Catalyst

INTEGRITY ASSET MANAGEMENT

PORTFOLIO UPDATE AND MARKET OUTLOOK

June 30, 2024

CELEBRATING 20 YEARS OF INTEGRITY 2003-2023

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I walk a lonely road
The only one that I have ever known
Don't know where it goes
But it's home to me, and I walk alone

–Green Day

This could be the value investors' motto of late. In fact, any investor without money in the Magnificent Seven. At the end of the second quarter, the year-to-date return on the S&P 500 was 15.3%. The return on the equal-weight S&P 500 was 5.1%, a difference of over 10%. The discrepancy is similar to the returns for 2023 (S&P 500 23.3%, equal weight S&P 500 13.8%).

This has been one of the most concentrated markets of all time. The top three companies (MSFT, NVDA, AAPL) in the S&P 500 currently make up roughly 20% of the index. Not since 1980 have the top three been this concentrated. Moreover, the top five companies (NVDA, GOOG, MSFT, AMZN, AAPL) have been the source of almost 60% of the S&P 500's return year-to-date (57% to be precise). In 2023, they were about half of the return. Narrowing the field, NVIDIA, alone, has been responsible for 30% of the S&P 500 return so far this year. These last two years are two of only nine years since 1952 that returns have been this concentrated. (Empirical research Partners Portfolio Strategy 6/24/24). *(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	-2.18	-2.18	-0.49	-4.40	-4.56	-0.76	0.93	0.51	+1.78
Small/Mid Cap Value	-2.48	-2.48	-0.47	-3.90	-4.03	+0.41	4.57	4.20	+3.07
Mid Cap Value	-2.77	-2.77	-1.17	-3.12	-3.25	+0.28	6.96	6.61	+2.42
Micro Cap Value	-1.33	-1.33	+0.86	-2.91	-3.07	+2.21	0.60	0.19	+2.28

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	3.59	4.28	15.29
Nasdaq 100® Index	6.27	8.05	17.47
Russell 2000® Growth Index	-0.17	-2.92	4.44
Russell 2000® Value Index	-1.69	-3.64	-0.85

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.

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With this type of top-heavy returns, it's no surprise that small cap stocks continue to lag large caps. According to Jefferies research, small caps have only been cheaper 10% of the time relative to large caps since 1978. Furthermore, the ratio of small cap price to large cap price (IWM vs. SPY) sits at its lowest level since November 2000, the end of the tech bubble.

The tech bubble years are an interesting comparison to the recent strength we've seen from the top end of the S&P 500. Will this market see a reversal like that seen in 2000 where tech sells off dramatically, and smaller value stocks outperform? No one knows for sure. However, Empirical Research did look at how those nine heavily concentrated markets reversed. They found that in the year following, "long rates often declined and undervalued issues usually led, by somewhat more than usual, with low PE stocks in the lead. On the other hand, the companies with the best top-line growth lagged, and price momentum strategies faltered."

We continue to preach diversification. We also know that's been a losing strategy of late. My hunch is that investors are far too heavily invested in these top five stocks and don't realize how concentrated the S&P 500 has become. The S&P 500 is talked about as if it is a broadly diversified portfolio. In reality, it has become a highly concentrated technology fund, at least for now. I wish we knew when this would reverse, but we don't.

That Would've Been Intelligent:

If you had invested $10,000 in NVIDIA's Initial Public Offering, you would have roughly $59 million today!

Attribution:

U.S. equities pushed higher in June. The S&P 500 (+3.6%) and the tech heavy Nasdaq (+6.0%) gained largely due to narrow leadership within technology driving performance. The Russell 2000 Value Index underperformed its larger market cap peers with a monthly return of -1.7%. Value underperformed growth in three of our four benchmarks for the month of June. Value beat growth in micro cap. Our micro cap strategy was our only strategy to outperform its respective 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.

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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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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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