Market Overview

Erik Aarts, CIMA

Senior Fixed Income Strategist

Touchstone Asset Allocation Committee

Brian Cheyne, CFA

Senior Investment Strategy Specialist

Touchstone Asset Allocation Committee

Touchstone Investments®

DISTINCTIVELY ACTIVE®

Touchstone Asset Allocation Committee (TAAC)

▶ The TAAC meets regularly to assess market conditions and to develop in-depth asset allocation guidance using established and evolving methodologies, inputs, and analysis.

▶ TAAC Guidance with strategic and tactical asset allocation weightings, along with summarized rationales, are published monthly for five different risk tolerances.

▶ In addition to the formalized TAAC Guidance, the committee also publishes timely commentary on the financial markets including fixed income and equities investment outlooks.

▶ TAAC content is available at:
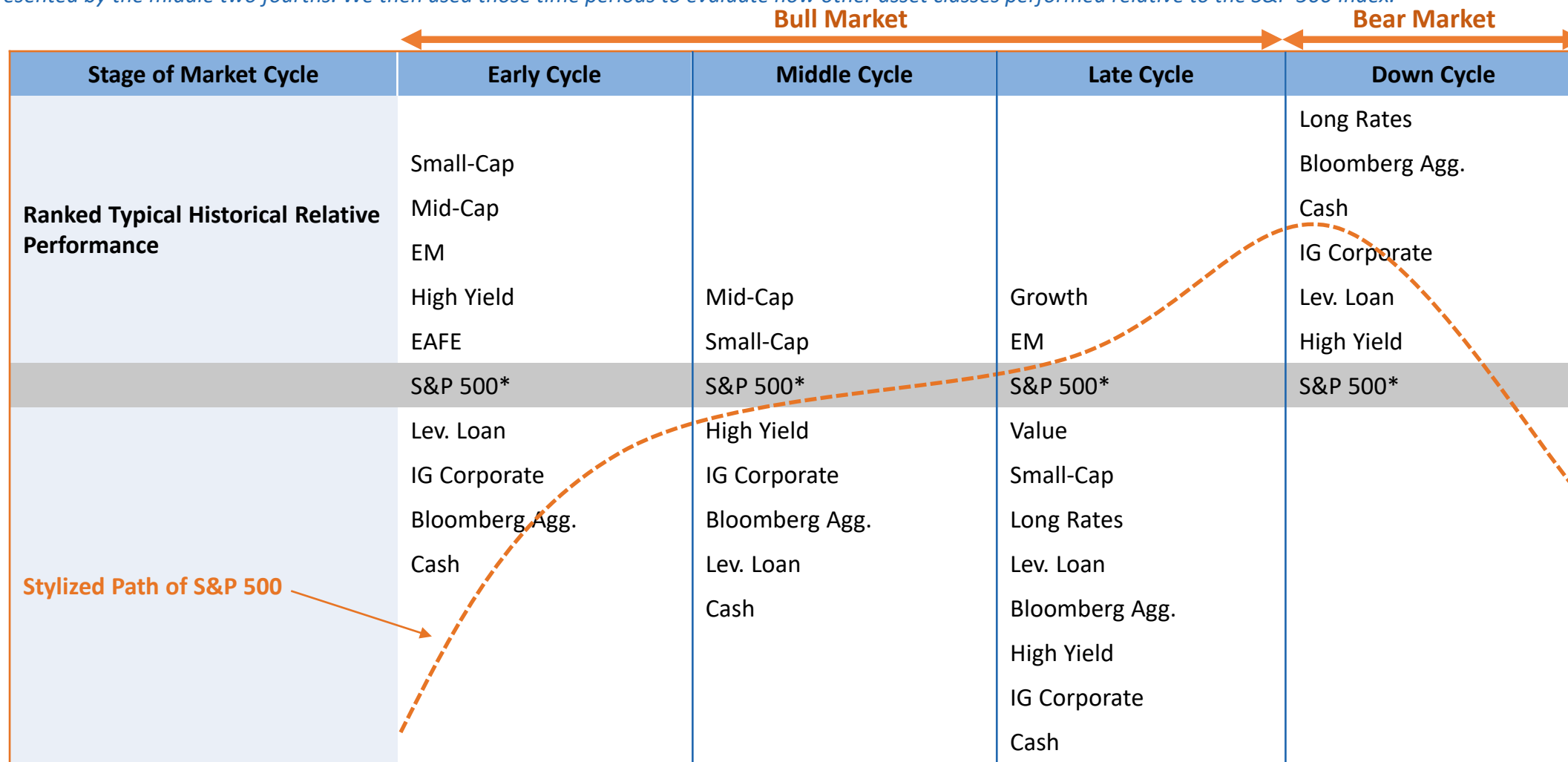www.touchstonefunds.com/insights

Crit Thomas
CFA, CAIA

Erik M.
Aarts
CIMA

Brian
Cheyne
CFA, CIMA

Market Cycle Framework

Our market cycle framework is based on past S&P 500 Index bull and bear markets since 1935. We divided every bull market into fourths. For example, if the bull market lasted 4 years, we divided it into 4 one-year increments. The first and last fourth are considered early and late cycle, respectively, and the middle cycle represented by the middle two fourths. We then used those time periods to evaluate how other asset classes performed relative to the S&P 500 Index.

Bull Market ⟷   **Bear Market** →

Stage of Market Cycle	Early Cycle	Middle Cycle	Late Cycle	Down Cycle
Ranked Typical Historical Relative Performance	Small-Cap			Long Rates
	Mid-Cap			Bloomberg Agg.
	EM			Cash
	High Yield	Mid-Cap	Growth	IG Corporate
	EAFE	Small-Cap	EM	Lev. Loan
				High Yield
	S&P 500*	S&P 500*	S&P 500*	S&P 500*
	Lev. Loan	High Yield	Value	
	IG Corporate	IG Corporate	Small-Cap	
	Bloomberg Agg.	Bloomberg Agg.	Long Rates	
	Cash	Lev. Loan	Lev. Loan	
		Cash	Bloomberg Agg.	
			High Yield	
			IG Corporate	
			Cash	

Stylized Path of S&P 500

In stages where asset classes are not shown, there was little historical consistency across cycles to indicate a typical pattern.
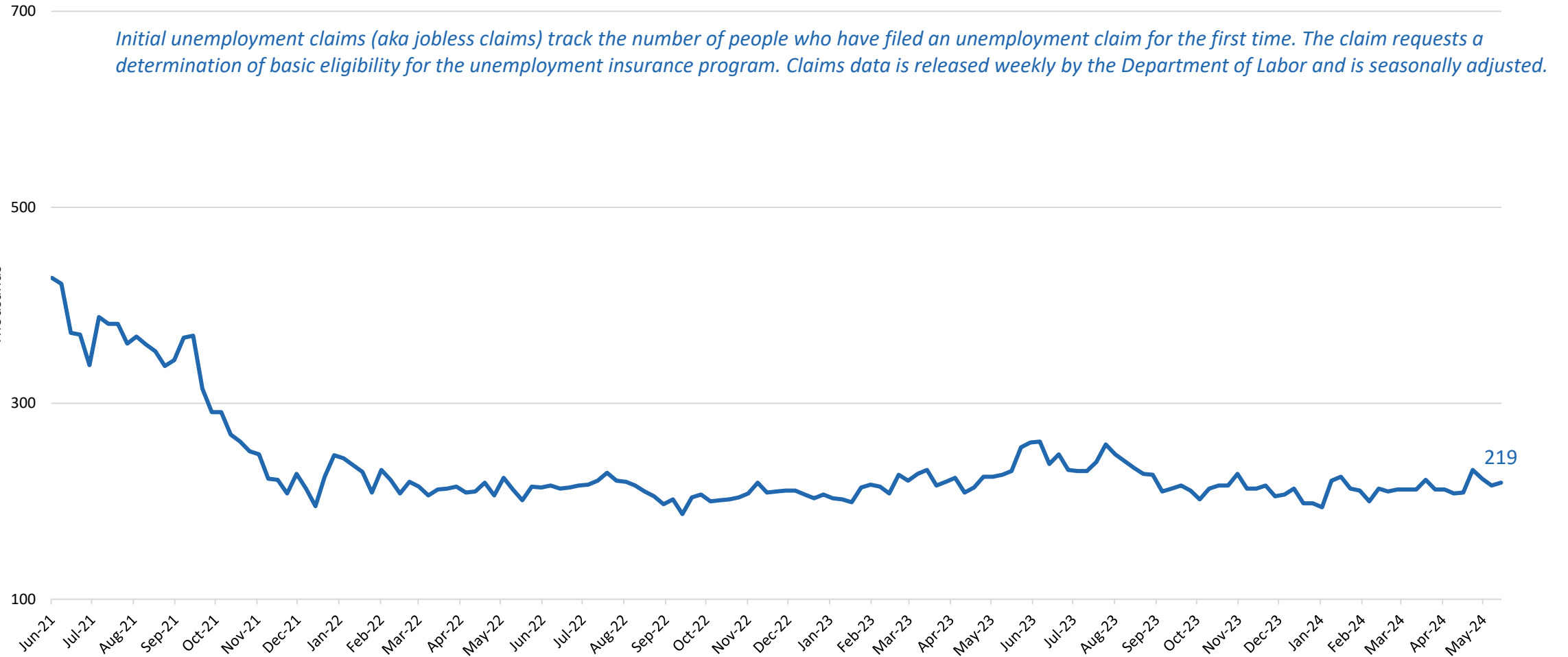
Leading Economic Indicators

