



Executive Summary

- ▶ The Fed has kicked off its rate-cutting cycle with a bit of a bang, choosing to lower the Funds rate by 50 instead of 25 basis points. Chair Powell's message was that they acted out of opportunity as opposed to necessity.
- ▶ We view this rate cut positively, as it eases our concerns about weakening economic conditions. Additionally, our analysis of easing cycles show that stocks tend to rise in the 12 months following the first rate cut.
- ▶ China also made a surprising stimulus announcement, with suggestions of more to follow. That means the two largest economies in the world are becoming more market friendly. In response, we tactically shifted to an equity overweight position.

Asset Class	Weight	Change	Commentary
Fixed Income	Slight Underweight	↓ (9/24)	The yield curve has started to un-invert, due to falling shorter-term rates. While we remain favorable toward fixed income, we believe much of the curve is anticipating a faster pace of rate cuts than the Fed may deliver.
U.S. Taxable Investment Grade	Slight Underweight	↓ (9/24)	We added to our underweight to fund an increase in small cap equities. Our decision is not due to concerns with investment grade bonds, but rather the belief that there are greater return opportunities elsewhere.
Duration	Neutral	↓ (9/24)	Following the Fed's rate cut, we removed our slight duration overweight. We see the rate cut as dovish, which is likely to keep long-term yields pinned unless the economy were to weaken considerably, something we do not currently forecast.
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 the Fed's easing cycle will incent investors to move cash holdings into higher yielding securities.
Equities	Slight Overweight	↑ (9/24)	Although there are pockets of weakness, the overall economy remains strong. With the Fed now easing, we have become slightly more attracted to domestic equities, particularly those that are undervalued and more likely to benefit from lower interest rates.
U.S. Large Cap	Neutral	↓ (4/24)	Second-half earnings comparisons are relatively easy, suggesting continued earnings beats, though 2025 earnings comparisons become more difficult. For large cap stocks, AI spending will continue to play a crucial role in earnings growth.
Growth	Moderate Underweight	↓ (8/24)	We remain underweight Growth equities due to the high idiosyncratic risk among its top constituents and its high valuations. The Russell 1000 Growth Index trades at 27x estimated 2025 EPS, compared to 21x for the S&P 500 and 16x the S&P 500 equal weighted index.
Value	Slight Overweight	↑ (12/23)	While our shift toward Value has not worked yet, it has not been due to style specific issues. A few exceptionally large names have driven market returns, and they happen to be Growth stocks. Excluding these, the Value index has performed in line with the broader market.
U.S. Mid Cap	Modest Overweight	↑ (12/22)	Mid caps have provided healthy returns with the S&P 400 Index up over 13% year-to-date through September 25. However, these gains have been largely driven by multiple expansion, with earnings lagging. We are maintaining our overweight position due to the potential for higher earnings growth in 2025 and beyond.
U.S. Small Cap	Slight Overweight	↑ (9/24)	The Fed's dovish rate cut prompted us to assess which asset class could benefit the most from lower interest rates, and small caps were at the top of our list. Small caps have been the most negatively impacted by higher rates, and have low valuations, making them well-positioned to benefit from easing.
International Developed	Slight Underweight	↑ (8/24)	In Europe, we had expected to see green shoots by now, but instead, signs of economic weakness continue, and earnings estimates are being revised down. While China's recent stimulus announcement may provide some relief, we are maintaining our slight underweight.
International Emerging	Neutral	↓ (8/23)	The combination of the Fed's 50bp cut and China's increased stimulus efforts have improved the prospects for emerging markets. However, we plan to maintain our neutral position as we await election results given the potential risk of new tariff threats.

	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%	+1.0	45%	+2.0	56%	+3.0	67%	+3.0
Large Cap	6%		9%	+1.0	11%		14%	+1.0	17%	
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%		15%	-1.0	19%	-2.0	23%	-3.0
Developed	2%		6%		10%	-1.0	12%	-2.0	14%	-3.0
Emerging			4%		5%		7%		9%	

*Reflects percentage point difference

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

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