NQDVSMR™: Small & Mid-Cap Resilience amid AI disruption

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In the current market environment, investors are reassessing portfolios amid concerns that rapid advances in artificial intelligence (AI) may disrupt existing business models of high-growth technology and software companies. Market participants are increasingly favoring underappreciated companies with strengthening fundamentals that stand to benefit from AI-related investment without bearing the valuation risk associated with pure-play software and platform providers. At the same time, "old economy" sectors – industries like industrial manufacturing, energy and finance - have been gaining favor as they are perceived as more insulated from AI-driven disruption. The NQDVSMR™ Index (Nasdaq US SMID Cap Rising Dividend Achievers™ Index) is tilted heavily towards physical-capital intensive sectors, i.e. sectors that have historically been perceived as less likely to be upended by AI. McKinsey projects over **$250 billion in industrial spending** will be needed for new AI data centers by 2030, with power consumption by data centers set to double, spurring a capex cycle in the utilities sector[1]. These shifts present growth opportunities for selected stocks – particularly companies that build high-end electrical systems, cooling equipment, or network infrastructure. This dynamic aligns well with NQDVSMR's holdings in equipment manufacturers, materials, and energy.

Analysts estimate that the recent surge in data center spending added about 0.5 percentage points to U.S. GDP growth, benefiting vendors of hardware, power, and construction[2]. Within NQDVSMR, this includes manufacturers of **custom electrical equipment** (Powell Industries), contractors for **mechanical and electrical construction** and **utility-infrastructure projects** (Comfort Systems and Primoris), and providers of **engineering, design and project-management services** for large public-works and industrial builds (AECOM and Jacobs). The index also holds **industrial distributors** (Applied Industrial Technologies) that supply the bearings, pumps, HVAC equipment and other components required to build and maintain these physical assets.

[1] https://www.franklintempleton.com/articles/2025/equity/deep-spending-on-ai-boosts-the-old-value-economy
[2] https://www.businessinsider.com/ai-spending-race-capex-gdp-us-economy-2025

Top Ten Contributors (YTD through February 27, 2026) and Performance/Dividend Yield Characteristics

Company Name	Symbol	Index Weight (%)	1-year performance (%)	3-year performance (%)	5-year performance (%)	Dividend yield (%)
Comfort Systems USA	FIX	1.6	300.8	873.0	2,207.7	0.21
Powell Industries	POWL	0.9	216.4	1,094.3	1,582.0	0.34
Weatherford International	WFRD	1.2	70.4	56.4	801.4	1.28
Clear Secure	YOU	0.9	115.7	59.5	N/A	1.43
Woodward	WWD	1.2	109.5	285.5	238.6	0.38
Coca-Cola Consolidated	COKE	0.9	44.5	249.4	688.6	0.65
NOV	NOV	1.0	35.2	(8.5)	34.2	1.92
Installed Building Prods	IBP	1.2	92.7	180.8	199.7	0.57
TX Pac Land	TPL	0.4	16.0	165.2	327.4	0.74
PriceSmart	PSMT	1.1	73.4	119.5	60.3	N/A

Source: Nasdaq Global Indexes, Factset. Data as of February 27, 2026

The top ten contributors include companies largely tied to industrial services, energy infrastructure, and engineered products, sectors that have benefited from multi-year capital expenditure cycles and reshoring-driven investment. Several holdings have delivered exceptional long-term capital appreciation, most notably Comfort Systems (FIX), reflecting sustained execution across large-scale mechanical and electrical construction projects. Revenue growth across these businesses is typically driven by replacement demand, ongoing operating spend, and long-cycle infrastructure investment, rather than discretionary adoption of artificial intelligence. For example, Powell Industries (POWL) benefits indirectly from electrification, reshoring, and infrastructure investment; Woodward (WWD) is exposed to aerospace, defense, and industrial applications rather than software monetization; demand for LeMaitre Vascular (LMAT) is supported by demographic trends and structural healthcare needs; and Installed Building Products is closely tied to housing, renovation, and construction activity.

Importantly, many of these companies also benefit from AI and data-center buildouts, as increased investment in computing infrastructure drives incremental demand for power, cooling, and building systems, rather than disrupting their core business models. As a result, investors tracking these names gain exposure to companies with established operating track records and tangible earnings drivers, rather than businesses whose valuations depend on uncertain future AI monetization.

