WASHINGTON CROSSING ADVISORS

WCA Equity Update

Autumn 2026

The Tortoise and the Hare: How steady, high-quality companies won the race

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November 2026

THE BIG PICTURE

The market is betting on the hare: years of AI-driven profit growth

+80%

S&P 500 gain since October 2023

+73%

Rise in forecast earnings for the next 12 months

90%+

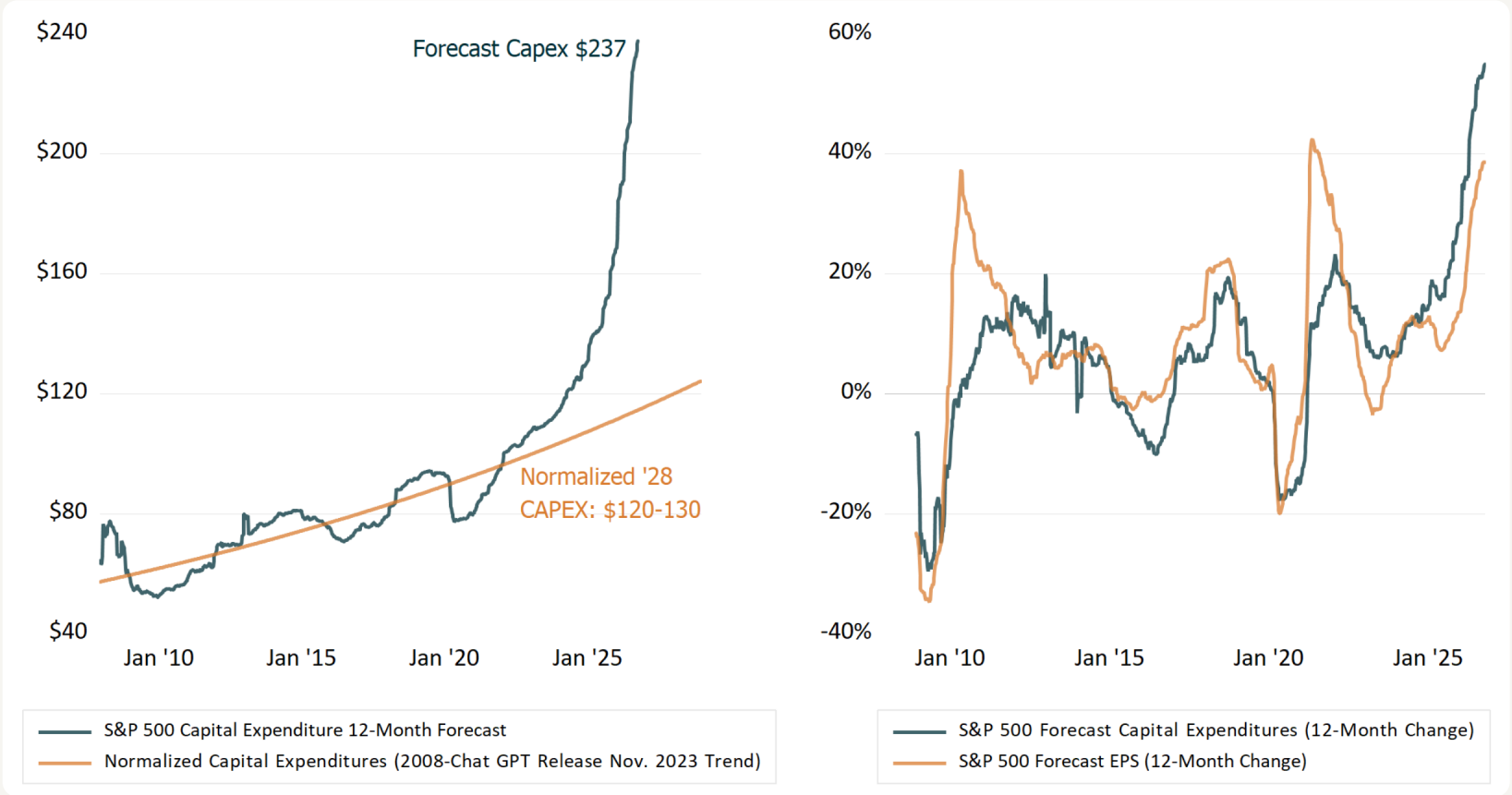
Share of the gain explained by higher earnings expectations, not higher valuations

The prevailing assumption is that this can continue. But the spending behind those profits increasingly depends on borrowed money, and lenders are starting to question it.

