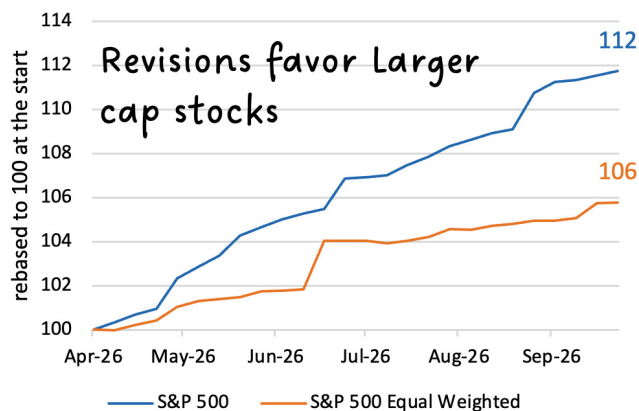




Authors: Erik M. Aarts, CIMA / James Macey, CFA, CAIA / Tim Paulin, CFA / Crit Thomas, CFA, CAIA October 7, 2026

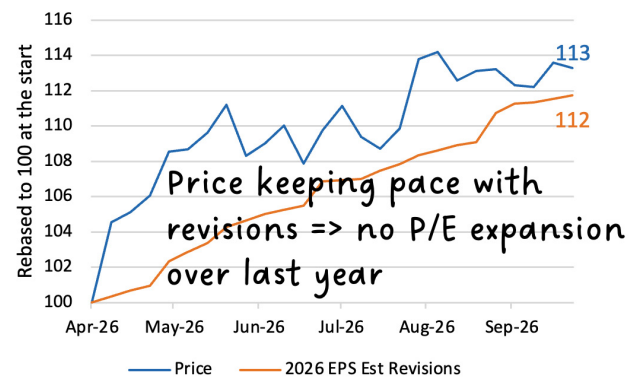
- ▶ Our constructive outlook toward U.S. large cap equities remains intact, although the market has become increasingly selective. Economic activity remains resilient: manufacturing new orders are still in expansion territory, broader manufacturing orders are growing, and U.S. economic data continue to surprise positively. At the same time, core PCE inflation remains at 3% and higher interest rates have raised the hurdle for equities.
- ▶ Higher rates are not necessarily negative for equities when they reflect stronger economic growth, and resilient earnings have been an important part of the recent move. The risk to equities would increase if yields continued higher due to rising inflation expectations or if the term premium moved higher without a corresponding improvement in earnings.
- ▶ Earnings and market behavior continue to favor the largest companies. Since the end of June, S&P 500 earnings estimates for 2027 have risen roughly 5%, compared with less than 2% for the equal weighted index. Over that same period, the S&P 500 returned roughly 4%, while the equal weighted index declined a little less than 1%.
- ▶ Market leadership has narrowed. At the end of September, only about 23% of S&P 500 stocks were above their 50-day moving average and roughly 43% were above their 200-day average. For now, we view this as a caution flag rather than a bearish signal, but a market increasingly dependent on a smaller group of earnings leaders has less patience for disappointment.
- ▶ AI remains the most important market driver, despite growing questions about financing and returns. Demand for computing capacity remains strong, but higher capital costs and more complex financing structures are raising the hurdle for new projects. We view this as a reason for greater selectivity rather than evidence that the AI investment cycle is ending.
- ▶ We remain moderately overweight large cap equities. Strong earnings revisions and resilient price performance continue to support our moderate overweight, but higher rates and growing dependence on a relatively small group of earnings leaders argue against becoming more aggressive.

2027 Analyst EPS Estimate Revisions



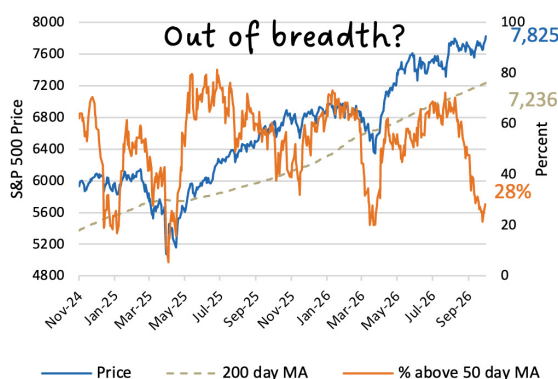
Source: Bloomberg. 6 months of weekly data through Sep 29 2026.

