Touchstone Investments®
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Touchstone Asset Allocation

Guidance – December 2024

Executive Summary

- Looking ahead to 2025 we are cautiously optimistic as a resilient U.S. economy and Fed rate cuts are expected to support risk assets.
- Our caution mainly comes from current valuations that already discount a very positive outlook.
- We have maintained a slight equity and home bias in our tactical positioning. The GOP election sweep solidified our emphasis on a home bias, given likely America First policy actions.

Asset Class	Weight	Change	Commentary
Fixed Income	Slight Underweight	↓ (9/24)	With bond market yields near the upper end of their 10-year range, we see income opportunities for 2025. Historically, bond returns have often been positive during easing cycles, even 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 second Fed rate cut, we removed our slight duration overweight. The GOP victory 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 GOP election sweep. We anticipate their policy proposals will benefit our economy, potentially at the risk of others. This also aligns with expected post-election repositioning toward U.S. stocks and the typical Christmas rally.
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 28x estimated 2025 EPS, compared to 22x for the S&P 500 and 18x the S&P 500 equal weighted index.
Value	Slight Overweight	↑ (12/23)	Value stocks have outperformed since the start of the second half of the year. The market has broadened and Value-rich sectors such as Financials, Industrials, and Utilities have become performance leaders.
U.S. Mid Cap	Modest Overweight	↑ (12/22)	Mid-caps have delivered strong returns with the S&P 400 Index up over 24% year-to-date through November 24, adding almost 10 percentage points in the last month alone. However, these gains are largely driven by multiple expansion rather than earnings growth.
U.S. Small Cap	Slight Overweight	↑ (9/24)	The Fed's September dovish rate cut prompted us to overweight small-caps. Having been hardest hit by rising rates, they are now well-positioned for rate cuts and are attractively valued. Small-caps have outperformed by about 200 basis points since the rate cut, and we believe further upside remains.
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 GOP election sweep adds another headwind with potential tariff threats.
International Emerging	Slight Underweight	↓ (11/24)	We shifted to an underweight following the GOP sweep. The election introduced two challenges for EM stocks: slower Fed rate cuts, which can restrain EM central banks, and tariff threats are likely to extend beyond China.

	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.

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