Touchstone Investments®
DISTINCTIVELY ACTIVE®

Fixed Income:

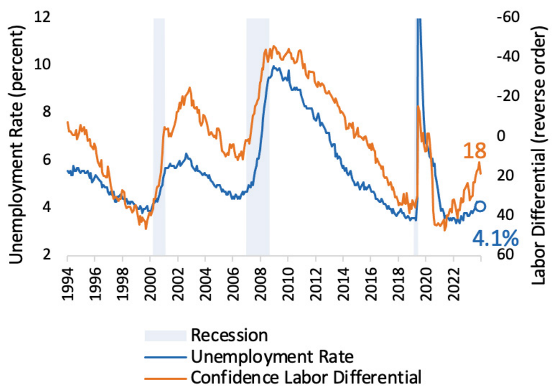
Economic Backdrop

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

November 1, 2024

- **Economic Resilience:** Recent data suggest the economy is still expanding with inflation moderating, in line with our base case, though uncertainty around the election and policy direction could impact future conditions.
- **Consumer Spending Continues:** 3Q real GDP grew at a +2.8% quarter-over-quarter annual rate—slightly below expectations but still strong. Growth was largely driven by consumers, with capital expenditures and government spending also contributing, while housing, inventories, and trade were drags. Meanwhile, the GDP Core PCE price index moderated to 2.2% for the quarter, close the Fed's target.
- **Potential Turbulence:** Two hurricanes in the Southeast and the ongoing Boeing strike may create short-term disruptions in the job market, but we don't expect these factors to harm the overall employment picture.
- **Housing Market Woes:** Affordability is a key hurdle for the housing market. Mortgage rates have increased despite the Fed rate cut and could stay higher into next year creating a potential headwind for the economy.
- **Moderating Monetary Policy:** The Fed's significant rate cut eased economic concerns, but stronger-than-expected data cast doubt on this large move. Going forward we expect the Fed to ease policy at a more measured pace.
- **Election Uncertainty:** Uncertainty around the election outcome may be affecting corporate spending decisions and contributing to bond market volatility, clouding the outlook for growth.

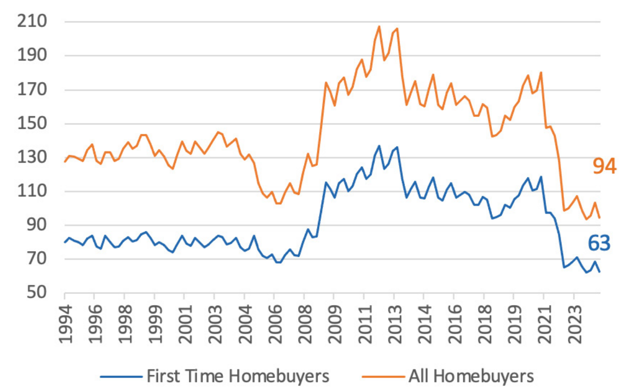
Employment Trends



The conference Board Consumer Labor Differential measures the difference between the percent of consumers responding jobs were plentiful versus those responding they were hard to get.

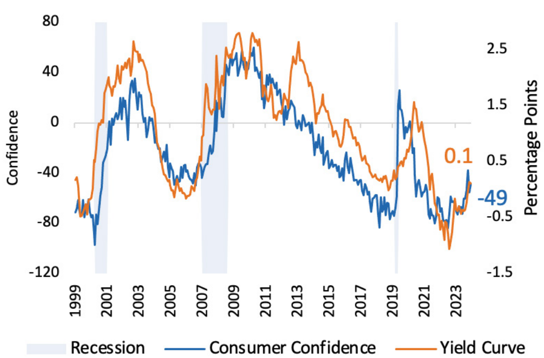
Source: Bloomberg. 30 years of monrhly data through Oct 2024

Housing Affordability



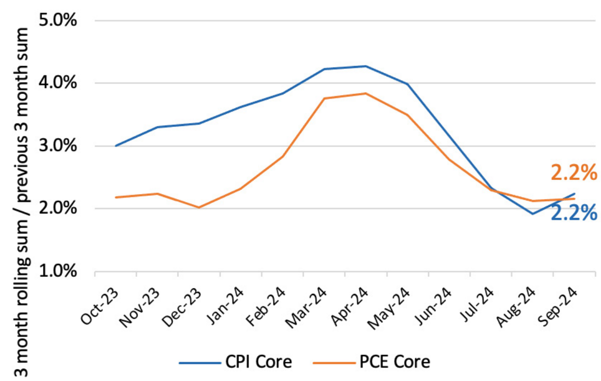
Source: Bloomberg. 30 years of quarterly data through Jun 2024

Consumer Confidence Signal



Source: Bloomberg. 25 years of monthly data through Oct 2024; Yield Curve is the difference between 10 and 2 year Treasury yields. The Confidence measure is the difference between future expectations and currrent conditions.

