

Stable Growth

Marketing communication | As of 31 Mar 2025

- **During the first quarter, the Stable Growth SMA underperformed the benchmark Russell 1000® Growth Index.**
- **Security selection drove the relative shortfall versus the benchmark, most notably in the information technology sector, as well as industrials. Favorable stock selection in the consumer discretionary sector offset some of the negative impact, as did an underweight to more volatile stocks.**
- **Investors rotated into more defensive and value-oriented stocks during the quarter as tariff concerns and economic uncertainty resulted in a broader market sell-off.**

Market review

U.S. economic activity remained strong in the first quarter but showed additional signs of a slowdown ahead. Across the globe, inflation remained above central bank targets, but monetary policy diverged among key central banks. Following three straight cuts toward the end of 2024, the U.S. Federal Reserve (Fed) remained on hold throughout the quarter as policymakers paused to assess the impact of the Trump administration's aggressive economic agenda. Following March's meeting, however, Fed policymakers lowered their growth outlook and increased inflation forecasts, while reiterating the likelihood of two 25-basis-point rate cuts in 2025. In contrast, other global central banks, including the European Central Bank (ECB), Bank of England and Bank of Canada, cut rates during the first quarter, while the Bank of Japan hiked rates for the second time this cycle to their highest level since 2008. Meanwhile, Chinese officials pledged looser monetary policy in 2025, which is likely given the risks associated with U.S. tariffs.

As the quarter progressed, uncertainty surrounding the erratic global trade policies of the new U.S. administration rattled global markets, driving U.S. rates and the dollar lower. The greenback, as measured by the U.S. Dollar Index, fell 4% against a basket of currencies as U.S. growth concerns increased. Despite the lack of Fed rate cuts during the quarter, Treasury yields retraced about half of fourth quarter's increase as investors rushed to safe haven assets, while gold and other precious metals also notched new highs due to tariff-related fears. Growing uncertainty also affected U.S. surveys of consumer and business sentiment, which softened in March, while consumer inflation expectations moved higher. Nevertheless, actual data regarding U.S. job creation, personal income, retail sales and industrial production remained healthy during the quarter.

Despite high hopes for the U.S. stock market heading into 2025, the elevated policy uncertainty and rising geopolitical tensions led to the worst quarterly start since 2022. The market rapidly shifted from record high levels in mid-February to correction territory, typically defined as a 10% or greater decline, by mid-March. Almost all major



Scott M. Tonneson, CFA
Portfolio Manager, Senior Research Analyst



David A. Chalupnik, CFA
Head of U.S. Equities Portfolio Management



David S. Park, CFA, CPA
Portfolio Manager

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U.S. stock market indexes ended the quarter in the red as investors worried about the economic fallout from tariffs and the possibility of stagflation gripping the U.S. economy. Some of the hottest stocks of 2024, especially technology-related companies at the center of the artificial intelligence (AI) boom, were some of the hardest hit by the selloff, including the so-called Magnificent Seven. As a result, the tech-heavy Nasdaq Composite was one of the worst-performing indexes for the quarter with a -10.26% return.

The benchmark Russell 1000® Growth Index was also dragged down by double-digit declines in the information technology and consumer discretionary sectors, ending the quarter with a -9.97% return. Despite the negative overall result, seven Russell 1000® Growth sectors advanced for the quarter led by energy stocks, which investors favored in the face of persistent inflationary pressures and constrained oil supply. Investors also rapidly rotated into more defensive and value-oriented sectors, including real estate, health care and consumer staples, which posted gains for the quarter. Within the large-cap space, the disparity between growth and value-oriented stock returns was quite wide during the quarter with value outperforming by more than 12%, as measured by the Russell 1000® Value and Growth indexes.

Coming into the quarter, expectations were also high that small-cap companies would benefit the most from the incoming administration's policies. However, the rapid shift in U.S. growth expectations punished this segment more because of its greater reliance on borrowing to finance growth. As a result, small caps continued to underperform their large-cap counterparts in the first quarter as measured by the -9.48% return of the Russell 2000® Index.

