

Catalyst

Portfolio Update and Market Outlook



As of December 31, 2024

**Every time you call me crazy
I get more crazy
What about that?**

– Mad Woman, Taylor Swift

Just when you think things can't get more crazy or extreme, a year like 2024 rolls around. We highlight some of the "craziness" from 2024 below and abdicate from any 2025 predictions.

Extraordinary Stock Market Performance

- The U.S. equity markets experienced an exceptional rally in 2024.
- The S&P 500 gained approximately 23% for the year.
- The Nasdaq composite outperformed with a nearly 29% increase.
- The "Magnificent Seven" tech stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) surged by an astounding 67%.

Extreme Market Concentration

The market's gains were heavily concentrated in a small number of large-cap stocks:

- The 10 largest stocks in the S&P 500 grew to

account for 39% of the index's weight, setting a record high.

- Only 19% of stocks within the S&P 500 outperformed the index itself for the full year.
- This concentration led to a significant disparity between cap-weighted and equal-weighted index performance.
- The top quintile of momentum stocks beat the market by 23 percentage points, comparable to the meme stock mania of 2021 and in late 1999 near the end of the tech bubble.
- 2024 was the fourth-worst year ever for small caps compared to large, and we are in the midst of the longest losing streak ever to large caps.

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Preliminary Performance (%)

Representative Accounts	MTD			QTD			YTD		
	Gross	Net	vs Benchmark	Gross	Net	vs Benchmark	Gross	Net	vs Benchmark
Small Cap Value	-8.77	-8.77	-0.44	-1.53	-1.69	-0.46	5.87	4.91	-2.19
Small/Mid Cap Value	-8.50	-8.50	-1.32	-0.98	-1.12	-0.72	10.68	9.82	-0.30
Mid Cap Value	-7.72	-7.72	-0.40	-2.35	-2.48	-0.61	12.72	11.89	-0.35
Micro Cap Value	-6.13	-6.13	+0.57	3.56	3.39	+0.89	13.05	12.02	+3.89

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	-2.38	2.41	25.02
Nasdaq 100® Index	0.46	4.93	25.88
Russell 2000® Growth Index	-8.19	1.70	15.15
Russell 2000® Value Index	-8.33	-1.06	8.05

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.



Valuation Extremes

Stock valuations reached notable highs:

- The S&P 500's forward price-to-earnings ratio hit 22.3x, more than one standard deviation above its historical norm.
- Forward returns from this level have been historically low.

Sentiment Extremes

- The Ned Davis Research's Crowd Sentiment Poll ended 2024 with a 76-day streak in "extreme optimism" territory.
- This level of optimism surpassed that seen right before the Great Financial Crisis.

Fixed Income vs. Equity Extremes

Stocks became expensive compared to bonds:

- The S&P 500 earnings yield fell to 3.7%, the lowest compared to Treasury yields since 2002.
- Stocks reached their lowest relative yield compared to BBB-rated dollar corporate bonds (3.7% vs. 5.6%) since 2008.

Cryptocurrency Surge

Digital assets experienced a remarkable rally:

- Bitcoin rose over 120% and surpassed \$100,000 for the first time.
- Dogecoin, a popular meme cryptocurrency, saw a staggering 253% advance.
- Fartcoin, the craziest of all, was up over 1,000%.

International Underperformance

U.S. equities significantly outperformed international markets:

- U.S. stocks delivered a 29% return, compared to less than 9% for non-U.S. stocks.
- This further extended the performance gap that had been building since 2000.
- U.S. stocks now comprise over 70% of the MSCI world index, the highest since 1970.

What does all this mean going forward? While valuation is not a timing tool, a JP Morgan Asset Management study shows that, over the last 27 years when the S&P traded at multiples like today's, the subsequent ten-year return was always between +/- 2%. Will that continue to be the case? We don't know. As value investors and believers in reversion to the mean, we continue to feel there is significant relative value in small caps and value. That said, we have felt that way for some time. Investors outside of the top seven stocks of the S&P 500 have earned significantly lower returns on a relative basis. The cost of getting the timing wrong has not been small.

2024 was not our best year. It was also not our worst. We made our share of mistakes. Being underexposed to growth factors like momentum hurt us compared to our benchmarks and peers. However, our Flexible Value philosophy and our Right Company, Right Price, Right Time stock selection discipline seeks out what we believe are the best risk/reward opportunities for our clients. This has served us and our clients well over the last 20+ years, and we will continue to strive to provide value exposure at discounted valuations.

Attribution

After the results of the US election sent stocks soaring in November, US equity markets retreated in December as the Federal Reserve reduced its forecasts for interest rate cuts amid slower progress on inflation and an uncertain policy outlook. The Russell 2000 Value Index, down 8.3%, underperformed both the tech heavy Nasdaq 100 and the S&P 500 (+0.5 and -2.4% respectively). For the month, growth outperformed value across three of our four benchmarks (Russell 2500 Value Index outperformed the Russell 2500 Growth Index). Three of our four strategies underperformed their respective benchmarks with micro cap value the lone outperformer. For the calendar year 2024, growth beat value across all of our benchmarks. In addition, three of our four strategies underperformed their benchmark for the year. Our micro cap value strategy beat its benchmark.

Composite Performance (%) as of December 31, 2023

	MTD		QTD		YTD	
	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.

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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.

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V17.399 // December 2024 INTGY Catalyst ME