



# Catalyst

## Portfolio Update and Market Outlook



**As of November 30, 2025**

**Three Coins in the Fountain  
Each One Seeking Happiness  
Thrown by Three Hopeful Lovers  
Which One Will the Fountain Bless?  
– Sammy Cahn**

Which scenario will the market bless: Continued Magnificent 7, Hyperscaler, AI driven momentum investing; a pivot to smaller more value-oriented companies; or none of the above?

Retail-fueled buying has resulted in one of the biggest momentum markets in the last 70 years. The Wall Street Journal reported that retail purchases of stocks and ETFs are up 50% over 2024 levels, almost double that of the last five years. Data from Empirical Research Partners shows retail investors comprising 35-40% of all US equity trading volume. We believe the retail

investor is now driving stock prices.

Market returns have been concentrated in the Magnificent 7 and, lately, the Hyperscalers (Alphabet, Amazon, Meta, and Microsoft). Capital expenditures at Hyperscalers have been surging. Again, according to Empirical Research Partners, "in January, they were guiding to +20% aggregate capex growth for this year and +8% for next year." Today, it looks more like 60% this year and 28% next. The arms race in AI doesn't appear to be a one-and-done proposition. Interestingly, some of

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### Performance (%) as of November 30, 2025

Representative Accounts	MTD			QTD			YTD		
	Gross	Net	vs Benchmark	Gross	Net	vs Benchmark	Gross	Net	vs Benchmark
Small Cap Value	3.47	3.38	+0.66	2.24	2.07	-0.83	5.83	4.86	-6.56
Small/Mid Cap Value	3.30	3.21	+0.42	1.99	1.82	-0.62	9.56	8.56	-2.58
Mid Cap Value	2.80	2.73	+0.41	0.92	0.79	-0.43	10.95	10.13	-0.03
Micro Cap Value	2.86	2.77	-1.09	1.98	1.81	-5.82	13.78	12.74	-8.28

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 November 30, 2025

	MTD	QTD	YTD
S&P 500® Index	0.25	2.59	17.81
Nasdaq 100® Index	-1.57	3.16	21.84
Russell 2000® Growth Index	-0.68	2.53	14.48
Russell 2000® Value Index	2.81	3.07	12.39



**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, 2025

	1 Year		5 Year		10 Year	
	Gross	Net	Gross	Net	Gross	Net
Small Cap Value	1.94	0.92	18.08	16.9	9.63	8.54
Small/Mid Cap Value	6.32	5.26	17.91	16.73	11.12	10.01
Mid Cap Value	7.38	6.47	16.33	15.35	11.52	10.6
Micro Cap Value	15.55	14.4	20.22	19.02	11.29	10.18

**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.

this spending is now being funded with debt. The upswing in capex has weighed on free cash flow margins. As we pointed out in our August Catalyst, free cash flow margins among the Hyperscalers have fallen from 22.6% in 2024 to 17% in the first six months of 2025. The combination of extended valuation, debt financing, and falling margins looks concerning to us.

If, as it seems, these stocks, and the market in general, is being driven by the retail investor, how good is their track record? A recent study by PiP World looking at 8 million traders doing 295 million trades over 27 years found that 74%-89% lose money. Their analysis showed that “when portfolios turn red, traders convince themselves they’re acting rationally even as discipline unravels. The four-phase spiral kicks in. Under pressure to recover, position sizes creep-up, stop-losses widen, and established risk rules are pushed aside. Trading exposes individuals to a potent mix of dopamine, ego, and stress. This combination results in emotional self-sabotage, overconfidence, revenge trading, fatigue, and poor timing repeat with clockwork precision.”

We don’t know how or when this momentum market will end. However, we believe we see the signs of the beginning of the end. Diversification away from large-cap growth stocks has been a losing strategy for some time. We don’t believe that will be the case forever. While technology fundamentals have been strong, we are starting to see strengthening fundamentals in smaller cap names. In addition, relative valuations remain attractive. Data from Steven DeSanctis at Jefferies shows that third quarter 2025 earnings for small cap companies increased 14%, the best since

2022 and better than large cap’s 13.5% growth. Additionally, estimates are on the rise for small caps with more increases than decreases. The opposite is true for larger companies. Additionally, valuations in the small cap and value market look attractive compared to history. According to DeSanctis, small caps are in the 18th percentile while value stocks are in the 27th percentile. To us, this sounds like Good Value, Good News.

Which path will the market bless—more Mag 7 and AI-fueled gains, or a turn toward smaller, value-driven names? Retail enthusiasm has powered one of the strongest momentum markets in decades, but stretched valuations, higher debt, and falling free cash flow margins hint at fatigue. Meanwhile, as DeSanctis notes, small caps are showing improving earnings and compelling valuations. We believe it’s time to begin reallocating toward quality small and value stocks before the market’s blessing fully shifts.

#### **Attribution**

U.S. equities were mixed for the month. The S&P 500 finished slightly positive (+0.3%) as a late recovery into the holiday period provided a boost. The tech-heavy Nasdaq, hampered by concerns about stretched AI valuations, fell 1.6% for the month. The Russell 2000 Value Index (up 2.8%), outperformed their larger cap peers as small cap stocks benefitted from investor anticipation of lower rates. Value outperformed growth across all four of our benchmarks. Three of our four strategies outperformed their respective benchmarks, with micro cap value the lone exception.

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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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