The Conference Board U.S. Leading Economic Indicator Index is made up of 10 economic variables that tend to move before changes in the overall economy. It is made up of both financial and non-financial components. The Institute for Supply Management (ISM) manufacturing purchasing managers' index (PMI) surveys companies on numerous business conditions such as orders, production, employment, and inventories. Readings above 50 indicate expanding conditions, while readings below 50 indicate contraction.
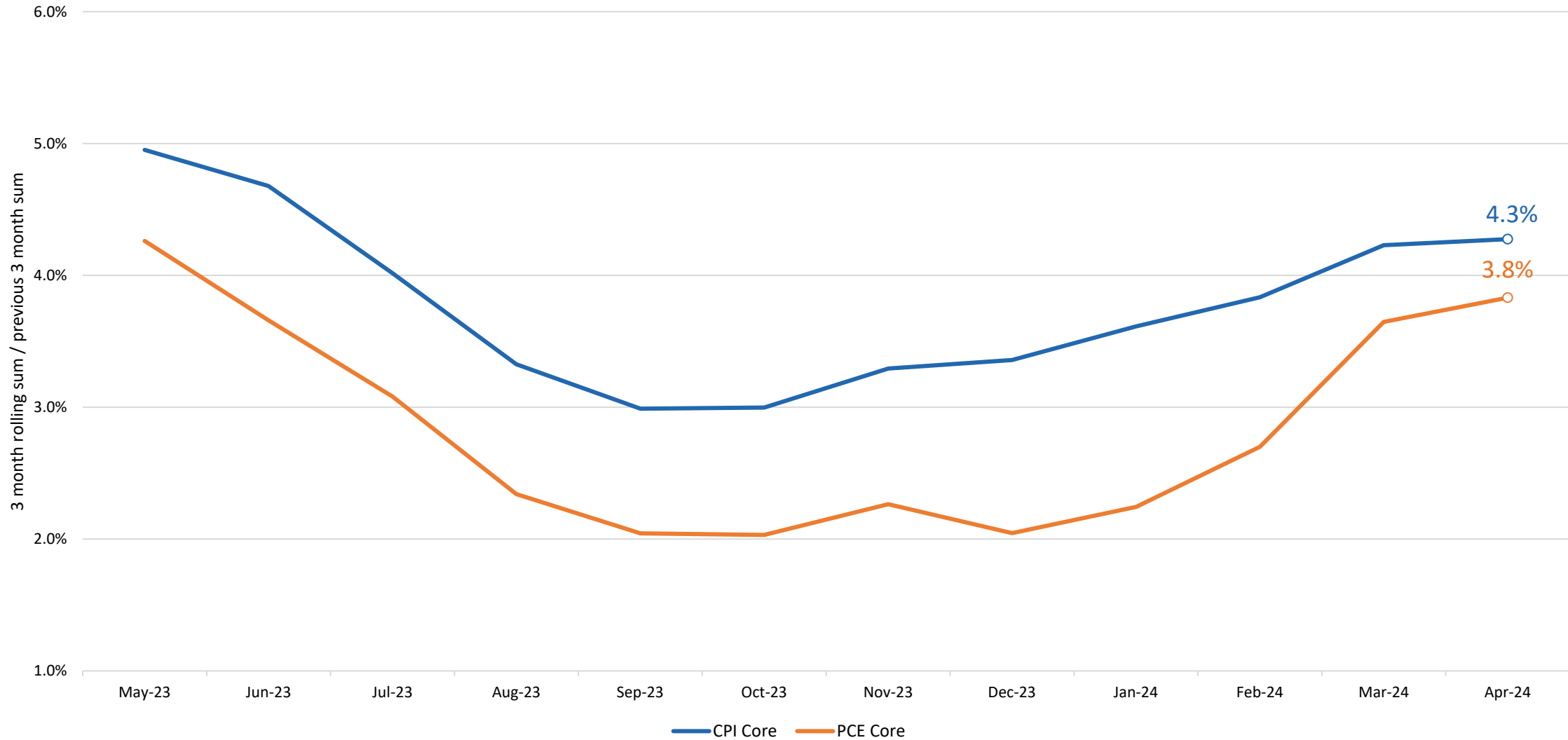

Legend: Recession | Leading Economic Indicators (LEI) | ISM Manufacturing SA
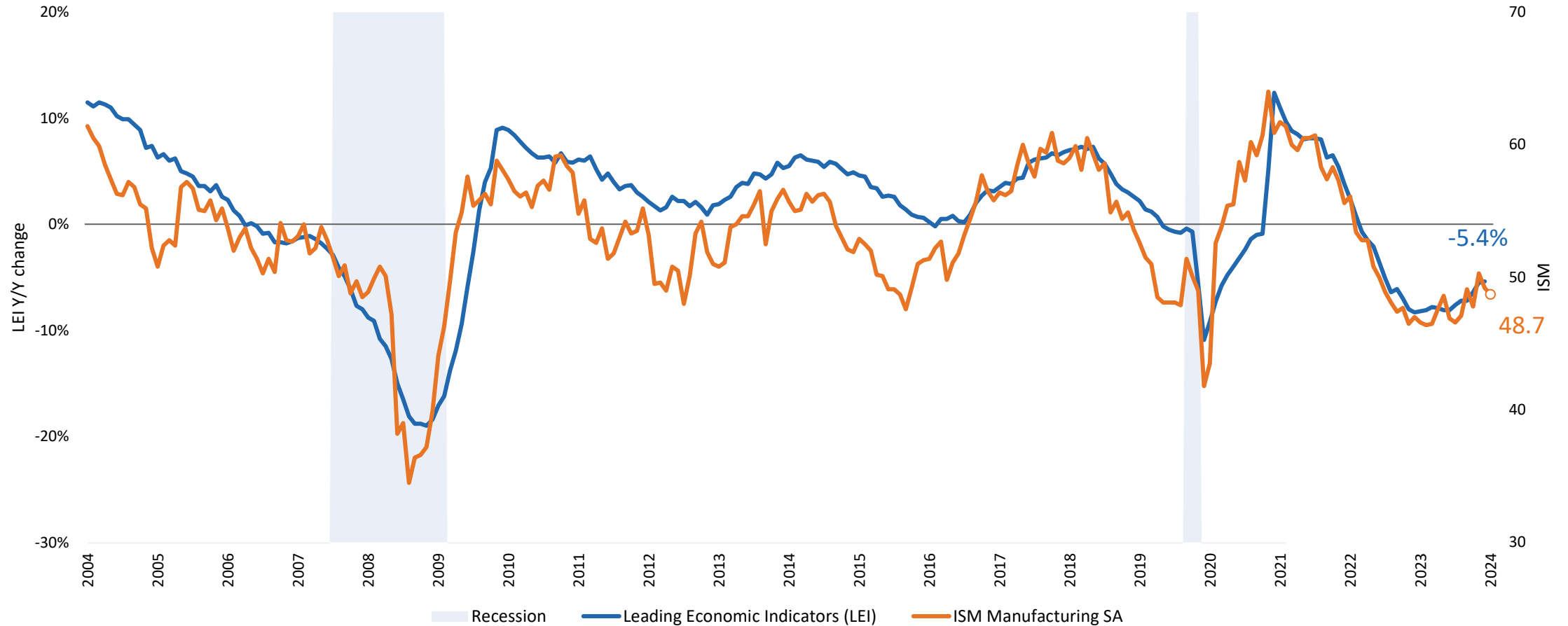
Source: Bloomberg. 20 years of monthly data through May 2024, LEI through Apr 2024

Unemployment Claims

Initial unemployment claims (aka jobless claims) track the number of people who have filed an unemployment claim for the first time. The claim requests a determination of basic eligibility for the unemployment insurance program. Claims data is released weekly by the Department of Labor and is seasonally adjusted.

