



Executive Summary

- ▶ Heading into 2025, we remain cautiously optimistic. Our optimism comes from expected continued U.S. economic resiliency and Fed rate cuts which should support risk assets.
- ▶ Our caution mainly stems from current valuations, which already discount a very positive outlook that includes anticipated S&P 500 index earnings growth acceleration. Numerous geopolitical risks also suggest caution.
- ▶ We maintain a slight equity and home country bias in our tactical positioning. The Republican election sweep solidified our emphasis on a domestic bias, given likely America First policy actions.

Asset Class	Weight	Change	Commentary
Fixed Income	Slight Underweight	↓ (9/24)	With bond market yields near their 10-year highs, we see promising income opportunities for 2025. Historically, bond returns during easing cycles have often been positive, including after the 1995 soft landing.
U.S. Taxable Investment Grade	Slight Underweight	↓ (9/24)	Our slight underweight is not due to concerns with investment-grade bonds but rather reflects our belief that greater return opportunities exist elsewhere.
Duration	Slight Underweight	↓ (11/24)	Following the Fed's rate cut, we removed our slight duration overweight. The Republican sweep introduces additional uncertainty with policy proposals that could be economically stimulative or inflationary.
U.S. Taxable Non-Investment Grade	Slight Overweight	↑ (8/24)	High-yield bonds have performed well despite higher interest rates, thanks to economic resilience, a lower maturity wall, and higher index quality. We believe Fed rate cuts will encourage investors to move into higher-yielding securities.
Equities	Slight Overweight	↑ (9/24)	We have a slight equity overweight that favors U.S. stocks. We are overweight small- and mid-cap stocks which we believe are better positioned to benefit from Fed rate cuts.
U.S. Large Cap	Slight Overweight	↑ (11/24)	We added exposure to large-cap equities following the election. We anticipate Republican policy proposals will generally benefit our economy, potentially at the risk of others.
Growth	Moderate Underweight	↓ (8/24)	We remain underweight Growth equities due to high stock specific risks among top constituents and their elevated valuations. The Russell 1000 Growth Index trades at 30x estimated 2025 EPS, compared to 22x for the S&P 500 and 17x the S&P 500 equal weighted index.
Value	Slight Overweight	↑ (12/23)	Our slight Value overweight is mainly a way to capture the expected outperformance of the bottom 493 stocks in the S&P 500 index which have a value bias. Significantly lower valuations, continued economic resilience, and further rate cuts should allow for broadening market performance.
U.S. Mid Cap	Modest Overweight	↑ (12/22)	Mid-caps significantly underperformed in December with the more hawkish Fed outlook for rates in 2025 being the main driver. The recent underperformance provides a more attractive entry point, and we note that Fed guidance has not been that reliable.
U.S. Small Cap	Slight Overweight	↑ (9/24)	As with mid-caps, the Fed's messaging flip-flops have initiated significant volatility. Small-caps rallied after the Fed's dovish cut in September and then sold off following the hawkish December cut. Despite the messaging changes the Funds rate is down 100 bps and is expected to fall further in 2025.
International Developed	Slight Underweight	↑ (8/24)	In Europe, anticipated green shoots have yet to emerge. Instead, economic weakness persists, and earnings estimates are being revised downward. The U.S. election sweep adds another headwind with potential tariff threats.
International Emerging	Slight Underweight	↓ (11/24)	We shifted to an underweight following the U.S. election. This introduced three challenges for EM stocks: slower Fed rate cuts, which can restrain EM central banks, tariff threats that are likely to extend beyond China, and potential U.S. dollar strength.

	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%	-1.0	40%	-1.0	25%	-1.0	10%	
U.S. Investment Grade	70%	-2.0	42%	-2.0	24%	-2.0	7%	-1.0	3%	
U.S. Non-Investment Grade	18%	+2.0	16%	+1.0	14%	+1.0	16%		5%	
Cash	2%		2%		2%		2%		2%	
Equities	10%		40%	+1.0	60%	+1.0	75%	+1.0	90%	
Domestic	8%		30%	+2.0	45%	+3.0	56%	+4.0	67%	+5.0
Large Cap	6%		9%	+1.0	11%	+1.0	14%	+2.0	17%	+2.0
Growth			5%	-1.0	10%	-2.0	14%	-2.0	16%	-3.0
Value			7%		10%	+1.0	11%	+1.0	13%	+2.0
Mid Cap	2%		6%	+1.0	9%	+2.0	11%	+2.0	14%	+2.0
Small Cap			3%		5%	+1.0	6%	+1.0	7%	+2.0
International	2%		10%	-1.0	15%	-2.0	19%	-3.0	23%	-5.0
Developed	2%		6%		10%	-1.0	12%	-2.0	14%	-3.0
Emerging			4%	-1.0	5%	-1.0	7%	-1.0	9%	-2.0

*Reflects percentage point difference

Source: Touchstone Investments; assessments are made using data and information through November 2024. 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.

Touchstone Funds are distributed by Touchstone Securities, Inc.

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