

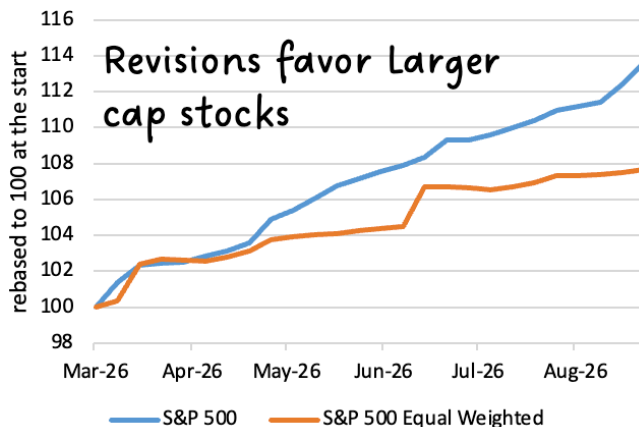


Authors: Crit Thomas, CFA, CAIA / Erik M. Aarts, CIMA / Tim Paulin, CFA

September 10, 2026

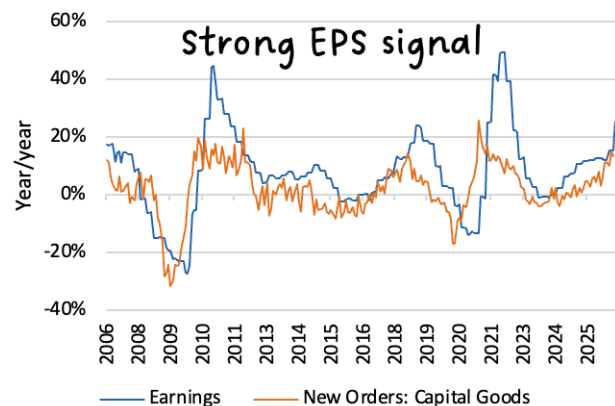
- ▶ Our constructive outlook toward U.S. large cap equities remains intact. Economic data continue to support expansion, while corporate earnings have remained exceptionally strong despite geopolitical uncertainty and elevated interest rates.
- ▶ The most important change since last month is that the oil shock has crossed from a geopolitical nuisance into a potentially meaningful inflation-and-discount-rate problem. So far, this looks more like a challenge to equity valuations than a threat to earnings, however tail risks are increasing.
- ▶ The fundamental backdrop remains unusually strong. Rather than cutting forecasts which typically occurs as a quarter progresses, analysts have raised S&P 500 earnings estimates for the second consecutive quarter while the broader earnings revision cycle has remained positive for 21 straight weeks. For now, stronger earnings continue to offset much of the pressure from higher interest rates.
- ▶ Improving economic data continues to reinforce that earnings outlook. Manufacturing activity remained strong in August, while Durable Goods New Orders excluding Transportation rose 13.2% year-over-year. Together, these indicators suggest business investment remains healthy and the industrial economy continues to expand.
- ▶ AI remains the dominant driver of economic growth and earnings, but AI-related stocks have lost some momentum over the past three months. Investors are questioning model competition and pricing, as well as potential constraints on data center construction and financing. Meanwhile, enterprise adoption is growing, but evidence of widespread productivity gains remains limited. This is not surprising as past technology revolutions took years to generate measurable productivity gains, and rapidly improving AI models make deployment a moving target.
- ▶ We continue to believe the secular bull market remains intact. Strong earnings, improving economic activity, and expanding AI adoption support our constructive outlook. Nevertheless, elevated valuations, concentrated leadership, and uncertainty surrounding the next phase of the AI investment cycle suggest periods of consolidation should be expected.