1 · SPENDING IS FAR ABOVE TREND

The hare's pace: spending at twice its trend

Forecast capital spending vs. its pre-ChatGPT trend (left); 12-month change in forecast spending and earnings (right)



$237

Forecast capital spending per share, about twice its $120–130 trend

2–4 quarters

How far spending tends to lead earnings

12.9% → 17.3%

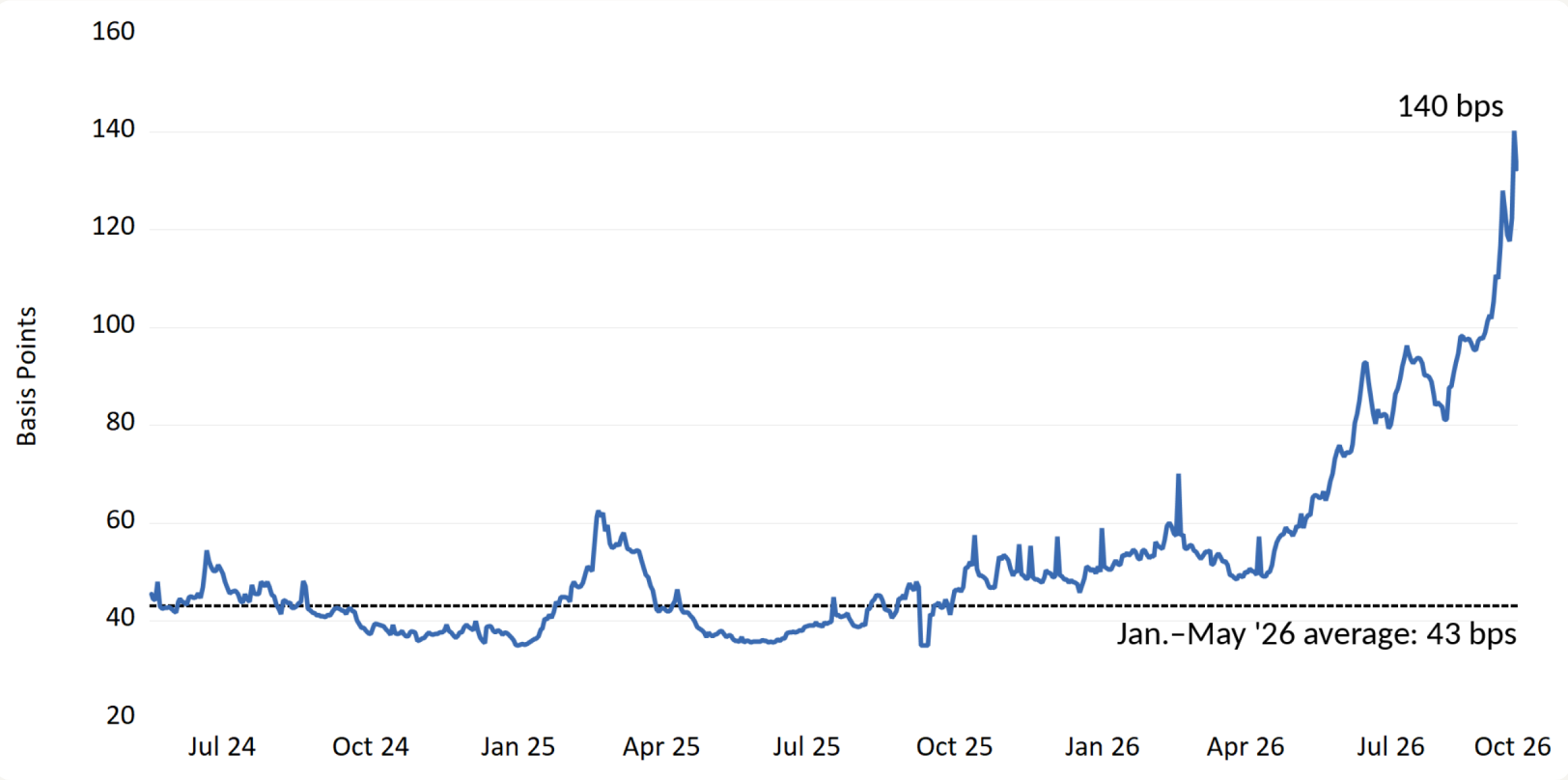
Profit margins since October 2023

Source: WCA, Bloomberg

2 · THE MONEY IS HARDER TO FIND

The hare is running on borrowed money

Median 5-year credit default swap spread, AI-linked semiconductor and cloud companies (basis points)