S&P 500 Index



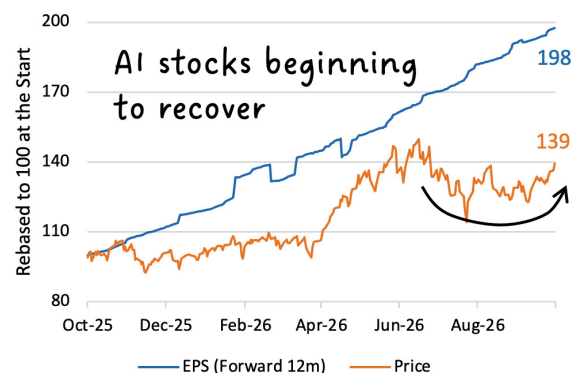
Source: Bloomberg. 6 months of weekly data through Oct 02 2026.

S&P 500 Index Participation



Source: Bloomberg. 2 years of daily data through Oct 05 2026.
MA = Moving Average

Goldman Sachs TMT AI Basket Index



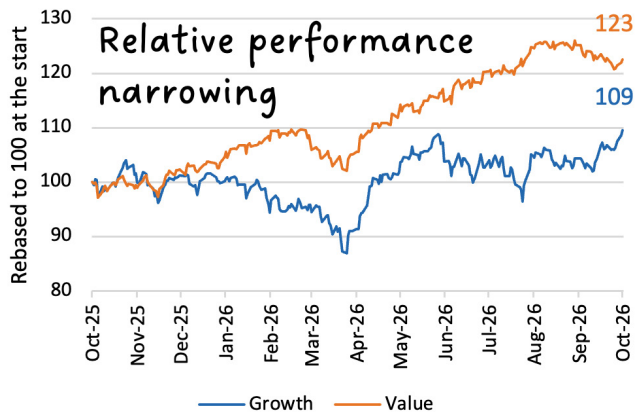
Source: Bloomberg. 1 year of daily data through Oct 06 2026. The index consists of companies that are pursuing the development of AI across all categories.



Authors: Erik M. Aarts, CIMA / James Macey, CFA, CAIA / Tim Paulin, CFA / Crit Thomas, CFA, CAIA **October 7, 2026**

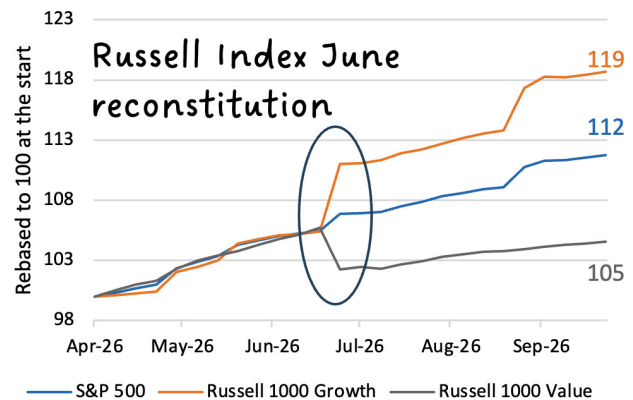
- ▶ We recently shifted to a slight overweight in large cap Growth. The June Russell reconstitution moved many of the major AI supply-chain beneficiaries that had previously sat in Value into Growth, making the Growth index a clearer way to express our view on the AI investment cycle. Importantly, that index change occurred as the fundamental backdrop for Growth was also improving.
- ▶ At the same time, the risk/reward around the AI trade has improved. Growth earnings have continued to surprise to the upside, and the forward outlook remains much stronger than Value, while Growth's multiple has contracted meaningfully over the past year. The important point is not simply that Growth became cheaper, but that the valuation hurdle fell while the earnings outlook improved.
- ▶ The latest data provides additional confirmation. Russell 1000 Growth earnings estimates for 2027 have continued to move higher and at a faster pace than Value, while relative price performance has also improved more recently. The combination of stronger fundamentals and improving market confirmation gave us enough confidence to justify a modest tactical shift.
- ▶ Greater AI exposure in the Growth index also increases the importance of getting the AI cycle right. Competition among models is intensifying, financing costs are rising, and increasingly capital-intensive projects will ultimately need to earn adequate returns. Power and permitting constraints could also slow deployment even if underlying demand remains strong. Those risks are why we kept the overweight modest.
- ▶ We therefore now have a slight overweight to Growth and a neutral position in Value. The Russell reconstitution has made Growth a more direct expression of the AI supply chain just as earnings strength and multiple contraction have improved the relative opportunity. But concentration and uncertainty around the returns on AI capital argued for keeping the allocation change incremental.