219

Source: Bloomberg. 3 years of weekly data through May 24 2024

Core Inflation Q/Q annualized

Y-axis label: 3 month rolling sum / previous 3 month sum

CPI Core endpoint: 4.3%
PCE Core endpoint: 3.8%

Legend: CPI Core — PCE Core

X-axis: May-23, Jun-23, Jul-23, Aug-23, Sep-23, Oct-23, Nov-23, Dec-23, Jan-24, Feb-24, Mar-24, Apr-24

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

U.S. Budget Interest Expense/Total Revenues

Interest expense is the cost to the U.S. for borrowing money. How much the government pays in interest depends on both the total federal debt and the interest rate when they loaned the money. Revenue is mostly composed of consumer and business taxes, but also includes custom duties, land and building leases, and various natural resource usage and licensing fees.

17.2%

— Interest Burden (12 month sum)

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

Stage of the Economic Cycle Model

In evaluating the potential for different asset classes, we believe it is important to understand where we are in the economic cycle. We created this model to help add more discipline in our approach to economic cycle analysis.
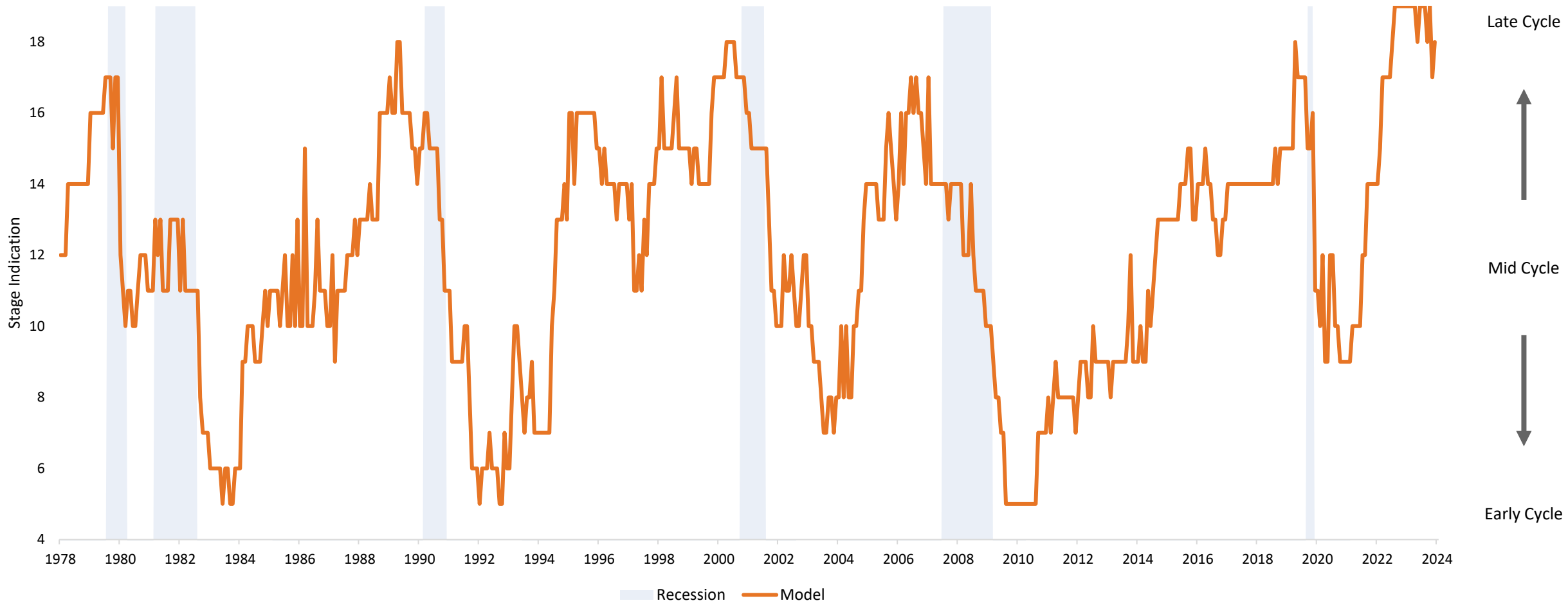
Source: Bloomberg. 46 years of monthly data through Apr 2024; Model based on: Manufacturing Purchasing Manager Index, Unemployment Rate, Treasury yield spreads, Consumer Confidence Indexes, and Conference Board business cycle indicators

Touchstone S&P 500 EPS Model

We built our model in an attempt to help us determine the near-term direction and magnitude of earnings for the S&P 500 Index. We compare it with bottom up analyst estimates and what we believe the market is discounting.