Fundamental characteristics of NQDVSMR

Market participants view NQDVSMR more favorably, as it holds constituents that offer insulation from AI-related risks. After years of massive outperformance by mega-cap technology and growth names, 2025 saw a cooling of the AI narrative and increased scrutiny of high-multiple software names. By late 2025, software stocks came under pressure, with more cyclical and value-oriented names rallying. At the same time, analysts believe that the macroeconomic backdrop has become more supportive of small and mid-caps as monetary easing, which began in late 2024, continues into 2026, significantly lowering borrowing costs, improving cash flow and boosting valuation multiples. OBBBA's (One Big Beautiful Bill Act) tax provisions to boost consumer spending and incentivize domestic capital expenditure is also likely to benefit small-caps and mid-caps, as they typically generate most of their revenue domestically[3]. Mid-caps have larger weightings in industrials and materials—sectors poised to gain from OBBBA's tax breaks and the Infrastructure Investment and Jobs Act, CHIPS and Science Act and Inflation Reduction Act.

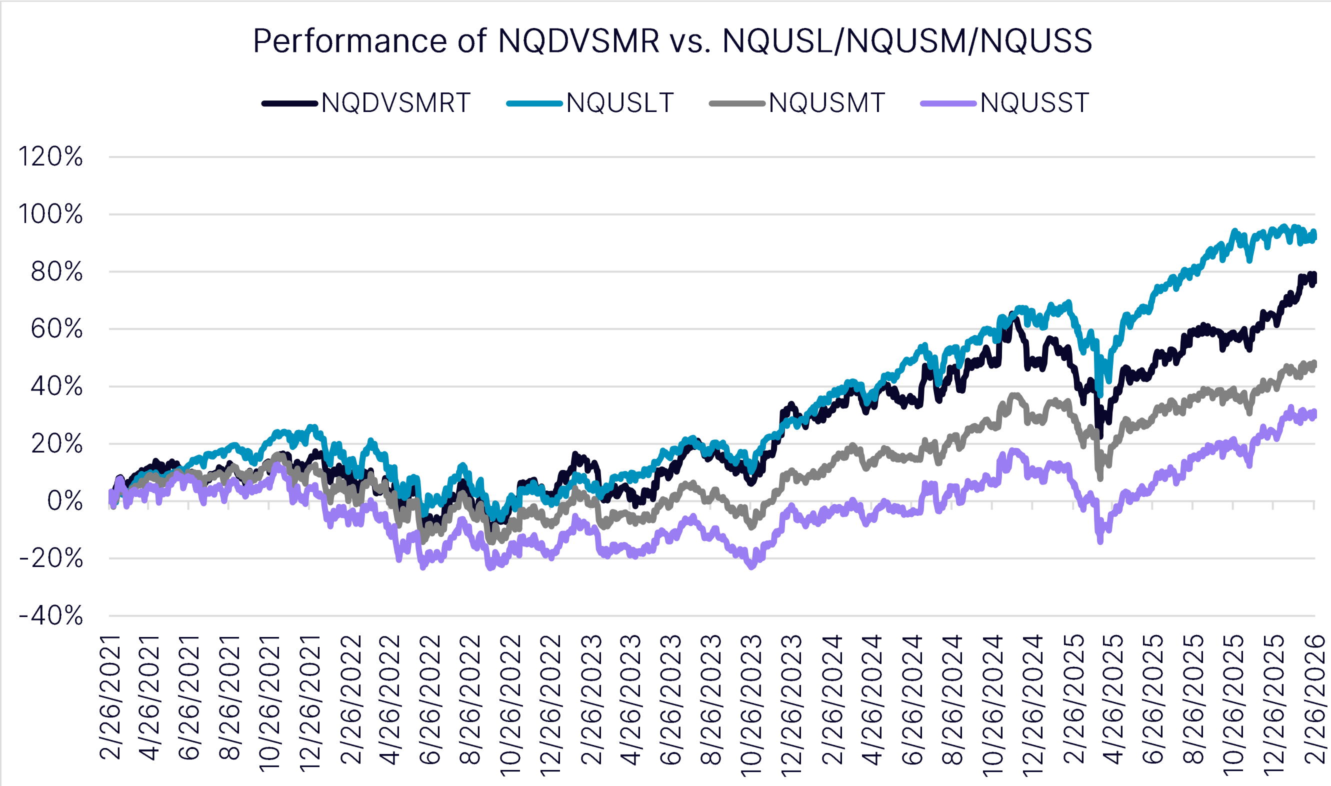
NQDVSMR Performance and Valuation (2025-2026)