Russell 1000 Style Indexes



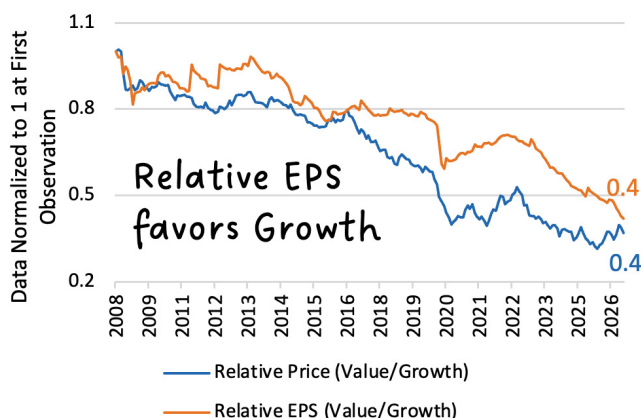
Source: Bloomberg. 1 year of daily data through Oct 05 2026.

2027 Analyst EPS Estimate Revisions



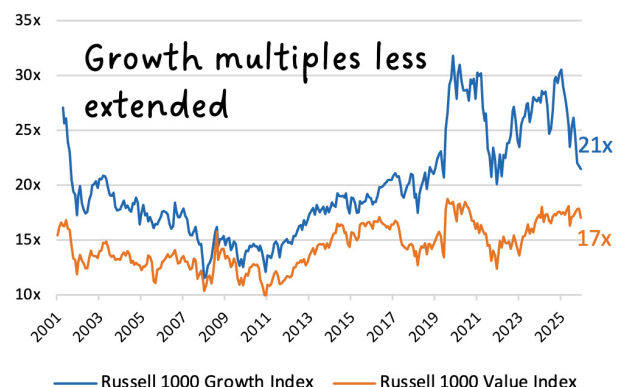
Source: Bloomberg. 6 months of weekly data through Sep 29 2026.

Russell 1000 Value and Growth Indexes



Source: Bloomberg. 18 years of monthly data through Sep 2026.

Price/Earnings Ratios: Forward 12 Months



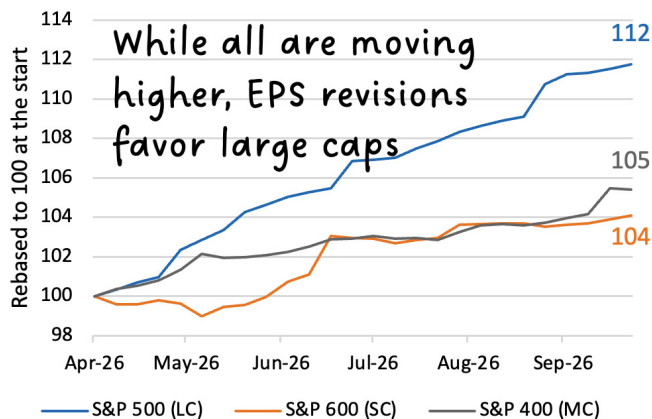
Source: Bloomberg. 18 years of monthly data through Sep 2026.



Authors: Erik M. Aarts, CIMA / James Macey, CFA, CAIA / Tim Paulin, CFA / Crit Thomas, CFA, CAIA October 7, 2026

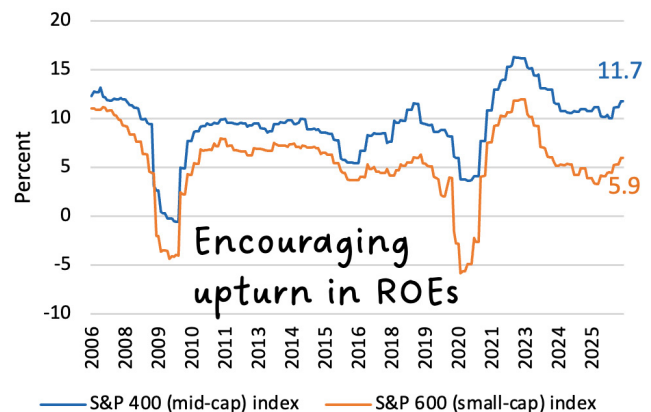
- ▶ We recently moved mid caps from a slight overweight back to neutral, leaving both small and mid caps at their strategic weights. The decision reflected a stronger relative opportunity in large cap Growth rather than a negative view of smaller companies. Earnings estimates for small and mid caps continue to rise and 2027 growth expectations remain healthy, but revisions have not kept pace with large caps.
- ▶ Market signals have become more mixed rather than outright negative. While small caps remain ahead for the year, both small and mid caps have lagged large caps more recently and breadth has weakened. We view the recent deterioration as a reason for patience rather than evidence that the broader investment case has broken down.
- ▶ Higher interest rates are now the key risk to watch. Small and mid cap companies tend to be more sensitive to economic and financial conditions than large caps, yet economic growth has remained resilient so far. We would become more cautious if higher financing costs begin to weaken demand, tighten credit availability or pressure earnings expectations.
- ▶ The upcoming earnings season should provide an important test. We will be listening closely to what small and mid cap companies say about demand, borrowing costs, capital spending and margins. If management commentary confirms that the economy is absorbing higher rates without a material deterioration in earnings expectations, that would support maintaining neutral exposure; signs that financing costs are beginning to bite would warrant greater caution.

