TAAC thoughts on the Election:

The response across markets to the election results were consistent with the view that executive and fiscal policies will be domestically risk-asset friendly, internationally unfriendly, and potentially inflationary. This latter element is somewhat ironic as inflation was likely the main driving force behind President Elect Donald Trump's win. The market action was also very consistent with what happened on the day of Trump's election win in 2016.

However, the markets and the economy are in a different place than where they were in 2016. Valuations are much higher, as are interest rates, and the Federal Reserve (Fed) has just started easing (in 2016 the Fed was starting a rate hiking cycle). Another big difference is the budget deficit.

Looking ahead to 2025, we maintain cautious optimism due to expected further monetary easing and resilient economic conditions. However, we emphasize caution, as multiple forecast risks remain, and Trump's victory further amplifies these uncertainties.

Regarding Trump, on the plus side for risk assets is likely deregulation and tax cuts. On the minus side,tariffs and deportations are likely to have a negative economic impact either through higher prices or reduced consumer spending, maybe both.

With respect to tariffs, we believe the brunt of the pain will be felt outside of the U.S.. Even if the tariffs don't go through as promised due to negotiated trade deals, it is likely the U.S. comes out ahead. Additionally, tariffs would put downward pressure on foreign currencies, which would be a potential headwind to U.S. investments overseas.

We decided to shift our emerging markets (EM) exposure to a slight underweight partly due to these tariff threats. We are also concerned about the rise in longer-term U.S. interest rates as they likely prevent rate relief for emerging markets.

Another factor are some red flags coming out of India (19% of the EM index). Indian stocks have dropped over the last month as earnings have generally missed expectations. Two-thirds of the companies in the MSCI India Index have reported third quarter earnings and 70% of them have missed. We are seeing some signs of consumer stress from too much leverage and the banks are clamping down. It is still a high growth economy, but the stock market is also the most expensive EM on a P/E basis, and even more expensive than the S&P 500.

We reallocated the EM reduction to the S&P 500, mainly because we anticipate further gains as investors reposition for a pro-market Trump administration. We continue to have valuation concerns, but are willing to look through them in the near-term.

We also shifted to a slight duration underweight, anticipating a higher rate environment under a GOP sweep. The 10 year Treasury yield is currently 4.4% and we see risk of it rising to 5.0% and staying higher-for-longer given the potential for inflation staying above the Fed's target and a possible risk-premium should there be little fiscal restraint.

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.

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