3×

Rise in the cost of insuring AI-linked debt since spring, from 43 to 140 basis points

2× +

Today's level against last year's tariff-shock peak

11.2%

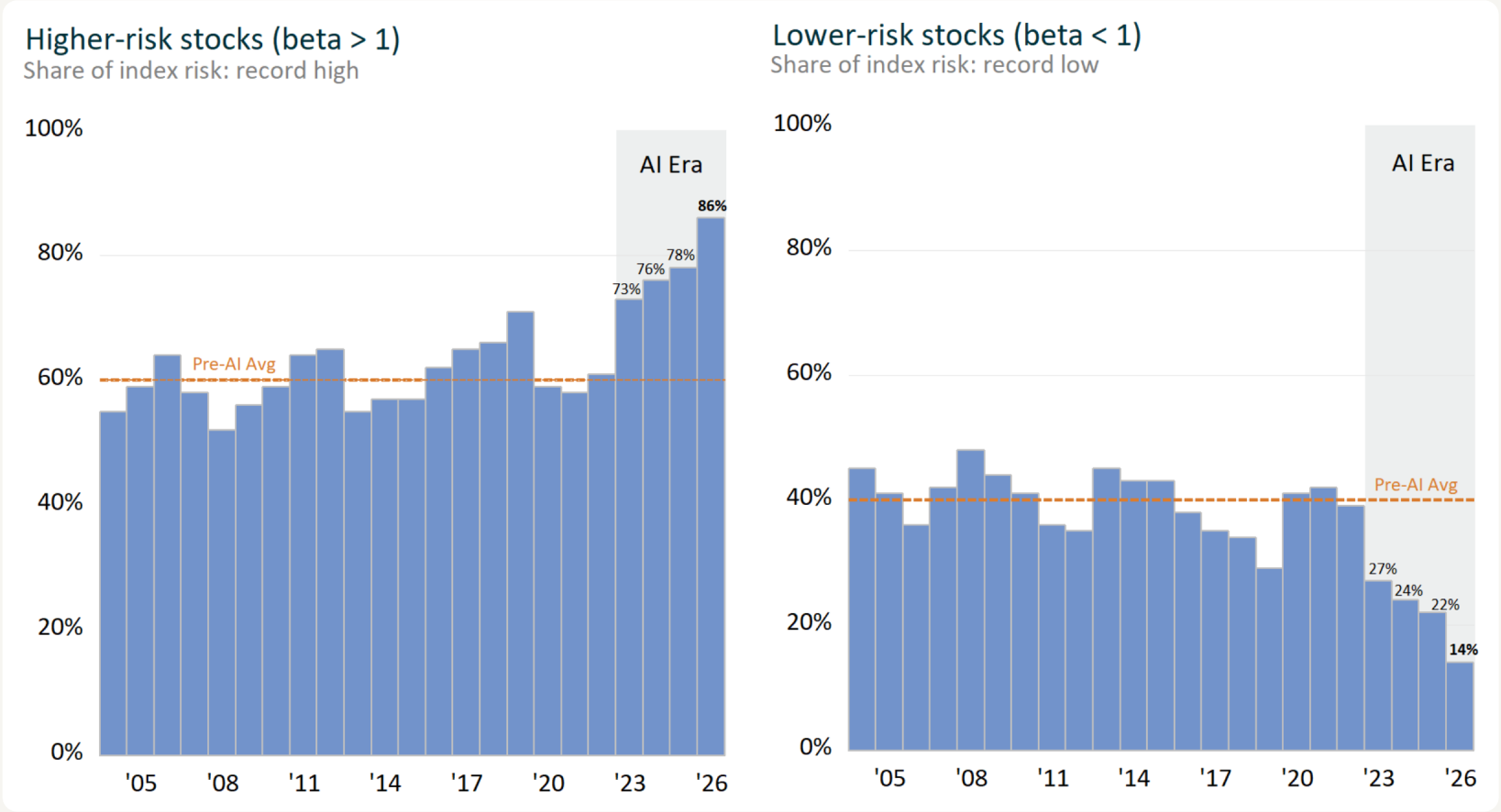
Extra yield on CCC-rated bonds, the highest since October 2022

Source: WCA, Bloomberg. Median of six companies (five before October 2025). Daily, June 2024–Nov. 2, 2026.

