EQUITY MARKET ANALYSIS

SPECIAL SERIES

In recent years, the stock market has embraced an unabashedly optimistic and downright speculative attitude. While exciting, more recent returns and individual stock valuations are untenable and portend other frailties embedded in this market rally. Specifically, lofty growth expectations, an underappreciation of risk, and a historically low market yield underscore the need for caution.

At Washington Crossing Advisors, we invest our equity portfolios using a strict Quality discipline; focusing on companies with low debt, profitable assets, and predictable cash flows. We believe that holding an allocation in High Quality stocks can serve as ballast to an overall portfolio, especially when market enthusiasm dissipates and a re-pricing of risk takes its place. This equity market series further examines the above market fragility and how owning a Quality portfolio with less volatility has delivered sturdy income and risk-adjusted growth over the long run.

Please contact us with any questions:

Kevin R. Caron, CFA
Senior Portfolio Manager
(973) 549-4051
kevin@washingtoncrossingadvisors.com

Chad A. Morganlander
Senior Portfolio Manager
(973) 549-4052
chad@washingtoncrossingadvisors.com

Matthew J. Battipaglia
Portfolio Manager
(973) 549-4047
matt@washingtoncrossingadvisors.com

Eric C. Needham
Director, Sales and Marketing
(312) 454-7833
eric@washingtoncrossingadvisors.com

Jeffrey M. Battipaglia
Client Portfolio Manager
(973) 549-4031
jeff@washingtoncrossingadvisors.com

Suzanne E. Ashley
Relationship Manager
(973) 549-4168
suzanne@washingtoncrossingadvisors.com

THE MOST DANGEROUS COMPARISON IN INVESTING

If you own a diversified, quality-oriented portfolio, the last year has likely been frustrating. Conservative strategies — including many dividend-focused portfolios — have lagged the S&P 500, even as markets have risen sharply. That gap naturally raises questions. Why has your carefully constructed strategy trailed the S&P 500? And should you reconsider your approach?

RECONSIDER YOUR APPROACH?

Before answering, consider what happened the last time investors faced this choice. In March 2000, a newly retired couple sat down with $1 million, a 4% withdrawal plan, and a portfolio full of the market's biggest winners. Over the previous decade, technology stocks had made them millionaires. The future had never looked brighter.

Two and a half years later, 85% of it was gone.

The Nasdaq didn't return to its March 2000 high until 2015. By then, the retiree would have been 85 years old — assuming anything remained after fifteen years of withdrawals from a decimated portfolio.

This is not ancient history. And the conditions that made it possible are forming again.

WHAT'S HAPPENING RIGHT NOW

The S&P 500 is the world's most widely followed market index. Trillions of dollars are invested in or benchmarked to it. But beneath the surface, the character of its returns has changed in an important way.

Over the past three years, 83% of the S&P 500's gains have come from stocks with above-average risk (Chart A, page 4). This degree of concentration is highly unusual. Historically, returns have been shared more evenly between higher-risk and lower-risk stocks.

Over the past two decades, higher-risk stocks have earned roughly 3 percentage points more per year before adjusting for risk. But they have also exhibited nearly double the volatility of lower-risk stocks. Once that additional volatility is taken into account, the apparent advantage disappears. In fact, on a risk-adjusted basis, lower-risk stocks have historically produced better outcomes, while higher-risk stocks have delivered inferior results.*

This distinction matters. Markets do not reward return in isolation — they reward return per unit of risk. When you ignore that risk, performance comparisons become misleading. The chart accompanying this commentary illustrates the shift clearly. For most of the past twenty years, high-risk and low-risk stocks contributed together to market returns. That balance has broken down. Since 2023, nearly all of the index's gains have come from the riskiest portion of the market.

This helps explain why your portfolio has lagged — not because your strategy is flawed, but because the market is currently rewarding risk in an unusually concentrated way.

THE INDEX THAT DOESN'T KNOW YOU'RE RETIRED

Here's an important distinction you may not have considered: the S&P 500 was designed to measure market performance — not to serve as an investment strategy.

According to its own published methodology, the index is not an investment advisor and makes no representation regarding the advisability of investing. It doesn't consider your goals, your risk tolerance, your time horizon, or your income needs.

It simply weights companies by market value, increasing exposure to stocks as their prices rise — regardless of valuation or risk. This structure naturally embeds momentum. It works well during periods when rising prices feed on themselves. But it offers no mechanism designed toward managing risk, protecting your income, or adapting to your changing circumstances.

Your advisor helps you work through those things. Together, you've thought through full market cycles, balancing growth, income, liquidity, and risk. That distinction matters most during periods like this — when markets reward speculation and penalize patience.

NOT A STRATEGY

No army goes to war without a plan for defense. The word strategy itself comes from the Greek *stratigos* — combining *stratos* (army) and *agein* (to lead). A general who marches into battle with no plan for when things go wrong isn't employing a strategy. He's just advancing and hoping.

We don't know a single financial advisor who manages money this way. Advisors think carefully about risk, return, liquidity, time horizon, and tax implications. They build plans that accommodate the reality that conditions change — sometimes without warning. From your work with your advisor, a real strategy emerges that is designed to see you through your whole investing horizon, not just one kind of market environment.

The S&P 500 offers none of this. It cannot, because it was never designed to. And yet trillions of dollars are invested or benchmarked to it, as if it were.

WHY YOUR PORTFOLIO IS BUILT DIFFERENTLY

Your portfolio is built for a purpose. That purpose is to deliver a steady stream of income from quality companies. Flexibility, durability, and predictability are the watchwords for the portfolio.

The WCA Rising Dividend strategy wasn't designed to capture every point of upside in a momentum-driven market. It was designed to help you stay invested through all market conditions — including the painful reversals that often follow speculative runs.

That means owning quality companies with durable businesses, consistent cash flows, and growing dividends. These aren't the stocks that lead during speculative phases. But they are the stocks that have historically provided ballast when markets turn, income when you need it, and participation in long-term growth without the extreme volatility that can derail a retirement plan.

When you compare your portfolio to the S&P 500 right now, you're comparing a strategy built on for stability against an index that is currently dominated by its riskiest components. That's not an apples-to-apples comparison. It's one of the most dangerous comparisons in investing.

WHY THIS CANNOT CONTINUE INDEFINITELY

Markets eventually correct excesses. Many of today's most popular stocks are priced for extremely high growth rates extending far into the future. But no company can sustainably outgrow the economy it operates in. At some point, expectations must converge with reality.

There is also the issue of crowding. Trillions of dollars have flowed into the same narrow group of stocks through index funds and retirement plans. Prices rise not solely because of fundamentals, but because capital continues to follow the same path. This momentum can persist — but when it reverses, it often does so abruptly.

History is filled with examples. The "Nifty Fifty" of the 1970s, the dot-com leaders of the late 1990s, and the financial stocks that dominated before 2008 all shared the same narrative: a belief that this time was different. Each time, leadership eventually changed, and investors who chased it paid a steep price.

WHAT THIS MEANS FOR YOU

When you invest in a strategy that tracks the S&P 500, you're not making a single investment. You're holding two very different exposures — high-risk and low-risk stocks — blended together in proportions that shift dramatically over time without your input.

Today, nearly all of the index's return is coming from the riskiest side of that mix. That matters because risk and return are inseparable. The same high-beta stocks delivering outsized gains today were the ones that fell sharply in prior downturns. The index makes no distinction between a 30-year-old with decades to recover and you, if you're drawing income or approaching retirement.

Your portfolio was designed with those realities in mind. It may lag during speculative phases, but it was built to endure across full cycles — not just the most aggressive ones.

TRUST THE STRATEGY YOU BUILT

Your investment strategy was not chosen casually. You and your advisor built it through thoughtful discussion about risk, time horizon, income needs, and long-term goals. It was designed to function in many market environments — including periods exactly like this one.

Now is not the time to abandon that discipline.

When market leadership eventually shifts — as it always has — the question will not be whether you captured every last point of upside. It will be whether your strategy preserved your capital, supported your income, and stayed aligned with your long-term purpose.

KET TAKEAWAYS

Over the past three years, 83% of the S&P 500's gains have come from high-risk stocks — a historic concentration that cannot persist indefinitely. Once you adjust for volatility, lower-risk stocks have historically outperformed on a risk-adjusted basis. You're not missing out on "free" returns; you're avoiding uncompensated risk.