Core Inflation Q/Q annualized



Source: Bloomberg. 1 year of monthly data through Sep 2024

Fixed Income:

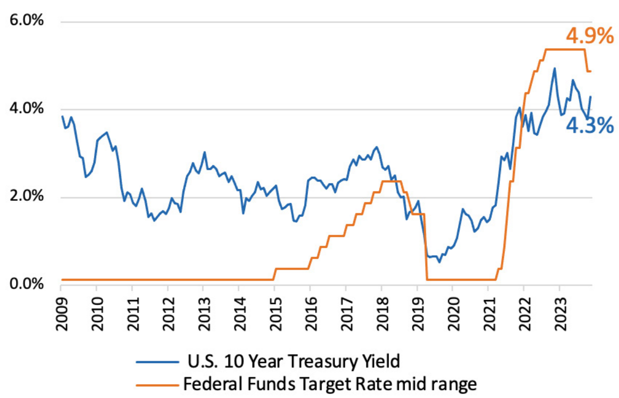
Interest Rate Risk

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

November 1, 2024

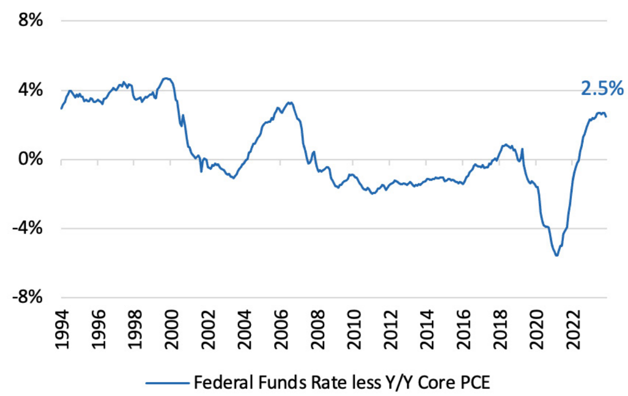
- **Duration Positioning:** We reduced our target duration to neutral after the Fed initiated the easing cycle in September and reallocated from investment grade bonds to small cap equities.
- **Locking in Yields:** High quality bond yields rose again last month and are now more in align with our growth and inflation expectations. The back up offers investors another chance to add income at relatively attractive levels. Despite recent bond market volatility, the macro picture supports solid potential fixed income returns.
- **Pricing in Fewer Cuts:** Market expectations have reset yet again, now pricing in less easing next year and forecasting a terminal rate around 3.5%, about 1.3% lower than today. This aligns with our view that the neutral rate lies between 3% and 3.5%.
- **Flatter Yield Curve:** Though the 10-year Treasury yield rose 50bps, short-to-intermediate-term yields rose even more, flattening the curve at higher levels. This is consistent with expectations for fewer Fed rate cuts. We expect a steeper curve as future rate cuts bring the front end down.
- **Unsustainable Deficits:** We are concerned about the level of deficit spending and its impact on borrowing costs, especially if Treasury investors demand a yield premium. We expect the next Congress will face pressure to address rising net interest costs and we will closely monitor Treasury market supply and demand dynamics for clues.

Interest Rates



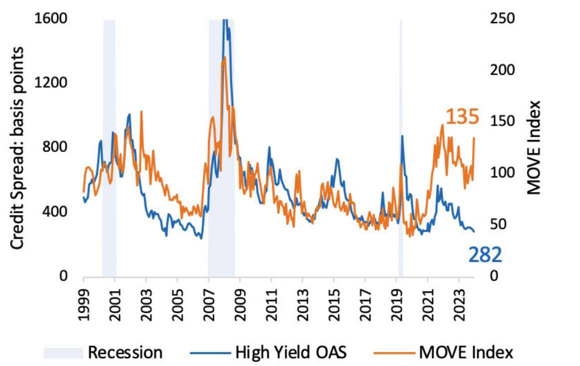
Source: Bloomberg. 15 years of monthly data through Oct 2024

Real Federal Funds Rate



Source: Bloomberg. 30 years of monthly data through Sep 2024

ICE BofA MOVE Index

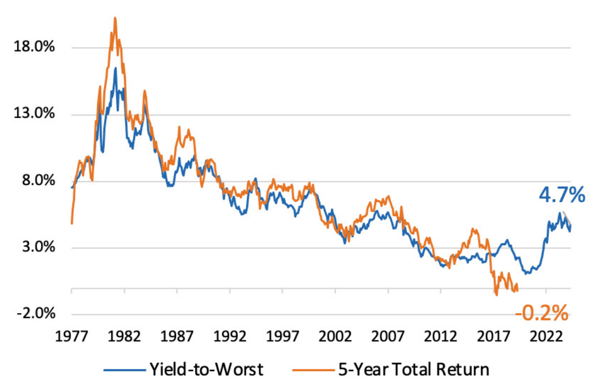


The MOVE Index measures U.S. bond market volatility through a basket of OTC options on U.S. interest rate swaps.

