Integrity Asset Management

Catalyst

Portfolio Update and Market Outlook

As of July 31, 2026

"You can't always get what you want — but if you try sometime, you just might find, you get what you need."
— The Rolling Stones, "You Can't Always Get What You Want"

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Small Caps: Behind the Run

It's been a remarkable stretch for small caps. The Russell 2000® Index is up roughly 19% year-to-date through July and has outperformed the S&P 500® Index by about 9 percentage points, one of the strongest opening runs of small-cap outperformance in the past 30 years, according to Goldman Sachs. Interestingly, most of that performance has been concentrated in a narrow slice of the index, and the story looks quite different depending on whether you're sitting in Growth or Value.

The AI Trade Did a Lot of the Heavy Lifting, But Not Equally

The single biggest factor, at least through mid-year, had been AI infrastructure. Goldman estimates that AI-related stocks, including semis, electrical equipment, and construction names tied to data center buildout, accounted for roughly 40% of the Russell 2000's mid-year return and represented about 15% of index weight heading into the June reconstitution. Small caps also benefited from what they didn't own. The Magnificent 7 returned essentially 0% in the first half of 2026, which meant the Russell got a relative

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Composite Performance (%) as of July 31, 2026

	MTD			QTD			YTD		
	Gross	Net	BM	Gross	Net	BM	Gross	Net	BM
Micro Cap Value	-0.82	-0.90	-2.37	-0.82	-0.90	-2.37	36.22	35.42	27.22
Mid Cap Value	2.03	1.96	1.47	2.03	1.96	1.47	19.12	18.53	19.32
Small/Mid Cap Value	0.97	0.88	0.07	0.97	0.88	0.07	20.19	19.48	24.25
Small Cap Value	1.11	1.02	0.01	1.11	1.02	0.01	25.67	24.93	23.00

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. High, double-digit returns are highly unusual and cannot be sustained. Investors should be aware that these returns were primarily achieved during favorable market conditions. *Please see benchmarks on page 3.

Market Returns (%) as of July 31, 2026

	MTD	QTD	YTD
S&P 500® Index	-0.06	-0.06	10.14
Nasdaq-100 Index®	-6.59	-6.59	12.38
Russell 2000® Growth Index	-5.86	-5.86	15.02
Russell 2000® Value Index	0.01	0.01	23.00

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.*

CELEBRATING 20 YEARS OF INTEGRITY 2003-2023

Composite Performance (%) as of July 31, 2026

	1 Year		5 Year		10 Year	
	Gross	Net	Gross	Net	Gross	Net
Micro Cap Value	55.78	54.22	14.14	13.00	13.84	12.71
Mid Cap Value	25.65	24.59	11.45	10.51	11.89	10.97
Small/Mid Cap Value	32.12	30.80	11.27	10.16	12.31	11.19
Small Cap Value	39.79	38.39	11.14	10.03	11.48	10.37

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tailwind just by not having that drag.

The first half AI-momentum trade unwound in July. The Russell 2000® Growth Index lost almost 6% for the month as its AI basket fell 22.4% and the highest P/E quintile declined 14.2%. The Russell 2000 Value index, by contrast, was essentially flat, up 23% YTD and beating Growth by nearly 800 basis points since March 31, per Jefferies' Steve DeSanctis. The rebalance made this dynamic even cleaner. AI infrastructure weight in the Russell 2000 was cut roughly in half (from 15% to about 7%) as the biggest contributors graduated out of the index, and those names were disproportionately in Growth. After the rebalance, DeSanctis notes that his relative valuation model for Value vs. Growth fell back into the first quintile, meaning Value has only been cheaper relative to Growth 20% of the time historically.

What Comes Next?

The Economy May Favor Value

Beyond AI, the macro backdrop has been supportive. Goldman's U.S. Current Activity Indicator has been tracking real growth in the 2.5–3.0% range for much of the year, and economic data surprises have been broadly positive. That matters especially for Value. Economically sensitive sectors like Financials, Industrials, and Discretionary skew to value. When GDP runs above 2.5%, Value historically has beaten Growth by a meaningful margin, and DeSanctis's data shows that Cyclicals posted their strongest relative performance when the market broadens and earnings growth accelerated, both of which appear to be happening now.

The earnings picture for the rest of the year is a bit mixed. Consensus has the Russell 2000 growing EPS at roughly 14% this year, but analysts have actually cut 2026 estimates by 9% YTD even as S&P 500 estimates have been revised up by 9%. About half the Russell's YTD return has been driven by multiple expansion rather than earnings. But the estimate cuts haven't been evenly distributed: Growth's 2026 earnings growth rate has been trimmed more aggressively, from roughly 25% down to about 12%, while Value has held closer to 14%. The rebalance also pushed the Russell 2000's forward P/E down four multiple points (from 26x to 21.9x), and that compression was concentrated in the AI/semi names that rolled out, predominantly Growth names.