The S&P 500 was never designed to be an investment strategy. It has no awareness of your goals, your timeline, or your need for stability. Your portfolio was intentionally built to prioritize quality, income, and durability over momentum. That's not a flaw — it's the design working as intended.

Chasing the index now may mean abandoning a strategy built for the long term in favor of one that offers no downside protection.

NEXT STEPS

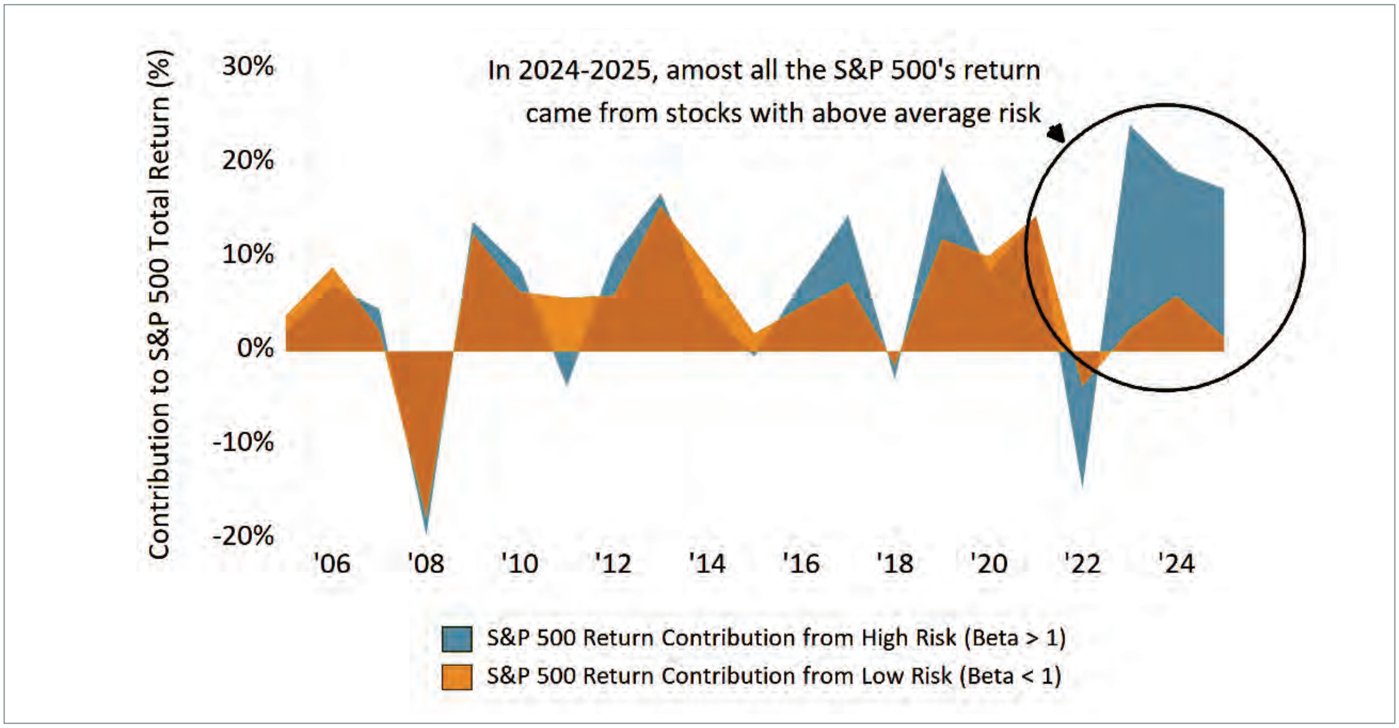
If this commentary raises questions about your portfolio or how it fits your goals, that's a conversation worth having. Reach out to your advisor to discuss what you've read here, review how your strategy is positioned, and make sure you're comfortable with the plan you have in place. The best time to reaffirm your strategy is before the market tests it — not after.

For anyone interested in a deeper dive into the breakdown of S&P 500 behavior by risk, please see our ***20-year S&P 500 Risk and Attribution (2005-2025) study***. The study is available at www.washingtoncrossingadvisors.com under the Insights section.

** Regression analysis of the S&P 500 for 2005-2025 of high risk companies (Beta>1) and low risk companies (Beta<1):*

- *High risk companies: implied Beta = 1.3, Alpha = -0.9%*
- *Low risk companies: implied Beta = 0.7, Alpha = +0.8%*

CHART A | WHERE ARE S&P 500 RETURNS COMING FROM? Source: Bloomberg, WCA



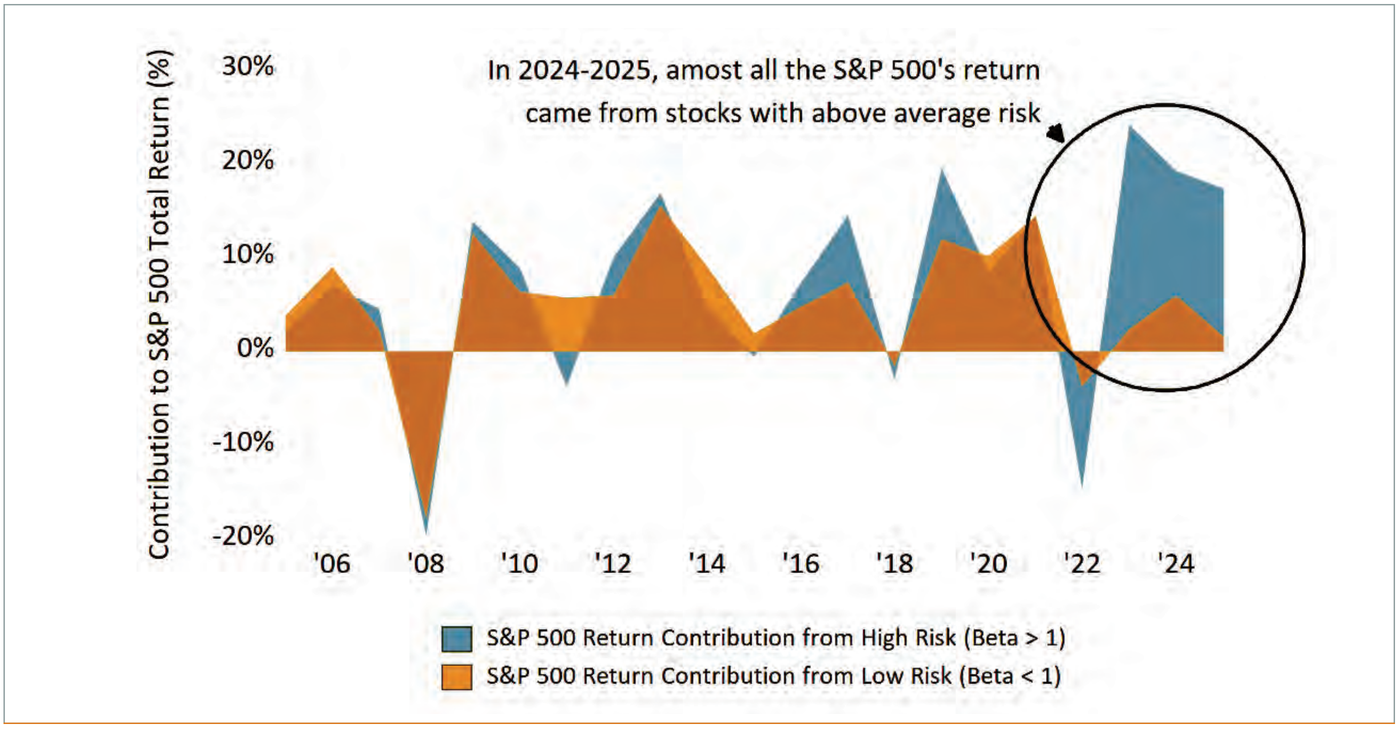
S&P 500 RISK AND RETURN ATTRIBUTION (2005-2025*)

We sought to look back at twenty years' data for the S&P 500 to study the source of return by company risk category. As the graphs and tables that follow show, the results were eye opening.