3 · THE INDEX LOST ITS SHOCK ABSORBERS

The S&P 500 has become a bet on the hare

Share of S&P 500 risk from higher-risk stocks (left) and lower-risk stocks (right)



64% → 86%

Higher-risk stocks: their share of the index vs. their share of its risk

36% → 14%

Steadier stocks: their share of the index vs. their share of its risk

~41%

Share of index risk from just six companies

Source: WCA, Bloomberg PORT. Year-end, except September 2026.

4 · WHAT WE MEAN BY QUALITY

WCA "Quality"

A different take on an overused word

"Quality" is the most overused word in investing. Here is what it means to us, and, just as important, what it doesn't.

THE TORTOISE · QUALITY COMPANIES TEND TO BE

- **Predictable** — steady business
- **Flexible** — profitable assets
- **Durable** — low debt

THE HARE · LOW-QUALITY COMPANIES TEND TO BE

- High-yielding
- Over-indebted (e.g., Financials)
- Financially engineered
- Overly complex
- Capital-intensive (e.g., Airlines)
- Commodity businesses (e.g., Energy)

The tortoise has beaten the hare

Leadership	Start	End	Months	High quality	Low quality

Full period, 2004–2026

	High Quality	Low Quality
Annual return		
Annual risk*		
Return per unit of risk		
Average cycle		

Source: WCA. Shaded = quality-led periods. High = WCA "A" index; low = WCA "F" index. *Annualized standard deviation.

The tortoise has beaten the hare

Leadership	Start	End	Months	High quality	Low quality
Low quality	Sep 2004	Jul 2007	35	44%	75%
Low quality	Feb 2009	Apr 2010	14	58%	227%
Low quality	Sep 2011	Jun 2014	33	79%	120%
Low quality	Feb 2016	Jan 2017	11	18%	45%
Low quality	Mar 2020	Mar 2021	12	38%	119%
Low quality	Apr 2023	—	40	36%	82%

Full period, 2004–2026

	High Quality	Low Quality
Annual return		9.7%
Annual risk*		26.2%
Return per unit of risk		0.37
Average cycle		

40 months

The current low-quality cycle, the longest on record. The previous high was 35.

Source: WCA. Shaded = quality-led periods. High = WCA "A" index; low = WCA "F" index. *Annualized standard deviation.

The tortoise has beaten the hare

Leadership	Start	End	Months	High quality	Low quality
High quality	**Jul 2007**	**Feb 2009**	**20**	**−38%**	**−72%**
High quality	**Apr 2010**	**Sep 2011**	**18**	**10%**	**−23%**
High quality	**Jun 2014**	**Feb 2016**	**20**	**7%**	**−27%**
High quality	**Jan 2017**	**Mar 2020**	**39**	**44%**	**−21%**
High quality	**Mar 2021**	**Apr 2023**	**25**	**12%**	**−17%**

Full period, 2004–2026

	High Quality	Low Quality
Annual return	**11.7%**	
Annual risk*	**13.7%**	
Return per unit of risk	**0.85**	
Average cycle		

Source: WCA. Shaded = quality-led periods. High = WCA "A" index; low = WCA "F" index. *Annualized standard deviation.

The tortoise has beaten the hare

Leadership	Start	End	Months	High quality	Low quality
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Annual return	**11.7%**	9.7%
Annual risk*	**13.7%**	26.2%
Return per unit of risk	**0.85**	0.37
Average cycle		**24 months**

