



PORTFOLIO UPDATE AND MARKET OUTLOOK

August 31, 2024

“Everything That Kills Me Makes Me Feel Alive”

–Counting Stars, One Republic



Daniel G. Bandi, CFA is Chief Investment Officer for Integrity's value equity strategies and lead portfolio manager for the company's Small-Cap Value Equity strategy and Small/Mid-Cap Value Equity strategy.

Schrödinger's Economy

In 1935, Physicist Erwin Schrödinger sent a letter to Albert Einstein. The letter outlined a thought experiment. If you put a cat in a box for one hour with a device which, once activated, would kill the cat, the device has an equal chance of activating as it does of not going off. Schrödinger proposed that, while the cat is in the box unobserved, it is both simultaneously alive and dead. The cat's true fate is not known until observed.

The economy has been a bit like Schrödinger's cat, resulting in market turmoil. Stocks have been pricing in some version of hard, soft, or no economic landing, depending on the day. During the first five days of August, the market looked like it was signaling recession. The S&P 500® Index dropped 6%, while the small-cap Russell 2000® Index fell almost 10%. Either the poor jobs report or the Yen carry trade unwind set off the device, and the market was sure the “cat” was dead. However, to paraphrase the old saying, rumors of the cat's death were greatly exaggerated. Federal Reserve Chairman, Jerome Powell, rode to the rescue all-but-promising rate relief was coming at the Fed's upcoming September meeting. From August 5th until the end of the month, the S&P 500 and the Russell 2000 both gained close to 9%. The indices finished the month of August up 2.4% and down 1.5%, respectively. *(continued on page 2)*

Preliminary Performance (%)

Representative Accounts

| | MTD | | | QTD | | | YTD | | |
|---------------------|-------|-------|----------------|-------|------|----------------|-------|-------|----------------|
| | Gross | Net | vs. Benchmark* | Gross | Net | vs. Benchmark* | Gross | Net | vs. Benchmark* |
| Small Cap Value | -2.47 | -2.47 | -0.60 | 6.36 | 6.27 | -3.72 | 7.35 | 6.73 | -1.80 |
| Small/Mid Cap Value | -1.62 | -1.62 | -1.61 | 5.48 | 5.41 | -2.61 | 10.30 | 9.76 | +0.58 |
| Mid Cap Value | 0.78 | 0.78 | -1.11 | 6.17 | 6.10 | -1.87 | 13.56 | 13.03 | +0.61 |
| Micro Cap Value | -1.88 | -1.88 | +1.33 | 9.76 | 9.67 | +0.57 | 10.42 | 9.78 | +3.06 |

Source: SEI

Past performance does not guarantee future results. Representative accounts are those of the Integrity Small Cap Value Equity Strategy, Integrity Small/Mid Cap Value Equity Strategy, Integrity Mid Cap Value Equity Strategy, Integrity Micro Cap Value Equity Strategy. Performance is preliminary and subject to change. Benchmark comparison is versus gross performance.

Market Returns (%)

| | MTD | QTD | YTD |
|----------------------------|-------|-------|-------|
| S&P 500® Index | 2.43 | 3.67 | 19.53 |
| Nasdaq 100® Index | 1.18 | -0.43 | 16.96 |
| Russell 2000® Growth Index | -1.11 | 6.99 | 11.74 |
| Russell 2000® Value Index | -1.88 | 10.08 | 9.15 |

Past performance does not guarantee future results. Indices represent different segments of the market and are not correlated to the strategies above, with the exception of the Russell 2000® Value Index, which is the benchmark for Integrity Small Cap Value Equity.

The market hangs on every piece of economic data trying to glean the state of the economy. Like the One Republic lyric above, sometimes bad is good. Sometimes good is bad, and sometimes bad is just bad. Here are two headlines that exhibit the market's confusion over the state of the economy. The first from the Wall Street Journal (9/3/2024) "Americans are Really, Really Bullish on Stocks." The second from Bloomberg the next morning (9/4/2024) "FLIGHT – Global Stocks Tumble on Retreat from Risk." Individual stocks aren't immune, either. These headlines appeared on Bloomberg the same day after Victoria's Secret reported earnings: "Victoria's Secret Shares Gain on Improved Sales, Profit Outlook." (8/28/2024, 7:23 am). By 3:59 PM the new headline read: "Victoria's Secret Falls Amid Challenging Consumer Backdrop"

We don't have any more insight into the current state of the economy than anyone else. It does seem like activity is slowing based on the second quarter earnings reports. If we had to guess, it appears the market is pricing in the soft-landing scenario, but that changes by the day. However, it's hard to come by stocks that are glaringly mispriced. Markets don't seem cheap, nor are they terribly expensive. We don't see many fat pitches. In the meantime, we keep looking for individual stocks that look undervalued with a catalyst.