KET TAKEAWAYS

- 83% of the S&P 500's 2023-2025 return was driven by high-risk stocks. Users of the index for benchmarking purposes must be aware the index return composition has shifted dramatically toward risk. Practitioners may want to revisit whether the benchmark remains aligned with investor risk management objectives.
- A look back over the past two decades reveals 2023-2025 returns as an outlier. Most of the time, rising markets' leadership is shared between higher and lower risk stocks. There is balance. Since 2023, the balance has been lost. Returns have been skewed toward high risk resulting in lopsided, one-way leadership.
- The concentrated high-risk 2023-2025 rally has been an anomaly and raises risk of potential mean reversion. A significant "gap" has emerged between the value of high-risk and low-risk stocks.

CHART A | WHERE ARE S&P 500 RETURNS COMING FROM? Source: Bloomberg, WCA



S&P 500 RAW DATA (2005-2025*)

This table shows how S&P 500 returns have evolved since 2005. It breaks the index into two cohesive groups of stocks: Low Risk with betas below 1 and High Risk with betas above 1. The sum of the first two columns add up to the overall S&P 500 total return. The last two columns isolate the returns for each risk category. Note that since 2023, 86% of the overall S&P 500 return has come directly from high risk stocks (for the sake of simplicity, we use basic math — combining three most recent years of high risk contribution to return and dividing it by the combined total returns for the same time period).

Year	High Risk Contribution to Return (Beta>1)	Low Risk Contribution to Return (Beta<1)	S&P 500 Total Return	Total Return High Risk (Beta>1)	Total Return Low Risk (Beta<1)
2025*	17.3%	1.5%	18.8%	29.9%	3.5%
2024	19.2%	5.9%	25.0%	33.6%	14.0%
2023	24.0%	2.3%	26.3%	49.3%	5.4%
2022	-14.5%	-3.7%	-18.2%	-25.2%	-9.7%
2021	14.4%	14.3%	28.7%	29.0%	27.9%
2020	8.3%	10.1%	18.4%	26.3%	12.5%
2019	19.4%	11.9%	31.3%	34.0%	27.7%
2018	-2.9%	-1.5%	-4.4%	-5.8%	-3.2%
2017	14.4%	7.3%	21.8%	26.9%	15.8%
2016	7.2%	4.7%	11.9%	15.2%	9.1%
2015	-0.6%	1.9%	1.3%	-1.1%	4.2%
2014	4.8%	8.9%	13.7%	9.9%	17.2%
2013	16.8%	15.4%	32.2%	36.8%	28.2%
2012	10.0%	5.9%	15.9%	19.9%	12.2%
2011	-3.7%	5.7%	2.0%	-6.6%	11.3%
2010	8.8%	6.3%	15.1%	20.3%	11.2%
2009	13.8%	12.5%	26.2%	36.4%	20.6%
2008	-19.5%	-17.6%	-37.0%	-44.8%	-31.5%
2007	4.5%	2.3%	6.7%	9.2%	4.6%
2006	6.9%	8.9%	15.8%	14.1%	17.4%
2005	2.1%	3.8%	5.9%	5.5%	6.7%
Annual Return			**10.8%**	**12.4%**	**8.9%**
Annual Risk**			**16.9%**	**22.4%**	**13.5%**
Alpha				**-0.9%**	**+0.8%**
Beta				**1.3**	**0.7**

** YTD through December 10, 2025   ** Volatility (Standard Deviation of Returns)   Source: WCA, Bloomberg*

HIGH BETA HAS OUTPERFORMED OVERALL, BUT WITH MUCH HIGHER RISK

Higher risk stocks generated ~1.6% more annual return than the S&P 500 over the full period (2005-2025*), but at the cost of 30% more risk.

After factoring in risk, the returns of the S&P 500 and low risk stocks are fairly comparable (near 0.63-0.65). However, high risk stocks lag far behind after factoring in risk (return per unit of risk is only 0.55).

Index	Annual Return	Volatility / Risk*	Return / Risk
S&P 500	10.8%	16.9%	0.63
High Risk (Beta > 1)	12.4%	22.4%	0.55
Low Risk (Beta < 1)	8.9%	13.5%	0.65

** Annual standard deviation   Source: Bloomberg, WCA*

ASYMMETRY RULES: HIGH BETA AMPLIFIES LOSSES AND GAINS

Even after the massive high-beta runup from 2023-2025, regressing against the S&P 500 for 2005-2025 reveals:

- **High risk companies: implied Beta = 1.3, Alpha = -0.9%**
- **Low risk companies: implied Beta = 0.7, Alpha = +0.8%**

A core tenet of financial theory suggests holding higher beta (risky) stocks should yield higher returns, but empirical data often shows high-beta stocks often underperform low-beta stocks. To read more about this phenomenon, we recommend a paper titled "Betting Against Beta" by New York University Finance Professor Aswath Damodaran. While the paper was written over a decade ago, it appears that even in the bull market that followed the paper's publishing, betting against high-risk and high-beta proved to hold water.

IN THE SHORT-RUN, MARKET REGIME IS KEY

This should come as no surprise. Lower risk stocks tend to do better in difficult markets. Higher risk stocks tend to do better in rising markets.

Market Regime (2023-2025)	S&P 500 Average Annual Rtn	High Risk (Beta>1) Average Annual Rtn	Low Risk (Beta<1) Average Annual Rtn
S&P 500	10.8%	16.9%	0.63
High Risk (Beta > 1)	12.4%	22.4%	0.55
Low Risk (Beta < 1)	8.9%	13.5%	0.65

** Annual standard deviation   Source: Bloomberg, WCA*

RECENT YEARS: A DRAMATIC SHIFT TOWARD HIGH RISK

As you can see above, the 2023-2025 window is off the chart for high-risk, raising the risk of mean reversion.

This is not a normal market. Over the past three years, the performance gap between high-risk and low-risk stocks has blown out.

Where a relatively steady relationship used to exist between higher and lower risk investing styles, the risk-on market of 2023-2025 has created a large gap. The higher risk index (blue area) below appears positioned to revert to the mean as valuations become significantly stretched.

CONCLUSION

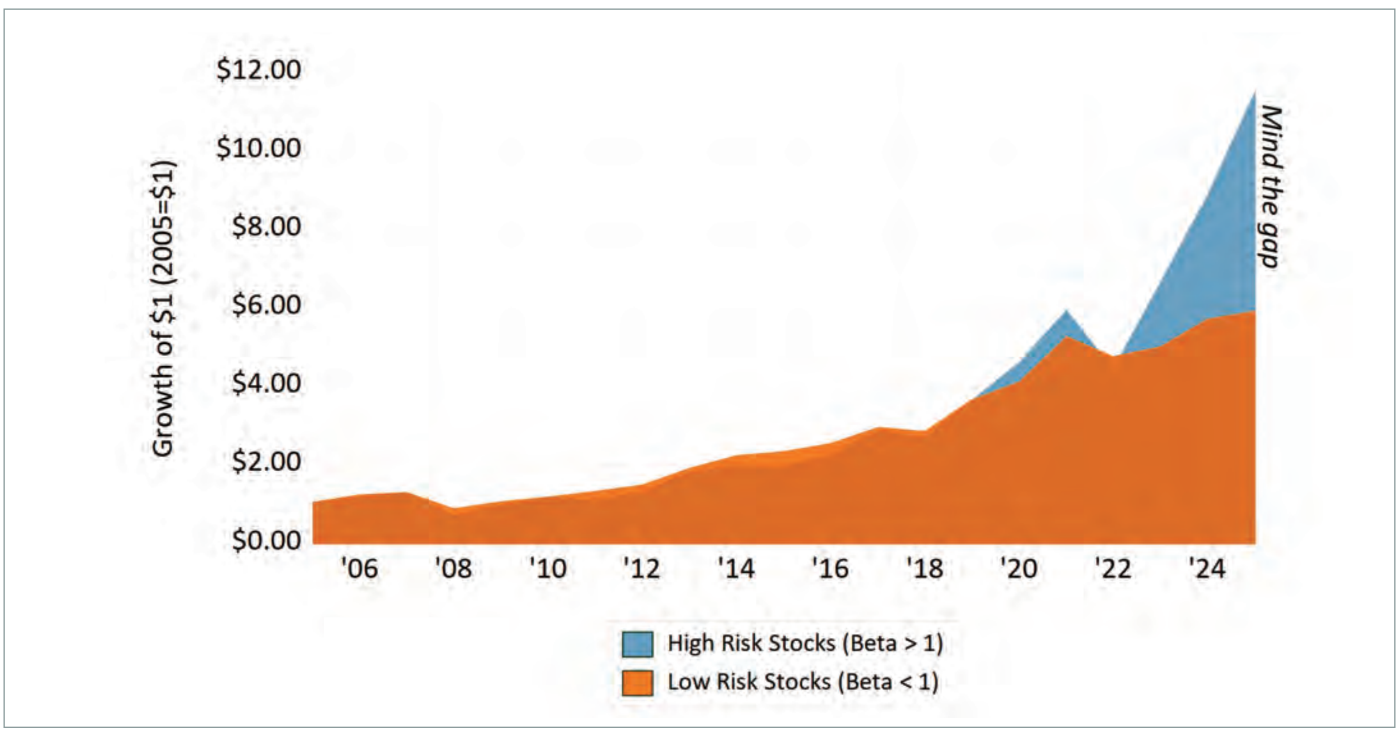
We performed this risk and return attribution of one of the most common indices to help us better understand what kind of risks are undertaken when investing in a strategy that tracks the index.

