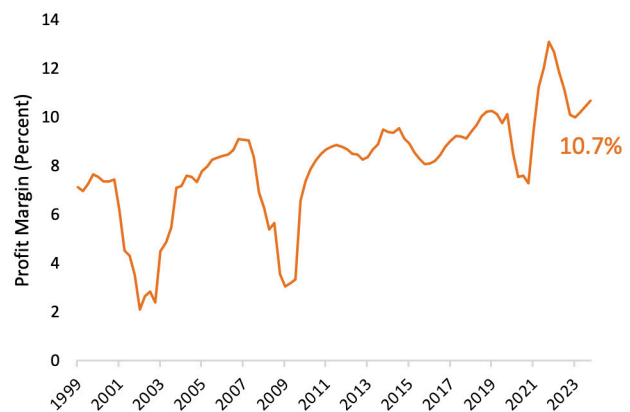
- ▶ We maintain a slight overweight to Value on attractive relative valuation versus Growth stocks and an expectation that a Fed pivot will remove some pressure on Value stocks. Neither style has compelling absolute valuations versus the past 25 years.
- ▶ Recent Growth outperformance was the result of better-than-expected earnings and rising forward earnings growth expectations. The largest Growth style sectors (Technology, Communications, and Consumer Discretionary) have earnings growth expectations for 2024 ranging from 15% to 51%. By comparison, the largest Value sectors (Financials, Industrials, and Health Care) have growth expectations of just 1% to 8%. While visibility is low, 2025 earnings forecasts suggest a change in leadership toward Value dominated sectors.
- ▶ Large cap profit margins have rebounded from 2023 cyclical lows but remain well off the 2022 highs. Growth margins are twice that of Value and have widened 3 percentage points year-to-date, which reflects less capital intensity and thus less affected by financing costs. Meanwhile, Value margins have declined this year. More stimulative monetary policy could provide more potential margin expansion for Value than Growth.
- ▶ The S&P 500 remains top-heavy with mega cap growth stocks benefiting from a massive ramp in AI spending with as yet little return on investment. We believe in the potential for AI, but the life-changing applications (should they come) are still a few years out. We fear that investor expectations are getting ahead of the fundamentals, but that doesn't mean they can't go higher.

S&P 500 Index Earnings Surprise



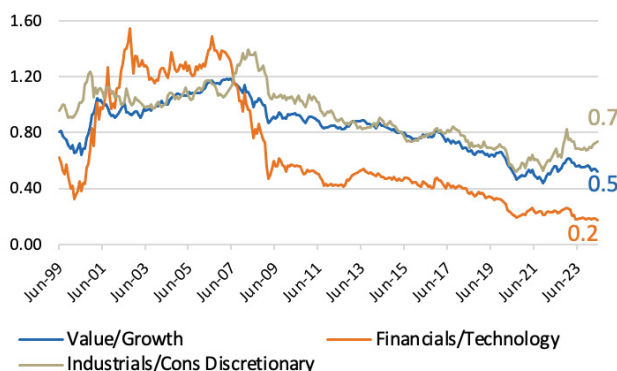
Source: Bloomberg. 10 years of quarterly data through May 2024

S&P 500 Index Profit Margin



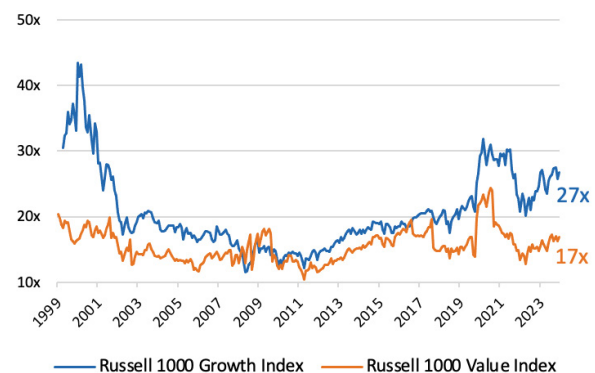
Source: Bloomberg. 25 years of quarterly data through Jun 2024