2027 Analyst EPS Estimate Revisions



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

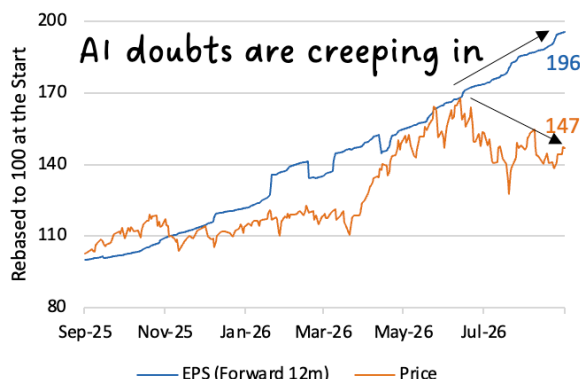
Durable Orders Tend to Lead EPS



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

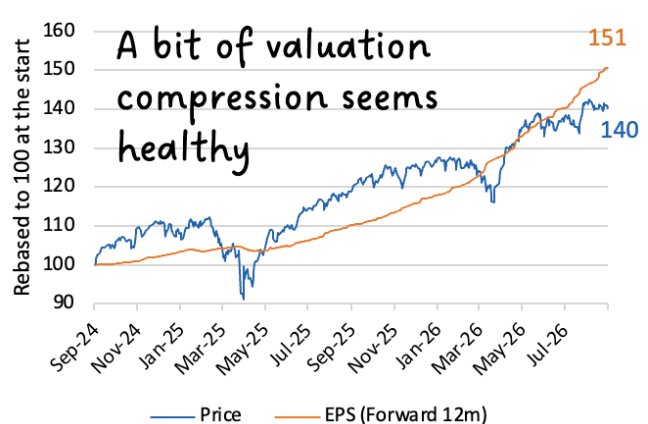
Capital goods new orders exclude aircraft and defense.

Goldman Sachs TMT AI Basket Index



Source: Bloomberg. 1 year of daily data through Sep 09 2026. The index consists of companies that are pursuing AI or enabling new technologies across Technology, Media, and Telecom (TMT).

S&P 500 Index



Source: Bloomberg. 2 years of daily data through Sept 08 2026.



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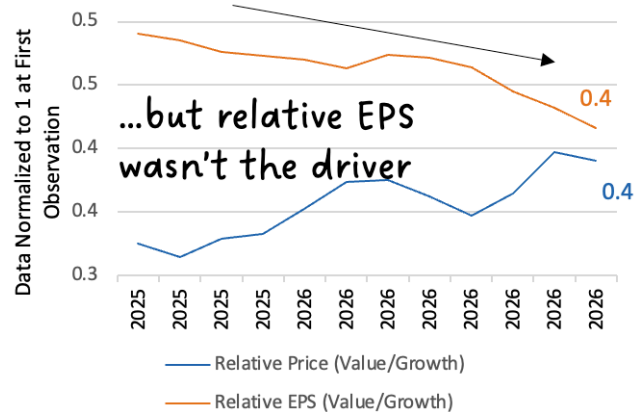
- ▶ We remain near our strategic allocations between Growth and Value. The performance gap remains striking - Russell 1000 Value is up 22.1% year to date through September 8 versus just 4.1% for Russell 1000 Growth - but we continue to believe the headline style labels obscure more than they explain. Index composition and stock-specific earnings drivers have been unusually important this year.
- ▶ Semiconductor stocks that helped drive Value's early-year outperformance migrated into Growth during the June reconstitution, making historical comparisons less useful. Despite that change, Value has continued to outperform, reinforcing our view that this year's leadership cannot be reduced to a simple Growth-versus-Value factor call.
- ▶ Value's outperformance has not been driven by stronger earnings growth. Growth index earnings have substantially outpaced Value this year, but Growth's P/E multiple has fallen from roughly 30x to 22x, while Value's multiple has been relatively stable. In other words, much of Value's relative performance advantage has come from investors paying less for Growth's superior earnings rather than paying more for Value.
- ▶ Whether that rotation continues may therefore depend less on relative earnings growth and more on whether Growth valuations have sufficiently reset. With Growth continuing to generate stronger earnings increases, we do not believe this year's Value outperformance alone makes a compelling case for a significant style shift.
- ▶ The earnings outlook is becoming more supportive of Growth. Russell 1000 Growth earnings are expected to rise roughly 25% in 2027, compared with about 8% for Value. At the same time, Growth's forward P/E has fallen substantially over the past year despite stronger earnings growth, while Value's multiple has been relatively stable. That combination of stronger expected earnings growth and a lower valuation hurdle could improve the relative opportunity for Growth.
- ▶ We remain balanced between Growth and Value, but the relative opportunity may be shifting. Growth has undergone a meaningful valuation reset even as its earnings advantage has strengthened, improving its risk/reward relative to earlier in the year. To justify shifting our Growth/Value style allocation, we would need to see continued earnings delivery and greater clarity around AI returns.