We discover that it is helpful to break the S&P 500 into two distinct types of investments — high risk (high beta) and low risk (low beta). In this way, we can study what drives performance of the index from one period to another.

We find that it is critical to understand that the S&P 500 is not a static index with static risk dynamics. Instead it is a continually changing benchmark with massive shifts in risk composition. The relative proportion of these two investment types shift over time without regard to any one individual investor's goals, risk tolerance, or circumstances. Over time, however, there is evidence that the two types of investments obey basic logic of mean reversion.

We also see that the most recent stretch of returns for the S&P 500 skews massively toward high risk style companies which accounted for 83% of the S&P 500 index's return since 2023. This shift is historic and substantial, measuring a several standard deviation move away from the historic average. Such a move suggests that mean reversion risk is high when comparing high versus low beta strategies.

CHART B | HIGH RISK STOCKS' RALLY EXPOSES GAP (MEAN REVERSION RISK HIGH) Source: Bloomberg, WCA



READING THE RISK HIDDEN INSIDE GROWTH EXPECTATIONS

When most of us think about growth, the focus is usually on how quickly a company might expand in the future and, sometimes, on recent growth. But the more important question for your portfolio may actually be not how much growth a company might deliver — it is how confident we can be in that growth. We will argue here that during risk-loving bull markets (like today), focus tends to shift to the "how much" question, and during more normal, risk-aware markets, reverts to the "how confident" question.

WCA QUALITY GRADES

To prove our point, we will offer three charts. The first chart in this series (Chart A, page 15), which compares market-implied 10-year growth rates across our WCA Quality Grades, puts the question of growth into sharp relief. And once you see what the data is illustrating, the implications become difficult to ignore.

DEFINING WHAT "GROWTH" MEANS

Before diving into the chart, it would be good to define what we mean by "growth" here. After all, growth is one of the most slippery concepts in finance. Ask ten people what growth is, and you are likely to get ten different answers. Some will point to the most recent quarter. Others will look back a year or five years. Analysts will give you forward estimates. Management teams will offer their own projections. All of these definitions differ, and all rely on subjective judgment about how and what we are actually measuring. In that sense, growth is mercurial. It shifts depending on which measure you emphasize and which time horizon you choose.

Here, however, we take a different approach — one that avoids the biases baked into traditional definitions. Instead of focusing on accounting outcomes or analyst estimates, we rely on an impartial arbiter: the market itself. By examining the growth rate the market is willing to price into a stock, we get to the heart of the matter. Whatever hopes or assumptions any one person may hold, it is ultimately the market's collective judgment that shapes valuations, expectations, and long-run outcomes. Observing the market's implied growth rate baked into every stock, therefore, deserves first consideration when evaluating the durability of a company's prospects, especially when comparing high- and low-quality firms.

WHAT CHART "A" REVEALS — THE SHAPE OF RISK

Now, with what we mean by growth clearly defined, consider what Chart A on page 15 shows. At first glance, note that the median implied growth rate *does not fall dramatically as you move from high-quality "A" companies to low-quality "F" companies*. Intuition might suggest otherwise. One would expect companies with stronger balance sheets, steadier cash flows, and more predictable earnings to command meaningfully higher growth expectations. But the mechanics of implied growth explain why the medians remain relatively close.

Implied growth is calculated as a company's weighted average cost of capital minus its operating cash-flow yield. Lower-quality companies face a higher cost of capital, reflecting their elevated risk. Yet those same risks also tend to push their valuations lower, which increases their cash-flow yields. These opposing forces partially offset each other. That is why the median implied growth rate does not collapse as quality declines. But focusing on the median growth rate misses the essential point.

THE EXPANDING DISTRIBUTION OF LOW QUALITY

The most critical insight in the chart is the *widening of the distributions*: as quality declines, the range of possible outcomes expands massively. And here we get to the crux of the issue. That widening is precisely why lower-quality companies can look so appealing in a risk-hungry market. The upside tail part of the distribution feels incredibly exciting, and that excitement can blind us to the downside tail. And just look at that downside tail part of the distribution of low-quality "F" stocks. That lower tail is just as real — and often far more damaging. What seems like rapid growth in calm conditions usually turns out to be a chimera, one that can completely unravel when risk appetite swings the other way.

Such regular yet sudden shifts betray the structural vulnerabilities embedded in many exciting but low-quality companies. Risk is not defined by the average outcome; it is defined by the range of outcomes — especially the negative ones. Lower-quality companies inhabit the widest and most dangerous part of that range. Higher-quality companies occupy the narrow, predictable center. For anyone concerned with long-term capital preservation, this distinction is fundamental. Now we would like to talk about where we are in the cycle.

RISK SHOWS ITSELF WHEN CONDITIONS CHANGE

Chart "B" on page 15 and Chart "C" on page 16 reinforce this logic by showing how markets have behaved under stress. When conditions deteriorated — as they did during the 2007–2009 financial crisis, in the early stages of COVID-19, and throughout the rapid rate increases of 2022 — high-yield credit spreads widened sharply. In every one of those periods, high-quality companies strengthened their leadership over low-quality with near-perfect consistency.

When concerns arose, the market systematically abandoned fragility in favor of durability, stability, and resilience. This process is not episodic; it has been a persistent feature of market behavior.

TODAY'S ENVIRONMENT: UNCOMPENSATED RISK IN A LONG LOW-QUALITY CYCLE

Now consider where things stand today (Chart C, page 16). For more than 30 months, the environment has rewarded greater risk-taking. High-yield spreads have fallen to unusually low levels, meaning the compensation for bearing risk is historically thin. Predictably, low-quality companies have led during this stretch. But the first chart exposes the underlying fragility: these companies sit atop the broadest and most precarious distribution of possible outcomes. When conditions eventually change — and history suggests they will — the adjustments tend to be swift.