Aided by the weaker dollar, overseas equity markets broadly outperformed the U.S. market for the quarter, led by Europe and China. In U.S. dollar terms, European stocks delivered their strongest quarterly return versus the U.S. in three decades, gaining 12.28% (MSCI EMU Index) and outpacing the S&P 500 by nearly 17%. Stocks in the region were broadly boosted by slightly improving economic data and the likelihood for increased fiscal stimulus as Germany proposed a historic increase in borrowing to fund defense and infrastructure spending. Overall, developed markets returned 6.86% for the quarter, as measured by the MSCI EAFE Index. Chinese equities, which account for 31% of the market capitalization of the MSCI Emerging Markets Index, also rallied sharply during the quarter. Investors shook off pending tariff concerns as optimism surrounding the country's AI capabilities following Deepseek's breakthrough

helped drive the Chinese market 15.02% higher, as measured by the MSCI China Index. The broader MSCI Emerging Markets Index gained 2.93% for the quarter.

Portfolio review

The Stable Growth SMA underperformed the Russell 1000® Growth Index on a gross and net of fees basis for the quarter. Security selection drove the portfolio's relative shortfall versus the benchmark, most notably in the quarter's hard-hit information technology sector, as well as the industrials sector. However, favorable stock selection within the consumer discretionary sector offset some of the negative impact, as did the portfolio's underweight to more volatile stocks.

Contributors

In the consumer discretionary sector, the strategy's position in automotive replacement parts retailer O'Reilly Automotive contributed favorably to results. The company reported better-than-expected results for the fourth quarter, reversing a three-quarter streak of falling below consensus amid a rare soft year for the industry. The year's strong finish was highlighted by a 4.4% increase in quarterly comparable store sales, which was above both consensus estimates of 2.7% and the 2.4% average from the first nine months of the year, driven by solid growth in the company's professional and do-it-yourself (DIY) segments. Looking ahead, however, management's sales and margin guidance does not assume any impact from incremental tariffs, but the company currently sources close to 50% of its total product from China, Mexico and Canada.

In the industrial sector, the strategy benefited from a position in Howmet Aerospace, a leading producer of engineered metal products for the aerospace, defense and transportation industries. The company reported quarterly earnings results that beat expectations across the board on revenue, adjusted earnings per share (EPS) and free cash flow. The company's 2025 revenue growth forecast of 8.0% year-over-year also increased slightly from management's preliminary guidance last quarter of 7.5%, while its aircraft build rate assumptions remain cautious, assuming a maximum rate of 25 per month. In addition, Howmet Aerospace continued to repurchase shares and pay down debt, while increasing its quarterly dividend by 25% in the first quarter of 2025.

In the information technology sector, the strategy benefited from a position in Veeva Systems, a leader in cloud-based software for the global life sciences industry. The company delivered yet another clean quarter, beating street estimates

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on all measures and providing fiscal year guidance that was well above expectations. More specifically, management emphasized a stable macroeconomic environment despite noise from the new administration and gave upbeat product commentary. These factors gave the market confidence that Veeva Systems is well positioned for strong execution and attractive long-term growth.

Detractors

Results were hurt by a position in Arista Networks, a provider of cloud-based networking solutions primarily for large-scale data centers known as hyperscalers. The company reported quarterly results that exceeded expectations on all key metrics amid recent bearish sentiment from investors, who have been critical of upside opportunities and competitive pressures. While management also reaffirmed its previous 2025 guidance, investors seemed particularly concerned about Arista Networks' revenue concentration from large technology companies including Meta Platforms, Microsoft and Oracle. We believe the recent results and outlook reinforce that the company remains on track with its revenue ramp from AI and its leverage to broader datacenter spending.

Global semiconductor and software infrastructure solutions company Broadcom also detracted from performance during the quarter. After outlining highly positive growth prospects over the next several years and spotlighting the growth of its custom AI chips business, Broadcom saw its stock decline sharply in late January when news of DeepSeek's AI model rattled the information technology sector. More broadly, mega-cap technology companies, particularly those with AI exposure, underperformed during the quarter due to increased competition, AI spending doubts, and uncertainty surrounding semiconductor tariffs. Despite these headwinds, the company reported quarterly earnings in March that exceeded expectations and management raised guidance driven by its AI/custom application-specific integrated circuits (ASICs) leadership and strength in the VMware business.

