



PORTFOLIO UPDATE AND MARKET OUTLOOK

November 30, 2024

**“War, huh, yeah
What is it good for?”**

– Edwin Starr



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President-elect Trump has proposed additional tariffs on China and new tariffs on Mexico and Canada. This has raised uncertainty around the impact on the economy, inflation, and certain industries. We are not judging or giving opinions on tariffs as a policy. That is a political decision. We will offer our thoughts regarding what we believe the impact of tariffs could be on the economy, inflation, and certain industries. In addition, we will discuss what we are doing, or not doing, in the portfolios in response. Furthermore, while there is a lot of talk in the news about the impact of tariffs, the world economy is very complicated and dynamic, and it is hard to predict with certainty specific outcomes.

What exactly is a tariff?

A tariff is simply a tax directed at specific goods being imported or exported between countries. Tariffs were the initial funding mechanism for our country. Alexander Hamilton was a proponent of tariffs as a means to fund the government while protecting a young manufacturing sector. Tariffs remained the major source of funding for the government until the introduction of the income tax. *(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	9.83	9.83	+0.19	7.94	7.85	+0.01	16.04	15.08	-1.83
Small/Mid Cap Value	9.15	9.15	+0.33	8.22	8.14	+0.77	20.97	20.11	+1.40
Mid Cap Value	6.79	6.79	-0.57	5.82	5.75	-0.20	22.15	21.33	+0.15
Micro Cap Value	12.42	12.42	+1.28	10.33	10.23	+0.28	20.43	19.43	+3.44

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	5.87	4.91	28.07
Nasdaq 100® Index	5.31	4.45	25.31
Russell 2000® Growth Index	12.26	10.77	25.42
Russell 2000® Value Index	9.65	7.93	17.88

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.

Economic Impact

As mentioned above, the economic impact of the proposed tariffs is unclear. President-elect Trump has proposed an additional 10% tariff on products entering from China and a 25% tariff on goods entering from Canada and Mexico. In our opinion, the Chinese tariff was well telegraphed; the Canadian and Mexican tariffs were more of a surprise. Here's where it gets tricky: Focusing on Canada and Mexico, will these tariffs even get implemented? Trump has said he wants to stop the flow of immigrants and drugs across the border. It seems these may be avoided with some diplomacy and agreements for the countries to work together. If these tariffs go through as proposed, all else being equal (I was an Economics major), it will be a drag on economic growth. The range of the impact is wide, depending on the forecaster and the length of time they stay in place. There are potential offsets such as tax cuts, currency fluctuations, product substitutions, etc. There are also trade war scenarios where retaliation makes things worse. We don't know how all that washes out, but we think it's safe to say there are some negative economic impacts.

Inflation

Inflation is also tricky. There has been a lot of talk about the tariffs being inflationary because they raise prices. This statement seems to make sense. However, like the economy, we don't know the offsets. Slower growth, reduced demand for the higher-priced products, and currency are only a few. Moreover, unless the tariffs increase every year, the price impact would be a one-time adjustment. For the Federal Reserve and interest rate policy, it would seem this would be easy to tease out from underlying core inflation.

Industry Impact

We believe the majority of the impact will be at the industry level. Companies with supply chains in Canada, Mexico, and China stand to be impacted the most. As mentioned above, the China increase has been telegraphed, and the existing tariffs from Trump's first term resulted in a lot of supply chains moving out of China to places like Vietnam or Malaysia. Mexico is another story. We see the most exposed industries as retailers, technology, autos, and agriculture. Retailers and technology have China exposure. Auto has a significant presence in Mexico. We also import a lot of fruits and vegetables from Mexico. On the plus side, domestic steel manufacturers could benefit from keeping foreign steel out of the market. Other commodity producers of materials and chemicals that face Chinese competition also could benefit. Should companies decide to move production back to the U.S., construction companies and their suppliers could benefit. We are not sure this will be the case. This is Trump's last term. Manufacturing construction has long lead times. Most likely, plant and equipment would be coming online at the end of his term. Who knows what the next administration will do? That's a lot of uncertainty to make a large long-term investment.

Conclusion

In conclusion, there is no simple answer. The one certainty is uncertainty. We have seen and will likely continue to see volatility at the industry and stock level based on tariff developments. We will monitor the impacts and the valuations. Uncertainty brings opportunity if we can get the valuations correct. As an example, we have been buying government IT services companies in the portfolios. The announcement of the Department of Government Efficiency (DOGE) sent these stocks plummeting significantly in one week. At worst, we don't believe there is a significant reduction in business for these companies. At best, they are beneficiaries as the government hires them or outsources to them to become more cost-effective and to upgrade systems. We believe they are good investments at these prices.

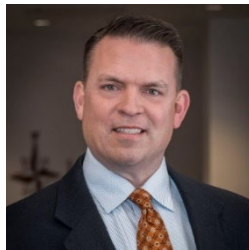
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U.S equity markets rallied spurred by Donald Trump's victory in the U.S. Presidential election, along with the Republican Party winning the majority in both houses of Congress. The S&P 500 reached a record high, while small caps were the best performers for the month. The Russell 2000 Value, up 9.7%, outperformed the S&P 500 and Nasdaq 100 for the month (+5.9% and +5.3% respectively). Growth beat value across all of our benchmarks in November. Three of our four strategies outperformed their respective benchmarks with mid cap value the lone underperformer.

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.

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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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