



## PORTFOLIO UPDATE AND MARKET OUTLOOK

March 31, 2024

*“And all that is now  
And all that is gone  
And all that’s to come  
And everything under the sun is in tune  
But the sun is eclipsed by the moon”*  
– Pink Floyd

We had to have an “eclipse” reference this month. It was either Pink Floyd or Bonnie Tyler (Total Eclipse of the Heart). Classic rock won out.

Anticipation of Federal Reserve interest rate policy seems to eclipse everything else in the market. The first quarter of 2024 witnessed a reversal of some of the rate cut euphoria of Q4 2023. The Q4 2023 expectations for significant rate reductions weighed on Q4 portfolio performance. The portfolios benefitted in Q1 from some lessening of those expectations.

We are not sure when or by how much the Federal Reserve will cut interest rates. Furthermore, while not the most likely, we don’t completely discount the possibility of zero cuts this year or further increases down the road. We were happy to hear Federal Reserve Chairman Powell state something we have been harping on for some time. Interest rates are not going back to pre-pandemic levels. The post 2008 interest rate environment was unique, not normal. Powell does not think it is likely that we will return to long-run rates that are in the 2% range. He also doesn’t see long-term rates around the world returning to levels at or below zero.

*(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	5.53	5.53	+1.15	5.58	5.40	+2.68	5.58	5.40	+2.68
Small/Mid Cap Value	5.56	5.56	+0.64	8.81	8.66	+2.74	8.81	8.66	+2.74
Mid Cap Value	5.56	5.56	+0.38	10.41	10.26	+2.18	10.41	10.26	+2.18
Micro Cap Value	4.99	4.99	+1.77	3.61	3.44	-0.01	3.61	3.44	-0.01

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	3.22	10.56	10.56
Nasdaq 100® Index	1.23	8.72	8.72
Russell 2000® Growth Index	2.80	7.58	7.58
Russell 2000® Value Index	4.38	2.90	2.90

**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.



**Daniel G. Bandi, CFA** is Chief Investment Officer for Integrity’s value equity strategies and lead portfolio manager for the company’s Small-Cap Value Equity strategy and Small/Mid-Cap Value Equity strategy.

Money-losing, long duration equities have been a big beneficiary of ultra-low interest rates. We've written in the past about the high concentration of these companies in our value benchmarks and our significant underexposure to them. These stocks have historically reacted favorably to rate reduction expectations. We continue to look for companies that meet our investment criteria and that we expect to respond favorably to lower rates. We have found some investments, but not enough to completely offset our underexposure.

The upcoming Russell Rebalance holds a sliver of good news. Some of the value indexes will likely see the weight of non-earners slightly decrease. Our lead risk analyst, Mike Wayton, projects that non-earners would decrease by approximately 1.6 percentage points in the Russell 2000 Value, by almost 1% in the Mid Cap Value benchmark, and remain roughly the same in the Russell 2500 Value Index. The exposure could still be significant, but we will take any relief we can find.

Mike also estimates the rebalanced benchmarks will have slightly lower betas, smaller growth rates and lower valuations. In short, they would be more value-like. The Russell rebalance is scheduled for Friday, June 28th. The first official, preliminary index membership lists are expected to be released on Friday, May 24th. We will have more certainty around these characteristics as well as sector weights at that time.

Here in Cleveland, we are within the path of totality of the April 8, 2024, eclipse. The last time this happened was 1806. The next occurrence will be 2444. That's about as rare as seeing near zero to negative interest rates. We don't know if it will be 400 years before zero rates happen again, but we don't think it will be soon. As we have stated before, we believe "normal" rates could provide the catalyst to reverse the significant underperformance of small vs. large and value vs. growth. Time will tell. In the meantime, we will continue to apply our flexible value strategy, searching for undervalued stocks with a catalyst, keeping a close eye on the risk in our portfolios, and striving for consistent, long-term performance for our clients.

#### **Attribution:**

U.S. equities continued to rally in March. The S&P 500 (+3.1%) and the tech heavy Nasdaq (+1.8%) both notched their fifth straight winning months. The upward monthly returns capped off a stellar quarter for U.S. equities propelled by speculation that the Federal Reserve will be able to achieve a soft landing. The Russell 2000 Value Index outperformed its larger market cap peers with a monthly return of 4.38%. For the month, value outperformed growth across all four of our benchmarks. In addition, all four of our strategies outperformed their respective benchmarks for the month of March.

**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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