Years of underperformance have left small and mid-caps trading at historically wide discounts—around 15%–30%—relative to large-caps, as per recent research studies[4,5]. These levels are near the widest observed since the post-GFC and dot-com periods and well above long-term averages. With monetary and fiscal policies now favoring capital-intensive, domestic-oriented businesses, investors see potential for earnings growth to accelerate and for valuations to mean-revert. NQDVSMR's fundamental characteristics offer a degree of safety in an uncertain macroeconomic environment. Unlike many growth-oriented small-cap strategies, NQDVSMR focuses on higher-quality small and mid-caps with strong balance-sheets and shareholder-friendly capital policies, specifically rising dividends. The forward P/E for NQDVSMR is 15.8 and price-to-cash flow is 16.5, suggesting that the stocks are reasonably valued relative to their earnings and cash generation. For context, the forward P/E of the Nasdaq-100® (NDX®) is 25.2, suggesting that NQDVSMR's constituents trade at a significant discount to their large-cap counterparts. In addition, the index's dividend yield is 1.6%, with dividends growing steadily[6].

Throughout much of 2025, large caps outperformed small and mid-caps, with gains driven disproportionately by a small group of mega-cap technology companies. As the effect of rate cuts began to materialize, small caps began to outperform from late 2025 onward. Specifically, from October 31, 2025 through February 27, 2026, small caps outperformed large caps meaningfully, reversing a multi-year decline. The NQUSS™ Index (Nasdaq US Small Cap™ Index) returned 8.4%, outperforming the NQUSL™ Index (Nasdaq US Large Cap ™ Index) which generated losses of 0.82%. In summary, easing monetary policy, attractive valuation compared to large-caps, a rotation towards cyclical, domestically-focused companies, strong earnings, and preference for "picks and shovels AI providers" benefitted the small and mid-cap space. Looking ahead, 2026 may continue to be favorable for small and mid-caps due to tailwinds from rate cuts, earnings, and a broader rotation away from mega-caps.

[3] https://www.nelsonmullins.com/insights/blogs/tax-reports/all/significant-tax-provisions-of-the-one-big-beautiful-bill-act
[4] https://www.jenseninvestment.com/financial-advisor/insights/the-case-for-mid-caps/
[5] https://www.aberdeeninvestments.com/en-us/investor/insights-and-research/us-small-caps-a-tale-of-two-halves
[6] Source: Bloomberg. Data as of March 5th 2026

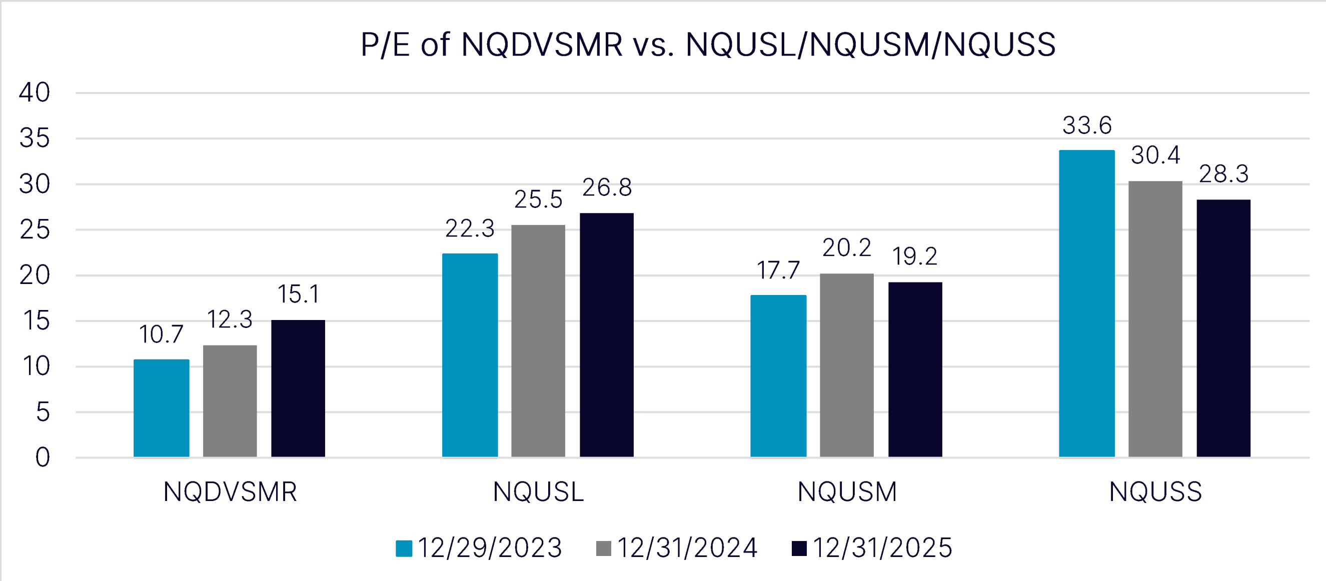
Performance of NQDVSMR vs. Nasdaq Large/Mid/Small Benchmarks