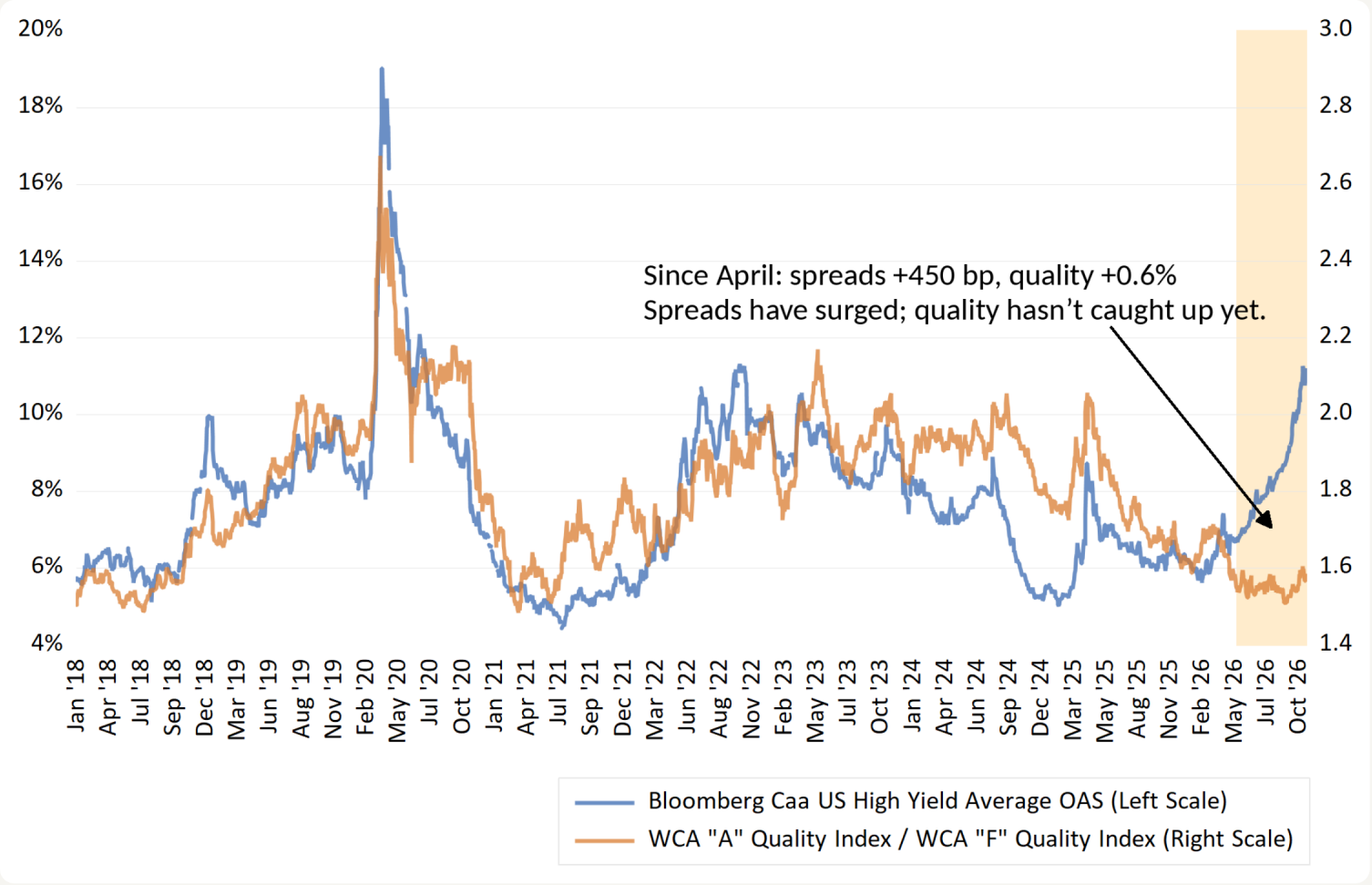
40 months

The current low-quality cycle, the longest on record. The previous high was 35.

Source: WCA. Shaded = quality-led periods. High = WCA "A" index; low = WCA "F" index. *Annualized standard deviation.

When risk gets repriced, the tortoise pulls ahead

WCA high-to-low quality ratio, “A” ÷ “F” (right axis), and Caa corporate bond spread (left axis)



0.87

Correlation between six-month changes in CCC spreads and our quality ratio since 2004

~24%

Average edge for quality whenever spreads widened 300 basis points or more in six months