S&P 500 Relative Performance by Style and Sector



Source: Bloomberg. 25 years of monthly data through May 2024

Price/Earnings Ratios: Trailing 12 Months

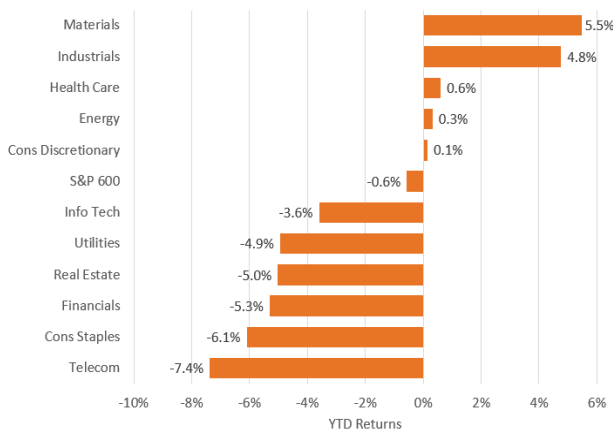


Source: Bloomberg. 25 years of monthly data through May 2024



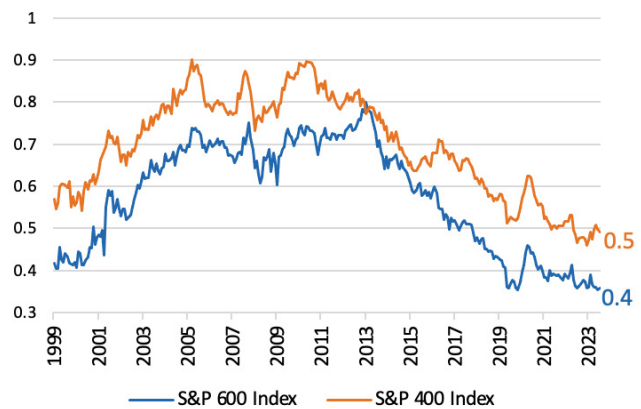
- ▶ Small caps slightly outperformed large caps in May but remain behind year-to-date with a gain of 5.7%. Two sectors – Materials and Industrials – had positive YTD returns through May (sectors associated with early stages of an economic recovery). The S&P 600 Index Info Tech sector is down more than 4% on the year.
- ▶ Small-cap revenues are beginning to recover from weakness last year. Revenue growth is forecast to rise approximately 2% this year, which could be an indication of asset class stabilization.
- ▶ Small and mid caps, have historically had stronger earnings growth than large caps, which should drive faster price appreciation. Over the past decade mid caps have grown earnings about 50% faster than large caps. However, the P/E ratio compression of the past decade has removed 40 percentage points of return from the index. Despite the P/E ratio compression we believe the earnings growth opportunity for mid caps hasn't changed measurably from 10 years ago.
- ▶ A small reversal of the P/E ratio compression could give small and mid caps a significant boost. An oversimplified example can illustrate the potential. First, assume current consensus EPS growth for 2025 materializes for both large, mid, and small caps. Second, large cap P/E ratios remain unchanged while P/E ratios for small and mid caps expand by 1x (e.g., from 15x to 16x). All else being equal, small caps could gain twice as much as large caps in the coming 24 months.

S&P 600 Index Sector Price Returns



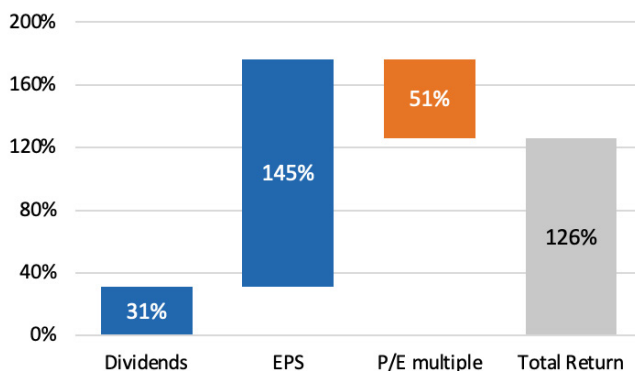
Source: Bloomberg. All data as of Jun 6 2024

