Touchstone Investments®
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Touchstone Asset Allocation

Guidance – March 2025

Executive Summary

- In February, we made tactical changes to reduce some pro-cyclical exposure. We reduced exposure to domestic small- and large-caps and increased exposure to mid-caps and investment grade fixed income.
- We typically downplay government policy as a market driver, however, it is hard to ignore the barrage of executive orders (averaging two per day), shifting tariff announcements, and DOGE initiatives. Survey data indicate that consumer and business sentiment has quickly shifted from optimism to caution.
- Europe has been a surprising bright spot, supported mainly by a decent earnings season and prospects for a path to peace in Ukraine. We remain slightly underweight due to the likelihood of a coming tariff announcement that would introduce 2025 earnings and currency risks.

Asset Class	Weight	Change	Commentary
Fixed Income	Neutral	↑ (2/25)	Bond yields near 10-year highs create attractive 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	↑ (2/25)	We tactically added to investment grade bonds, though still have a slight underweight. The tactical addition brings our overall stock/bond allocation back to their strategic weights as we adjust to near-term policy risks.
Duration	Slight Underweight	↓ (11/24)	Following the Fed's first rate cut, we removed our slight duration overweight. The Republican sweep introduces interest rate risk, 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 rates, supported by economic resilience, a lower maturity wall, and higher index quality. While spreads remain historically tight, recession risks appear low, financial conditions are loose, and default activity remains muted.
Equities	Neutral	↓ (2/25)	We removed our slight equity overweight though continue to favor U.S. stocks, particularly Value and mid-caps.
U.S. LC Blend	Neutral	↓ (2/25)	We removed our slight overweight in large-cap blend. Tariff risks have increased beyond our initial assumptions and expanded DOGE and deportation efforts could harm labor conditions and consumer spending.
U.S. LC Growth	Moderate Underweight	↓ (8/24)	We remain underweight Growth equities due to high stock-specific risks among top constituents with elevated valuations.
U.S. LC Value	Slight Overweight	↑ (12/23)	Our slight Value overweight aims to capture expected outperformance among the bottom 493 stocks in the S&P 500 index, which have a value bias. Lower valuations, continued economic resilience, and further rate cuts should broaden market performance.
U.S. Mid Cap	Overweight	↑ (2/25)	Mid-cap stocks (S&P 400) posted strong fourth-quarter results. We estimate that, in aggregate, earnings have exceeded estimates by 7.5%.
U.S. Small Cap	Neutral	↓ (2/25)	Small-caps have been volatile amid shifting policy signals and small business owner sentiment has turned down. Small-cap returns have gone negative year-to-date despite strong earnings.
International Developed	Slight Underweight	↑ (8/24)	Developed international equities have performed well year-to-date. We believe it is mostly a relief rally given potential progress toward peace in Ukraine, better earnings, and no tariff announcement yet. However, we don't believe Europe or Japan will be spared from tariffs and we are waiting for that shoe to drop.
International Emerging	Slight Underweight	↓ (11/24)	We moved to an EM underweight post-election, due to three challenges: slower Fed rate cuts that may restrain EM central banks; broader tariff threats on China and beyond; 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%		40%		25%		10%	
U.S. Investment Grade	70%	-2.0	42%	-1.0	24%	-1.0	7%		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%		60%		75%		90%	
Domestic	8%		30%	+1.0	45%	+2.0	56%	+3.0	67%	+5.0
Large Cap Blend	6%		9%		11%		14%	+2.0	17%	+2.0
Large Cap Growth			5%	-1.0	10%	-2.0	14%	-3.0	16%	-3.0
Large Cap Value			7%	+1.0	10%	+1.0	11%	+1.0	13%	+2.0
Mid Cap	2%		6%	+1.0	9%	+3.0	11%	+3.0	14%	+4.0
Small Cap			3%		5%		6%		7%	
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 February 2025. 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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