Authors Note: In full disclosure, I was an Economics major by way of Engineering. Physics was one of the subjects that "lead" me to Economics, so if I have somehow misrepresented Schrödinger's work or tortured the metaphor too much, please forgive me.

Attribution:

U.S equity markets suffered a steep sell-off at the beginning of August triggered by a labor market report disclosing that the unemployment rate rose and exacerbated by the unwinding of popular "carry trades". Markets gradually recovered throughout the month as the Federal Reserve signaled that interest rate cuts are forthcoming. The S&P 500 and the tech heavy Nasdaq, up 2.3% and 0.70%, outperformed the Russell 2000 Value Index which declined 1.88%. With the exception of Small/Mid, growth outperformed value. Micro cap value was our lone strategy that outperformed its benchmark for the month.

Composite Performance (%) as of December 31, 2023

| | 1 Year | | 5 Year | | 10 Year | |
|---------------------|--------|--------|--------|--------|---------|-------|
| | Gross | Net | Gross | Net | Gross | Net |
| Small Cap Value | 18.87% | 17.69% | 13.78% | 12.65% | 8.72% | 7.64% |
| Small/Mid Cap Value | 15.38% | 14.23% | 14.06% | 12.92% | 8.90% | 7.81% |
| Mid Cap Value | 13.51% | 12.55% | 13.49% | 12.55% | 9.40% | 8.50% |
| Micro Cap Value | 16.14% | 14.99% | 11.99% | 10.87% | 8.95% | 7.86% |

Returns for periods greater than one year are annualized. Returns reflect the reinvestment of dividends and other earnings and are expressed in U.S. dollars. Gross-of-fees returns for the representative account are presented before management and custodial fees but after all trading expenses.

If you would like more information about our firm and investment strategies, please contact:


Patrick Kennedy
Portfolio Specialist

E: pkennedy@integrityasset.com
T: 216.920.5281



Crystal D. Doyle
Director, Account Management

E: cdoyle@integrityasset.com
T: 216.898.2410

All investments carry a certain degree of risk including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class. Interested parties are strongly encouraged to seek advice from qualified tax and financial experts regarding the best options for your circumstances.

Each representative account serves as the model against which all accounts in each respective strategy are managed. The representative accounts are actual portfolios and the information provided, including performance, will vary for other accounts. The representative accounts are being used solely as tools to help demonstrate how performance can be attributed to the investment policies applied in the management of each strategy.

Net-of fees returns reflect gross performance less investment management fees, which are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found in Part 2A of its Form ADV.

*The Integrity Small-Cap Value Equity Strategy is benchmarked to the Russell 2000® Value Index. The Integrity Small/Mid-Cap Value Equity Strategy is benchmarked to the Russell 2500™ Value Index. The Integrity Mid-Cap Value Equity Strategy is benchmarked to the Russell Midcap® Value Index. The Integrity Micro-Cap Value Equity Strategy is benchmarked to the Russell Microcap® Value Index.

Index returns reflect the reinvestment of dividends and other income but do not reflect advisory fees or any other expenses. Indexes are unmanaged and one cannot invest directly in an index.

The information in this article is based on data obtained from recognized services and sources and is believed to be reliable. Any opinions, projections or recommendations in this report are subject to change without notice and are not intended as individual investment advice. The securities highlighted, if any, were not intended as individual investment advice. A complete list of all recommendations of security selection and the calculation methodology used to select the partial list of portfolio holdings is available by request for the previous 12 months.

Advisory services offered by Victory Capital Management Inc., an SEC-registered investment advisor, 15935 La Cantera Parkway San Antonio, TX 78256.

©2024 Victory Capital Management Inc.

V17.399 // August 2024 INTGY Catalyst ME