2027 Analyst EPS Estimate Revisions



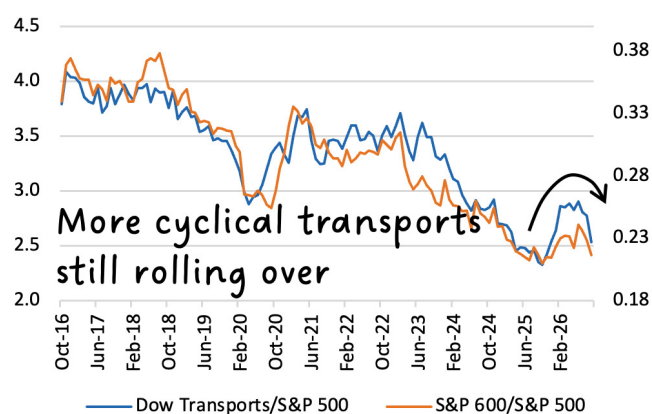
Source: Bloomberg. 6 months of weekly data through Sep 29 2026.

Return on Common Equity



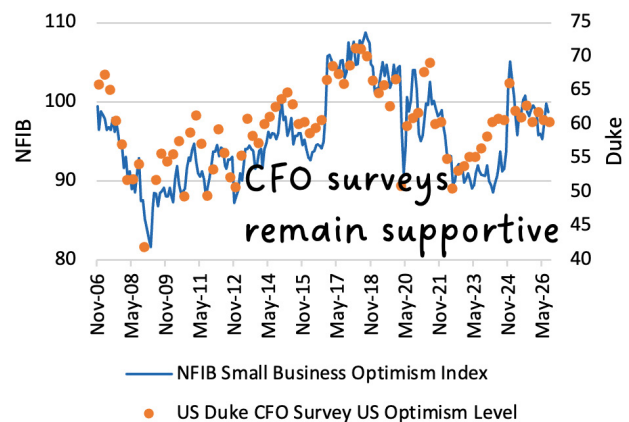
Source: Bloomberg. 20 years of monthly data through Sep 2026.

Relative Performance



Source: Bloomberg. 10 years of monthly data through Sep 2026.

CFO Optimism Surveys



Source: Bloomberg. 20 years of observations. NFIB has monthly data through Aug 2026. Duke has quarterly data through Sep 2026.



Authors: Erik M. Aarts, CIMA / James Macey, CFA, CAIA / Tim Paulin, CFA / Crit Thomas, CFA, CAIA October 7, 2026

The Indexes mentioned are unmanaged statistical composites of stock market or bond market performance. Investing in an index is not possible.

Total Returns								
	September 2026	YTD	2025	2024	2023	2022	EPS Growth Estimate	
							2026	2027
S&P 500 Index	-0.3%	12.7%	17.9%	25.0%	26.3%	-18.1%	32%	14%
S&P 500 Index Equal Weighted	-4.8%	10.0%	11.4%	13.0%	13.8%	-11.5%	21%	8%
S&P 500 Value Index	-3.1%	9.0%	13.2%	12.3%	22.2%	-5.3%	17%	7%
Russell 1000 Value Index	-3.1%	19.3%	15.9%	14.4%	11.4%	-7.6%	24%	8%
S&P 500 Growth Index	2.0%	15.9%	22.2%	36.1%	30.0%	-29.4%	54%	21%
Russell 1000 Growth Index	2.2%	6.3%	18.6%	33.4%	42.7%	-29.1%	40%	25%
S&P 400 Index	-4.2%	9.9%	7.5%	13.9%	16.4%	-13.1%	25%	12%
S&P 600 Index	-5.6%	14.1%	6.0%	8.7%	15.9%	-16.1%	22%	16%
Russell 2000 Index	-5.3%	13.7%	12.8%	11.5%	16.9%	-20.4%	23%	8%

