

# Catalyst

## Portfolio Update and Market Outlook



**As of September 30, 2026**

*“Hope is like an endless river  
The time is now again, the time is now again,  
the time is now again”  
— Rush, “Ceiling Unlimited”*

We feel like we have been calling for small caps to reassert themselves over and over again. The year started strong, but performance has faltered of late. Rate concerns, in particular, have weighed on performance.

We recently received a number of questions regarding higher rates and their impact on small caps. Conventional wisdom seems to be that higher rates are bad for small caps given their relatively higher levels of debt. There are some mitigating factors to consider. First is that high yield spreads have stayed fairly tight. We believe this bodes well for small stocks. Second, history

suggests higher rates aren't necessarily bad for small caps. Using Russell indices, Jefferies research points out that generally over the past 40 years, small caps have taken it on the chin early, then outrun both mid and large caps over the following 6–12 months. Third, since the late 1970's, a rising 10-year has also historically coincided with better small-cap relative performance, particularly when it reflects economic acceleration rather than inflation fears. Conversely, a flattening curve and a strengthening dollar have been headwinds.

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### Composite Performance (%) as of September 30, 2026

|                     | MTD   |       |       | QTD   |       |       | YTD   |       |       |
|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                     | Gross | Net   | BM    | Gross | Net   | BM    | Gross | Net   | BM    |
| Micro Cap Value     | -4.39 | -4.47 | -4.13 | -2.53 | -2.78 | -3.31 | 33.86 | 32.86 | 25.99 |
| Mid Cap Value       | -5.43 | -5.49 | -4.96 | -2.70 | -2.91 | -1.98 | 13.60 | 12.87 | 15.25 |
| Small/Mid Cap Value | -5.90 | -5.98 | -5.37 | -5.09 | -5.32 | -4.36 | 12.98 | 12.14 | 18.75 |
| Small Cap Value     | -6.33 | -6.41 | -5.20 | -6.02 | -6.25 | -4.91 | 16.81 | 15.93 | 16.96 |

**Past performance does not guarantee future results.** 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 are presented before management and custodial fees but after any transaction costs. 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. High, double-digit returns are highly unusual and cannot be sustained. Investors should be aware that these returns were primarily achieved during favorable market conditions. \*Please see benchmarks on page 3.

### Market Returns (%) as of September 30, 2026

|                            | MTD   | QTD   | YTD   |
|----------------------------|-------|-------|-------|
| S&P 500® Index             | -0.35 | 2.30  | 12.75 |
| Nasdaq-100 Index®          | 3.30  | 0.58  | 21.01 |
| Russell 2000® Growth Index | -5.31 | -9.39 | 10.71 |
| Russell 2000® Value Index  | -5.20 | -4.91 | 16.96 |

**Past performance does not guarantee future results.** Indices are shown to represent different market segments. Except for the Russell 2000® Value Index, the benchmark for Integrity Small Cap Value Equity, they are not the strategies' benchmarks.\*



### Composite Performance (%) as of September 30, 2026

|                     | 1 Year |       | 5 Year |       | 10 Year |       |
|---------------------|--------|-------|--------|-------|---------|-------|
|                     | Gross  | Net   | Gross  | Net   | Gross   | Net   |
| Micro Cap Value     | 38.85  | 37.46 | 13.60  | 12.46 | 13.16   | 12.04 |
| Mid Cap Value       | 14.95  | 13.97 | 10.60  | 9.66  | 11.17   | 10.25 |
| Small/Mid Cap Value | 16.22  | 15.06 | 9.88   | 8.78  | 11.38   | 10.27 |
| Small Cap Value     | 19.86  | 18.66 | 9.40   | 8.31  | 10.38   | 9.29  |

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Debt concerns may also be a bit overblown. Small-cap cash levels are near record highs, and debt-to-capital ratios have fallen substantially from post-financial-crisis peaks. Companies are far better capitalized than in prior cycles, alleviating some of the risk.

The typical early underperformance after a rate hike held true in the third quarter. Small caps, though still ahead year-to-date, significantly underperformed their large-cap counterparts in the quarter. In fact, it was one of the worst relative performances in history.

