

Catalyst

Portfolio Update and Market Outlook



As of January 31, 2026

Cause like us, baby we were born to run
– Bruce Springsteen

Small-caps have come out of the gate strong in 2026, and we think this broadening of leadership is one of the most important developments for investors to watch. After a decade where “owning the mega-cap tech winners” was enough, the early tape in 2026 argues for revisiting diversification across size, style, and region.

While the Mag-7, mega-cap, AI-driven trade hasn’t exactly rolled over with the S&P 500 approaching 7,000 at month end, small cap stocks have had a strong start to 2026. The Russell 2000 was up

5.35% in January, while the growth and value subsets increased 3.98% and 6.86%, respectively. This was the ninth best relative start ever for small caps. Moreover, according to Steve DeSanctis at Jefferies, when small beats large in the first month of the year, historically, the average gain over the next eleven months has been double digits, and small has beaten large 61% of the time.

Unfortunately, some of the index’s less value-like names (biotech, money losers, miners) continue to rise. However, the breadth of the index as well as the market has certainly improved.



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Performance (%) as of January 31, 2026

Rep. Accounts	MTD				QTD				YTD			
	Gross	Net	BM	vs BM	Gross	Net	BM	vs BM	Gross	Net	BM	vs BM
Small Cap Value	6.71	6.62	6.86	-0.15	6.71	6.62	6.86	-0.15	6.71	6.62	6.86	-0.15
Small/Mid Cap Value	5.26	5.17	5.91	-0.65	5.26	5.17	5.91	-0.65	5.26	5.17	5.91	-0.65
Mid Cap Value	5.33	5.26	4.28	+1.05	5.33	5.26	4.28	+1.05	5.33	5.26	4.28	+1.05
Micro Cap Value	8.14	8.05	6.80	+1.33	8.14	8.05	6.80	+1.33	8.14	8.05	6.80	+1.33

Source: SEI. **Past performance does not guarantee future results.** Representative accounts are those of the Integrity Small Cap Value Equity Strategy (Benchmark (BM): Russell 2000® Value Index), Integrity Small/Mid Cap Value Equity Strategy (BM: Russell 2500™ Value Index), Integrity Mid Cap Value Equity Strategy (BM: Russell Midcap® Value Index), Integrity Micro Cap Value Equity Strategy (BM: Russell Microcap® Value Index). **Benchmark comparison is versus gross performance.**

Market Returns (%) as of January 31, 2026

	MTD	QTD	YTD
S&P 500® Index	1.45	1.45	1.45
Nasdaq 100® Index	1.23	1.23	1.23
Russell 2000® Growth Index	3.98	3.98	3.98
Russell 2000® Value Index	6.86	6.86	6.86



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.

As we pointed out last month, earnings growth and estimates in the small cap space are on the rise, and relative valuations look historically cheap. At the same time, ballooning capital expenditure requirements in the AI-related tech space are squeezing free cash flow margins. Investors seem to be taking notice.

Furthermore, the macro backdrop heading into 2026 is more supportive for cyclicals and domestically focused businesses: growth expectations have firmed, policy rates are off the peak but still positive in real terms, and markets are pricing in additional, but more limited, easing rather than a sharp reversal.

Interestingly, the strong small cap relative outperformance in January occurred on the heels of continued outflows from small cap ETFs. After years of flows into U.S. large-cap growth and away from “everything else,” small caps likely entered 2026 under-owned. If earnings trends continue to improve and price momentum turns, even modest reallocations could have an outsized impact on relative performance.

We continue to beat the diversification drum. The old adage goes – diversification is a regret maximizing strategy. You always wish you owned more of what goes up and less of what goes down. However, it has demonstrated over time to be the best strategy for long-term return compounding and risk control. Reversion to the mean could be dead. Diversification may never work again. Things may be different this time. However, we aren’t betting on it.

Attribution

U.S. equity markets began 2026 with a constructive tone, extending the positive momentum established through the back half of last year. Broad participation, improving breadth, and continued leadership from economically sensitive and value oriented segments of the market drove performance. Small caps beat their large cap peers as the Russell 2000 Value Index was up 6.9% (the S&P 500 and the tech heavy Nasdaq returned 1.5% and 1.2% respectively). For the month, value outperformed growth across all four of our benchmarks. Mid cap value and micro cap value outperformed their respective benchmarks (net of fees – see performance chart on page 1), while small cap value and small/mid cap value underperformed.

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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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