

Catalyst

Portfolio Update and Market Outlook



As of February 28, 2025

**More than just blind ambition
More than just simple greed
More than just a finish line
Must feed this burning need
In the long run**

**From first to last
The peak is never passed**

**Something always fires the light
That gets in your eyes
One moment's high
And glory rolls on by
Like a streak of lightning
That flashes and fades
In the summer sky**

–Rush, “Marathon”

Did fourth-quarter earnings provide a hint of slowing momentum for the tech-laden S&P 500® Index, as well as fuel for a potential rotation into small value stocks? We look at some of the earnings results and trends from Q4 2024, as well as the outlook for 2025. In short, what we find is slowing momentum in the S&P 500, while earnings expectations are improving for the forgotten stocks of the Russell 2000® Value Index.

Fourth Quarter 2024 Earnings

The percentage of companies exceeding estimates in the S&P 500 was lower in Q4

2024 compared to Q4 2023 and below the last five years' average. 72% of companies beat estimates, 23% missed, and 5% reported in-line. Q4 2023 saw 75% of companies beat estimates. The five-year average was 77%. 45% of companies exceeded revenue estimates, well below the five-year average of 68%. Furthermore, earnings growth was concentrated in eight firms: Apple, Nvidia, Microsoft, Amazon, Meta, Alphabet, Tesla, and Netflix. These companies averaged a 31% increase in earnings, while the rest of the index grew at a much slower 10% rate. Those eight companies also accounted for

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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	-4.80	-4.80	-0.97	-3.01	-3.09	-1.16	-3.01	-3.09	-1.16
Small/Mid Cap Value	-4.22	-4.22	-0.52	-0.24	-0.31	+0.18	-0.24	-0.31	+0.18
Mid Cap Value	-1.88	-1.88	-0.06	2.80	2.73	+1.17	2.80	2.73	+1.17
Micro Cap Value	-3.34	-3.34	+1.23	-1.86	-1.94	+2.18	-1.86	-1.94	+2.18

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.

Source: SEI

Market Returns (%)

	MTD	QTD	YTD
S&P 500® Index	-1.30	1.44	1.44
Nasdaq 100® Index	-2.69	-0.50	-0.50
Russell 2000® Growth Index	-6.77	-3.82	-3.82
Russell 2000® Value Index	-3.83	-1.85	-1.85

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.



46% of the Index's earnings compared to 32% in Q4 2023. The earnings momentum in the S&P 500 continues to narrow, while earnings and revenue surprises slow. Combined with relatively high valuations, could this portend future issues for this index?

Conversely, the Russell 2000 Value may have some momentum building. 62% of its companies beat estimates, 28% missed, and 10% met expectations. This was slightly better than Q4 2023, with a 58% beat rate. 49% of companies exceeded revenue expectations, compared to 45% in Q4 2023. Q4 2023 marked an all-time low for revenue beats for the Russell 2000 Value.

Forward Guidance

Earnings guidance for the S&P 500 also slowed. Median 2025 guidance was trimmed to 6.2%, below the 15-year average of 8.1%. Meanwhile, the two-year analyst-expected growth rate for the Russell 2000 Value increased to 17.9%, up from the 16% forecasted at the end of the third quarter. This forecast is significantly higher than the 13.0% expected two-year growth rate at the end of Q4 2023. Tempering this somewhat is the fact that the index is seeing more negative than positive estimate revisions.

Increasing Skepticism

The market's response to fourth-quarter beats and misses changed from the prior year, showing investors' growing impatience. Winners were rewarded less, and losers were punished more. S&P 500 stocks beating estimates increased 0.8% on average compared to 1.1% in the same quarter last year. Companies beating estimates in the Russell 2000 Value went up 1.1% compared to 1.8% historically and 3.8% in Q4

2023. Companies missing estimates in the S&P 500 fell by 3.25% compared to 2.3% in Q4 2023 and 2.1% historically. The Russell 2000 Value saw similar trends. Disappointers experienced a penalty of 4.2%, double the toll in Q4 2023 of 1.9% and greater than the historical 10-day drawdown of 2.3%.

Conclusion

We are strong believers in reversion to the mean. Small-cap value stocks have looked "cheap" relative to large caps and, in particular, growth. Small value stocks trade at about 18 times earnings compared to their ten-year average of 25. Relative to the Russell 1000 Index, the Russell 2000 Value has been cheaper only 10% of the time. In past analyses, we had discussed the significant boost to large-cap companies' bottom lines from falling interest rates and falling tax rates. Perhaps this recent era of higher rates and no new tax cuts is winnowing the large-cap field. 2024 was a momentum-driven market. Earnings momentum seems to be slowing, and earnings growth is concentrated in fewer companies. At the same time, small value stocks are expected to provide superior earnings growth at a historic discount. Has the glory "rolled on by" for the S&P 500? Could this be the catalyst for the rotation we've been waiting for?

Attribution

U.S. equity markets retreated in February as concern over slowing economic growth and President Trump's tariff plans weighed on investors. The Russell 2000 Value Index, down 3.8%, underperformed both the tech heavy Nasdaq 100 (-2.7%) and the S&P 500 (-1.3%). For the month, value outperformed growth across all four of our benchmarks. Three of our four strategies underperformed their respective benchmarks with micro cap value the lone exception.

Composite Performance (%) as of December 31, 2024

	1 Year		5 Year		10 Year	
	Gross	Net	Gross	Net	Gross	Net
Small Cap Value	5.87	4.82	10.19	9.09	8.43	7.35
Small/Mid Cap Value	10.63	9.53	11.00	9.90	9.28	8.19
Mid Cap Value	12.87	11.92	10.56	9.62	9.49	8.59
Micro Cap Value	13.05	11.92	10.12	9.03	9.70	8.61

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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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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