

## Stable Growth

Marketing communication | As of 30 Jun 2025

- **During the second quarter, the Stable Growth SMA underperformed the benchmark Russell 1000® Growth Index.**
- **Security selection contributed in industrials and health care, but detracted in the consumer discretionary sector. A beneficial overweight in momentum stocks was more than offset by an underweight to more volatile stocks.**
- **The U.S. stock market staged one of its most dramatic comebacks in recent history as risk assets recovered from their early April selloff, led by growth stocks and the technology sector.**

### Market review

U.S. economic data showed more signs of deceleration during the quarter, including a downward revision to first-quarter's U.S. gross domestic product (GDP) growth to -0.5% annualized. Although much of the weakness was due to a short-term surge in imports as businesses tried to front run tariffs, underlying U.S. consumer spending also slowed. June's U.S. employment report beat expectations, with higher job creation and a lower unemployment rate, but other labor market data continued to signal a further slowdown ahead. While inflation moderated to around 2.4% annually, according to the most recent Consumer Price Index print, the effects from tariffs will likely push core goods prices higher in the third quarter.

The Federal Reserve (Fed) held rates steady throughout the quarter as policymakers remained cautious about tariff-related inflationary pressures that could push consumer prices further above the 2% target. At his June testimony, Fed Chair Powell reaffirmed the central bank's wait-and-see posture due to the still-healthy job market and uncertain impact of the Trump administration's trade and immigration policies. The Bank of Japan also remained on hold during the quarter, while the European Central Bank (ECB) and Bank of England cut by another 50 basis points and 25 basis points, respectively.

The U.S. dollar experienced continued weakness, ending the quarter down another 7% versus a basket of currencies as measured by the U.S. Dollar Index. The greenback's decline reflected investors' concerns over projections for ballooning U.S. deficits, geopolitical tensions due to President Trump's trade policies and reduced confidence in continued outperformance by U.S. assets. Following the Liberation Day tariff announcement in early April, the 10-year Treasury yield spiked 50 basis points and remained volatile before retracing nearly the full amount to end the quarter virtually unchanged at 4.24%. Meanwhile, short to intermediate rates fell due to better inflation data while longer-term rates rose based on fears about fiscal policy and the country's growing debt load, resulting in a steeper Treasury yield curve for the quarter.



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The U.S. stock market produced strong results after staging one of the most dramatic comebacks in recent history. Markets began the quarter with a sharp selloff following President Trump's announcement of across-the-board tariffs that were materially higher than expectations. The subsequent 90-day pause for the most extreme measures led volatility to decline and risk assets to quickly recover. All major U.S. stock market indexes advanced for the quarter as technology-related stocks soared once again. Growth stocks recaptured the lead over value, posting double-digit gains across all market capitalization tiers for the quarter after lagging during the first three months of the year. In the large-cap space, for example, the benchmark Russell 1000® Growth Index returned 17.84%, far exceeding the Russell 1000® Value Index's return of 3.79% for the quarter.

Not surprisingly, the technology-heavy Nasdaq Composite led all major U.S. market indexes for the quarter with a 17.96% gain, bolstered by the stellar performance of several of the "Magnificent Seven" stocks. The Russell 1000® Growth Index was also led by the information technology sector, as well as double-digits advances by communication services, consumer discretionary and industrials. First quarter's winners, including energy, health care and consumer staples, produced negative to flat returns. While smaller-cap companies also saw solid gains for the quarter, they lagged their large-cap counterparts, with the Russell 2000® Index returning 8.50% for the quarter.