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

Bloomberg US Aggregate Bond Index

Current Yield Tends to Project 5 Year Forward Returns



Source: Bloomberg. 47 years of monthly data as of Oct 2024

Fixed Income:

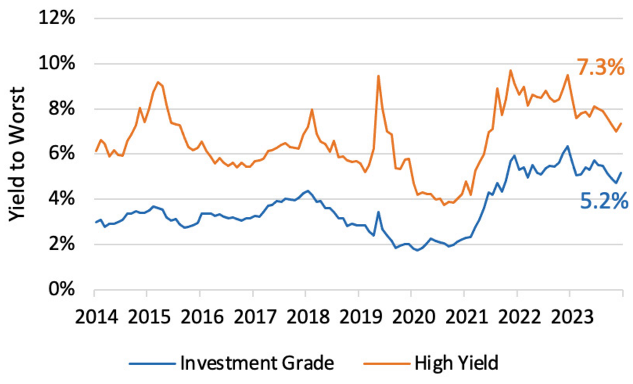
Credit Risk

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

November 1, 2024

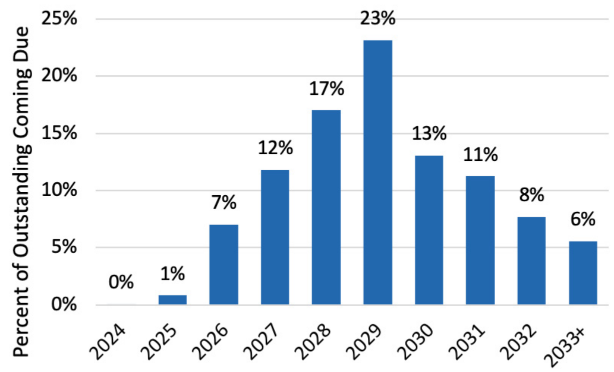
- **Overweight High Yield:** High yield outperformed higher-quality bonds in October, with the CCC's posting positive returns. We are overweight high yield, as Fed easing should encourage investors to move into higher yielding assets.
- **Tight Spreads Justified:** High yield spreads narrowed further in October and are now almost 100bps tighter than the early August spike. Economic resilience supports strong corporate and consumer fundamentals, creating a favorable environment for both corporate and securitized credit.
- **Little Stress Evident:** Despite higher bond yields due to previously tight monetary policy, the default rate for below investment grade credit remains below the long-term average and has declined recently. In addition, the maturity wall is heavily back-end loaded, supporting the asset class in a higher-for-longer yield environment.
- **Investment Grade Yields:** Longer duration negatively affected investment grade credit in October. Yields have risen back above 5%, offering investors another chance to secure relatively attractive yields in high quality companies. Income is the primary driver of bond returns, and we haven't seen yields like this since 2009.
- **Poor Visibility:** A soft landing with moderating inflation is our base case and should support credit market returns, though post-election policy uncertainty and optimistic corporate earnings expectations for next year are key considerations. We will monitor closely and adjust credit exposure if necessary.

Bloomberg U.S. Corporate Bond Indexes



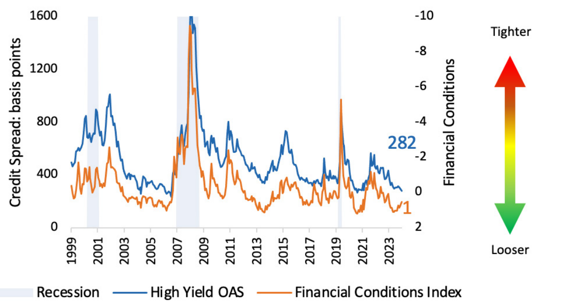
Source: Bloomberg. 10 years of monthly data through Oct 2024

Bloomberg High Yield Maturity Schedule



Source: Bloomberg. Data as of Sep 2024

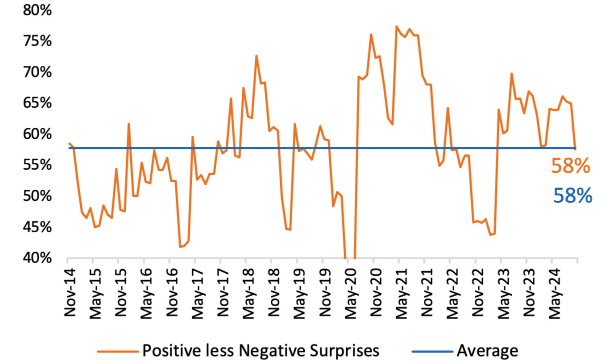
Bloomberg U.S. Financial Conditions Index



Bloomberg U.S. Financial Conditions Index: tracks the overall level of financial stress in the U.S. money, bond, and equity markets to help assess the availability and cost of credit.