Active manager performance wasn't much better. A narrow market made it harder for active managers to get an advantage. According to Jefferies, as of 9/30/2026, only 43% of Russell 2000 names and 34% of Russell 1000 names outperformed their respective benchmarks year-to-date, both well below historical norms. That narrowing hit active managers hard, and value managers hardest of all: core small-cap managers were behind their benchmark by 179 basis points year-to-date with just 28% beating; value managers were behind by 285 basis points with only 23% beating; **and across the SMID-cap universe specifically, not a single value fund was ahead of its index year-to-date.**

There is some good news in all of this. Using historical data going back 45 years, when small caps have had similar relative

quarters, subsequent performance has been positive on an absolute basis and in line relative to large caps. Of course, history is not a guarantee of the future. However, the setup for small caps looks interesting to us. Relative valuations are historically cheap. The strong run year-to-date has done little to dent the historical relative performance deficit. Importantly, projected earnings growth for 2027 looks favorable on both an absolute and relative basis, per Jefferies' analysis. We are strong believers in reversion to the mean. If that holds true, small caps could have a significant relative performance run.

### Market Commentary

US equity market performance in September was impacted by surging bond yields, renewed enthusiasm for AI stocks, and rising energy prices. The S&P 500 fell 0.35% while small caps, as measured by the Russell 2000 Value Index, dropped 5.2%. Both indices underperformed the tech heavy Nasdaq 100 which was up 3.3% as AI-driven technology megacaps hit record highs. For the month, small value and micro cap value outperformed small growth and micro cap growth, while small/mid cap value and mid cap value lagged their growth counterparts. All four of our strategies underperformed their respective benchmarks for the month.

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and investment strategies, please contact:**



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**All investing involves risk, including the possible loss of principal.** 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.

A **composite** is a grouping of individual investment portfolios that share a similar investment strategy, objective, or mandate – aggregated together to represent the overall track record of that strategy.

\*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.

Indexes are unmanaged; their returns include reinvestment of dividends and other income but do not reflect management fees, transaction costs or expenses. It is not possible to invest directly in an index. **Past performance does not guarantee future results.**

**The Russell 1000® Index** is a market-capitalization-weighted index that measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 92% of the total market capitalization of the Russell 3000® Index.

**The Russell 2000® Index** is a market-capitalization-weighted index that measures the performance of the 2,000 smallest U.S. stocks by market capitalization in the Russell 3000® Index.

**The Russell 2000® Value Index** is a market-capitalization-weighted index that measures the performance of those companies in the Russell 2000® Index with lower price-to-book ratios and lower forecasted growth values.

**The Russell 2000® Growth Index** is a market-capitalization-weighted index that measures the performance of Russell 2000® Index companies with higher price-to-book ratios and forecasted growth values.

**The Russell 2500™ Value Index** is a market-capitalization-weighted index that measures the performance of those companies in the Russell 2500™ Index with higher composite value scores.

**The Russell Midcap® Value Index** is a market-capitalization-weighted index that measures the performance of Russell Midcap® Index companies with relatively lower price-to-book ratios and lower forecasted growth.

**The Russell Microcap® Value Index** is a market-capitalization-weighted index that measures the performance of Russell Microcap® Index companies (1,000 smallest stocks in the Russell 2000® Index plus 1,000 smaller U.S.-based listed stocks) with relatively lower price-to-book ratios and lower forecasted growth values. It represents the value-oriented micro-cap segment of the U.S. equity market.

**The Russell Midcap® Value Index** is a market-capitalization-weighted index that measures the performance of Russell Midcap® Index companies with relatively lower price-to-book ratios and lower forecasted growth.

**The Nasdaq-100 Index®** is a modified-capitalization-weighted index designed to measure, based on market capitalization, 100 of the largest nonfinancial domestic and international companies listed on The Nasdaq Stock Market®.

**The S&P 500® Index** is a market-capitalization-weighted index that measures the performance of the common stocks of 500 leading U.S. companies.

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