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Separately Managed Accounts

Value

Small/Mid Cap Value

Marketing communication | As of 31 Mar 2025

- **During the first quarter, the Small-Mid Cap Value strategy outperformed its benchmark, the Russell 2500 Value Index.**
- **The year started off with optimism with the index gaining 3.4% in January, but February ushered in a period of uncertainty falling 3.7% in February and an additional 5.4% in March.**
- **Market volatility elevated by news of changes in the A.I. landscape and shifting to anticipation of the new Presidential administration policies, particularly related to tariffs and the meaning of "free and fair trade."**

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Market review

Global equities posted mixed results in the first quarter. Non-U.S. benchmarks generated gains, led by developed markets, with returns amplified by a weakening U.S. dollar. In contrast, U.S. equities delivered losses, hindered by concerns over the Trump administration's aggressive trade action and its impact on the domestic economy. Monetary policy around the globe also varied considerably, with central banks reporting varied success in lowering inflation. Although the Federal Reserve and People's Bank of China (PBoC) stood pat, the European Central Bank (ECB), Bank of England (BoE) and Reserve Bank of India cut rates while the Bank of Japan (BoJ) and Central Bank of Brazil hiked.

Following three straight cuts (totaling 100 basis points, bps) since September 2024, the **Fed** kept its target fed funds rate steady at 4.25%-4.50% in January and March. In the latter meeting, Chair Jerome Powell stated that although "the economy is strong overall," uncertainty is high due to the Trump administration's "significant" changes in trade and immigration. And given that uncertainty, Powell also emphasized that "We do not need to be in a hurry to adjust our policy stance."

In its updated Summary of Economic Projections, the Fed lowered its forecast for annual GDP growth from 2.1% to 1.7% while raising expectations for inflation from 2.5% to 2.8% by year-end, even further above its 2% target. Powell noted that "clearly some of it, a good part" of the Fed's hotter inflation outlook was due to the Trump tariffs. Looking ahead, we anticipate two 25 bps cuts in the second half of the year.

The S&P 500 endured a volatile January en route to a solid start to the year, with the index gaining 4% in the first three weeks. Investors ignored high valuations, focusing instead on strong corporate earnings in addition to expectations for tax cuts and deregulation under the incoming Trump administration. But the S&P 500 gave back gains following the sudden surfacing of Chinese tech startup DeepSeek and the revelation that its new artificial intelligence (AI) models might rival those of the established industry leaders at a fraction of the cost.

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The U.S. equity benchmark seemingly found its footing in February, reaching a series of record highs mid-month. Minutes from the Fed's January meeting, released February 19th, assured investors that despite still-sticky inflation, the central bank had not ruled out rate cuts and expected to lower borrowing costs over time. That rally was short-lived, though. Declines for several of the "Magnificent Seven" mega cap growth companies (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla), a batch of bearish economic indicators and ongoing tariff tensions sent stocks lower for the month overall.

March proved to be particularly challenging for the S&P 500, with the index falling into correction territory. (A correction is generally defined as a decline of 10% or more from a recent high.) Investors worried about the economic fallout of Trump's trade policy and the possibility of stagflation gripping the U.S. economy.

Major U.S. equity benchmarks finished in the red, led by the 30-stock Dow Jones Industrial Average (-0.9%). The Nasdaq Composite (-10.3%) was weighed down by the poor performance of technology stocks (59% of the index), including Apple (-11.2% for the quarter), Microsoft (-10.8%) and Nvidia (-19.3%). The more economically sensitive small cap Russell 2000 (-9.5%) lagged its mid cap (-3.4%) and large cap counterparts (-4.5%). Following five straight positive quarters, the S&P 500 (-4.3%) suffered its worst three-month period since 2022.

Equity markets outside the U.S. performed well in the first quarter, aided by a weaker dollar (Figure 4). The greenback fell 4% against a basket of currencies (measured by the U.S. Dollar Index), as U.S. growth concerns increased the odds of the Fed lowering interest rates. (Interest rate movements are one the key drivers of the dollar's relative value.) Based on non-U.S. MSCI benchmark indexes in U.S. dollar terms, EM equities delivered a +2.9% gain, while their developed market counterparts (+6.9%) outpaced the S&P 500 by more than 1,100 basis points (or 11 percentage points) — the widest margin since 2002.

Portfolio review

The Nuveen Small-Mid Cap Value portfolio outperformed its benchmark on a gross of fees and net of fees basis, the Russell 2500 Value, during the 1st quarter of 2025 although both the benchmark and portfolio suffered declines. The year started off with optimism with the index gaining 3.4% in January, but February ushered in a period of uncertainty falling 3.7% in February and an additional 5.4% in March. Performance was negative across all nearly all sectors with the exception of utilities (+8.8%) and consumer staples (0.1%) where investors flocked for safety. The largest declines occurred in tech (-13.8%) followed by consumer discretionary (-11.4%) and health care (-10.5%). Beyond utilities and consumer staples, the sectors least hit during the quarter were energy (-1.8%) and communication services (-2.1%).