DeSanctis also noted that the Russell 2000 beat the Russell 1000® Index by the widest margin since 2001 in the first half, and that the 8+ year losing streak for small vs. large caps appears to have ended. Despite this strong performance, the rolling 10-year relative return is still only in the 4th percentile. We are strong believers in reversion to the mean. If that holds true, there could be a long runway ahead, particularly for Value, which has lagged Growth within small caps for much of the past decade. Risks to this view include Fed rate hikes, a flattening yield curve, or a rising VIX.

Was July a Preview?

July was an interesting month where Small took a back seat to Large. Tech and AI names sold off dramatically, and high-beta, high-sales-growth stocks gave back meaningful ground. Valuations started to matter again. The cheapest names in the Russell 2000 Value Index gained 8.6% in July and are now up close to 21% YTD. Active managers had their best month in a while (61% beat their benchmarks overall in July, per Jefferies), but the scorecard was uneven. Small Growth managers struggled (37% beat), while Small Value managers fared better (56% beat). The YTD picture for Small Value managers is still rough (only 37% are ahead, trailing by 215 basis points on average), but July suggests the second half could look quite different. A broader market driven by earnings growth could be the environment where Value leads, Cyclicals outperform, and quality gets rewarded. We may finally be seeing the beginning of that rotation.

Market Commentary

July was a turbulent month for U.S. equities driven by a sharp repricing of high-momentum AI infrastructure stocks, surging oil prices from renewed U.S.- Iran geopolitical tensions, and a broader sector rotation into value-oriented equities. Small caps, as measured by the Russell 2000 Value Index (+0.01%), outperformed the tech heavy Nasdaq-100 Index® and the S&P 500, which were down -6.1% and -0.1% respectively. For the month, value outperformed growth across all four of our benchmarks. In addition, all four of our strategies beat their respective benchmarks for the month.

Sources: Goldman Sachs US Macroscope, "Decomposing recent Russell 2000 outperformance and the second-half outlook for small caps" (July 1, 2026); Jefferies Equity Research, "JEF's SMID-Cap Strategy: Thoughts & Observations" (July 14, 2026); Jefferies Equity Research, "JEF's Performance Scorecard — Big Rotation Took Place in July" and "JEF Manager Scorecard — Reversal in Key Drivers Helped Active" (August 2, 2026).

Integrity Asset Management

CELEBRATING 20 YEARS OF INTEGRITY 2003-2023

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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.

A **composite** is a grouping of individual investment portfolios that share a similar investment strategy, objective, or mandate – aggregated together to represent the overall track record of that 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.

Indexes are unmanaged; their returns include reinvestment of dividends and other income but do not reflect management fees, transaction costs or expenses. It is not possible to invest directly in an index. **Past performance does not guarantee future results.**

The Russell 1000® Index is a market-capitalization-weighted index that measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 92% of the total market capitalization of the Russell 3000® Index.

The Russell 2000® Index is a market-capitalization-weighted index that measures the performance of the 2,000 smallest U.S. stocks by market capitalization in the Russell 3000® Index.

The Russell 2000® Value Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell 2000® Index with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000® Growth Index is a market-capitalization-weighted index that measures the performance of Russell 2000® Index companies with higher price-to-book ratios and forecasted growth values.

The Russell 2500™ Value Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell 2500™ Index with higher composite value scores.

The Russell Midcap® Value Index is a market-capitalization-weighted index that measures the performance of Russell Midcap® Index companies with relatively lower price-to-book ratios and lower forecasted growth.

The Russell Microcap® Value Index is a market- capitalization-weighted index that measures the performance of Russell Microcap® Index companies (1,000 smallest stocks in the Russell 2000® Index plus 1,000 smaller U.S.-based listed stocks) with relatively lower price-to-book ratios and lower forecasted growth values. It represents the value-oriented micro-cap segment of the U.S. equity market.

The Russell Midcap® Value Index is a market-capitalization-weighted index that measures the performance of Russell Midcap® Index companies with relatively lower price-to-book ratios and lower forecasted growth.

The Nasdaq-100 Index® is a modified-capitalization-weighted index designed to measure, based on market capitalization, 100 of the largest nonfinancial domestic and international companies listed on The Nasdaq Stock Market®.

The S&P 500® Index is a market-capitalization-weighted index that measures the performance of the common stocks of 500 leading U.S. companies.

Beta measures the price volatility, or the level of risk, of a stock relative to the broader market. A beta of 1 indicates that the security's price has moved with the market. A beta of less than 1 means that the security has been less volatile than the market. A beta of greater than 1 indicates that the security's price has been more volatile than the market.

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