

Stable Growth

Marketing communication | As of 30 Sep 2024

- **During the third quarter, the Stable Growth SMA outperformed the benchmark Russell 1000[®] Growth Index.**
- **Security selection drove the relative outperformance, particularly in the information technology sector.**
- **Market leadership shifted during the quarter away from larger-cap, growth-oriented names and toward smaller-cap and value-oriented stocks, as well as more interest rate sensitive sectors, as the Federal Reserve (Fed) made its first rate cut of the current cycle.**

Market review

Economic growth continued to expand during the third quarter, although more signs of a slowdown emerged. Second quarter's U.S. gross domestic product (GDP) growth came in stronger than expected at an annualized pace of 3.0%, while full-year growth is tracking just slightly below that rate, underpinning investors' hopes for an economic soft landing. Encouraging headline inflation prints during the quarter led key central banks to lower interest rates, even as core inflation remained sticky. The Fed garnered the biggest headline by kicking off its long-awaited policy easing cycle with a 50-basis-point cut in September, larger than many investors had expected. The Bank of England also began lowering rates while the European Central Bank made its second rate cut of this cycle. The People's Bank of China launched a battery of stimulus measures including rate cuts to help kickstart the country's deteriorating economy and ward off deflation. Meanwhile, the Bank of Japan (BoJ) was the outlier with a surprise increase to the country's key interest rate to help curb the yen's fall versus the U.S. dollar.

The stock market started the quarter on a positive note in July, aided by falling Treasury yields and optimism over approaching Fed rate cuts. By month end, the bullish start had given way to concerns about slowing earnings growth for technology companies, which have powered the market for much of the year. In early August, global equity markets sold off sharply after a disappointing U.S. jobs report fanned recession fears, China's economy showed greater signs of deterioration, and the BoJ's surprise rate hike sparked an unwinding of the yen carry trade. As the month progressed, however, the tide quickly turned as inflation reports showed pricing pressures continuing to ease, corporate earnings remained strong, and Fed Chair Powell indicated the time had come for U.S. rate cuts. Throughout September, various market indexes such as the Dow Jones Industrial Average, S&P 500 Index and Nasdaq Composite notched new record highs as investors anticipated the Fed's cut.

While all major U.S. equity indexes performed well, the market rally broadened out during the quarter with small- and mid-cap stocks and more value-oriented stocks leading the way. Smaller companies, which tend to carry more floating-rate debt on



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their balance sheets, rallied as the Fed lowered borrowing costs. The small-cap focused Russell 2000® Index returned 9.27% for the quarter but still lags large caps with its 11.17% year-to-date return.

In a reversal from the first half of the year, the benchmark Russell 1000® Growth Index lagged other U.S. equity indices across the market cap spectrum, returning 3.19% for the third quarter led by double-digit gains in five sectors. The defensive utilities sector led the pack as earnings expectations continued to be very high for these companies. Real estate and materials followed close behind as the market rotated into interest-rate sensitive sectors in anticipation of the beginning of the Fed's easing cycle. The year's previous high-flying sectors, communication services and information technology, posted only modest gains for the quarter, as did health care. Year to date, however, the Russell 1000® Growth still leads with a 24.55% advance.

Overseas, both emerging market (EM) stocks and non-U.S. developed markets outpaced the U.S. market, with the dollar's decline boosting returns for U.S. dollar-based investors. The aggressive stimulus package by the Chinese government sent equities in that country soaring, with the Shanghai SE Composite Index returning 18.32% for the quarter. China's strong advance helped fuel an 8.88% gain for the MSCI Emerging Markets Index as results among other EM countries were mixed. Developed markets, as measured by the MSCI EAFE Index, returned 7.33% as European markets rallied in the face of mixed economic data. Meanwhile, Japan's stock market quickly recovered from its 15% plunge in early August triggered by the BoJ's surprise rate increase and the resulting strengthening of the yen. The Nikkei 225 Index ended the quarter with an 8.38% return.

Portfolio review

The Stable Growth SMA outperformed the Russell 1000® Growth Index on a gross and net of fees basis for the quarter. Security selection drove the relative outperformance, particularly in the information technology sector.

Contributors

In the information technology sector, the strategy's position in Oracle was a top contributor during the quarter, driven largely by the company's continued success in cloud services, which grew by 25%, including a 49% jump in its cloud infrastructure segment. This growth was fueled by increasing demand for Oracle's Gen2 Cloud, particularly for artificial intelligence (AI) applications, where demand far

exceeded supply. Additionally, the company reported a 29% increase in total Remaining Performance Obligations, reaching an all-time high of \$80 billion, indicating sustained future revenue from large cloud contracts. Oracle's cloud-based Enterprise Resource Planning (ERP) offerings also performed well, with both Fusion and NetSuite Cloud ERP revenues growing by double digits, reflecting strong demand from businesses for cloud transformation solutions.