Trailing 12m EPS Y/Y — EPS Model
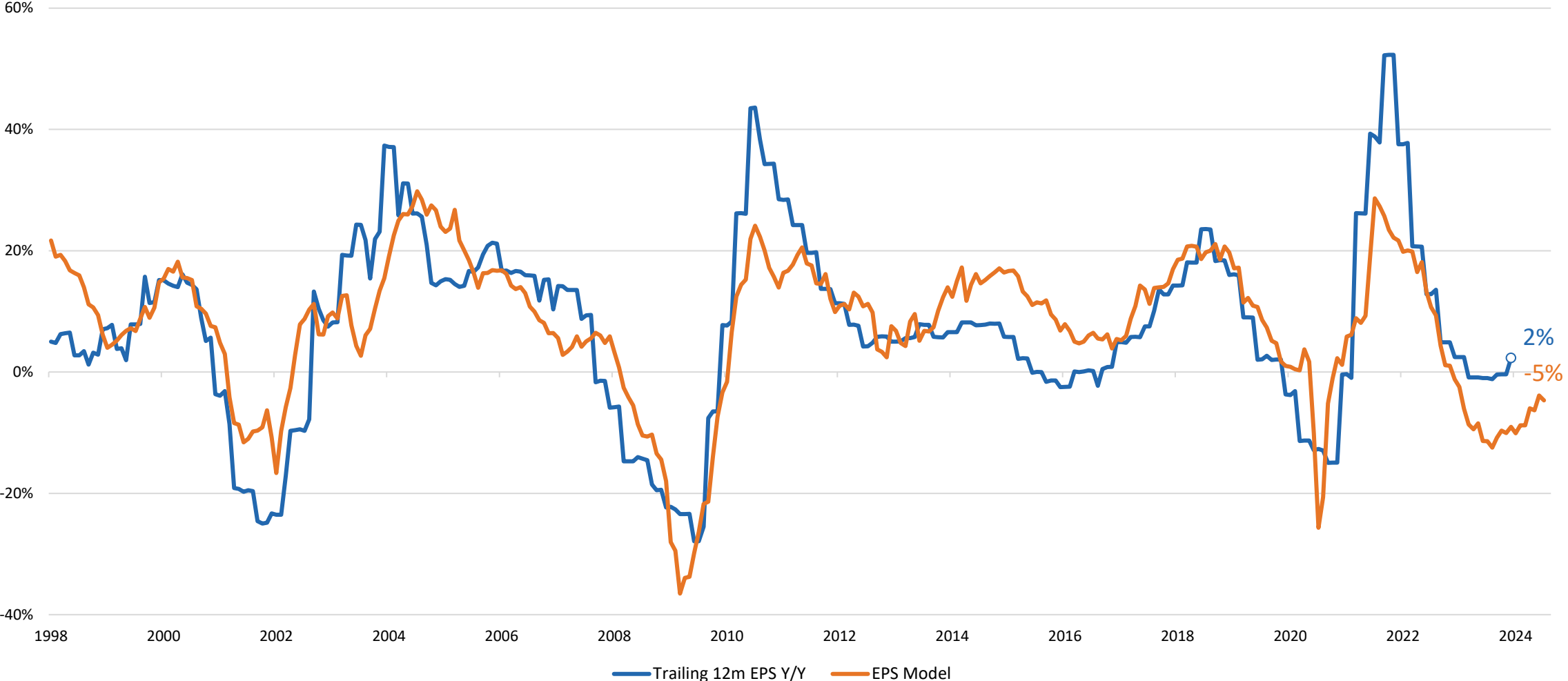
Source: Bloomberg. EPS Model looks forward 7 months, actual EPS through May 2024; Model composed of 10y Yield, LEI, and Mfg New Orders
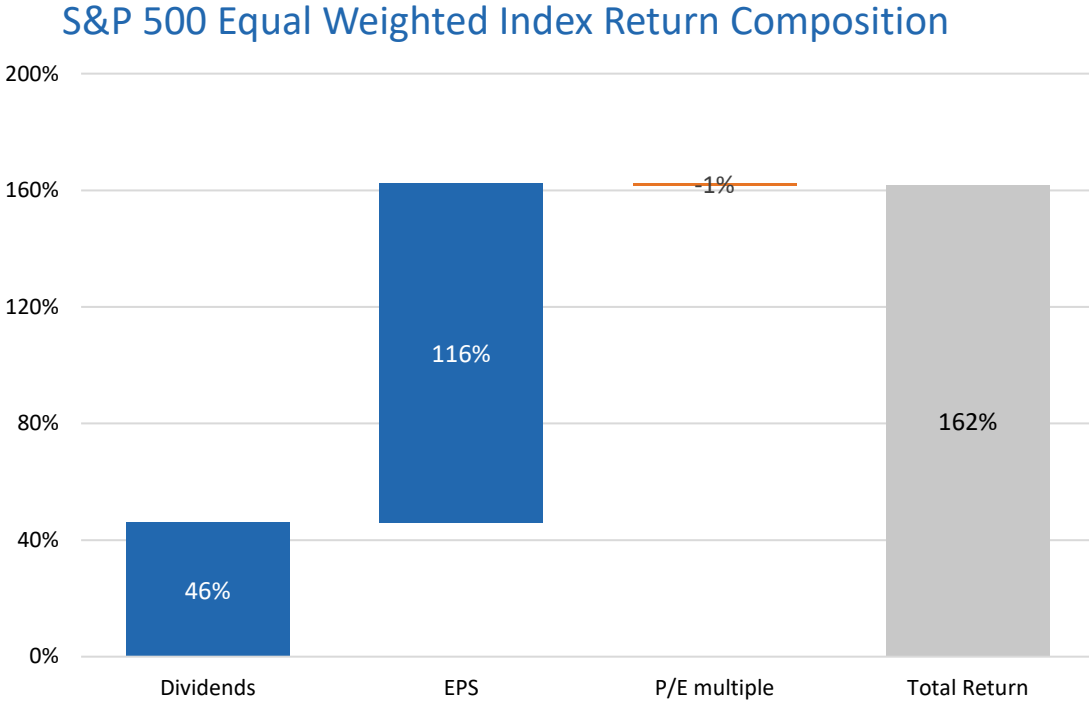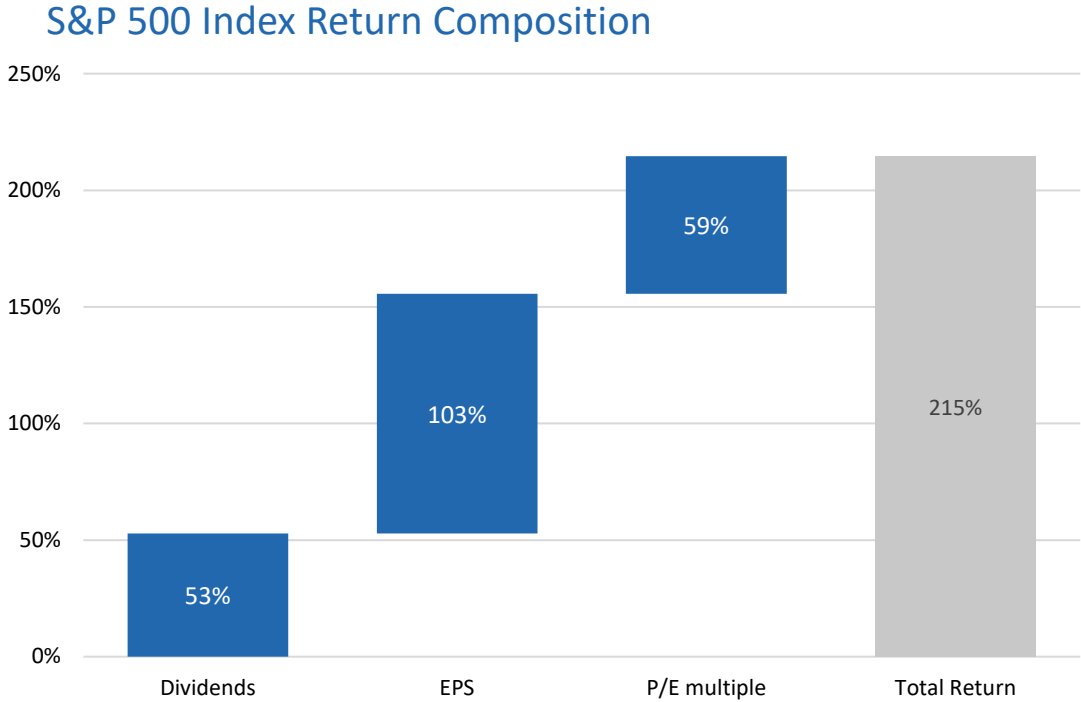
S&P 500 Index Valuation Ranges

Below are a number of different valuation measures based on earnings and estimates for cash generation. Provided is the historical range for these measures as well as the median and latest observation.