Despite delivering a solid fourth quarter, shares of software company ServiceNow declined after the results fell short of investors' elevated expectations. The shares entered the year trading near all-time highs following steady execution and company momentum. The slightly softer-than-expected fourth quarter beat, combined with rather conservative fiscal year 2025 guidance, underwhelmed investors and weighed on the stock price. However, ServiceNow's ability to monetize generative AI remains encouraging as the adoption of its new generative AI-driven Pro+ SKU continues to gain

traction. We believe this should continue to drive profitability with operating margins and free cash flow margins growing faster than expected.

Portfolio positioning

The Stable Growth portfolio management team remains intently focused on identifying companies with dependable fundamentals, attractive earnings growth potential and upcoming catalysts while being mindful of current valuations. The team continues to favor companies supported by strong free cash flow generation, balance sheet strength and the ability to maintain and improve profit margins.

During the first quarter, we established new positions in Ameriprise Financial, Netflix, Lam Research and Hilton Worldwide Holdings. We fully eliminated the portfolio's positions in Hubbell, Marsh & McLennan, PepsiCo, Honeywell International and McDonald's. As of quarter end, the portfolio's largest relative sector overweights were in the communication services and health care sectors. The portfolio's largest relative sector underweights were in the information technology and consumer staples sectors.

Outlook

Heightened uncertainty is increasing the risks to global growth and inflation outlooks, presenting a quandary for global central banks. In the U.S., we expect a shift to below-trend economic growth later this year with risks heavily skewed to the downside. The Fed now must incorporate potentially inflationary trade policy and signs of a slowing economy into its calculations. We expect the Fed to continue to reduce rates this year; however, the exact timing of these cuts will depend on incoming data and developments surrounding the tariffs. Although the European growth outlook may be supported by increasing monetary and fiscal policy, the potential impact of a global trade war looms large. The trade war also weighs on our China forecast, with expected 2025 growth now in the 3.75%-4.25% range, below the government's target. However, both the ECB and People's Bank of China may have more latitude to loosen policy than the Fed.

Given increased market concerns over inflation and tariffs following quarter end, analysts have lowered their first-quarter EPS estimate for the S&P 500 to +7.0% year-over-year. Although this number is lower than estimates at the beginning of the year, it remains solid and is still forecast to rise over the remaining quarters in 2025. If the current estimate is realized, it would mark the seventh straight quarter of year-over-year earnings growth for the

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index. Meanwhile, the S&P 500's net profit margins are forecast at +12.1% for the first quarter, below the previous quarter's +12.6% but above the five-year average of +11.7%. (Source: FactSet)

Although the S&P 500 is in the red year to date, we believe it can recoup losses if there is a change of course on the trade front (with concessions by the White House and U.S. trading partners) and/or tax cuts are enacted. We believe a rebound could also be supported by three factors: a 10-year Treasury yield that remains rangebound, making equities relatively more attractive versus the risk-free return on government securities; continued easing by the Fed; and solid EPS growth that will help keep a lid on the S&P 500's price/earnings (P/E) ratio, which has already come down since quarter end.

That said, investors should brace for further volatility this year given the various headwinds facing the equity market. We will continue to monitor the impact of U.S. tariffs on economic data to determine if weaker consumer and business activity is a temporary setback, the beginning of a recession or the start of stagflation. As of this writing, it's too soon to tell, although so-called soft data, such as confidence and sentiment surveys, have plummeted. As long as investors remain concerned about U.S. growth, the equity market will likely remain volatile. However, history has shown us that it's important for investors to resist knee-jerk reactions in response to dramatic market events. While volatility and uncertainty may prove challenging for investors in the short term, we continue to believe equity investors are best served by staying in the market. We will continue to monitor events as they unfold and remain nimble, emphasizing our flexible investment approach supported by rigorous bottom-up research, careful stock selection and thoughtful portfolio construction.

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is \$100,000.

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Glossary

The **S&P 500® Index** measures the performance of large capitalization U.S. stocks. The S&P 500® Index is a market weighted index of 500 stocks traded on the NYSE, AMEX and NASDAQ. The **Russell 1000® Growth Index** measures the performance of those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvestment of dividends, but do not reflect any applicable sales charges or management fees. **Volatility** is the fluctuations in market value of a portfolio or other security. The greater a portfolio's volatility, the wider the fluctuations between its high and low prices. **It is not possible to invest directly in an index.** Clients should consult their financial professionals regarding unknown financial terms and concepts.

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