Catalyst

INTEGRITY ASSET MANAGEMENT

PORTFOLIO UPDATE AND MARKET OUTLOOK

January 31, 2024

CELEBRATING 20 YEARS OF INTEGRITY 2003-2023

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"And then the cold came, the dark days
When fear crept into my mind
You gave me all your love and all I gave you was goodbye
So this is me swallowin' my pride
Standin' in front of you sayin' I'm sorry for that night
And I go back to December all the time
It turns out freedom ain't nothin' but missin' you
Wishin' I'd realized what I had when you were mine
I'd go back to December, turn around and change my own mind
I go back to December all the time"

– Taylor Swift

We have been writing about interest rate expectations for quite some time. In our December 2021 Catalyst, we discussed the idea that zero or near-zero rates resulted in the outperformance of growth stocks relative to value. Interest rates are the price of money. As such, they are a major determinant in the allocation of funds in the economy. Significantly, low rates propelled money-losing, long-duration equites.

Some of our coverage may seem repetitive. However, we believe it is important considering the large number of longer-duration, money-losing companies in our value benchmarks. Not owning these companies is our largest risk exposure. We believe we are on the right side of interest rate history. Zero interest rates are a historical anomaly. We disagree with the phrase "Higher for Longer." Rates have normalized, they are not high. They are only high compared to the post Great Financial Crisis period (2008-2022). *(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	-2.83	-2.83	+1.71	-2.83	-2.83	+1.71	-2.83	-2.83	+1.71
Small/Mid Cap Value	-1.44	-1.44	+1.37	-1.44	-1.44	+1.37	-1.44	-1.44	+1.37
Mid Cap Value	-0.80	-0.80	+0.99	-0.80	-0.80	+0.99	-0.80	-0.80	+0.99
Micro Cap Value	-4.63	-4.63	-0.42	-4.63	-4.63	-0.42	-4.63	-4.63	-0.42

Source: SEI

Past performance does not guarantee future results. Representative accounts include: 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	-4.63%	-4.63%	-4.63%
Nasdaq 100® Index	1.89%	1.89%	1.89%
Russell 2000® Growth Index	-3.21%	-3.21%	-3.21%
Russell 2000® Value Index	-4.54%	-4.54%	-4.54%

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.

We believe the market is experiencing recency bias when it comes to rates. Recency bias is when the "memory of recent market news or events can lead investors to irrationally believe that a similar event is more likely to occur again than its objective probability." https://www.investopedia.com/recency-availability-bias-5206686

We saw this with the reaction to the December Federal reserve meeting. After the meeting, which was viewed as dovish, the market priced in about six interest rate cuts despite the Fed's forecast calling for three.

Howard Marks of Oaktree Capital addressed this in his January memo, Easy Money, in which he discusses the impact of low interest rates on the market. (You can read the whole letter here: https://www.oaktreecapital.com/insights/memo/easy-money.) One of the outcomes of low rates is the expectation of continued low rates, as we have repeatedly pointed out.

He goes on to say: "The lessons from past periods of easy money usually fall on deaf ears since they come up against (a) ignorance of history, (b) the dream of profit, (c) the fear of missing out, and (d) the ability of cognitive dissonance to make people dismiss information that is inconsistent with their beliefs or perceived self-interest."

Marks believes the consensus is "Goldilocks thinking." He sees consensus being inflation soon hitting the Fed's 2% target, no additional rate hikes, a soft economic landing, and rates going back down. The consensus doesn't have to be wrong. However, it seems to us that the odds of all those things happening are not great. Our best guess is the Federal Reserve is done raising rates. They seem to want to cut rates, but the economy has proven too strong, and inflation is still sticky. Chairman Powell hasn't asked our advice, but it seems risky to cut rates until inflation is steady in the 2% range, if that truly is the Fed's target. However, absent a major economic disruption, we think the Fed's relationship with zero rates is over. As Taylor Swift would say "*but we are never ever ever ever getting back together. Like ever."*

Courtesy of Jim Bianco – X 2/1/2024

Attribution:
In January, U.S. equity markets continued the narrative of late last year with economic resilience, moderating inflation, expectations that the Fed would soon cut interest rates, and a mega-cap tech-led equity rally. Late in the month, expectations for immediate rate relief were tampered as the Fed signaled that they likely would not be ready to cut rates in March. Despite this, the S&P 500 and the tech heavy Nasdaq (+1.6% and +1.0% respectively) still managed to outperform the Russel 2000 Value Index, which fell 4.5%. For the month, value underperformed growth across all four of our benchmarks. Three of our four strategies outperformed its respective benchmark for the month of January with our micro cap value strategy the lone exception.

Superbowl Trivia:

According to the Pro Football Hall of Fame (X – 1/21/2024) The 1979 Steelers vs. Cowboys Superbowl featured players that, today, comprise 7% of the TOTAL number of players currently in the Hall of Fame. 26 players from that game ended up in the Hall of Fame.

Speaking of the Hall of Fame and my Pittsburgh Steelers – Arguably the best draft in pro football history happened 50 years ago in 1974 when the Steelers drafted four future Hall of Fame players along with an undrafted fifth player that would make the Hall. The players were: Lynn Swann (1st); Jack Lambert (2nd); John Stallworth (3rd); and Mike Webster (5th). Donnie Shell was undrafted, made the team and the Hall of Fame.

A short video on the draft:

https://x.com/steelcitystar/status/1751832952210600195?s=46&t=OuZq2uMKmJtFxELnzIUUCw

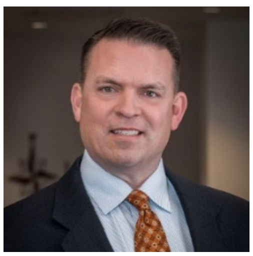
Integrity Asset Management

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.

If you would like more information about our firm and investment strategies, please contact:



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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 particular 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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