Legend: ■ Below Median   ■ Above Median

Categories: Price/Cash Flow (18.4x), EV/EBITDA (15.5x), Price/Trailing 1 Year EPS (23.1x), Price/1 Year Forward EPS (20.7x), Price/Trailing 10 Year EPS (36.8x)
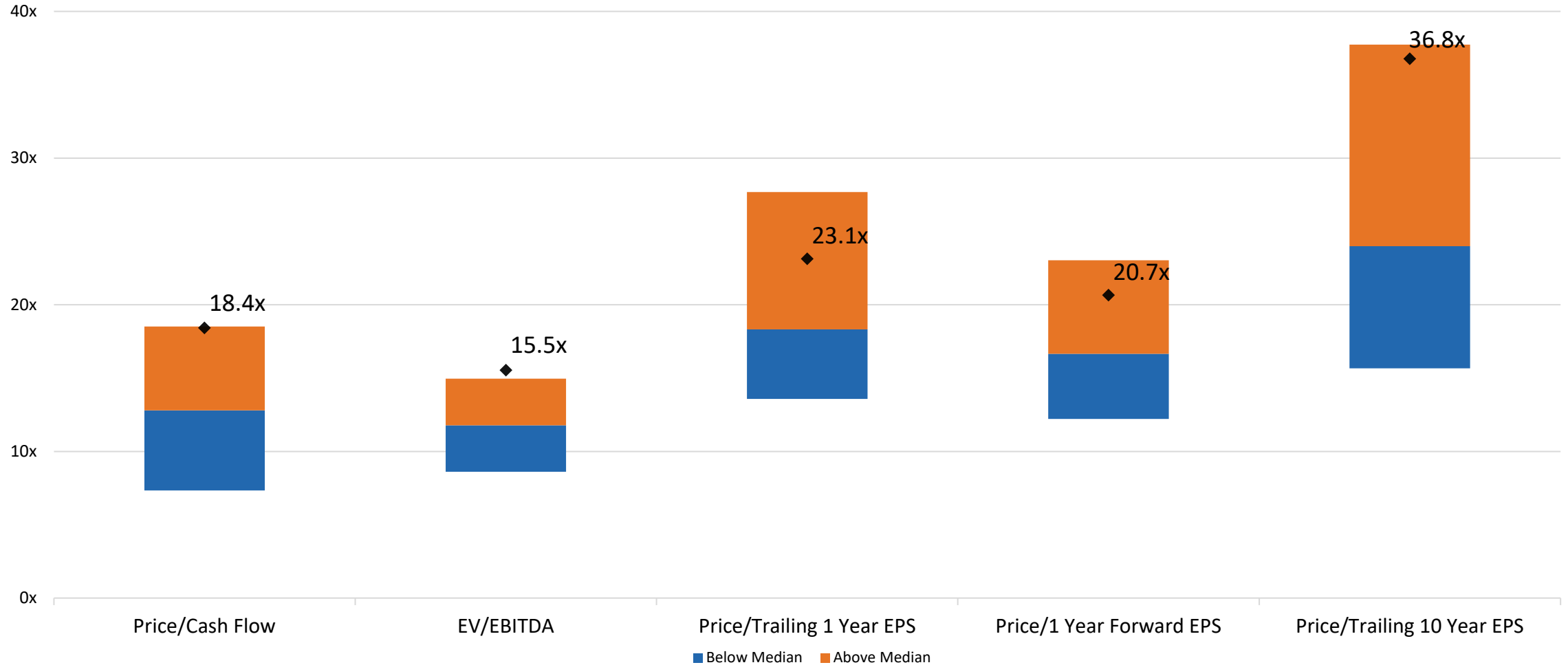
Source: Bloomberg. Based on monthly observations starting in 1996. The minimum and maximum ranges are set to the 5th and 95th percentiles, respectively, to remove outliers. Average percentile rank: 89% as of May 2024

Total Return Composition

S&P 500 Index Return Composition

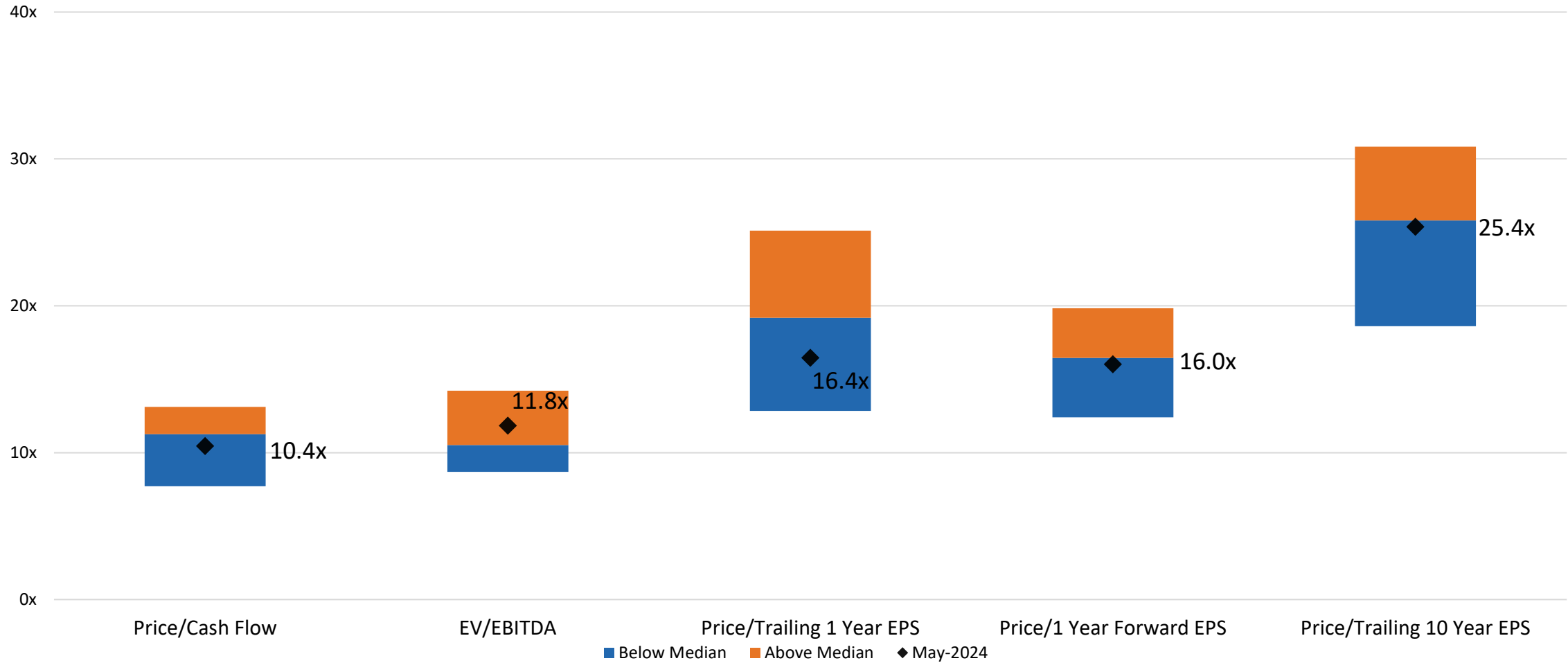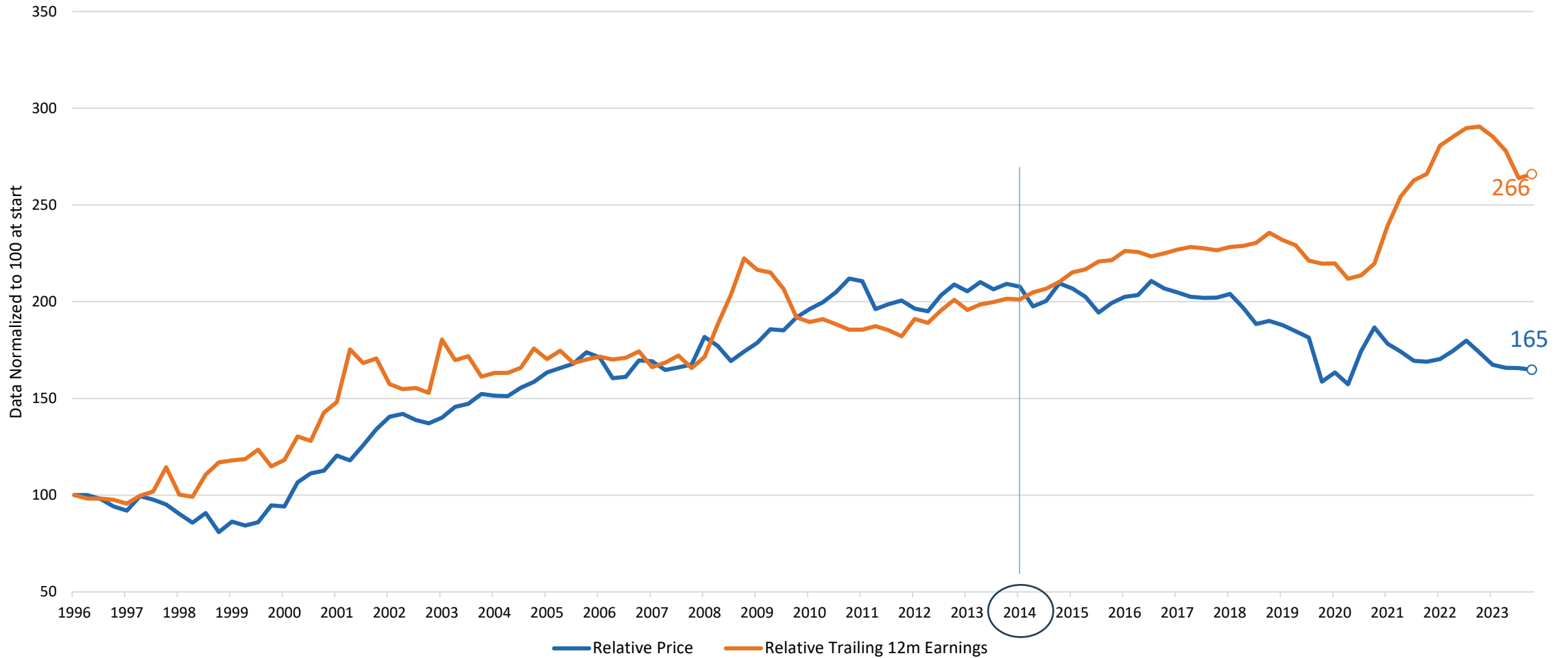## S&P 500 Equal Weighted Index Return Composition

The return on an index can be decomposed into the contribution from dividends, earnings growth, and the change in the P/E multiple. This chart provides this decomposition over the last 10 years. The total return is the sum of the components.