WHY QUALITY MATTERS BEFORE THE CYCLE TURNS

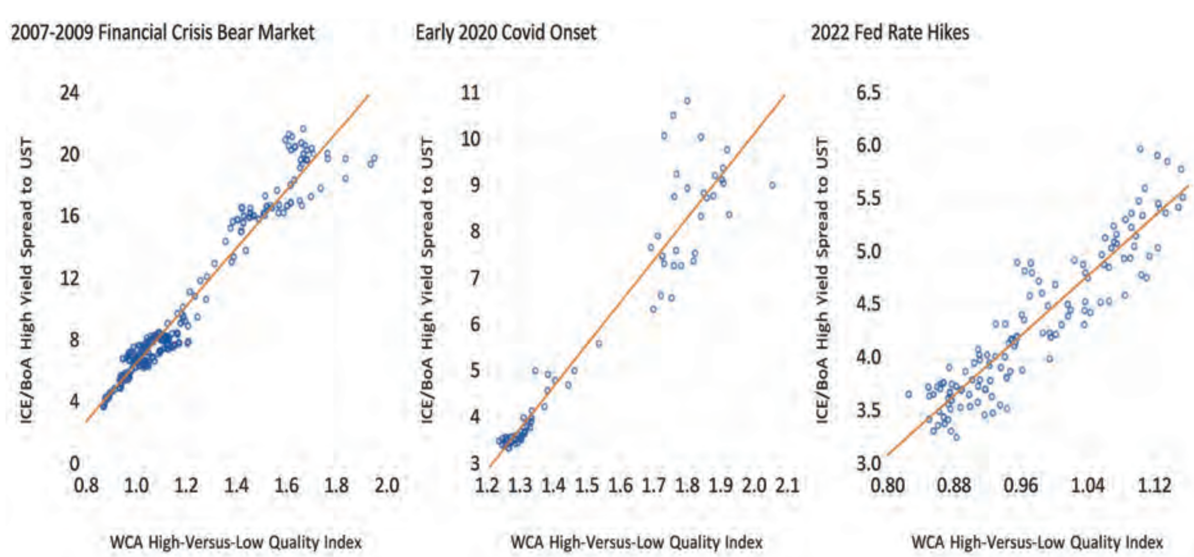
Maintaining a focus on quality is not about chasing what worked last month or last quarter. It is about understanding the structural vulnerabilities inherent in low-quality companies and choosing not to expose your portfolio to unnecessary downside. If you are allocating new capital or rebalancing after a period of speculative gains, this may be an especially prudent moment to lean toward financially stronger, more predictable businesses.

Cycles turn. When they do, quality leadership tends to reemerge with speed and conviction. The evidence borne out time and again in history compels a choice. That choice comes down to one of quality. And we at Washington Crossing Advisors remain committed to choosing quality over uncompensated, low-quality risk or ephemeral growth.

CHART A | GROWTH EXPECTATIONS BECOME HARDER TO ESTIMATE AS QUALITY DECLINES Source: Bloomberg, WCA

Companies are grouped into WCA Quality Grades ("A"–"F") based on balance-sheet strength, profitability, profit consistency, and stock volatility. Higher grades correspond to more predictable, durable, and flexible businesses — traits emphasized across the WCA Rising Dividend discipline. The chart displays each firm's 10-year market-implied growth rate, calculated as its weighted average cost of capital minus operating cash-flow yield (OCF/EV). Tighter distributions among higher-quality companies indicate more stable and predictable long-run growth expectations, while lower-quality firms show wider dispersion and more frequent downside surprises.

CHART B | HIGH QUALITY OUTPERFORMED LOW QUALITY DURING RISK-OFF PERIODS Source: Bloomberg, WCA



This chart compares high-yield bond spreads (vertical axis) with the relative performance of WCA High Quality ("A") versus Low Quality ("F") stocks (horizontal axis). In every crisis period, the two move together — risk premiums rise as high-quality stocks outperform low-quality stocks. The pattern highlights how a high-quality portfolio tends to provide protection during market stress, while lower-quality stocks — often those with high dividend yields — can amplify losses when risk premiums widen.

CHART C | TODAY: UNCOMPENSATED RISK IN A LONG LOW-QUALITY CYCLE Source: Bloomberg, WCA

STOCK MARKET RECORD LOW YIELD POSES SIGNIFICANT CHALLENGE

Dividend investing keeps the focus on fundamentals rather than the market's constantly changing mood. History reminds us that staying grounded in fundamentals, rather than market mood, has rewarded patient investors again and again.

LOOKING PAST SHORT-TERM MARKET NOISE

This perspective lies at the heart of what we do at Washington Crossing Advisors (WCA). The WCA Rising Dividend portfolio strategy centers on dividend increases from solid, high-quality companies at reasonable prices. Consistent dividend payments from fundamentally strong companies (low debt, profitable assets, consistent business) help us look past short-term market noise and stay focused on the long-term prospects of a business.

Compared with growth investing, which seeks capital appreciation from rapidly expanding businesses, dividend investing emphasizes stability and tangible income that can cushion portfolios during market downturns. Even though total returns are about more than just dividends, pursuing long-term income means looking for "quality and income at reasonable prices." However, such stocks have not been the market stars in recent months. Quality has been largely overlooked in the recent market runup, as the chase for lower-quality, higher yielding, and AI-led growth has driven the S&P 500 dividend yield to its lowest level since the late 1990s.

CREATING VALUE IS NOT JUST ABOUT DIVIDENDS

It's true that returns come from more than just dividends. If we understand dividends as "payment to the owner," this makes perfect sense. Imagine that we owned a pizza shop. To grow the shop's value, we might try to enhance the menu, improve delivery, renovate, or advertise. Early on, we'd probably reinvest back into the business instead of paying ourselves a big dividend. Over time, those investments would (hopefully) increase profits and make our business worth more. In this way, value is created by investing in the business, not by taking money out of it.

Dividends, therefore, don't create value by themselves. But they do matter because they signal strength. Companies with reliable cash flows can afford to share profits with shareholders, while younger firms often need to reinvest every dollar. Dividend growers tend to be mature, financially stable companies with consistent cash flow and lower volatility. For investors seeking steady income and growth, these are the companies that belong at the top of the list — those that combine tangible cash income with disciplined, long-term growth.[1]

QUALITY AT REASONABLE PRICES

Even though returns are not just about dividends, "quality and income at reasonable prices" helps us focus on what ultimately matters most in the long run.

Consider Chart A on page 21. The S&P 500 dividend yield has now fallen to levels last seen in the late 1990s and is at the lowest level seen in over a century. The decline in yield mirrors a surge in valuations for the largest U.S. stocks. In recent months, growth expectations have soared while risk premiums have collapsed. With the total value of public equities exceeding $70 trillion — up more than $30 trillion since early 2023 — the S&P 500's yield has fallen to 1.2% from 1.8%. And while a secular trend of declining yields has not meant the stock market could not advance, today's S&P 500 concentration and valuation extremes make today's setup less forgiving should the economy slow or risk appetite ebb. This combination of high valuations and compressed yields suggest that markets have already priced in much of the optimism surrounding future growth and may not be receiving adequate compensation for risk.

More simply, the decline in yield means a $100,000 investment now only generates $1,200 in annual cash income, down by a third from $1,800 that the same investment would have generated just two years ago. If we are looking for income from an equity portfolio, today's market yield is not an attractive proposition in nominal terms and even worse after inflation.

WHERE TO FIND QUALITY AND YIELD

The good news is that opportunities for "quality and income at reasonable prices" still exist — if you're willing to look.

Such stocks tend to offer moderate yields and steady dividend growth rather than high, unsustainable payouts. Today, many of these quality companies provide far better starting yields than the S&P 500. For example, the difference in dividend yield spread between the WCA Rising Dividend portfolio and that of the S&P 500 is now the widest on record (Chart B, page 21). The portfolio focuses on dividend growers with low debt, profitable assets, and consistent business models. These companies may not be flashy, but they offer far better value than the S&P 500 or highest-growth names now dominating headlines.

Last week, we noted that lower-quality companies — those with more debt, weaker profitability, and inconsistent results — have outperformed higher-quality firms since early 2023 (See Quality Under Pressure, Patience Required, page 23). This "low-quality cycle" has lasted longer than normal and, in our view, appears set to reverse in the months ahead. Meanwhile, five mega-cap and AI-themed companies now dominate the market narrative, each priced with embedded growth expectations exceeding 10% in perpetuity. While these companies are indeed highly profitable and innovative, their current valuations imply near-permanent dominance with growth that forever exceeds the potential growth rate of the economy — assumptions that are not likely to be validated over the long-run. And should these expectations adjust to a more likely reality, volatility for these stocks — and for the market as a whole — could rise sharply. In that environment, the defensive characteristics of high-quality dividend growers may offer a welcome pocket of calm. As history has shown through multiple market cycles, it's often the companies that endure stress well that separate long-term success from failure. (See our recent commentary titled "Why Market Stress Favors Quality: The Macroeconomic Case for Quality Investing" for more on defensive characteristics).

CONCLUSION

Dividend growth investing combines the benefits of tangible income with consistent, compounding growth from dependable companies, making it an effective counterweight to speculative concentration. The objective is to build a rising stream of income from high-quality businesses purchased at reasonable prices — not chasing yield from financially weak firms or paying excessive prices for growth or the next big story.