Russell 1000 Style Indexes



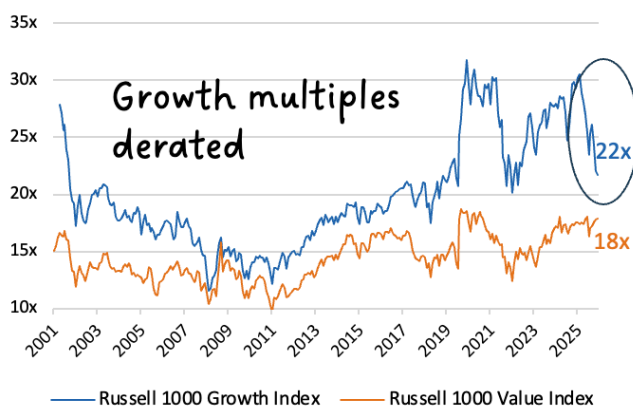
Source: Bloomberg. 1 year of daily data through Sep 08 2026.

Russell 1000 Value and Growth Indexes



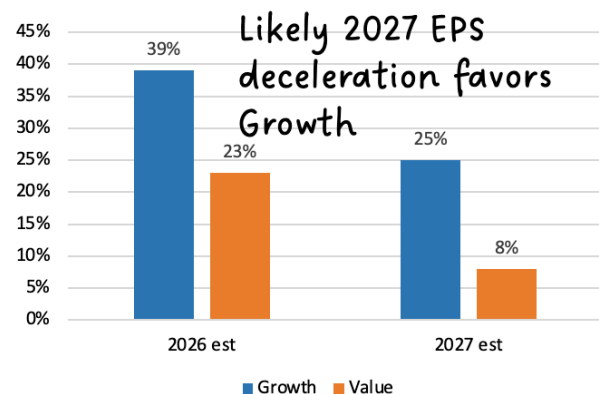
Source: Bloomberg. 1 year of monthly observations through Aug 2026.

Price/Earnings Ratios: Forward 12 Months



Source: Bloomberg. 25 years of monthly data through Aug 2026.

Russell 1000 Index EPS Growth



Source: Bloomberg. As of Aug 31 2026.