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

S&P 400 Index Valuation Ranges

Below are a number of different valuation measures based on earnings and estimates for cash generation. Provided is the historical range for these measures as well as the median and latest observation.

Legend: ■ Below Median ■ Above Median ◆ May-2024

Data points: Price/Cash Flow 10.4x; EV/EBITDA 11.8x; Price/Trailing 1 Year EPS 16.4x; Price/1 Year Forward EPS 16.0x; Price/Trailing 10 Year EPS 25.4x
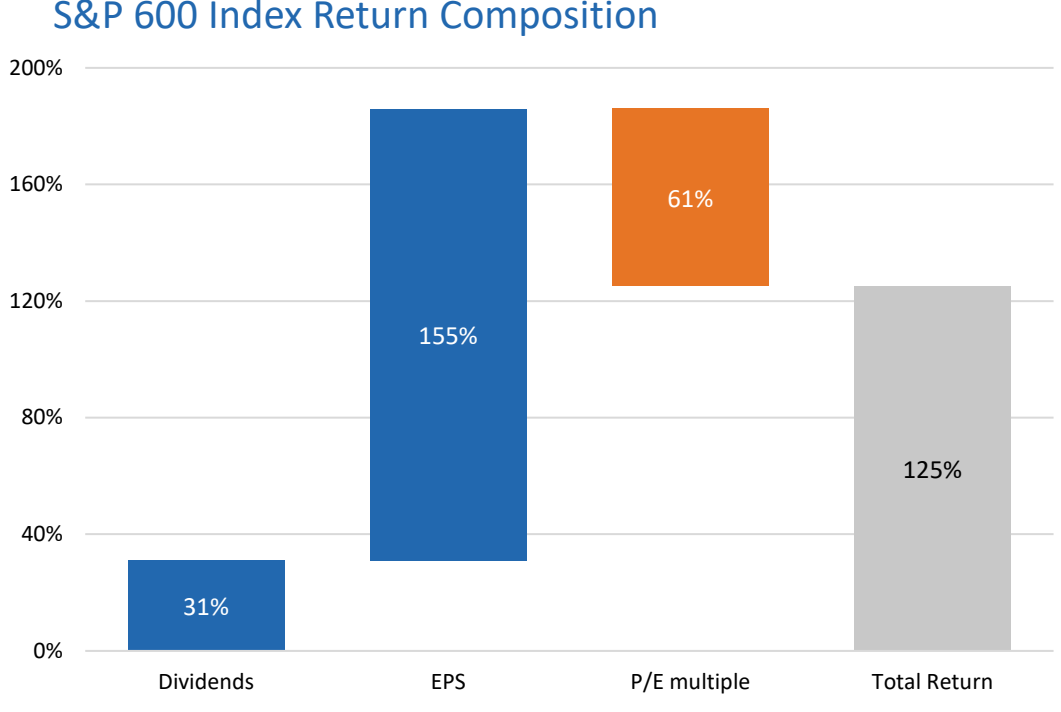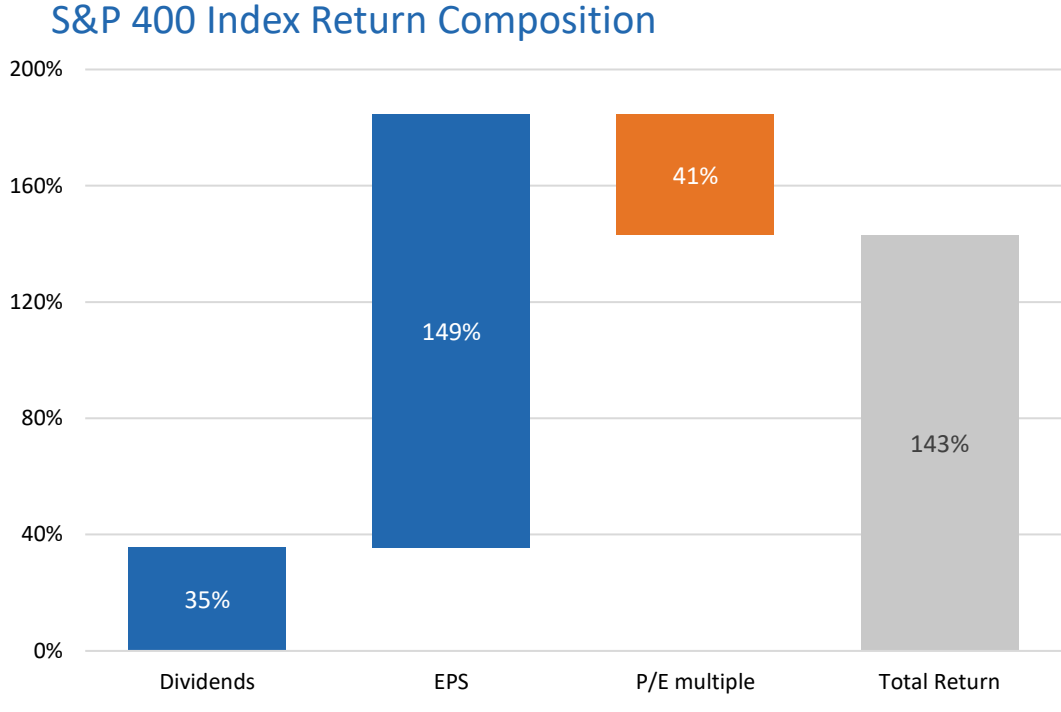
S&P 400 Index / S&P 500 Index

While valuations can move around, in a larger sense price and earnings tend to move together over the long term. Historically large gaps between price and earnings tend to close.

