



Catalyst

Portfolio Update and Market Outlook



As of December 31, 2025

A long December and there's reason to believe

Maybe this year will be better than the last

– Counting Crows

- Around mid-year 2024, value characteristics started to underperform significantly. That trend continued through 2025.
- 2025 was a momentum market with narrow leadership, driven by retail investors and short-term traders.
- Our value benchmarks were influenced heavily by unprofitable companies, artificial intelligence (AI) associated companies, electricity producers, precious metals miners, bitcoin miners, and biotechnology stocks.
- We are starting to see some cracks in momentum's armor. Soaring capital expenditures, some financed by debt, and declining free-cash-flow margins are two red flags.
- The setup for small and value is improving. Relatively cheap valuations and improving earnings growth could signal an inflection point.



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Performance (%) as of December 31, 2025

Representative Accounts	MTD			QTD			YTD		
	Gross	Net	vs Benchmark	Gross	Net	vs Benchmark	Gross	Net	vs Benchmark
Small Cap Value	0.37	0.28	+0.18	2.61	2.36	-0.64	6.22	5.16	-6.37
Small/Mid Cap Value	0.86	0.78	+0.33	2.86	2.61	-0.28	10.50	9.40	-2.23
Mid Cap Value	0.27	0.20	+0.21	1.20	1.00	-0.22	11.25	10.36	+0.20
Micro Cap Value	1.70	1.62	+0.24	3.72	3.46	-5.66	15.72	14.57	-8.12

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. Benchmark comparison is versus gross performance.

Market Returns (%) as of December 31, 2025

	MTD	QTD	YTD
S&P 500® Index	0.06	2.66	17.88
Nasdaq 100® Index	-0.67	2.47	21.02
Russell 2000® Growth Index	-1.28	1.22	13.01
Russell 2000® Value Index	0.18	3.26	12.59

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 December 31, 2025

	1 Year		5 Year		10 Year	
	Gross	Net	Gross	Net	Gross	Net
Small Cap Value	6.22	5.16	10.98	9.87	9.71	8.62
Small/Mid Cap Value	10.50	9.40	12.00	10.88	11.24	10.13
Mid Cap Value	11.27	10.33	11.67	10.72	11.24	10.32
Micro Cap Value	15.72	14.57	13.45	12.32	11.19	10.08

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.

In our August 2025 Catalyst, we quoted Morgan Housel who said that “every market valuation is a number from today multiplied by a story about tomorrow.” Retail investors have bought into the AI story and are a significant driver of this momentum market. As with most tales, there comes a plot twist. Investors have been thrown a bit of a curveball as it becomes clear that the investment needed to compete and stay current in AI-related technologies is much greater than initially expected. This is weighing on free cashflow margins and on some stock prices.

While the momentum market hasn’t yet ended, we sense growing skepticism. As an example, Oracle’s (ORCL) credit default swaps have widened significantly over the last six months as investors grow concerned over their expanding capital expenditure needs. Conversely, Bloomberg ran an article on 12/9/2025 titled “Apple Becomes ‘Anti-AI’ Stock as Market Grows Weary of Spending.” Through the first half of 2025, Apple (AAPL) had been a laggard among the Magnificent 7 over its perceived lack of an AI strategy. Recently, however, it has been viewed positively, and the stock has rebounded.

Further, as we pointed out in our November Catalyst, this market is being driven by retail investors. In that piece, we cited a recent study showing that retail investors lose money 74-89% of the time. In the dotcom bubble in 2000, investors would talk about “dancing with one foot out the door.” A lot of people lost a leg with that strategy. Caution is warranted.

As free cashflow margins shrink in the market-leading AI plays, earnings and estimate revisions have been quietly improving in the small cap and value spaces. While the value benchmarks saw significant contributions to returns from non-earners, AI-

related, and precious metals companies, more traditional value stocks are looking relatively attractive from both an earnings and valuation perspective. If the momentum market breaks down, this could lead to a rotation into value.

Diversification has been a losing strategy for some time.¹ We don’t believe that will be the case forever. Retail investors have a poor track record of success, as shown by a recent study by PiP World (11/25/2025). We believe strongly in reversion to the mean. This is why we have stayed true to disciplined value investing. Our style of investing has been out of favor. However, we believe we are well positioned for a rotation back to diversified value investing.

Attribution

U.S. equities finished the year with muted results in December driven by a late month rotation out of AI/technology stocks, profit taking, and uncertainty on the pace of future Federal Reserve interest rate cuts in 2026. The Russell 2000 Value Index (up 0.18%) outperformed the S&P 500 and the tech heavy Nasdaq which returned 0.06% and -0.67% respectively. For the month, value outperformed growth across all four of our benchmarks. All four of our strategies outperformed their respective benchmarks as well. For the calendar year 2025, value outperformed growth across three of our four benchmarks (Russell 2000 Growth Index outperformed the Russell 2000 Value Index). In addition, three of our four strategies underperformed their benchmark for the year with mid cap value the lone exception.

¹ Source: S&P 500 and LPL Research analyzed by Integrity Asset Management. S&P 500 dramatically outperformed the traditional 60/40 portfolio in 12 of the past 15 years 2010-2024.

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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.

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.

*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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