Source: Bloomberg. Data as of February 27th 2026

As seen in the five-year performance chart above, the Nasdaq US Small Mid Cap Rising Dividend Achievers Total Return™ Index (NQDVSMRT™) has generated impressive returns of 76.7%, outperforming both the Nasdaq US Mid Cap Total Return™ Index (NQUSMT™) and Nasdaq US Small Cap Total Return™ Index (NQUSST™), which generated returns of 47.4% and 29.7%, respectively. It underperformed the Nasdaq US Large Cap Total Return™ Index (NQUSLT™), however, by 15 percentage points. The performance differential between large and mid/small caps widened in 2023 and into 2024 as the large-cap space benefitted disproportionately from the AI growth driver. Prior to 2023, the performance differential remained below 20 percentage points. From mid-2023 and into 2024, the performance differential broadened to a range of 20-50 percentage points, coinciding with the rise of mega-cap leadership. In 2025, the differential further widened to 30-60 percentage points and then stabilized in the range of 40-60 percentage points starting mid-2025.

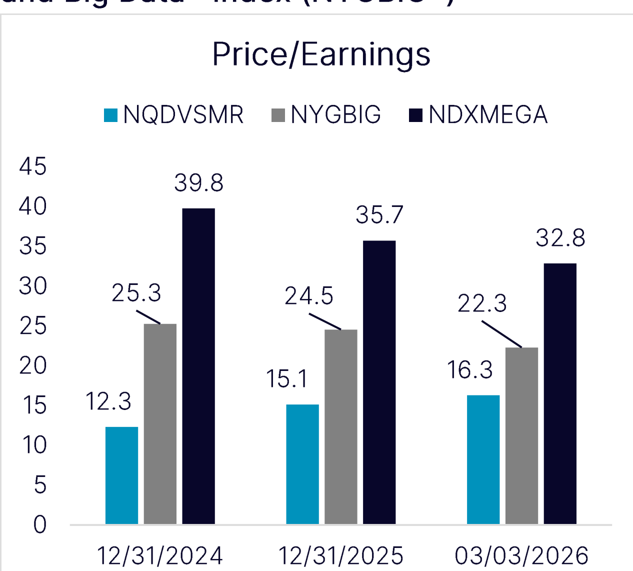
NQDVSMR's Lower Valuations vs. Nasdaq Large/Mid/Small Benchmarks