The portfolio's outperformance was led by strong stock selection in financials, consumer staples, and health care. Conversely, our picks in tech, industrials, and consumer discretionary detracted from relative performance.

Contributors

Shares of residential mortgage servicer **Mr. Cooper Group** were sent higher at the end of the 1st quarter as the company announced it had agreed to a $9.4 billion, all-stock deal to be purchased by Rocket Mortgage which represented a 35% premium. The deal is expected to close in the fourth quarter of this year and propel Rocket as the largest mortgage servicing company in the United States.

During the quarter, shares of **BJ's Wholesale Club** surged as investors were encouraged by a number of positive developments including a 4Q earnings beat, strong same store sales, and expectations of opening 25-30 new stores over the next two years. Additionally, increased membership, higher membership fees, and strong traffic have improved earnings. The company benefits from relatively low exposure to tariffs as imports direct from China only account for "a couple percent of the business" although they do have some grocery exposure from Canada and Mexico.

Shares of property and casualty insurer **Axis Capital** performed well during the quarter and since our initial re-entry into the name in Q1 2023. One of the main drivers of performance has been the strong execution of an underwriting turnaround. In general, property and casualty names have been more defensive considering macro uncertainty and tariff talks as these companies are viewed as being more insulated compared to other areas of the market.

Detractors

Automotive semiconductor company **Ambarella** shares pulled back in the second half of Q1 after a major run up in the stock that started in Q3 of last year. Although the company continued to deliver solid results for the quarter, automotive inventory digestion and concerns regarding decelerating growth in AI and data center spending weighed on shares.

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Chart Industries stock declined in Q1 as the industrial equipment manufacturing company announced mixed results. During their earnings call, the company posted strong order numbers with a book to bill of 1.2x but slower revenue conversion of its backlog lowered EBITDA expectations. Data center power demand spending and energy pricing volatility impacted the stock negatively.

Shares of industrial powertrain and automation component manufacturer **Regal Rexnord** declined as sizeable year-end push-outs from customers dragged down top-line growth and margins in the quarter. 2025 guidance also missed expectations. Moving forward, we believe valuation and solid order growth in Regal Rexnord's higher-margin automation and power solutions businesses should offer support for the stock, which trades at a compelling absolute and relative valuation. Onshoring activity should be a strong catalyst propelling growth.

Portfolio positioning

Throughout the quarter, with numerous shifting policy initiatives and imperatives underway from both politicians and policy makers, the portfolio remains underweight in communication services and consumer discretionary and energy, where pressured consumer demand and economic activity remains subdued.

In consumer discretionary, following a lackluster analyst day and muted product launch, we eliminated our position in Under Armour and initiated a position in Crocs. Crocs has cleaned up its inventory in both Crocs and HeyDude!, all while delevering the balance sheet and generating healthy free cash flows.

In staples, we initiated a position in Reynolds Consumer Products, where the company's Reynolds wrap and Hefty trash bags franchise appear to be gaining market share while focusing on margins and productivity.

In the industrial and technology sector, following a period of meaningful purchase commitments and design win activity, we believe a deceleration or pause in orders for power systems, data centers, and AI infrastructure would negatively impact premium valuations. We eliminated our position in Crane and BWX Technologies, GXO Logistics, Lumentum and Cognex. Automotive maintenance services provider Driven Brands was added, where we believe the company can benefit from elongated replacement cycles and an aging auto fleet. New holding Donaldson Company's filtration and industrial air equipment products appears more resilient at a compelling valuation.

Outlook

As we start the second quarter, we have seen meaningful tumult from the "Liberation Day" tariff announcements. In the recent days following, massive uncertainties have heightened market tensions domestically and globally, with rumblings in equity, bond and currency markets concurrently. Due to the shifting and intermittent announcement by domestic parties and counterparties, near term forecasts have become unpredictable, if not fleeting. As we assess actions by companies, politicians and policy makers, we see a rather consistent response: stall and crawl.

Heightened scrutiny on budgets, orders, and funding in some cases has created a pull forward of demand, while in other cases, these pressures look to stall commitments to vacations, home improvements, new home purchases, and big ticket items. Consumer confidence has eroded. Despite all the market movement, an 'orderly' decline of the market has ensued, with no apparent stress show in risk spreads widening or credit defaults. In the absence of tariff clarity, we expect guarded guidance and restraint in hiring and capital expansion.

Throughout the meaningful noise from the market, we look to sustained strong signals proposed by the Trump administration. In the first 100 days, emphasis on domestic resilience and resourcefulness, budgetary discipline and adept dealmaking establish tent poles to shape the portfolio.

We remain open eyed, and as always, opportunistic, in looking for displaced and mispriced companies and appreciate the opportunity to be stewards of your capital.

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For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is $100,000.

Important information on risk

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Glossary

Russell 2500® Value Index measures the performance of the 2500 smallest companies in the Russell 3000® Index. **S&P 500® Index** is widely regarded as the best single gauge of large-cap U.S.equities.The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. **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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