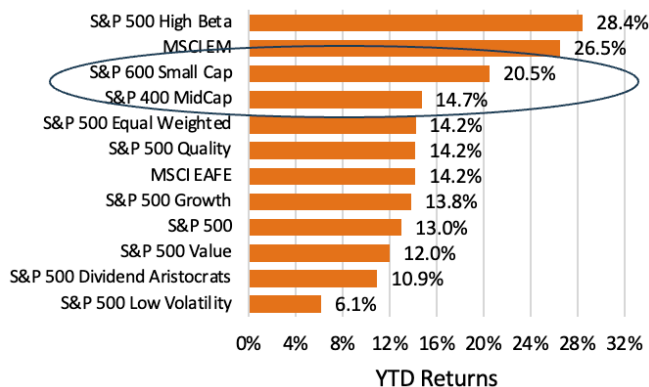


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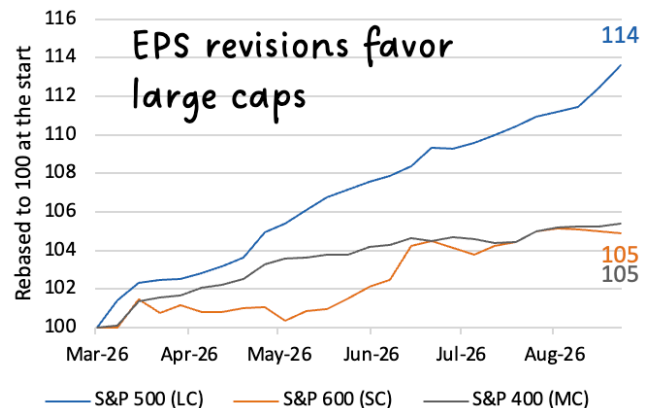
- ▶ The case for small and mid cap equities has strengthened, but the evidence remains mixed enough that we are not yet prepared to add exposure. Small caps have outperformed the S&P 500 year to date, while mid caps have also modestly outperformed, confirming that market leadership has broadened beyond the largest companies. Relative underperformance since June, however, shows that the rotation is not yet one-directional.
- ▶ Fundamentals continue to improve, but large caps remain a high hurdle. Earnings estimates for small and mid cap companies have moved higher since the spring, but revisions have been considerably stronger for the S&P 500. Improving fundamentals support our existing exposure, but do not yet provide a compelling earnings case for shifting additional capital away from large caps.
- ▶ Near-term market signals have cooled. Small and mid cap indexes each fell about 3.2% over the past month versus a 1.0% decline for the S&P 500. Small/mid caps are also lagging over the last 3 months. At the end of August, only about 42% of small and mid cap stocks were above their 50-day moving averages, even though roughly 68% of small caps and 61% of mid caps remained above their 200-day averages. We read that as a loss of short-term momentum rather than a breakdown in the broader trend.
- ▶ We also continue to watch the cyclical confirmation signals. Transportation stocks have historically tracked small cap relative performance closely, making their recent leveling-off a reason for patience. Higher interest rates are another constraint: smaller companies carry more leverage and remain more exposed to refinancing costs than large caps, leaving the group more sensitive to Fed policy and the oil-driven inflation outlook.
- ▶ Our conclusion is therefore becoming more constructive without becoming more aggressive. Improving fundamentals support our neutral small cap and slight mid cap overweight positions, but large cap earnings remain a high hurdle to increasing small/mid allocations. We would like to see stronger relative revisions, renewed price momentum and confirmation from broader cyclical indicators before adding exposure.

Total Returns for Selected Indexes



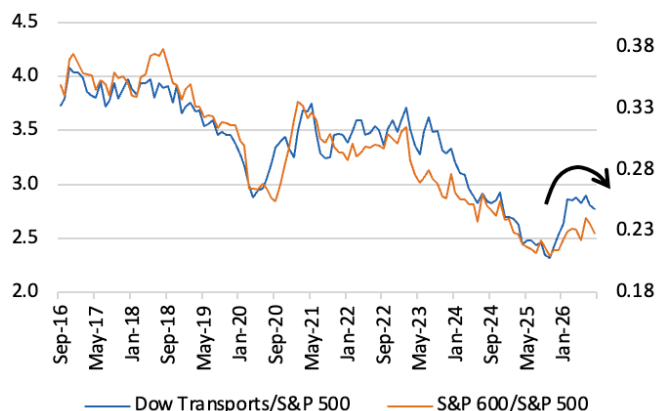
Source: Bloomberg. All data as of Sep 08 2026.

2027 Analyst EPS Estimate Revisions



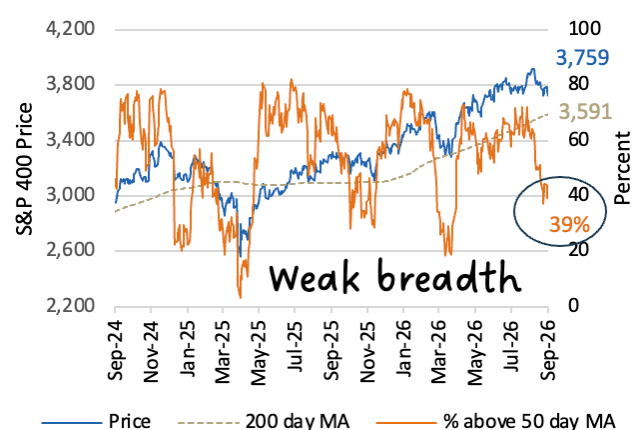
Source: Bloomberg. 6 months of weekly data through Sep 02 2026.