Not yet

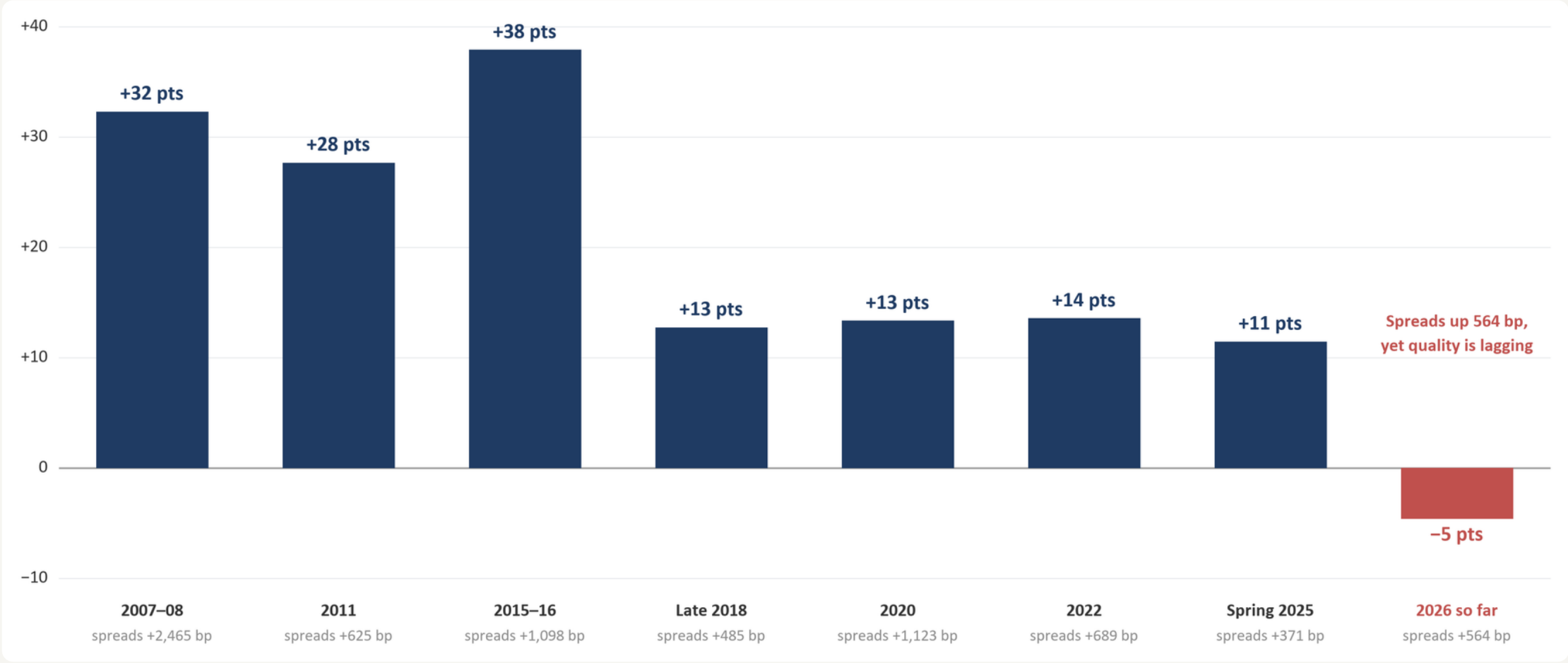
Spreads have surged, but quality has barely responded. History says that gap closes.

Source: WCA, Bloomberg. Quality ratio = WCA "A" index ÷ WCA "F" index.

4 · CREDIT POINTS TO QUALITY

The tortoise won every credit scare. Not yet.

High-quality return minus low-quality return during each surge in CCC bond spreads (percentage points)



Source: WCA, Bloomberg

WHERE WE STAND

What we're not saying

AI will fail

AI may well transform the economy. But a transformative technology and a sustainable spending path are not the same thing. The internet changed the world, and the telecom boom of the late 1990s still ended in a bust.

Quality is immune

Some quality companies are big AI spenders. The difference is how they pay for it. A company that funds spending from its own cash can choose when to slow down. One that depends on lenders may not get to choose.

The tortoise always leads

In bull markets led by riskier stocks, quality lags, as it has for three years. That is the price of the discipline. The turns are sudden, so the only reliable way to benefit is to already own it.

WHAT THIS MEANS FOR YOU

The goal is not to capture every rally. It is to build wealth over time without suffering losses you cannot recover from.

Patience has been tested

Investors in quality haven't been losing money. They've been making less than the riskiest stocks during the longest risk-loving stretch on record.

Quality has delivered

Over two decades of cycles, it has lost less in downturns and compounded better over full cycles.

The race is turning

Spending above trend, tighter credit and a concentrated index all point toward quality over low quality.