Financial services and technology firm Fiserv also benefited the strategy's performance after reporting solid quarterly results while also raising guidance. Despite slower spending in the Merchant solutions segment, demand for the company's software-integrated point-of-sale solution called Clover remained strong, growing faster than its peers and gaining market share. While Merchant remains the primary growth driver for the company, Financial Solutions growth also improved. Margin expansion continued and free cash flow conversion inflected better, which indicates that Fiserv's execution remains strong ahead of a strong pipeline of global product launches.

In the industrials sector, climate control equipment manufacturer Trane Technologies was another top contributor during the period. The company beat top- and bottom-line consensus estimates for the quarter while also raising full-year guidance. The company's total organic order growth improved during the quarter, its backlog increased, and its Commercial HVAC revenue continued to grow. Margins also expanded due to volume growth, pricing, and productivity initiatives. Trane Technologies has benefited from trends such as the demand for reducing emissions and energy usage, energy efficiency, and indoor air quality, which we believe should continue to support long-term growth.

Detractors

In health care, a position in medical technology company DexCom, the maker of continuous glucose monitoring systems for diabetes management, detracted. The company reported second-quarter revenue that was short of consensus estimates, primarily driven by international sales. However, the bigger surprise was that management decreased the company's full-year guidance by \$200-\$300 million. This change led investors to question the longer-term growth profile for DexCom and ultimately led to the sell-off after earnings. Management now expects organic revenue growth of 11%-13%, down from its projection of 17%-21% back in April 2024. As a result, we exited this position during the quarter.

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Semiconductor equipment supplier Applied Materials also gave back last quarter's gains despite posting a solid quarterly earnings report and modest increase in guidance, driven by increased demand for AI-related products and services. Investors remained cautious toward the stock as one of the company's major clients, Intel, continued to reduce its capital expenditures. Several other issues weighed on Applied Materials' shares including subdued memory spending and U.S. election uncertainty as the country considers tighter restrictions on exports of semiconductor equipment to China. In addition, the U.S. Commerce Department denied the company's Chips Act funding request for its new research and development facility in California. We sold Applied Materials shortly after quarter-end.

In the technology sector, consumer electronics company Apple was a detractor during the quarter due to the strategy's underweight position. After lagging during the first half of the year, the stock performed strongly during the third quarter. Investors anticipate that the company's plans to incorporate AI capabilities into its products will lead to a strong upcoming product cycle. We increased the strategy's exposure to an overweight during the quarter given our higher conviction in Apple's future growth prospects.

Portfolio positioning

The Stable Growth portfolio management team remains intently focused on identifying companies supported by 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. Given expectations for the still-elevated interest rate environment, the lagged effect of monetary policy, geopolitical tensions, the potential for additional stress in the system, and the upcoming elections, we anticipate persistent volatility during the latter part of 2024.

During the third quarter, we established new positions in PepsiCo and Intuitive Surgical. We fully eliminated the portfolio's positions in Visa, Accenture, DexCom, and Monster Beverage. While overall portfolio composition did not meaningfully change during the quarter, the team reduced the portfolio's cyclical exposure and found more attractive opportunities, given the new purchases and eliminations noted above.

As of quarter end, the portfolio's largest relative sector overweights were in the health care and information technology sectors. The portfolio's largest relative sector underweights were in the consumer discretionary and communication services sectors.

Outlook

We anticipate U.S. economic growth will continue to decelerate over the balance of the year. Consumer spending, which makes up about 70% of GDP, is facing headwinds from depleted household savings and increased use of credit. Manufacturing activity is also contracting, while the housing market continues to face challenges from steep home prices and still-high mortgage rates. Markets may also be too optimistic about future rate cuts as Fed officials have indicated a preference to move steadily, which means they will likely cut 25 basis points per meeting. We expect the Fed to eventually get back to a neutral policy stance of around 3.25% to 3.50% by the middle of 2025.

Several factors have the potential to increase market volatility going forward including recession fears, an unusually busy global election season, and the escalation of military conflicts in the Middle East. We anticipate market volatility will likely continue to remain elevated until the November 5th U.S. elections, and potentially beyond, fueled by the market's hypersensitivity to disappointing economic data and multiple global military conflicts. Equity valuations have become less favorable amid the 2024 rally with the S&P 500's forward P/E ratio currently trading above its five- and 10-year averages, according to FactSet, and not reflecting even a modest economic contraction.

Given the uncertainty facing capital markets, we believe investors should maintain adequate portfolio diversification and focus on identifying companies supported by attractive fundamentals, sustainable growth, ample free cash flow, and healthy balance sheets. Although volatility and uncertainty present challenges for investors, we continue to believe equity investors are best served by staying in the market, and may benefit from a flexible investment approach supported by rigorous, bottom-up research, careful stock selection, and thoughtful portfolio construction.

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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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