Although total returns are not solely about dividends, investors should continue to seek quality and income at reasonable prices for two key reasons:

1. High-quality dividend stocks have been overlooked, creating an attractive entry point.
2. The pursuit of hyper-growth has driven the S&P 500's dividend yield to record lows, setting the stage for heightened market risk.

In other words, while markets may celebrate the exciting and the new, enduring wealth is most often built through patience, discipline, and a steady flow of dividends from quality companies. When sentiment eventually shifts — as history suggests it inevitably will — those quality fundamentals will matter most.

1 We do not include share buybacks in this analysis, but others might include buybacks as a component of total return or shareholder yield. Buybacks are not appropriate in this context for two main reasons. First, they do not represent an actual cash payment to an owner, nor do they represent investment for growth back into the business. Second, buybacks provide less of a signal of financial health because they are exercised on a discretionary basis. Buybacks are not declared in the same way that dividends are and are often increased, foregone, or eliminated with little fanfare or notice. We have not found buybacks to be as consequential as regular dividends from the perspective of identifying quality fundamentals. In recent years, buybacks have been substantial with quarterly buybacks for S&P 500 companies ranging from about $200-250 billion according to research by Yardeni & Associates.

CHART A | S&P 500 DIVIDEND YIELD NEAR ALL-TIME LOWS

Source: Prof. Robert Shiller Data, WCA

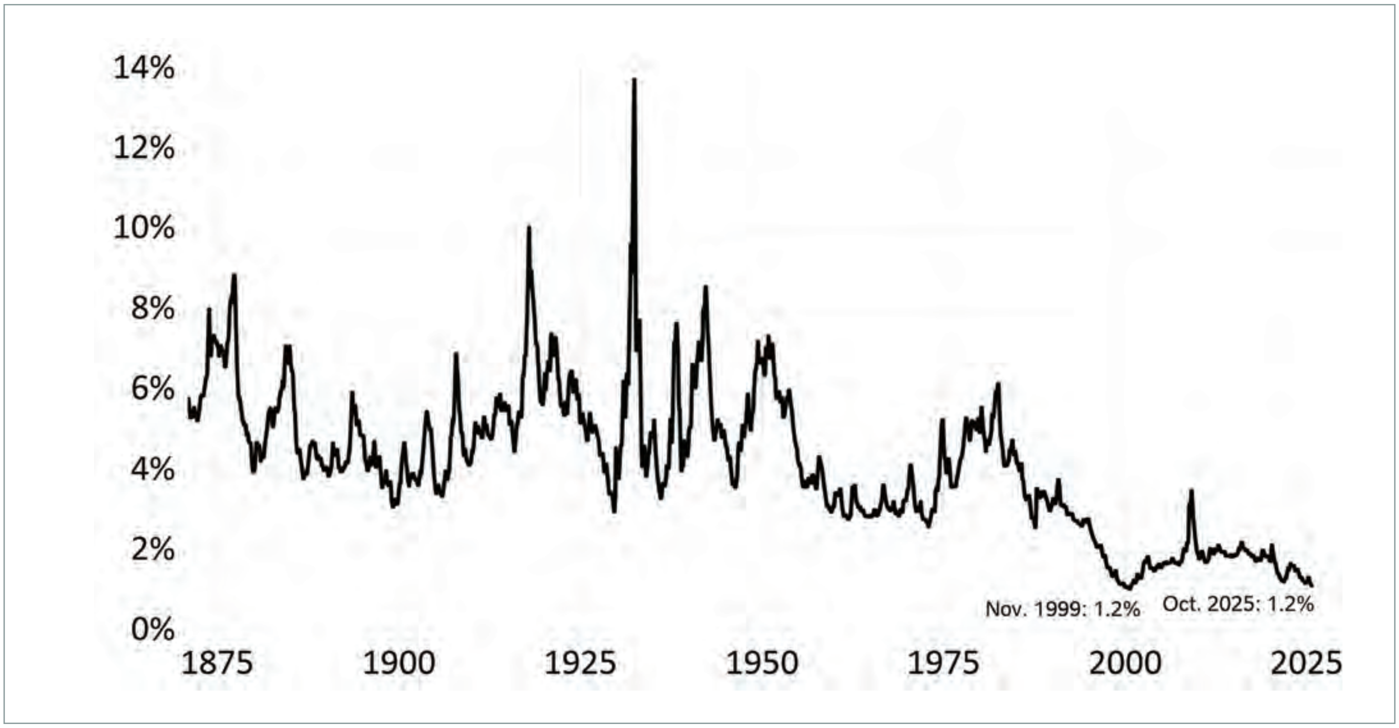
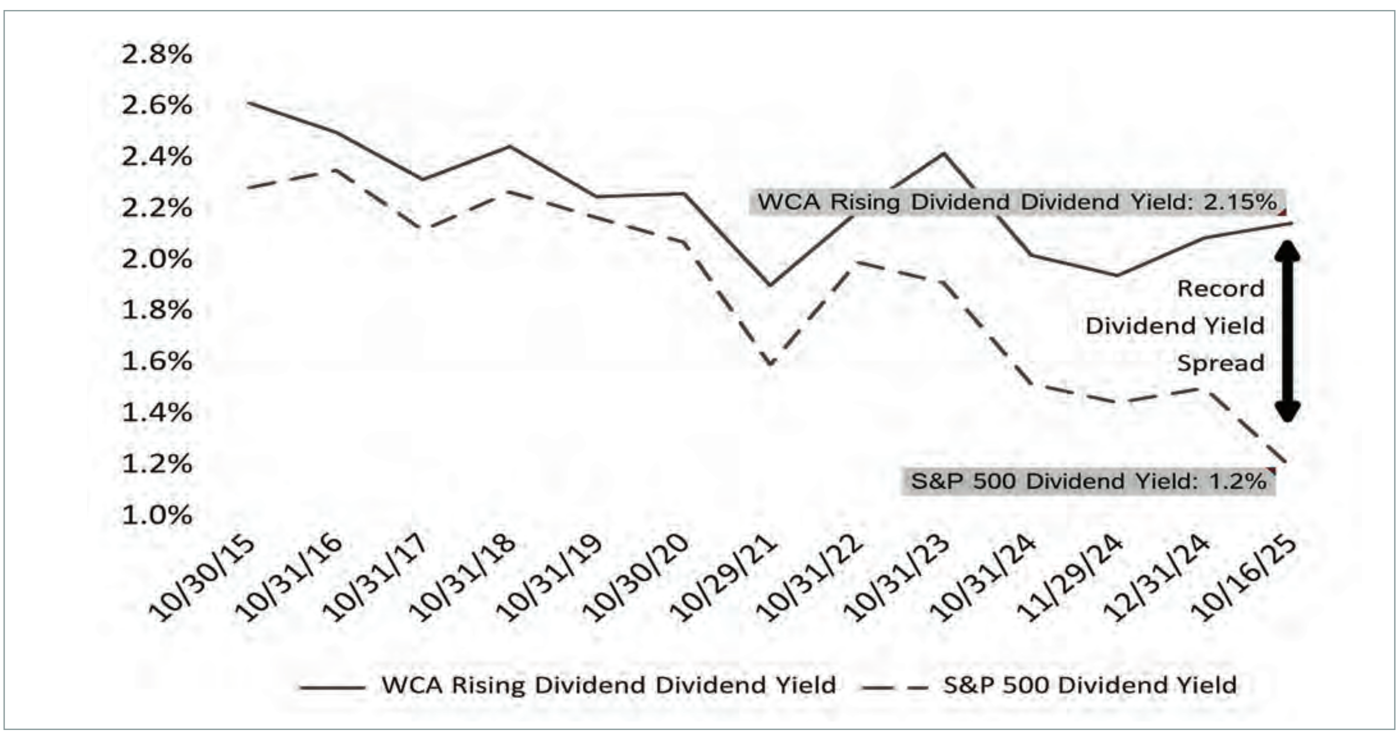


CHART B | WCA RISING DIVIDEND FAR EXCEEDS S&P 500 DIVIDEND YIELD

Source: Bloomberg, WCA



QUALITY UNDER PRESSURE, PATIENCE REQUIRED

Our recent lag versus the S&P 500 reflects a market led by lower-quality and extremely highly valued companies. While challenging, this is a well-understood dynamic of quality investing. Low-quality phases can last for a time, but history has shown they were followed by renewed leadership in high quality. The current low-quality phase is already longer than average and may be nearing exhaustion. Credit and valuation signals now suggest downside risks are rising even as the economy continues to expand.