Relative Price — Relative Trailing 12m Earnings

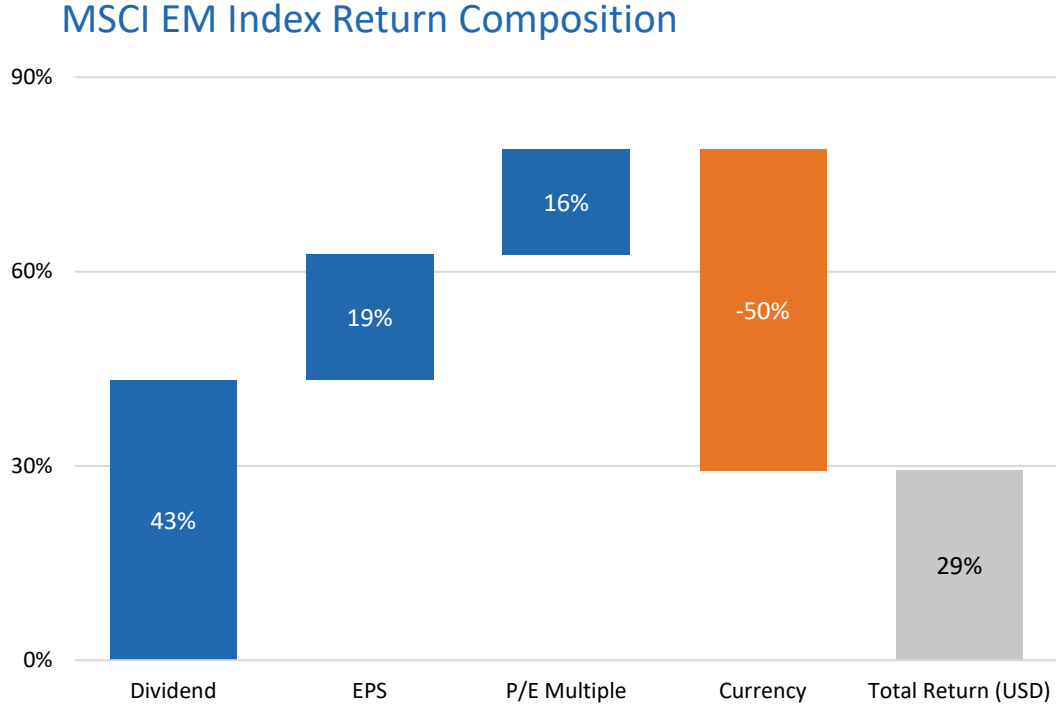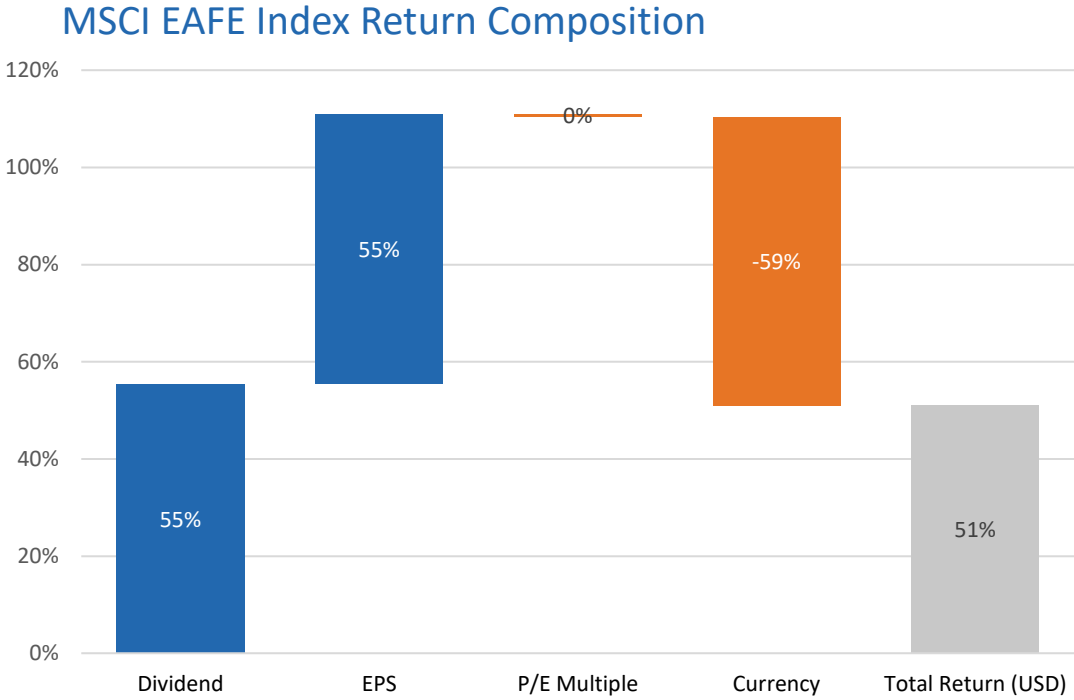*Source: Bloomberg. 28 years of quarterly data through Mar 2024*

Total Return Composition

The return on an index can be decomposed into the contribution from dividends, earnings growth, and the change in the P/E multiple. This chart provides this decomposition over the last 10 years. The total return is the sum of the components.

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

Total Return Composition

MSCI EAFE Index Return Composition

Waterfall chart with values: Dividend 55%, EPS 55%, P/E Multiple 0%, Currency -59%, Total Return (USD) 51%

MSCI EM Index Return Composition

Waterfall chart with values: Dividend 43%, EPS 19%, P/E Multiple 16%, Currency -50%, Total Return (USD) 29%

A return on a foreign index can be decomposed into the contribution from dividends, earnings growth, change in the P/E multiple, and currency impact. This chart provides this decomposition over the last 10 years. The total return in USD is the sum of the components.

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

Treasury Yields
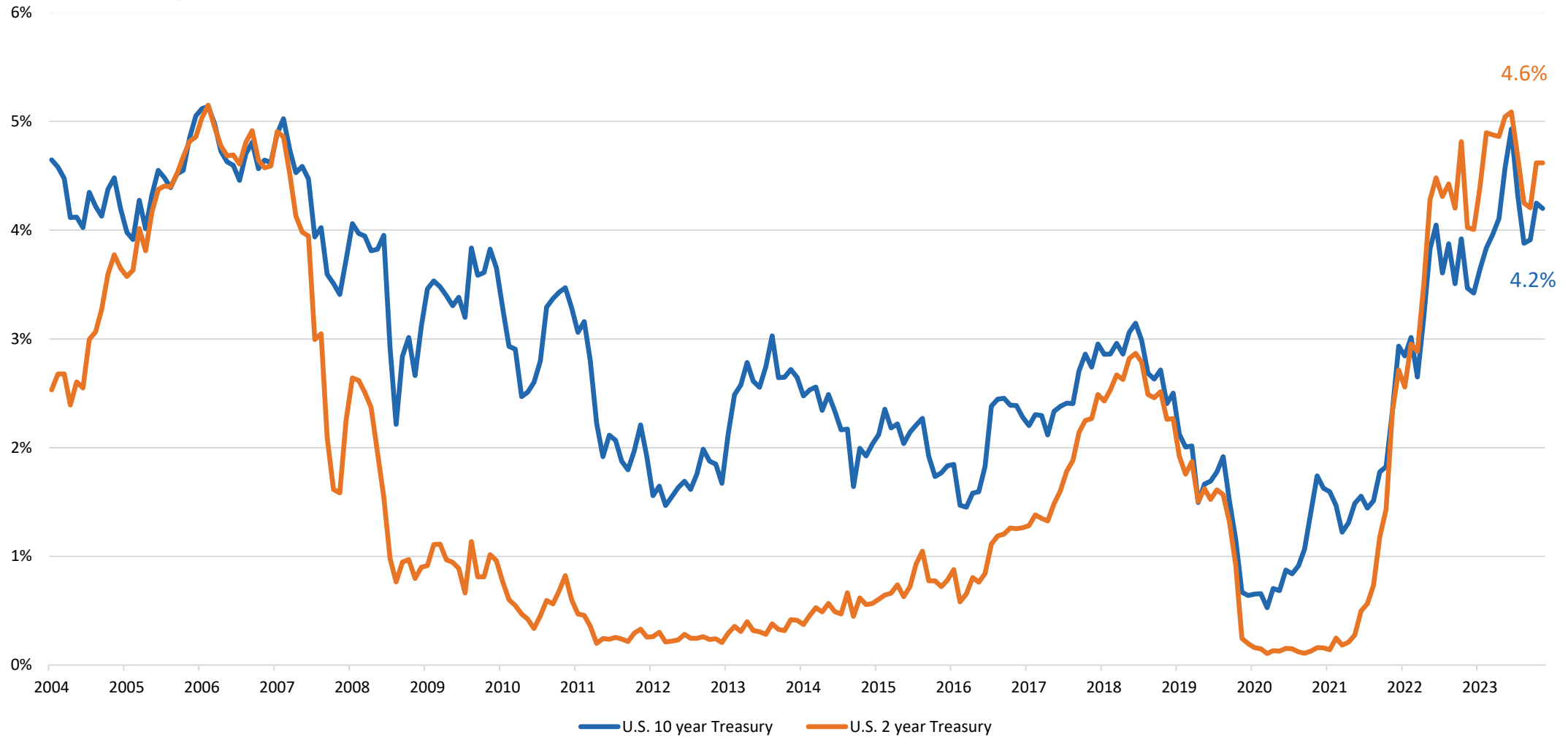
Source: Bloomberg. 20 years of monthly data through Mar 2024

Net % Tightening Lending Standards for Commercial & Industrial Loans

The bank lending surveys provide an indication of how easy or difficult it is to access credit through banks. Lending conditions tend to be influenced by monetary policy.

