MARKET COMMENTARY

EQUITY ANALYSIS



NOT JOHN BOGLE'S S&P 500

In 1976, John Bogle launched the First Index Investment Trust, the first fund built to simply own the S&P 500. Wall Street called it "Bogle's Folly," and the offering raised just $11 million. Fifty years later, index investing has taken hold: by the end of 2025, index mutual funds and ETFs held 52% of all long-term U.S. fund assets, up from 19% in 2010, according to the Investment Company Institute. But the S&P 500 is not the index it once was.

Because the index weights its holdings by market capitalization, it now concentrates heavily on a handful of very large technology companies, which are in the midst of an enormous capital-spending program. That spending, much of it on artificial intelligence data centers, is lifting earnings expectations for the index. Of course, this also means that the index's earnings now depend on that spending continuing. And, as we have said multiple times in previous commentaries, an investment strategy that fails to consider downside risk is probably not a very good one — especially for someone nearing or in retirement.

We want to understand how today's artificial intelligence and capital spending boom is affecting both the S&P 500 index and the WCA Rising Dividend Portfolio. So, we looked at what Wall Street analysts expect for the companies in the S&P 500 and the WCA Rising Dividend Portfolio, using consensus forecasts from Bloomberg.

WHY CAPITAL SPENDING MATTERS FOR EARNINGS

Before diving in, it is important to understand something about the relationship between capital spending (business investment) and profits. Business investment, it turns out, is a major source of profit for the economy as a whole. To see why, consider that one company's spending is another company's revenue. When Microsoft buys chips from Nvidia, for example, Nvidia records the full sale as revenue. Microsoft, however, recognizes only a portion of the cost each year, as depreciation is spread over several years. In aggregate, this creates an accounting profit — but growth in the profit only continues as long as spending rises faster than depreciation. This is the predominant engine driving the S&P 500's profit cycle today, since the biggest AI spenders and suppliers all sit inside the index, many with multi-trillion-dollar market capitalizations. And these large AI spenders and suppliers accounted for more than half of the past year's growth in S&P 500 forecast earnings. If the index captures the full benefit of AI capital spending on the way up, we should also expect it to feel the full effect on the way down. This is not the S&P 500 of John Bogle's day.

Chart A on page 4 shows how closely capital spending and earnings move together. Since 2008, the year-over-year change in analysts' capital-spending forecasts for the S&P 500 has tracked the change in their earnings forecasts through each major cycle: down together in 2009 and 2020, up together in the recoveries. Today both are near the top of their historical range: capital-spending forecasts are up about 55% from a year ago and earnings forecasts about 39%.

S&P 500 CAPITAL SPENDING HAS BROKEN FAR FROM TREND; WCA'S RISING DIVIDEND PORTFOLIO'S HAS NOT

Now let's compare capital spending for the S&P 500 and the companies in the WCA Rising Dividend Portfolio. In Chart B on page 4, the left chart shows that analysts expect S&P 500 companies to spend roughly four times as much on capital projects over the next 12 months as they did at the end of 2007 — more than double what the pre-2023 trend would suggest. Over the past year, just five companies (Alphabet, Amazon, Meta, Microsoft, and Oracle) accounted for about three-quarters of the growth in the index's forecast capital spending.

The companies in the WCA Rising Dividend Portfolio paint a different picture (Chart B, page 4, right chart). Their forecast capital spending is elevated, but only about a third above its pre-2023 trend.

Since November 2022, when ChatGPT was released, forecast capital spending for the S&P 500 has risen about 136%; for the companies in the WCA Rising Dividend Portfolio, about 31%. Over the past 12 months alone, the figures are +55% and +12%. The WCA Rising Dividend Portfolio's companies are far less exposed (relative to their trend) to the AI capital-spending cycle than the S&P 500. And this is intentional since the strategy looks for companies with stable cash flows, low debt, and predictable earnings — not companies whose profits depend on a spending boom continuing.

STEADIER EARNINGS EXPECTATIONS

Unsurprisingly, a similar pattern shows up in earnings. S&P 500 forecast earnings are up about 39% over the past year, with two semiconductor makers, Nvidia and Micron, accounting for roughly a third of that growth. Forecast earnings for the WCA Rising Dividend Portfolio's companies are up about 10%.

Since 2011, year-over-year changes in analysts' earnings forecasts for the companies the WCA Rising Dividend Portfolio holds today have been about half as volatile as those for the S&P 500, and their worst 12-month decline was about 7%, compared with about 20% for the index. There is also not nearly as much pull away from the trend as in the S&P 500 (Chart C, page 5). In our view, this speaks to the role of consistency in how we define quality companies. While capital spending cycles can be a powerful near-term driver of profits, they tend to produce less predictable outcomes. The S&P 500's forecast earnings are running about 1.5x the trend, but the WCA Rising Dividend Portfolio companies align more closely with their own trend. The difference comes down to what drives the profits: for the S&P 500, increasingly a single theme — AI capital spending; for the WCA Rising Dividend Portfolio, companies selected for the consistency of their earnings.