Helped along by the significantly weaker dollar, international markets surpassed the U.S. market led by Japan, Europe and Canada. As measured by the MSCI EAFE Index, developed markets advanced 11.78% in U.S. dollar terms for the quarter. Japan's Nikkei 225 Index was a star performer, advancing 18.29% on the back of strong consumer spending and a surge in fund flows from foreigners. European stocks delivered another quarter of double-digit gains with a 14.61% return for the MSCI EMU Index. Stocks in the region were broadly aided by continued ECB easing, increased defense spending and improving economic data, including benign inflation readings. Emerging market (EM) equities slightly surpassed both the United States and other developed markets with an 11.99% quarterly return as measured by the MSCI Emerging Markets Index. However, Chinese equities, which account for nearly 30% of the market capitalization of the EM index, notably trailed for the quarter while other Asian EM countries like Korea and Taiwan produced impressive gains.

### 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 contributed to the portfolio's relative results in industrials and health care, but detracted in the consumer discretionary sector. A beneficial overweight in momentum stocks was more than offset by the portfolio's underweight to more volatile stocks. Also, overweights to the weaker performing consumer staples and health care sectors detracted.

### Contributors

Global semiconductor and software infrastructure solutions company Broadcom contributed to performance during the quarter. Broadcom reported solid results for the April quarter with earnings and guidance that modestly exceeded expectations. The most important announcement highlighted improving visibility for sustained artificial intelligence (AI) business momentum, which management now expects can grow 60% in fiscal 2026 on top of the 60% growth from fiscal 2025. This improved growth outlook only includes the company's three current hyperscale customers, with potential upside from new customers in the pipeline. Management comments also centered around strong growth driven by XPUs (a custom application-specific integrated circuit developed in partnership with technology companies like Google, Amazon and Meta) where customers have been resilient with their spending and in some cases expanded their business with Broadcom. The VMware business continues to shine under Broadcom's leadership, with the company largely done with customer conversions to the VMware Cloud Foundation platform.

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 adjusted earnings per share (EPS) of \$0.86, above consensus of \$0.78, largely based on strong profitability in its Fastening Systems and Engineered Structures segments. Howmet also posted record revenue of \$1.94 billion, up 6% year-over-year, led by strong Commercial Aerospace sales, plus record quarterly cash flow. The company continues to be well positioned to meet ongoing aftermarket demand as well as increasing demand from original equipment manufacturers (OEMs) through the end of the decade. While management seemed less confident regarding an increase in new truck builds this year given macro uncertainty in North America, they do not expect this to adversely affect Howmet's broader business.

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Also, within the technology sector, the portfolio's position in Microsoft contributed to performance. Shares traded higher after the company delivered better-than-expected fiscal third quarter results and fourth quarter guidance. While the quarter was strong across the board, Azure was the star performer, growing above the high end of guidance and showing sequential acceleration as both AI and non-AI subsegments drove strength. The personal computing segment also topped estimates. Management set the foundation for guidance by stating that April demand signals across commercial businesses as well as in LinkedIn, gaming and search have remained consistent. The company also reiterated that capital expenditures will grow at a lower rate in fiscal 2026 than in fiscal 2025.

### Detractors

Within the health care sector, a position in UnitedHealth Group detracted from performance. Shares of the health insurance provider fell in mid-April after the company reported disappointing results driven by a miss at Optum Health, although its medical loss ratio (MLR) was better than consensus expectations. In mid-May, the stock price decreased further because of uncertainty regarding the withdrawal of guidance due to higher-than-expected medical costs and press reports regarding a potential federal investigation. At the same time, UnitedHealth's CEO announced he would step down for personal reasons with the chairman and prior CEO taking over. We exited the position during the quarter.

A position in financial technology company Fiserv detracted during the quarter. Shares first traded down in April following disappointing results for the company's Clover platform in its first-quarter 2025 earnings report. Clover is a comprehensive business management platform and merchant services provider, offering a range of point-of-sale hardware and software solutions. The company's stock took another hit in mid-May amid comments from CFO Robert Hau that quarterly volume growth for Clover was tracking similar to the prior quarter's 8% reported growth rate. That said, management has reiterated that Clover's volume growth rate would have been closer to 11% after adjusting for the leap year, Easter holiday timing and a tough gateway conversion comparison from the first quarter of 2024.