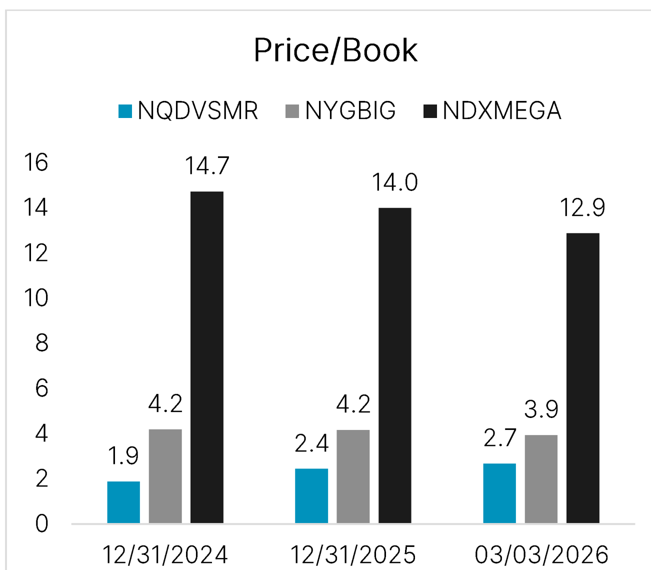


Source: Bloomberg

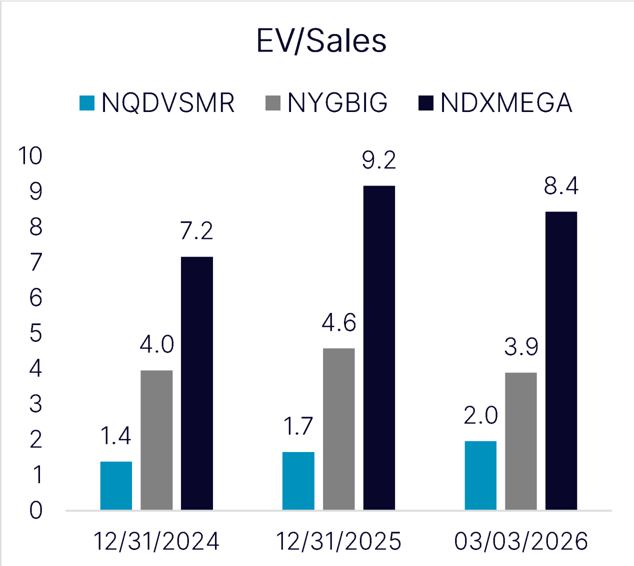
As seen in the table above, NQDVSMR has consistently traded at a sizable discount to large, mid, and small caps over the past several years—typically 40–55% below the large- and small-cap universes and 25–30% below mid-caps. At the same time, large caps remain richly valued relative to both history and peers, leaving small and mid-caps attractively positioned. Combined with macro and market structure catalysts—including expected rate cuts, rotation away from mega-cap technology, and improving earnings[7]—this valuation gap creates a strong setup for continued catch-up in performance in small and mid-caps.

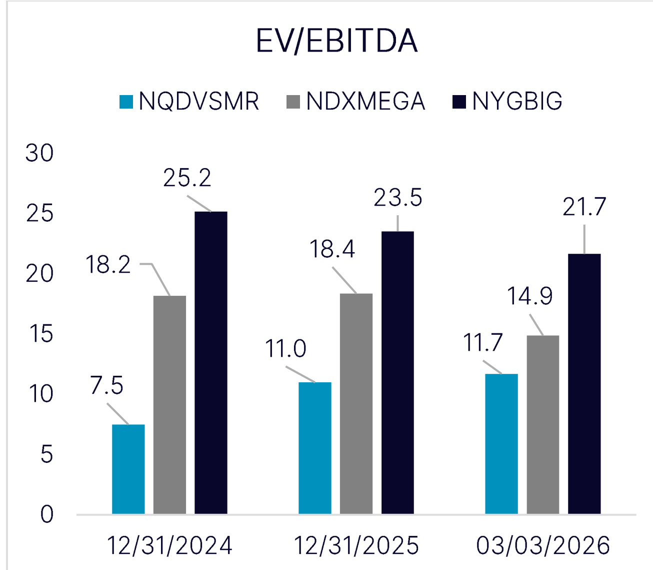
NQDVSMR's Lower Valuations vs. Nasdaq-100 Mega™ Index (NDXMEGA™)/Nasdaq Global AI and Big Data™ Index (NYGBIG™)





[7] https://www.morningstar.com/news/marketwatch/20260114144/four-reasons-to-buy-this-overlooked-group-of-stocks-early-in-2026





Source: Bloomberg. Data as of March 3rd 2026

The valuation charts above show that NQDVSMR trades at **materially lower P/E, Price/Book, EV/EBITDA and EV/Sales multiples** than both NYGBIG and NDXMEGA, underscoring a meaningful valuation discount relative to AI- and mega-cap-heavy benchmarks. This makes intuitive sense as NQDVSMR is composed of **small- and mid-cap companies with a history of rising dividends**, which skews the index toward **industrials, financials, energy, and other cyclical or "old-economy" sectors** rather than high-growth technology or AI-centric names. These types of companies typically command lower valuation multiples than mega-cap or AI-centric names. Lower multiples are **a function of growth expectations**, not profitability concerns, which should assuage any investor concerns.