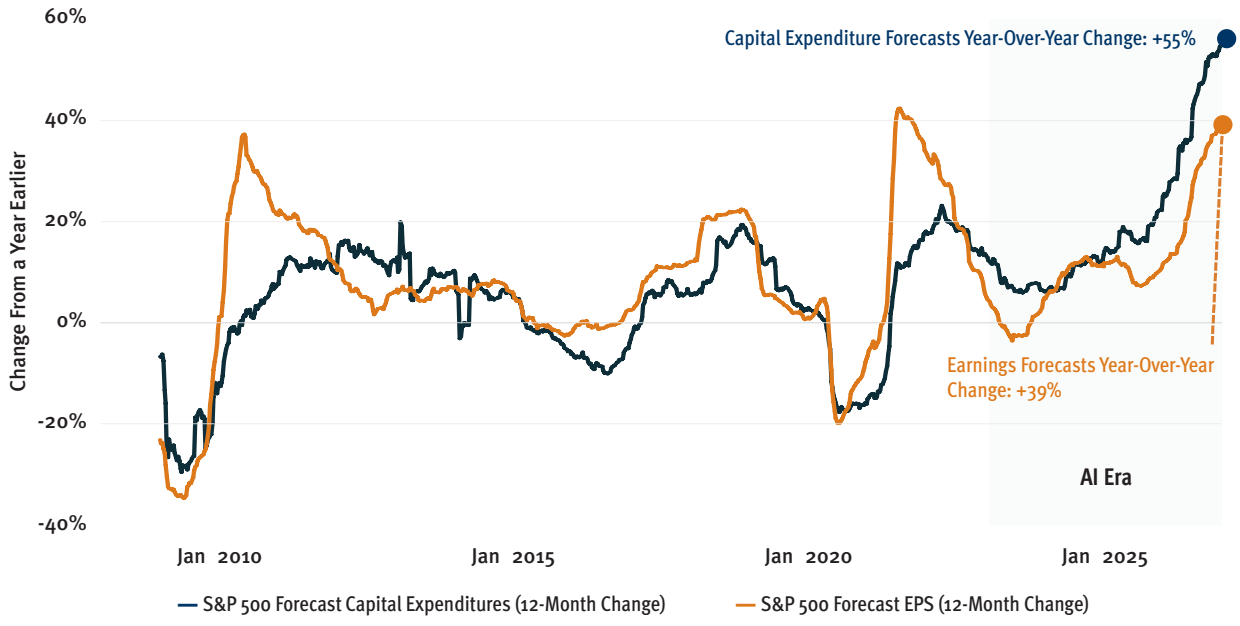
WHY IT MATTERS

Strong spending can recycle into strong profits for a while, which is what the S&P 500's recent earnings growth reflects. But spending cycles turn, and when they do, the earnings that rose fastest have the most to give back. The WCA Rising Dividend Portfolio owns companies whose earnings depend far less on the AI build-out continuing. For investors who rely on their portfolios for income and stability (those approaching or in retirement), and for the millions of Americans who are invested in index funds with meaningful exposure to large technology companies, we believe that difference is well worth understanding.

Source: WCA, Bloomberg. S&P 500 figures are Bloomberg index values. The WCA Rising Dividend Portfolio figures are indexes of analyst consensus forward 12-month estimates for the strategy's current holdings at current weights, applied back through history. These are characteristics of the holdings, not measures of investment performance. Consensus estimates are analysts' forecasts, not WCA's, and are subject to change. Data as of November 16, 2026.

CHART A | EARNINGS AND CAPITAL SPENDING FORECASTS RISE AND FALL TOGETHER

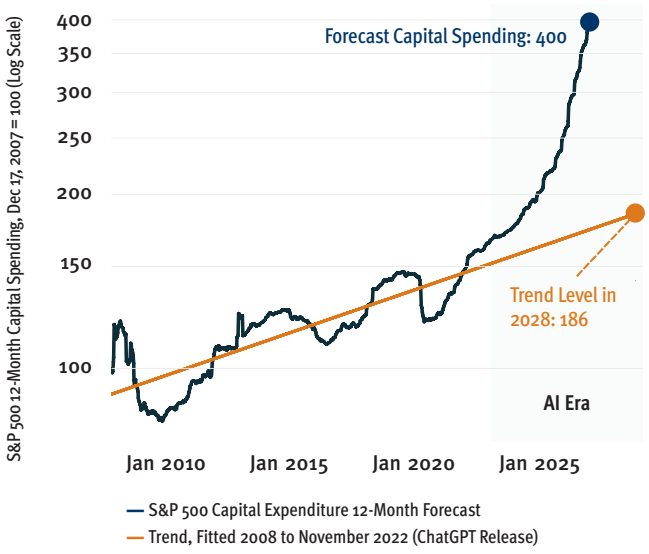
Source: WCA, Bloomberg



Consensus analyst forecasts for the next 12 months, compared with the forecast a year earlier. Data as of November 16, 2026.