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
S&P 500 Index	26.2x	83%	18.3x	69%	20.1x	93%	3.6x	99%
S&P 500 Index Equal Weighted	19.4x	57%	15.0x	42%	12.2x	71%	1.8x	90%
S&P 500 Value Index	21.3x	89%	16.9x	93%	14.2x	81%	2.2x	96%
Russell 1000 Value Index	20.8x	89%	16.6x	89%	15.2x	89%	2.3x	99%
S&P 500 Growth Index	32.1x	85%	19.5x	67%	29.8x	97%	8.0x	98%
Russell 1000 Growth Index	36.2x	83%	20.4x	58%	28.5x	94%	6.8x	99%
S&P 400 Index	19.3x	32%	14.2x	27%	12.2x	69%	1.5x	93%
S&P 600 Index	19.6x	30%	13.0x	15%	11.1x	34%	1.2x	86%
Russell 2000 Index	86.5x	94%	22.4x	76%	17.7x	97%	1.6x	96%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
S&P 500 Index	1.1%	1%	15.6%	100%	21.6%	99%	1.5	30%
S&P 500 Index Equal Weighted	1.8%	22%	10.6%	100%	13.6%	92%	2.6	54%
S&P 500 Value Index	1.8%	3%	11.2%	99%	16.1%	99%	2.2	51%
Russell 1000 Value Index	1.7%	1%	12.3%	100%	14.8%	90%	2.1	19%
S&P 500 Growth Index	0.5%	1%	28.7%	100%	32.1%	95%	0.4	5%
Russell 1000 Growth Index	0.4%	3%	21.9%	100%	41.8%	100%	0.4	1%
S&P 400 Index	1.4%	43%	9.0%	95%	11.7%	78%	2.4	39%
S&P 600 Index	1.6%	80%	7.4%	100%	5.9%	40%	3.9	78%
Russell 2000 Index	1.5%	57%	4.4%	61%	0.6%	25%	4.8	82%

For Index Definitions see: [TouchstoneInvestments.com/insights/investment-terms-and-index-definitions](https://touchstoneinvestments.com/insights/investment-terms-and-index-definitions)

Source: Bloomberg. Percent ranks are based on 30 years of monthly data as of the end of September; EPS growth estimates based on consensus bottom-up analyst estimates.



The Touchstone Asset Allocation Committee (TAAC) consisting of Erik M. Aarts, CIMA – Vice President and Senior Fixed Income Strategist, James Macey, CFA, CAIA – Assistant Vice President, Global Market Strategist, Tim Paulin, CFA – Senior Vice President, Investments and Practice Consulting, and Crit Thomas, CFA, CAIA – Global Market Strategist, develops in-depth asset allocation guidance using established and evolving methodologies, inputs and analysis and communicates its methods, findings and guidance to stakeholders. TAAC uses different approaches in its development of Strategic Allocation and Tactical Allocation that are designed to add value for financial professionals and their clients. TAAC meets regularly to assess market conditions and conducts deep dive analyses on specific asset classes which are delivered via the Asset Allocation Summary document. Please contact your Touchstone representative or call 800.638.8194 for more information.

A Word About Risk

Investing in fixed-income securities which 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 which may be downgraded by a Nationally Recognized Statistical Rating Organization (NRSRO) to below investment grade status. U.S. government agency securities which are neither issued nor guaranteed by the U.S. Treasury and are not guaranteed against price movements due to changing interest rates. Mortgage-backed securities and asset-backed securities are subject to the risks of prepayment, defaults, changing interest rates and at times, the financial condition of the issuer. Foreign 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. Emerging markets securities which are more likely to experience turmoil or rapid changes in market or economic conditions than developed countries.

Performance data quoted represents past performance, which is no guarantee of future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than performance data given. For performance information current to the most recent month-end, visit TouchstoneInvestments.com/mutual-funds.

Please consider the investment objectives, risks, charges and expenses of a fund carefully before investing. The prospectus and the summary prospectus contain this and other information about a fund. To obtain a prospectus or a summary prospectus, contact your financial professional or download and/or request one at TouchstoneInvestments.com/resources or call Touchstone at 800.638.8194. Please read the prospectus and/or summary prospectus carefully before investing.

Touchstone Funds are distributed by Touchstone Securities, LLC

A registered broker-dealer and member FINRA and SIPC

A member of Western & Southern Financial Group

Not FDIC Insured | No Bank Guarantee | May Lose Value