Index Eligibility

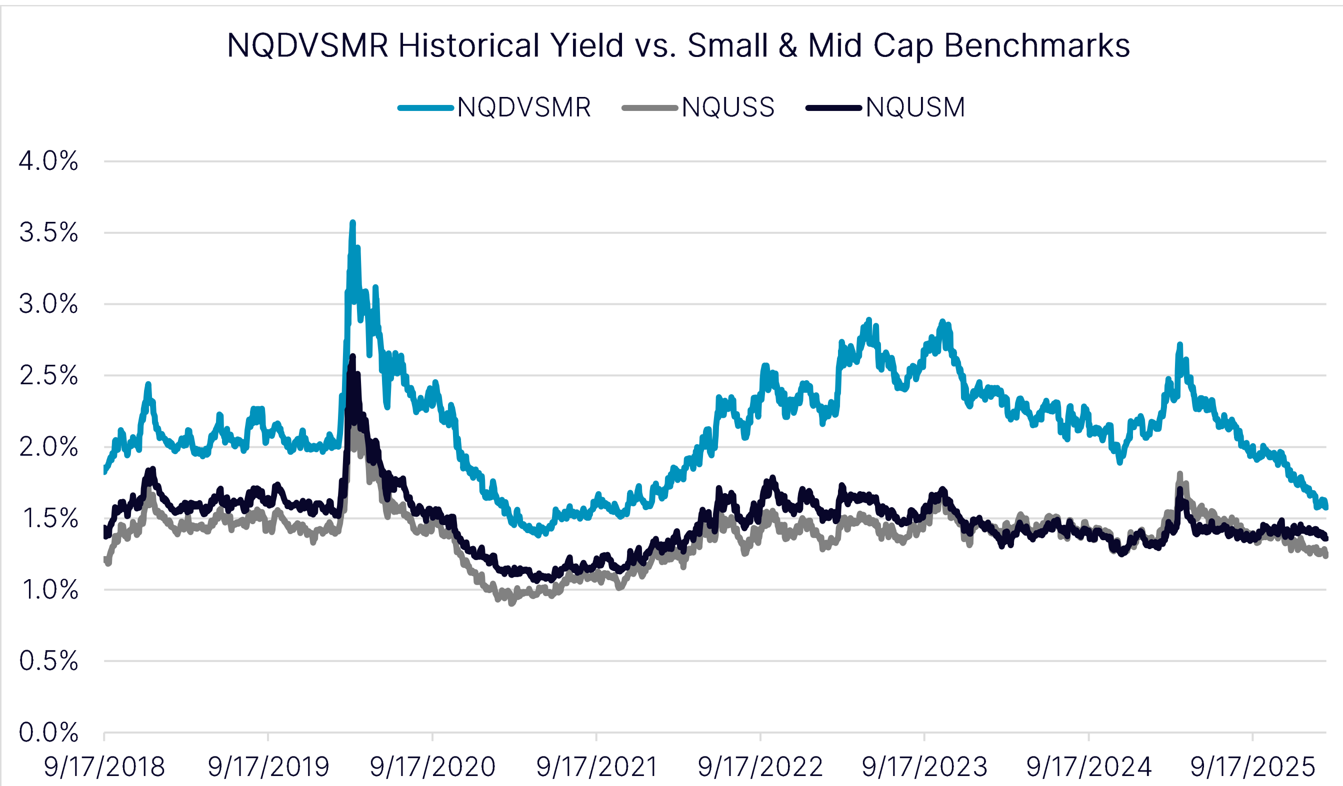
To be eligible for inclusion in the Nasdaq US Small Mid Cap Rising Dividend Achievers Index, a security must meet the following criteria:

- Be a member of the Nasdaq US Mid Cap™ Index (NQUSM™) or Nasdaq US Small Cap™ Index (NQUSS™);
- Must not be classified as a Mortgage Real Estate Investment Trust or Real Estate Investment Trust according to the Industry Classification Benchmark (ICB);
- A minimum three-month average daily dollar trading volume (ADDTV) of $2 million;
- A minimum free float market cap of $1 billion.
- Paid a dividend in the trailing twelve-month period greater than the dividend paid in the trailing twelve-month period three and five years prior;
- Positive earnings per share in the most recent fiscal year greater than the earnings per share three fiscal years prior;
- Cash to debt ratio greater than 25%;
- Trailing twelve-month period payout ratio no greater than 65%; and
- One security per issuer is permitted.

Historical Yield Comparison

During the time period studied beginning one year after index launch (September 18, 2018 – February 27th, 2026), the Nasdaq US Small Mid Cap Rising Dividend Achievers Total Return Index saw a 12-month rolling dividend yield in the range of 1.38% to 3.57%, with an average of 2.13%. The peak yield was observed in March 2020, around the start of the Covid-19 pandemic. Post Covid, equity markets recovered, with prices outpacing dividend growth, compressing yields. After volatility of 2020-2021, yields returned to stable levels. Overall, the dividend yield profile is stable, predictable, and reflective of macro cycles, with expected spikes during crisis events such as the pandemic.

The chart below compares the yield of the Nasdaq US Small Mid Cap Rising Dividend Achievers Index (NQDVSMR) with both the Nasdaq US Mid Cap Index (NQUSM) and Nasdaq US Small Cap Index (NQUSS). Both benchmark yields are consistently lower than NQDVSMR. Over this time period, NQUSS generated an average 12-month rolling dividend of only 1.39%, while NQUSM averaged a yield of 1.48%, both approximately one-third lower than the average yield of NQDVSMR. This demonstrates what the index methodology is designed to achieve stronger and more consistent dividend yield than the broader benchmarks that comprise the starting universe.