Price/Sales Relative to S&P 500 Index



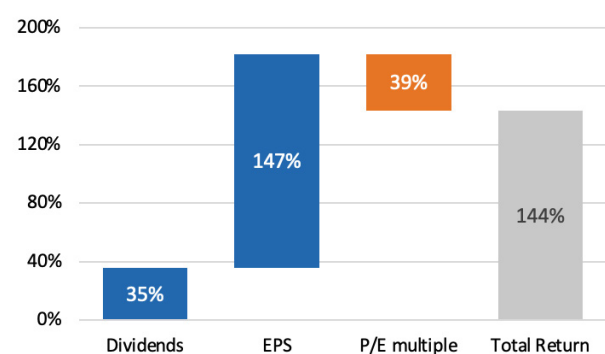
Source: Bloomberg. 25 years monthly data through May 2024

S&P 600 Index Return Composition



Source: Bloomberg. Cumulative total returns over the last 10 years through May 2024

S&P 400 Index Return Composition



Source: Bloomberg. Cumulative total returns over the last 10 years through May 2024



Authors: Crit Thomas, CFA, CAIA / Erik M. Aarts, CIMA / Brian Cheyne, CFA, CIMA

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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 2024	YTD	2023	2022	2021	2020	2024	2025	
S&P 500 Index	5.0%	9.5%	18.8%	-18.1%	28.7%	18.4%	11%	13%	
S&P 500 Index Equal Weighted	2.8%	6.4%	6.0%	-11.5%	29.6%	12.8%	5%	13%	
S&P 500 Value Index	3.0%	6.2%	14.2%	-5.2%	24.9%	1.4%	20%	11%	
Russell 1000 Value Index	3.2%	7.5%	6.0%	-7.5%	25.2%	2.8%	3%	13%	
S&P 500 Growth Index	6.6%	12.3%	23.1%	-29.4%	32.0%	33.5%	-1%	16%	
Russell 1000 Growth Index	6.0%	10.3%	31.7%	-29.1%	27.6%	38.5%	24%	15%	
S&P 400 Index	4.4%	9.7%	6.6%	-13.1%	24.8%	13.7%	4%	16%	
S&P 600 Index	5.0%	5.8%	6.0%	-16.1%	26.8%	11.3%	-4%	19%	
Russell 2000 Index	5.0%	6.8%	6.5%	-20.4%	14.8%	20.0%	16%	31%	

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
S&P 500 Index	24.7x	86%	19.1x	81%	18.4x	95%	2.9x	96%
S&P 500 Index Equal Weighted	19.8x	68%	15.2x	54%	12.3x	84%	1.7x	83%
S&P 500 Value Index	18.9x	82%	15.0x	78%	14.3x	89%	1.8x	90%
Russell 1000 Value Index	19.1x	80%	14.6x	64%	13.5x	90%	1.8x	93%
S&P 500 Growth Index	32.7x	93%	24.4x	90%	24.0x	96%	5.9x	99%
Russell 1000 Growth Index	33.1x	81%	24.7x	81%	24.6x	86%	4.8x	94%
S&P 400 Index	19.1x	28%	14.1x	27%	10.4x	29%	1.4x	89%
S&P 600 Index	17.1x	17%	13.0x	13%	8.3x	11%	1.0x	64%
Russell 2000 Index	37.7x	71%	19.3x	55%	12.3x	39%	1.3x	87%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
S&P 500 Index	1.4%	12%	10.5%	94%	17.9%	94%	1.4	18%
S&P 500 Index Equal Weighted	1.9%	65%	7.0%	68%	12.7%	79%	2.6	57%
S&P 500 Value Index	2.3%	44%	8.0%	83%	13.2%	84%	1.8	25%
Russell 1000 Value Index	2.2%	21%	8.1%	79%	11.8%	54%	2.0	17%
S&P 500 Growth Index	0.6%	12%	17.3%	96%	32.1%	96%	0.7	25%
Russell 1000 Growth Index	0.7%	10%	13.5%	96%	35.4%	97%	0.8	20%
S&P 400 Index	1.6%	59%	6.0%	88%	10.8%	58%	2.6	57%
S&P 600 Index	1.9%	92%	3.0%	45%	5.2%	27%	4.1	88%
Russell 2000 Index	1.5%	53%	1.4%	30%	2.0%	28%	4.4	76%

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



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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