Legend: Large & Medium Firms (blue), Small Firms (orange)
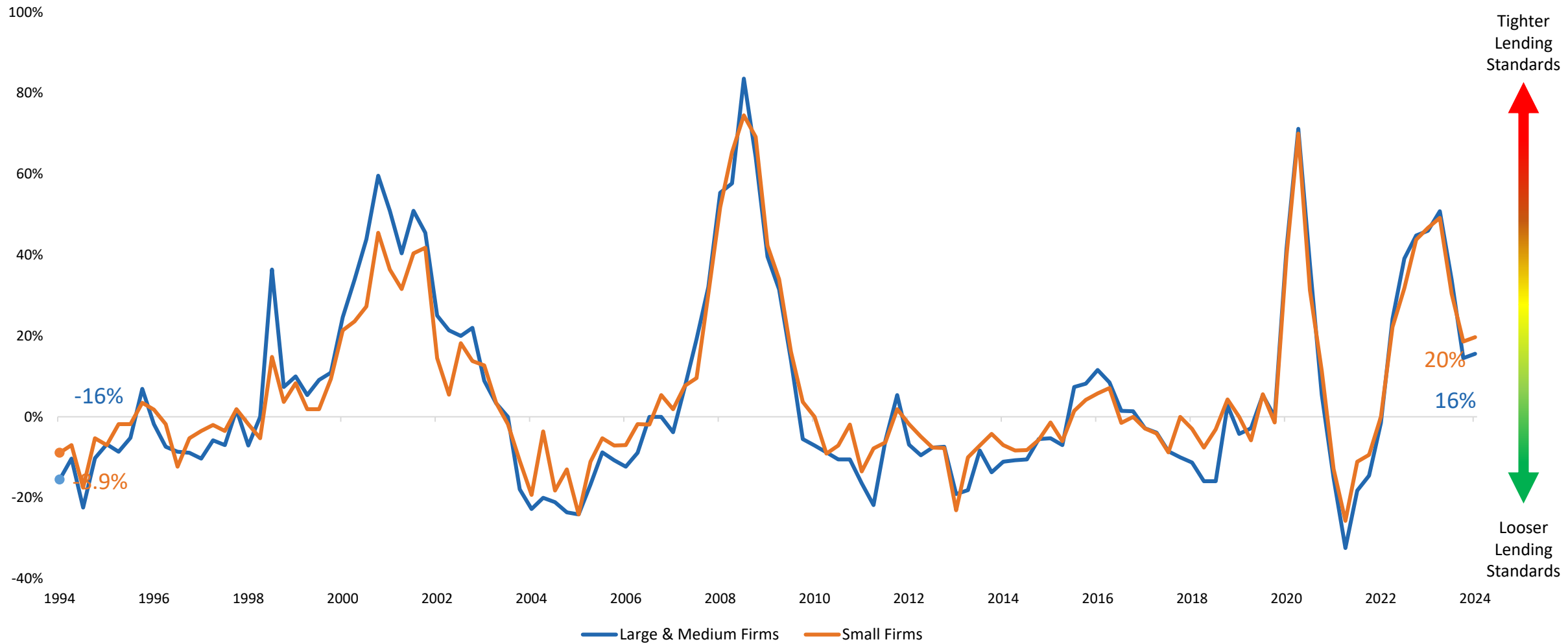
Source: Bloomberg. 30 years of quarterly data through Apr 2024

Bloomberg U.S. Financial Conditions Index

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

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.

Bloomberg US Aggregate Bond Index
Current Yield tends to Project 5 year Forward Returns

Given that the Bloomberg U.S. Aggregate Bond Index typically had a duration of around five years, its current yield has historically tended to be a reasonable estimate for the total return of the index over the next five years. Large swings in interest rates can lead to deviations.

Legend: Yield-to-Worst — 5-Year Total Return
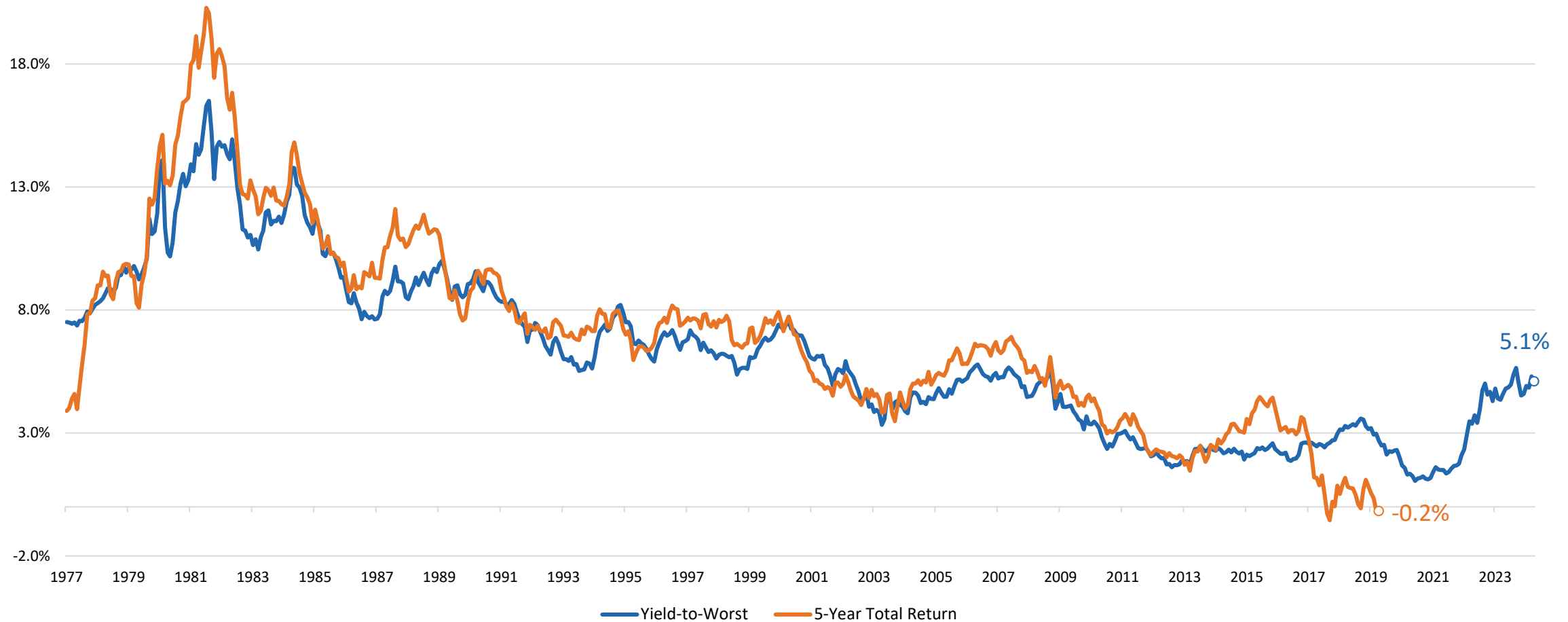
Touchstone Asset Allocation Tactical Guidance

▶ Sticky inflation has complicated the outlook for our economy and markets. The Fed will likely need to hold rates at this level for longer than previously expected.

▶ While our economy remains resilient, it is not immune to monetary tightness. We continue to see signs of strain among pockets of consumers and businesses and expect they will increase with time.

▶ To adjust to a longer period of higher interest rates we made a few changes to our tactical positioning.

Asset Allocation - Moderate Portfolio	Underweight			Neutral	Overweight		
	Max	Mod	Slight		Slight	Mod	Max
Fixed Income				✓			
U.S Taxable Investment Grade				✓			
Duration					✓		
U.S. Taxable Non-Investment Grade				✓			
Cash				✓			
Equity				✓			
Large Cap				✓			
Value					✓		
Growth			✓				
Mid Cap						✓	
Small Cap				✓			
International Developed			✓				
International Emerging				✓			

Tactical positioning is relative to our strategic weights as of May 2024. More details can be found at TouchstoneFunds.com