DISCLOSURES

Some of the performance information presented in this material reflects model results that are intended to illustrate long-term characteristics of the WCA Rising Dividend portfolio strategy. These model results do not represent the actual performance of any WCA client. Actual performance may differ due to such factors as timing, economic and market conditions, cash flows, and client constraints. Actual composite performance differs and is available upon request. Investing involves risk, including market volatility and the potential loss of principal. Past performance does not guarantee future results. Dividend yields, earnings data, and portfolio characteristics may change and are not assurances of future performance or income. All information is derived from sources believed to be reliable, but accuracy and completeness cannot be guaranteed.

All investments involve risk, including loss of principal. Asset allocation and diversification do not ensure a profit or protect against loss. International investing involves additional considerations, including currency fluctuations and political or economic instability. Dividend-paying companies may reduce or discontinue dividends at any time. Changes in market conditions or a company's financial condition may impact the company's ability to continue to pay dividends. Companies may also choose to discontinue dividend payments. Investing in emerging markets may involve greater risk and volatility. Sector-based investments typically exhibit greater volatility due to narrower focus. Small-company stocks tend to be more volatile than those of larger, more established firms. Real estate investments are affected by changes in interest rates, property values, or economic conditions. When interest rates rise, bond prices generally fall. High-yield bonds carry greater credit risk than higher-quality bonds. Laddering strategies do not assure a profit or protect against loss. Commodity and futures trading involves substantial risk and may not be suitable for all investors. Leverage can amplify both gains and losses.

Beta — A measure of volatility relative to the market. A beta of 1 implies similar volatility to the benchmark; a beta of 2 implies twice the volatility.

Standard Deviation — A measure of the volatility of returns relative to the mean; higher values indicate greater variability.

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INDEX DEFINITIONS

Indices are unmanaged, and it is not possible to invest directly in an index.

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

S&P 500 Low Volatility Index — Measures performance of the 100 least volatile stocks in the S&P 500. Constituents are weighted by the inverse of their volatility.

S&P 500 Equal Weight Index — The equal-weight version of the S&P 500, assigning each company a fixed weight of 0.20% at each quarterly rebalance.

WCA High-Quality & Low-Quality Indices — 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.

S&P 500 High Beta Index — Measures the performance of the 100 S&P 500 constituents most sensitive to market changes. Constituents are weighted proportional to their beta.

S&P 500 Growth Index — Measures S&P 500 constituents classified as growth stocks based on sales growth, earnings-to-price change, and momentum.

ICE BofA U.S. High Yield Index — An unmanaged index tracking U.S. dollar-denominated, below-investment-grade corporate debt issued in the U.S. domestic market.

WCA Barometer — A summary measure combining about 30 forward-looking indicators across credit markets, U.S. economic conditions, and foreign conditions. Readings above 50 imply broad improvement; below 50 imply deterioration. Used to inform short-term asset allocation decisions.

STATISTICAL DEFINITIONS

Drawdown — A drawdown refers to how much an investment or trading account is down from the peak before it recovers back to the peak.

Asymmetry (Skew) — When a distribution of returns has unequal sides around its median. The shape of a return distribution describes the extent to which realized performance varies from what might be expected in a "normal world". In a normal world return surprises are represented by extreme events whose magnitude and frequency can be predicted with a high degree of precision using advanced statistical techniques. When an investment strategy exhibits "non-normal" returns, the magnitude and frequency of return surprises exceeds what is suggested by these techniques. Non-normal return distributions share the same return and risk statistics with normal return distributions. Hence, standard performance statistics like Sharpe and information ratios will be the same for both normal and non-normal return distributions. However, non-normal return distributions display a different shape, i.e., with an extended tail to the left reflecting higher downside risk in market drawdowns.

Fat Tails (Kurtosis) — A collection of observations whose magnitude and frequency exceed that of what would be expected if the observations were deemed to normal or bell-shaped.

Upside / Downside Capture — Upside Capture is a measure of managers' performance in up markets relative to the market itself. An up market is one in which the market's quarterly return is greater than or equal to zero. The higher the manager's up-market capture ratio, the better the manager capitalized on a rising market. Downside Capture is a measure of managers' performance in down markets relative to the market itself. A down market is one in which the market's quarterly return is less than zero. The lower the manager's down-market capture ratio, the better the manager protected capital during a market decline.

R-Squared — A measure of how much of a portfolio's movements can be explained by movements in a benchmark index. R-squared ranges from 0 to 1: a value of 1 indicates the portfolio's returns move entirely with the benchmark, while a value near 0 indicates little relationship between the two. A high R-squared versus a style benchmark indicates the portfolio is adhering closely to that style.