WHERE WE ARE NOW

This has been a speculative stretch: lower rate hopes, and pro-growth policy expectations have pulled the leadership toward weaker balance sheets and more volatile earnings.

In such periods, low quality has typically outperformed high quality — and our discipline can trail. Over the past year, our high-quality, "A"-Grade index rose just 2.2% versus a 31% gain for lower quality, "F"-Grade companies. This is not an aberration, but a familiar dynamic of quality investing.

As we remind prospective clients in every WCA Rising Dividend fact sheet:

"High quality styles tend to perform better in flat to down markets, but lag in strong bull markets. Because the strategy avoids high debt and volatile earnings, performance can differ substantially from traditional value strategies."

The current environment has rewarded return-seeking with little regard for risk. However, when risk inevitably reasserts, investors have historically turned back to the durability, flexibility, and predictability of high quality. We have seen this time and time again in the past.

WHAT ARE QUALITY CYCLES?

Our research has shown leadership rotates in multi-quarter waves that average about 22 months. We are now roughly 30 months into the current low-quality run — already longer than average (Chart A, page 25).

According to our research:

- **Low-quality phases can deliver strong "junk rallies"** (e.g., 2009–10: Low-Quality +227% vs. High-Quality +58%; 2020–21: Low-Quality +119% vs. High-Quality +38%).
- **Low quality carries enormous volatility, exciting on the way up but brutal on the way down.**
- **High quality provides steadier compounding and far better downside protection** (e.g., 2007–09: High-Quality −38% vs. −72% for low quality; 2014–16: High-Quality +7% vs. −27% for Low-Quality).

Today's low-quality rally has exceeded historical averages in both duration (29 vs. 22 months) and magnitude (Low-Quality is up 66% vs. 42% average Low-Quality cycle return). Patience may again be rewarded as the cycle matures. Over the past 20 years, the WCA "A"-Quality index returned 11.9% annually versus 9.1% for "F"-Quality, with far less volatility, according to Bloomberg data. One of the keys is to remain invested in high quality through a complete market cycle.

CREDIT AS A CYCLE TELL

Credit markets often provide an early signal for cycle changes. Low-quality leadership typically coincides with tightening high-yield spreads, while high quality holds up better when spreads widen. Today, spreads sit near multi-decade lows at ~2.7% — about two standard deviations below the long-run average of 5.25%. Past episodes at similar levels (late-1990s, mid-2007) were followed by violent repricing (Chart B, page 25). Tight spreads rarely leave much margin of safety and can signal tipping points long before any singular "event" becomes apparent.

VALUATIONS PRICING IN RAPID GROWTH

In addition to low-quality leadership, we also see momentum feeding unreasonable growth expectations and stretched valuations in some areas. Consider that U.S. public equities now are worth about $70 trillion versus a $30 trillion economy* (private equity would only add to the $70 trillion figure). This large multiple, even without factoring in private equity, reflects optimism but also leaves little compensation for risk (Chart C, page 26). As we noted in ***"The Illusion of Perpetual Growth,"*** more than half of the S&P 500's market capitalization is priced with implied growth above 5% — faster than the 5% nominal growth rate the economy has delivered over the past decade.

Among these, the average expected growth rate is about 7.5% and can reach 16% for the most "expectation rich" growth equities.* Rising expectations and momentum have pushed valuations to levels extremely difficult to reconcile with fundamentals.

FOCUS ON FUNDAMENTALS

Ultimately, fundamentals act as a grounding force for stock prices. Despite lagging benchmarks, our Rising Dividend portfolio has continued to deliver strong fundamental and operating results:

- EPS growth near 10.7% annualized this year through August
- No dividend cuts and ongoing dividend increases
- Average dividend growth of ~9% with payout ratios near 50% (Chart D, page 26)

This consistency reflects the defensive and compounding characteristics we seek from a group of high-quality companies.

WHY "QUALITY AT A REASONABLE PRICE" STILL MAKES SENSE

We continue to believe that high quality endures, even if it does not lead in every period. Our approach — buying high-quality companies with rising dividends at reasonable prices — has delivered durable, risk-adjusted returns through many cycles. With the current low-quality run extended, credit spreads very tight, and valuations stretched, the odds favor a return to the durability, flexibility, and predictability of quality companies with rising dividends. Staying disciplined, even in the face of short-term lag, has historically rewarded patient investors.

Recent market leadership has also been concentrated in a narrow set of companies with very high valuations and growth expectations. These 'expectation-rich' stocks have powered popular benchmarks higher, while more reasonably valued, high-quality businesses have lagged.

Because our Rising Dividend strategy emphasizes quality at a reasonable price, we expect to trail when markets are driven by low quality and speculation. In fact, if we were outperforming in this type of environment, it would be a ***red flag that we had strayed from our core discipline***. Our role is not to chase fads, but to remain consistent in focusing on companies with strong balance sheets, steady earnings, and rising dividends.

History has shown that while no strategy leads in every market, high-quality styles tend to fare better in flat or down environments when fundamentals reassert themselves. By staying disciplined today, we aim to compound wealth more reliably over time.

** Source: Bloomberg, WCA*

CHART A | WCA QUALITY INDEX CYCLES

Source: Bloomberg, WCA

LEADERSHIP	START	END	# MONTHS	"A" QUALITY RETURN	"F" QUALITY RETURN
Low Quality	Sep 2004	Jul 2007	35	44%	75%
High Quality	Jul 2007	Feb 2009	20	-38%	-72%
Low Quality	Feb 2009	Apr 2010	14	58%	227%
High Quality	Apr 2010	Sep 2011	18	10%	-23%
Low Quality	Sep 2011	Jun 2014	33	79%	120%
High Quality	Jun 2014	Feb 2016	20	7%	-27%
Low Quality	Feb 2016	Jan 2017	11	18%	45%
High Quality	Jan 2017	Mar 2020	39	44%	-21%
Low Quality	Mar 2020	Mar 2021	12	38%	119%
High Quality	Mar 2021	Apr 2023	25	12%	-17%
Low Quality	Apr 2023	???	29	36%	66%
Average Cycle (Months)			22		
Average Annual Return				11.9%	9.9%
Average Annual Risk*				13.9%	27.0%
Return / Risk				0.86	0.37

High Quality cycles are those in which the WCA High Quality index outperformed the WCA Low Quality index. The high quality index are those companies ranked highest based on indebtedness, profitability, and business consistency. The low quality index are companies that generally have higher debt, less profitable assets, and greater swings in business conditions. During strong bull markets, lower quality tends to lead and during sideways or bear markets higher quality tends to lead. * Annual standard deviation.