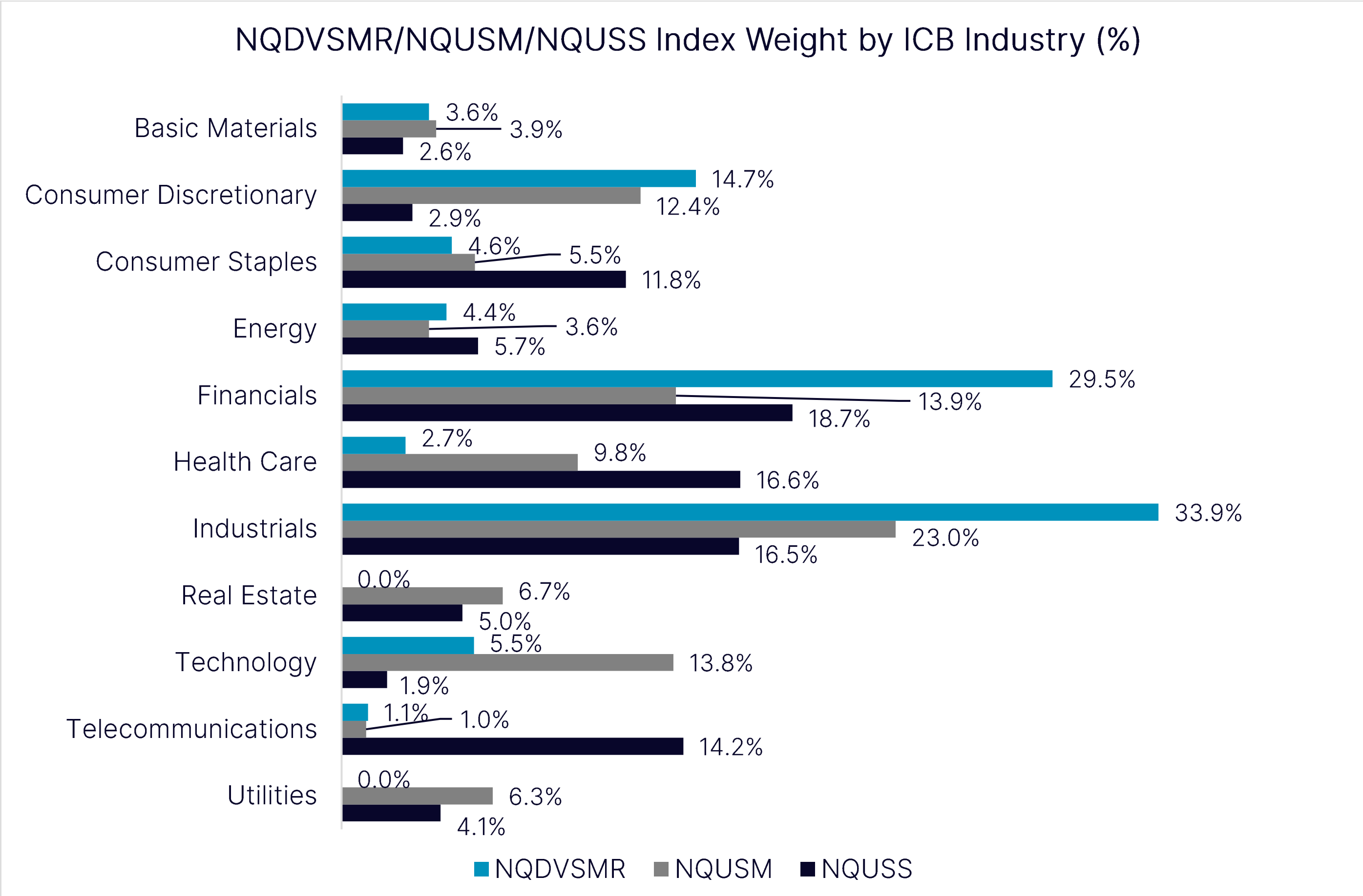


Source: Nasdaq Global Indexes. Data as of February 27th 2026

Industry Exposure

We have shown below the ICB Industry weights of the Nasdaq US Small Mid Cap Rising Dividend Achievers Index (NQDVSMR), the Nasdaq US Mid Cap Index (NQUSM) and the Nasdaq US Small Cap Index (NQUSS) as of February 27, 2026. The largest industry allocations are towards Industrials (33.9%), Financials (29.5%)

and Consumer Discretionary (14.7%). The smallest industry allocations are towards Basic Materials (3.64%), Healthcare (2.65%) and Telecommunications (1.1%), with no allocations towards Utilities or Real Estate. The small and mid-cap benchmarks are tilted less heavily towards Financials and Industrials, with low to moderate representation in sectors where NQDVSMR has no representation, including the four sectors listed above. The top sector allocations also differ among indexes, with Industrials having the largest allocation in NQUSS and NQUSM.



Source: Nasdaq Global Indexes, Bloomberg. Data as of February 27, 2026

NQDVSMR is overwhelmingly an old-economy index, with exposure to Industrials, Basic Materials, Energy, Financials, sectors which are relatively more insulated from valuation risk stemming from AI capex. Earnings are driven by demand from the real economy, policy support, and broad economic activity.

Conclusion

In an environment where investors are repositioning toward overlooked companies with strong fundamentals and tangible benefits from AI deployment, NQDVSMR may be well positioned to benefit. By focusing on small- and mid-cap companies with a proven, three-to-five-year track record of increasing dividends, the strategy provides exposure towards companies with strong balance sheets and sustainable cash flows. NQDVSMR is relatively more insulated from the risks of AI and the high capex, low-ROI (return on investment) uncertainties surrounding tech giants. The index offers exposure to overlooked areas of the market which are set to outperform due to a convergence of slowing momentum in mega-cap technology companies, broadening of earnings growth beyond Mag 7, and the impact of lower interest rates on value-oriented sectors.The strategy's focus on companies that are raising dividends, growing earnings, and maintaining low debt-to-cash ratios, allows investors to participate in the economic expansion of 2026. It offers a complement to the tech-heavy, AI-driven narrative that has characterized equity rallies in recent years. Ultimately, NQDVSMR combines the capital appreciation potential of smaller-cap, high-quality businesses with the discipline of dividend growth, making it a robust strategy for a market that is broadening out beyond tech.

Market participants looking to gain exposure to the Nasdaq US Small Mid Cap Rising Dividend Achievers Index can do so through the ETF that tracks it, the First Trust SMID Cap Rising Dividend Achievers ETF (Nasdaq: SDVY).