Touchstone Investments®
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Touchstone Asset Allocation

Guidance – May 2024

Executive Summary

- Sticky inflation has complicated the outlook for our economy and markets. It is likely that the Fed will 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 number of changes to our tactical positioning. See below for details.

Asset Class	Weight	Change	Commentary
Fixed Income	Neutral	↓ (4/24)	Interest rates remain at levels not seen since before the Great Financial Crisis. While inflation has become sticky, interest rates remain above the rate of inflation. The combination of these two factors are likely to translate into higher returns on an absolute and inflation adjusted basis.
U.S. Taxable Investment Grade	Neutral	↓ (4/24)	While we continue to find current interest rates to be attractive, we have begun to reallocate exposure to assets with higher perceived return potential such as non-investment grade and equities.
Duration	Slight Overweight	↓ (11/23)	Higher than expected inflation readings have caused interest rates to move up across the curve. We are considering adding to duration should rates move even higher.
U.S. Taxable Non-Investment Grade	Neutral	↑ (2/24)	HY bonds have performed well in the face of higher interest rates due to economic resilience, lower maturity wall, and higher index quality characteristics. We would be overweight if spreads were wider.
Equities	Neutral	↑ (4/24)	We increased equity exposure with a bias toward U.S. stocks due to our expectation for a soft-landing and, eventually, more market friendly monetary policy.
U.S. Large Cap	Neutral	↑ (4/24)	Earnings for large caps continue to surprise to the upside and estimates for 2024 have begun to rise. It is still early in the year and valuations are historically high, but we can't ignore the improving backdrop.
Growth	Slight Underweight	↓ (12/23)	Growth stock outperformance in 2023 was driven by a small group of stocks. Narrow leadership is typically not a healthy sign. While AI has created some excitement, for many of the companies it has yet to translate into earnings growth.
Value	Slight Overweight	↑ (12/23)	We have been waiting for an opportunity to increase our Value exposure in anticipation of a Fed pivot. After very strong Growth style returns in 2023, we believe the opportunity for Value outperformance improves in 2024 given attractive relative valuations. An extended Fed rate pause does introduce a near-term headwind.
U.S. Mid Cap	Modest Overweight	↑ (12/22)	Mid-cap valuations are significantly below average on a historical basis versus their own history and relative to large caps. Mid-caps underperformed large caps despite stronger earnings growth over the past two years.
U.S. Small Cap	Neutral	↓ (4/24)	Given the likelihood of a more extended Fed rate pause, we decided to remove our overweight to this more economically sensitive asset class. We see this as a near-term risk.
International Developed	Slight Underweight	↑ (4/24)	We see an opportunity developing for international developed stocks mainly due to the timing difference between US and European central banks. Later this year Europe's economy could begin to improve while the US is slowing.
International Emerging	Neutral	↓ (8/23)	The emerging market picture remains mixed, both from an economic standpoint as well as valuations. Given an extended Fed rate pause we are less confident in the return prospects for many developing markets in the near-term.

	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%		40%		25%		10%	
U.S. Investment Grade	70%		42%		24%		7%		3%	
U.S. Non-Investment Grade	18%		16%		14%		16%		5%	
Cash	2%		2%		2%		2%		2%	
Equities	10%		40%		60%		75%		90%	
Domestic	8%		30%	+1	45%	+2	56%	+3	67%	+4
Large Cap	6%		9%		11%		14%	+1	17%	+2
Growth			5%		10%	-1	14%	-1	16%	-2
Value			7%		10%	+1	11%	+1	13%	+2
Mid Cap	2%		6%	+1	9%	+2	11%	+2	14%	+2
Small Cap			3%		5%		6%		7%	
International	2%		10%	-1	15%	-2	19%	-3	23%	-4
Developed	2%		6%	-1	10%	-2	12%	-3	14%	-4
Emerging			4%		5%		7%		9%	

**Reflects percentage point difference*
Source: Touchstone Investments; assessments are made using data and information through April 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 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.

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.

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