Coca-Cola Company detracted slightly during the quarter despite delivering a fairly strong quarter with organic revenue coming in ahead of consensus at 6%, but more modest growth in earnings per share (EPS). Management maintained its top-line guidance while giving a slight downward tweak to the bottom line. Cautious commentary

regarding the potential impacts of the ever-changing tariff backdrop may have contributed to the lackluster share price movement. While the company acknowledged the volatile backdrop, management also emphasized that Coca-Cola is a local producer and a large employer in all markets.

### 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 second quarter, we established new positions in Coca-Cola, Cintas, Synopsys, Casey's General Stores, Palantir Technologies, GE Aerospace, Intuit, Walmart and Boston Scientific. We fully eliminated the portfolio's positions in UnitedHealth Group, Verisk Analytics, PTC, Starbucks and Oracle. As of quarter end, the portfolio's largest relative sector overweights were in the consumer staples and health care sectors. The portfolio's largest relative sector underweights were in the consumer discretionary and communication services sectors.

### Outlook

Despite first quarter's negative U.S. GDP reading, underlying growth remains strong at a 2.5% annualized rate, albeit slightly lower than 2024's pace. That said, we expect U.S. growth to slow in the second half of the year to around 1.0% due to tariff and immigration impacts. Tariffs will also likely push near-term U.S. inflation higher, with our forecast calling for core inflation to increase to around 3.0% this year. While we are seeing signs of weaker consumption and business investment, the U.S. economy is entering this period of uncertainty on strong footing. Outside the United States, we expect similar full-year expansions of around 1.0% in both Europe and Japan.

With U.S. and global economic growth set to slow, we believe most global central banks will remain in easing mode. That said, uncertainty remains high because of tariffs, fiscal policy and the associated economic impact, causing central banks to seek more clarity before making decisions. We still expect the Fed to reduce rates two more times this year, likely in September and December, which would bring its policy rate range to 3.75%-4.00% by year-end 2025. Following earlier cuts, we expect the ECB to remain on hold for now but anticipate one more rate hike in Japan.

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We're still calling for the S&P 500 to finish 2025 at around 6,400, up from 5,882 at the end of 2024 and 6,205 at the midpoint of 2025, which would represent a full-year advance of 9%. We believe this gain could be supported by three factors: a 10-year Treasury yield that we expect to remain rangebound, making equities relatively more attractive versus the risk-free return on government securities; additional easing by the Fed; and solid earnings per share growth that will help keep a lid on the S&P 500's already stretched price/earnings (P/E) ratio. As of 30 June, the 12-month P/E ratio for the S&P 500 stood at 22.1x, which was above its 10-year average of 18.4x.

That said, equity market volatility will likely remain elevated in the second half of 2025 given the various headwinds that still exist. We will continue to monitor the impact of U.S. tariffs on economic data to determine if continued weaker consumer and business activity is a temporary setback, the beginning of a recession or the start of stagflation. Although stocks have rallied on the potential for positive outcomes between the United States and its trading partners, higher taxes on imports can hurt businesses and consumers, leading to reduced investment and spending. While the tariffs have yet to push inflation higher, we believe that could change in the third quarter. Higher inflation could potentially limit the Fed's ability to lower interest rates, which is typically a tailwind for U.S. equities. Moreover, the

deportation of immigrant populations could lead to U.S. labor shortages and upward price pressures in industries that depend on these workers.

In addition, the recent extension of the individual income and estate tax provisions from the 2017 Tax Cuts and Jobs Act, which had been scheduled to expire at the end of 2025, will add an estimated \$3.9 trillion (\$4.6 trillion with interest) to the U.S. debt through 2035, according to the nonpartisan Committee for a Responsible Federal Budget. Worries about rising deficits could cause bond yields to spike, and, in turn, financial conditions to tighten – both of which are negatives for stocks.

We believe investors should brace for further volatility this year, given the various headwinds facing equity markets, including the possibility of slower economic growth and higher inflation. 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.

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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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