Relative Performance



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

S&P 400 Index Participation Index



Source: Bloomberg. 2 years of daily observations through Sep 08 2026.
MA = Moving Average



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

Total Returns								
	August 2026	YTD	2025	2024	2023	2022	EPS Growth Estimate	
							2026	2027
S&P 500 Index	2.7%	13.1%	17.9%	25.0%	26.3%	-18.1%	32%	14%
S&P 500 Index Equal Weighted	2.1%	15.6%	11.4%	13.0%	13.8%	-11.5%	20%	9%
S&P 500 Value Index	2.1%	12.5%	13.2%	12.3%	22.2%	-5.3%	16%	7%
Russell 1000 Value Index	2.0%	23.1%	15.9%	14.4%	11.4%	-7.6%	23%	8%
S&P 500 Growth Index	3.3%	13.6%	22.2%	36.1%	30.0%	-29.4%	54%	21%
Russell 1000 Growth Index	3.7%	4.1%	18.6%	33.4%	42.7%	-29.1%	39%	25%
S&P 400 Index	0.2%	14.7%	7.5%	13.9%	16.4%	-13.1%	23%	13%
S&P 600 Index	-0.6%	20.8%	6.0%	8.7%	15.9%	-16.1%	22%	16%
Russell 2000 Index	1.0%	20.0%	12.8%	11.5%	16.9%	-20.4%	22%	8%

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
S&P 500 Index	26.3x	84%	18.6x	72%	20.1x	93%	3.7x	99%
S&P 500 Index Equal Weighted	20.4x	69%	15.9x	63%	12.8x	81%	1.9x	94%
S&P 500 Value Index	22.0x	92%	17.7x	97%	14.7x	82%	2.2x	98%
Russell 1000 Value Index	21.5x	92%	17.2x	95%	15.7x	90%	2.4x	99%
S&P 500 Growth Index	31.4x	84%	19.4x	65%	29.1x	95%	7.9x	98%
Russell 1000 Growth Index	35.2x	81%	20.3x	58%	26.9x	90%	6.0x	96%
S&P 400 Index	20.1x	42%	15.1x	47%	12.8x	84%	1.6x	95%
S&P 600 Index	20.9x	41%	13.8x	26%	11.7x	45%	1.2x	95%
Russell 2000 Index	90.7x	95%	23.9x	88%	18.9x	99%	1.7x	97%

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	29%
S&P 500 Index Equal Weighted	1.7%	9%	10.6%	100%	13.6%	92%	2.6	52%
S&P 500 Value Index	1.7%	0%	11.2%	99%	16.1%	99%	2.2	51%
Russell 1000 Value Index	1.6%	0%	12.3%	100%	14.8%	90%	2.1	18%
S&P 500 Growth Index	0.5%	1%	28.7%	100%	32.2%	95%	0.4	5%
Russell 1000 Growth Index	0.4%	3%	19.0%	99%	37.8%	98%	0.6	9%
S&P 400 Index	1.3%	32%	9.0%	95%	11.8%	78%	2.4	36%
S&P 600 Index	1.5%	73%	7.4%	100%	6.0%	40%	3.9	78%
Russell 2000 Index	1.4%	43%	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 August; EPS growth estimates based on consensus bottom-up analyst estimates.



The Touchstone Asset Allocation Committee (TAAC) consisting of Crit Thomas, CFA, CAIA – Global Market Strategist, Erik M. Aarts, CIMA – Vice President and Senior Fixed Income Strategist, and Tim Paulin, CFA – Senior Vice President, Investment Research and Product Management, 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

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