CHART B | HIGH YIELD CORPORATE BOND SPREAD OVER TREASURIES

Source: Bloomberg, WCA

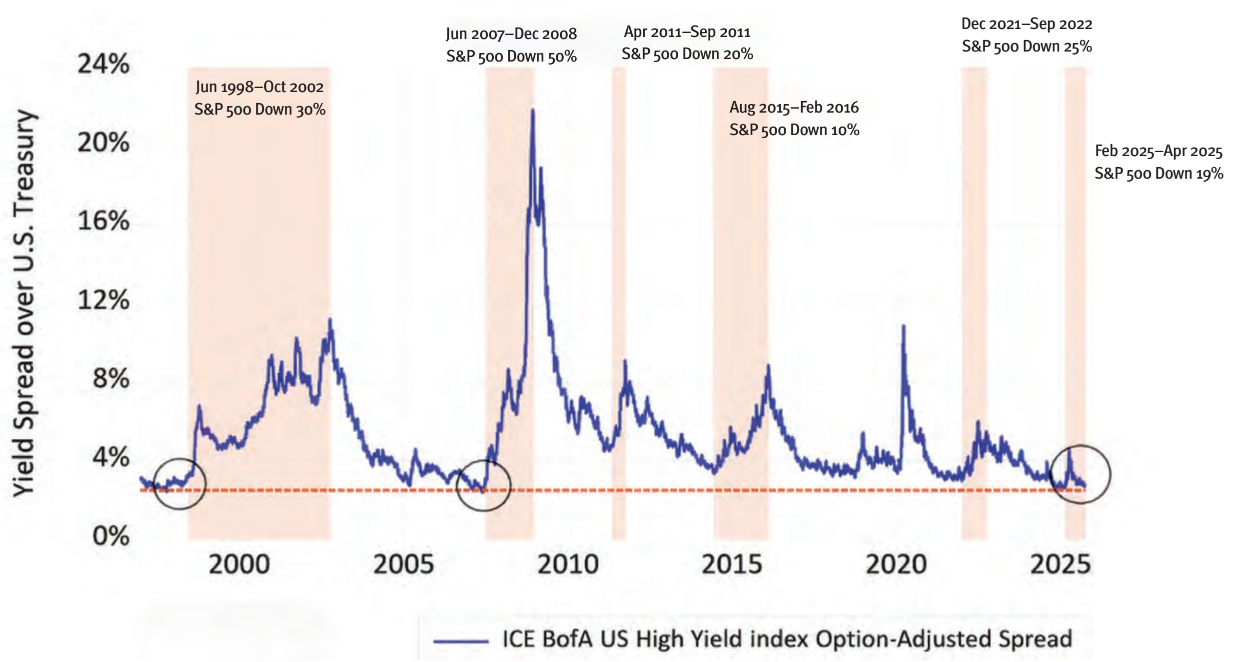


CHART C | HIGHLY VALUED STOCK MARKET Source: Bloomberg, WCA

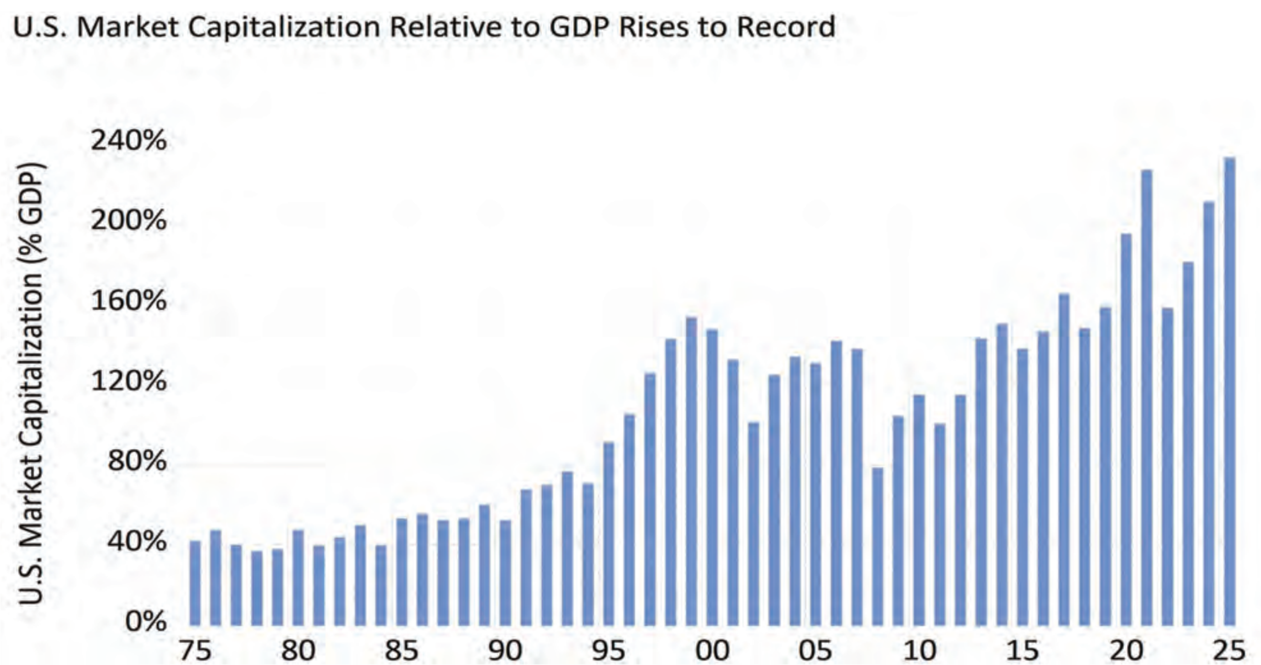
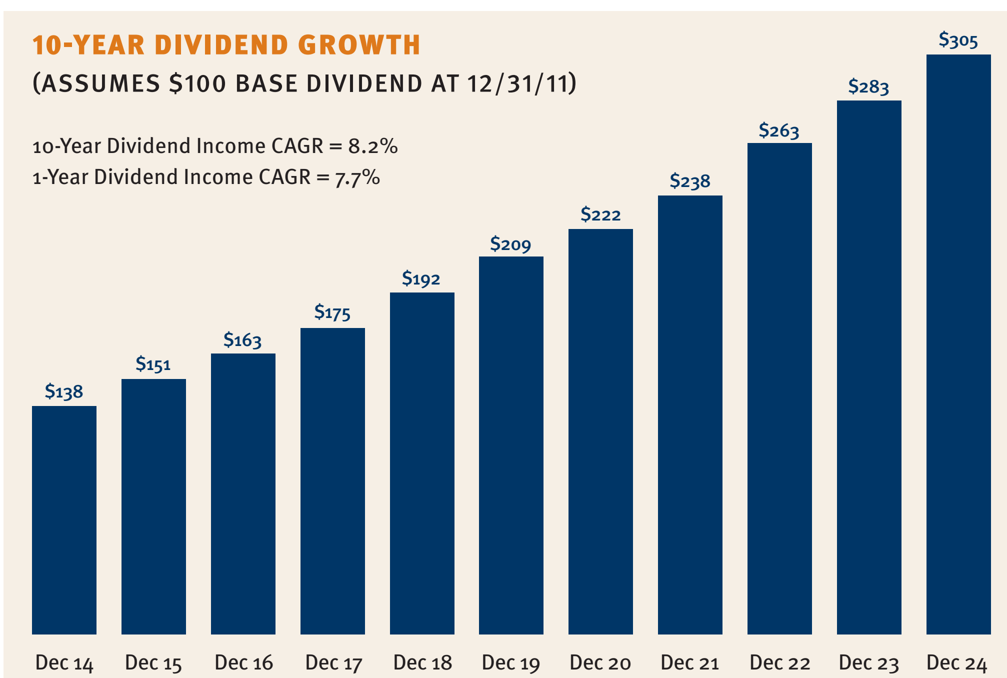


CHART D | WCA RISING DIVIDEND 10-YEAR DIVIDEND GROWTH Source: Bloomberg, WCA

Data as of 6/30/25.

Dividend growth chart is inclusive of, but not pictured, dividend per share growth of 13.4% in 2012, 9.8% in 2013, and 11.1% in 2014.

CAGR = Compound Annual Growth Rate



IMPORTANT DISCLOSURES

Standard & Poor's 500 Index (S&P 500) is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

Indices are unmanaged, and it is not possible to invest directly in an index. All benchmark returns presented are provided to represent the investment environment existing during the time periods shown. Actual investment performance will vary due to fees and expenses. For comparison purposes, the benchmarks include the reinvestment of income. The benchmarks are unmanaged and unavailable for direct investment.

The Washington Crossing Advisors' High Quality Index and Low Quality Index are objective, quantitative measures designed to identify quality in the top 1,000 U.S. companies. Ranked by fundamental factors, WCA grades companies from "A" (top quintile) to "F" (bottom quintile). Factors include debt relative to equity, asset profitability, and consistency in performance. Companies with lower debt, higher profitability, and greater consistency earn higher grades. These indices are reconstituted annually and rebalanced daily. For informational purposes only, and WCA Quality Grade indices do not reflect the performance of any WCA investment strategy.

The ICE BofA U.S. High Yield Index is an unmanaged index that tracks the performance of U.S. dollar denominated, below investment-grade rated corporate debt publicly issued in the U.S. domestic market.

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The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Beta is a measure of the volatility, or systematic risk, of a security or a portfolio relative to the market as a whole. A beta of one is considered as risky as the benchmark and is therefore likely to provide expected returns approximate to those of the benchmark during both up and down periods. A portfolio with a beta of two would move approximately twice as much as the benchmark.

Standard deviation is a measure of the volatility of a security's or portfolio's returns in relation to the mean return. The larger the standard deviation, the greater the volatility of return in relation to the mean return.

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