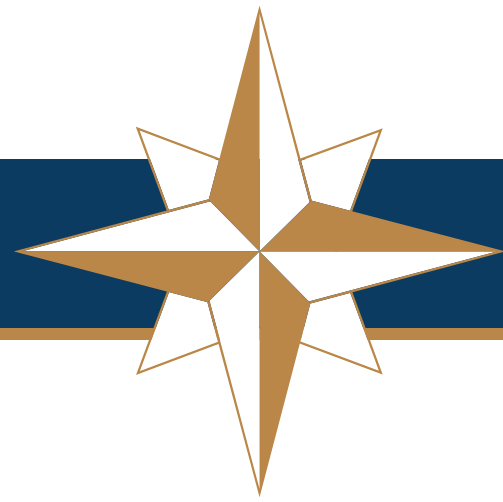


Catalyst

Portfolio Update and Market Outlook



As of April 30, 2025

**And, like one and one don't make two
One and one make one
And I'm lookin' for that free ride to me
I'm lookin' for you**

– *The Who (Bargain)*

Tariffs continue to dominate markets. In this edition of the *Catalyst*, we will discuss the impact of tariffs on trade deficits, inflation, and the economy. We will also update where we see the opportunity set for investing based on our “Flexible Value” philosophy.

We read an interesting report by Dr. Arthur Laffer titled *The Truth about Tariffs and Trade*. In short, as the lyric above says (way out of context), one and one doesn't make two, it makes one. There is no free ride. From a trade deficit standpoint, nothing changes. The relation between imports and exports remains the same. If a country slows

imports, exports slow in proportion. This was true with the 1930 Smoot-Hawley tariffs. It has also held true with other countries using tariffs.

Inflation has been a concern with the tariffs. The reasoning is that tariffs will raise prices. Here, too, history has shown that inflation isn't impacted by tariffs. Price increases on tariffed items tend to be offset by price decreases on others leaving the overall level of prices in the economy relatively unchanged.

What does change? The size of the economy shrinks, and unemployment rises. Total trade

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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	-5.81	-5.81	-1.79	-5.81	-5.81	-1.79	-13.57	-13.79	-2.13
Small/Mid Cap Value	-3.92	-3.92	-1.03	-3.92	-3.92	-1.03	-9.90	-10.09	-1.34
Mid Cap Value	-2.54	-2.54	-0.06	-2.54	-2.54	-0.06	-4.49	-4.68	+0.05
Micro Cap Value	-3.99	-3.99	-1.71	-3.99	-3.99	-1.71	-11.32	-11.55	+2.96

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	-0.68%	-0.68%	-4.92%
Nasdaq 100® Index	1.55%	1.55%	-6.65%
Russell 2000® Growth Index	-0.64%	-0.64%	-11.68%
Russell 2000® Value Index	-4.02%	-4.02%	-11.45%

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.



has historically fallen, while inflation and trade balance remain relatively static. The favored industries will benefit, but at the expense of the rest of the economy.

This is an economic perspective. We don't know exactly what the political motive, plans or strategy is behind the tariffs. We aren't politicians. We are investors. Our job is to try and find what, if any, opportunities this market volatility has created.

Our Flexible Value strategy strives to measure market sentiment and take advantage of either too much optimism or too much pessimism. We believe the small cap market has just entered the fear zone. From a tactical standpoint, this means we will be looking for names that screen well on a valuation basis but also have some controversy surrounding them. In this case, it will likely be companies more exposed to tariffs. Our indicators are telling us that it makes sense to look at these names from a risk/reward perspective.

We obviously don't know what will happen with tariffs, but some stocks are starting to price in a reasonably negative scenario. We are not moving aggressively. We are moving slowly and incrementally. We are just in the fear zone, but we are also not at the extremes we saw during COVID or the financial crisis. We hope we don't get to those levels, but we also don't know.

As we navigate this "fear zone," our focus remains on risk/reward, patience, and adaptability. While we cannot predict the political path of tariffs, we can utilize our Flexible Value strategy to position our portfolios to respond as conditions evolve.

Attribution

U.S. equity markets endured a roller coaster environment throughout the month of April. The first week witnessed a volatile selloff that pushed the S&P 500 into bear market territory on an intraday basis. This was driven by the escalation of the trade war between the US and China as President Trump unveiled his tariff plan. Further volatility came in the form of a sharp selloff in US Treasuries which caused a global bond rout. Investors also reacted negatively as the President stated a desire to replace the Federal Chairman. Throughout the middle and back end of the month, markets gradually rallied after Trump delayed tariffs (ex-China) and walked back his comments on firing the Fed Chairman. Ultimately, US equities took a round-trip back to practically unchanged. The tech heavy Nasdaq (up 1.6%) and the S&P 500 (-0.7%) outperformed the Russell 2000 Value which was down 4.0%. For the month, growth outperformed value across all four of our benchmarks. Additionally, all our strategies underperformed their respective benchmarks for the month.

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. Performance prior to November 1, 2014, occurred while the portfolio management team was affiliated with a prior firm. Such members of the portfolio management team were responsible for investment decisions at the prior firm and the decision-making process has remained intact.

Past performance does not guarantee future results.

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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.

Gross-of-fees returns are presented before management and custodial fees but after any transaction costs. The composite net-of-fees returns reflect net-of-model fees and are calculated in the same manner as gross-of-fee returns using the Time Weighted Rate of Return method. 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 on 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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Advisory services offered by Victory Capital Management Inc., an SEC-registered investment advisor, 15935 La Cantera Parkway San Antonio, TX 78256.

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V17.399 // April 2025 Special INTGY Catalyst ME