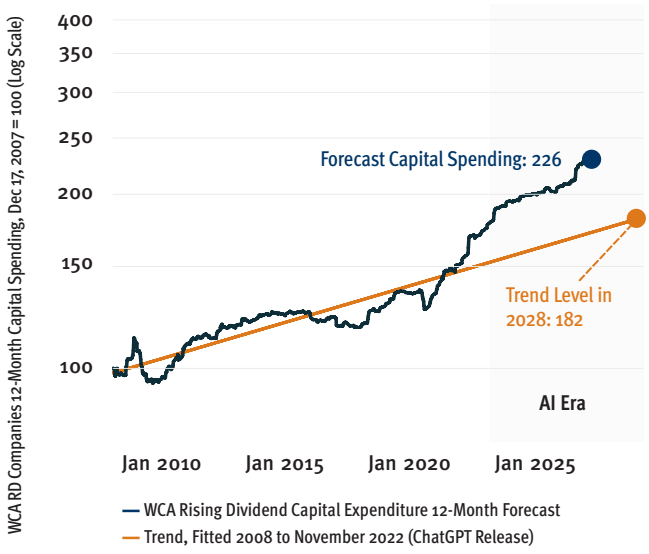
CHART B | WCA RISING DIVIDEND PORTFOLIO CAPITAL SPENDING IS ABOUT A THIRD ABOVE TREND, NOT DOUBLE

S&P 500 Capital Spending is Running More Than Double Its Pre-2023 Trend



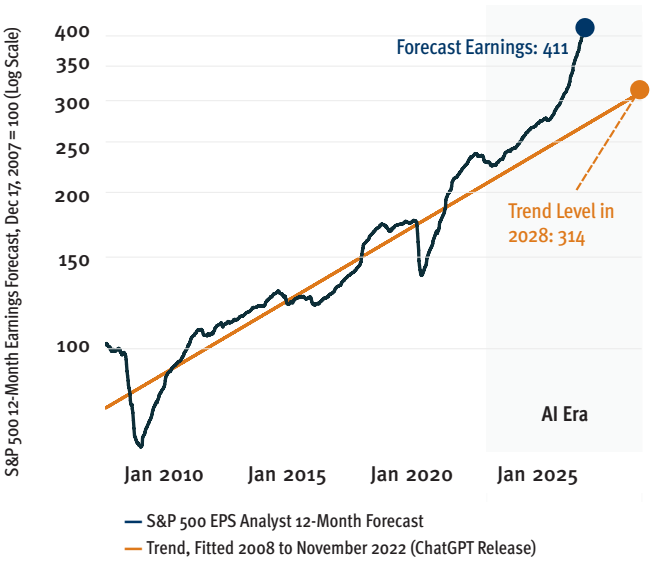
Indexed to 100 on Dec 17, 2007. Latest value of 400 equals $251 per index unit (analyst consensus, same basis as S&P 500 earnings per share). Data as of November 16, 2026. Source: WCA, Bloomberg.

WCA Rising Dividend Portfolio Capital Spending Elevated, Closer to Pre-2023 Trend

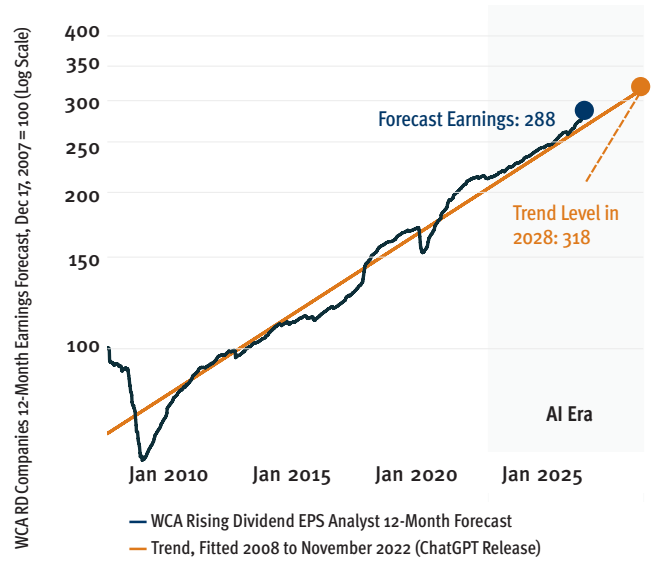


Indexed to 100 on Dec 17, 2007. Analyst consensus estimates for the next 12 months, aggregated across current portfolio holdings. Data as of November 16, 2026. Source: WCA, Bloomberg.

CHART C | WCA RISING DIVIDEND PORTFOLIO EARNINGS DEPEND LESS ON THE SPENDING BOOM



Indexed to 100 on Dec 17, 2007. Analyst consensus estimates for the next 12 months, aggregated across current portfolio holdings. Data as of November 16, 2026.
Source: WCA, Bloomberg.



Indexed to 100 on Dec 17, 2007. Analyst consensus estimates for the next 12 months, aggregated across current portfolio holdings. Data as of November 16, 2026.
Source: WCA, Bloomberg.

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.

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.

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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.

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