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

S&P 500 Index Net Earnings Surprise



Source: Bloomberg. 10 years of monthly data through Oct 2024

Touchstone Investments®
DISTINCTIVELY ACTIVE®

Fixed Income:
Market Characteristics

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

November 1, 2024

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

Total Returns

	October 2024	YTD	2023	2022	2021	Duration years
Bloomberg Long Term Treasury	-5.2%	-2.9%	3.1%	-29.3%	-4.6%	15.1
Bloomberg U.S. TIPS	-1.8%	3.0%	3.9%	-11.8%	6.0%	5.3
Bloomberg U.S. Aggregate	-2.5%	1.9%	5.5%	-13.0%	-1.5%	6.2
Bloomberg U.S. Agg Corporate	-2.4%	2.8%	8.5%	-15.8%	-1.0%	7.1
Bloomberg U.S. Agg ABS	-0.7%	4.3%	5.5%	-4.3%	-0.3%	2.7
Bloomberg U.S. Agg MBS	-2.8%	1.5%	5.0%	-11.8%	-1.0%	5.8
Bloomberg U.S. Agg CMBS	-1.8%	4.3%	5.4%	-10.9%	-1.2%	4.2
Bloomberg Municipal Bond	-1.5%	0.8%	6.4%	-8.5%	1.5%	6.2
Bloomberg 1-3 year Corporate	-0.5%	4.6%	5.5%	-3.3%	-0.1%	1.9
ICE BofA Listed Preferreds	-0.7%	11.1%	9.8%	-18.1%	7.7%	NA
Bloomberg High Yield	-0.5%	7.4%	13.4%	-11.2%	5.3%	3.1
Credit Suisse Leveraged Loan (discount margin)	0.8%	7.5%	13.0%	-1.1%	5.4%	NA
Bloomberg Global Agg	-3.4%	0.1%	5.7%	-16.2%	-4.7%	6.6
Bloomberg Emerging Markets USD	-1.4%	6.7%	9.1%	-15.3%	-1.7%	6.3

Yields

			Last 10 years			
	October 2024	YTD Change bps	Current Percentile	Median	Min	Max
10 year Treasury	4.3%	41	95	2.3%	0.5%	5.0%
2 year Treasury	4.2%	-8	83	1.5%	0.1%	5.2%
10 year TIPS	2.0%	25	95	0.4%	-1.2%	2.5%
Bloomberg U.S. Aggregate	4.7%	20	89	2.5%	1.0%	5.7%
Bloomberg U.S. Agg Corporate	5.2%	10	85	3.4%	1.7%	6.4%
Bloomberg U.S. Agg ABS	4.8%	-20	82	2.0%	0.4%	6.0%
Bloomberg U.S. Agg MBS	5.1%	40	93	2.8%	0.9%	6.1%
Bloomberg U.S. Agg CMBS	5.1%	-15	84	2.8%	1.4%	6.6%
Bloomberg Municipal Bond	3.7%	44	93	2.3%	0.9%	4.5%
Bloomberg 1-3 year Corporate	4.7%	-33	81	2.1%	0.5%	6.2%
Bloomberg High Yield	7.3%	-26	67	6.4%	3.5%	11.7%
Credit Suisse Leveraged Loan (discount margin)	8.8%	-31	79	5.6%	3.6%	13.1%
Bloomberg Global Agg	3.6%	12	87	1.7%	0.8%	4.4%
Bloomberg Emerging Markets USD	6.6%	-47	77	5.3%	3.5%	8.7%

Option Adjusted Spreads (bps)

			Last 10 years			
	October 2024	YTD Change	Current Percentile	Median	Min	Max
Bloomberg U.S. Corporate Agg	83	-15	2	120	79	373
Bloomberg 1-3 year Corporate	52	-15	23	66	31	390
Bloomberg U.S. Agg ABS	54	-14	51	54	22	325
Bloomberg U.S. Agg MBS	48	2	79	33	7	132
Bloomberg U.S. Agg CMBS	92	-34	51	97	62	275
Bloomberg High Yield	282	-41	2	388	262	1100
Credit Suisse Leveraged Loan (discount margin)	479	-49	42	501	379	1275
Bloomberg Emerging Markets USD	223	-74	1	312	211	720

For Index Definitions see: TouchstoneInvestments.com/insights/investment-terms-and-index-definitions

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.

2023 – Inflation fell broadly while the economy grew with the labor market and consumer spending resilient. The Fed paused midyear helping rates and credit spreads fall late in the year and turning returns positive for the year.

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

November 1, 2024

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.

Performance data quoted represents past performance, which is no guarantee of future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than performance data given. ***For performance information current to the most recent month-end, visit TouchstoneInvestments.com/mutual-funds.***

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.