U.S. Large Cap Growth

Marketing communication | As of 31 Mar 2026

Key takeaways

- U.S. large cap growth stocks saw meaningful drawdowns in the first quarter with the Russell 1000® Growth Index ('RLG') down nearly 10% in the period. Across all major equity classes, only U.S. large cap value and small cap stocks eked out positive returns in the quarter.
- The first quarter of 2026 began with the massive repricing of stocks across many sectors which were labeled "AI Losers" and reflected concerns that AI could significantly disrupt their core businesses and erode terminal values.
- It was a difficult quarter on an absolute and relative basis. Perhaps a correction should have been expected after the Russell 1000® Growth increased a stunning 126% over the last three years. We entered the year optimistic about AI productivity and the overall economy and we positioned the portfolio accordingly. We did not anticipate the Iran war or the violent adjustment of terminal values associated with the possibility of AI disruption. We have adjusted to both and we believe when the bull market resumes, we will outperform.

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Market review

The first quarter of 2026 began with the massive repricing of stocks across many sectors which were labeled "AI Losers" and reflected concerns that AI could significantly disrupt their core businesses and erode terminal values.

In addition, the Iran war triggered a spike in oil and energy prices and global risk-off sentiment, creating a volatile and negative quarter for many markets.

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Energy was the best performing sector by a wide margin driven by spiking commodity prices. A general lack of Energy exposure hurt active managers as did a narrowing of market breadth, with large cap active funds underperforming in the period.

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Portfolio review

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The portfolio trailed the benchmark for the quarter. The Industrials sector contributed the most to relative performance due to strong stock selection and our overweighting. Our underweight of the Healthcare sector also contributed. Stock selection within the Information Technology sector detracted the most from relative performance. Our underweight of the Consumer Staples sector also detracted.

Contributors

GE Vernova Inc is a leader in industrial gas turbines for power generation, grid technologies and wind power and delivered yet another beat-and-raise quarter. The company is nearly sold out of gas turbines through the end of the decade given the economy is structurally short power generation. Amidst this backdrop, the company is adding capacity and selling additional slot reservations at much higher prices which is driving significantly higher margins.

Quanta Services Inc, a provider of energy services in the areas of electric power, renewable energy underground and infrastructure, is benefiting from the growing focus on the U.S. power markets tight skilled labor market where it has a significant competitive advantage as the largest infrastructure contractor. In addition to traditional utility transmission and grid modernization work, the company has increasing exposure to data center and AI-related demand work at higher margins. Recent quarter metrics and guidance also beat street expectations.

Analog Devices Inc, a provider of analog semiconductors for a broad range of industrial applications, contributed as sustained AI-driven demand across industrial applications such as automation and robotics continue to fuel growth. The most recent quarter beat expectations due to a combination of cyclical demand and price increases and guidance came in well above expectations.

Global hospitality leader with asset light business model, **Hilton Worldwide Holdings Inc** released a better-than-expected quarter on the back of improving revenue per average room trends. Industry new unit growth is largely a duopoly under the Hilton and Marriott banners and Hilton's capital-light model allows for strong free cash flow generation.

Advanced semiconductor equipment manufacturer **ASML Holding NV** reported a better-than-expected quarter, driven by record memory bookings. A key tenant to our thesis, we recently purchased the stock as we anticipated that increased global demand for memory would lead to additional sales of legacy products and we model double-digit revenue momentum to be sustained due to strong AI demand for memory.

Detractors

Snowflake Inc, a cloud-based data platform that enables organizations to manage and analyze large volumes of data with high performance, scalability and flexibility, was not immune to the broad software stock sell-off. Despite the negative market sentiment, the company beat quarterly expectations driven by 30% revenue growth and continued operating efficiencies and guided ahead of consensus. We continue to believe its cloud data warehouse supports AI disruption as data needs to be in one place to run various AI applications.

Shopify Inc, a global cloud-based e-commerce platform, is investing in preparation for agentic commerce and signed a partnership with OpenAI which will allow merchants to sell directly in ChatGPT. While higher valuation stocks came under pressure in the quarter, the company's growth momentum and market share gains persisted in the most recent quarter as fundamentals remain strong.

Our underweight of discount retailing leader **Costco Wholesale Corp** also detracted from relative performance. The company has an industry-leading value proposition and consistent growth profile with limited risk from AI disruption; however, we exited the position due to valuation to fund higher conviction ideas.

A leader in collaboration and development software, **Atlassian Corp**, detracted as software stocks experienced a sharp sell-off due to fears that AI will disrupt, instead of strengthening, the traditional software business models.

However, the company delivered a solid quarter, reaching $1 billion in cloud revenue for the first time and experienced record AI usage.

Intuit Inc, a leading provider of small business and consumer software services, was also caught in the software stock pullback despite quarterly results beating expectations across all key metrics. We anticipate an active tax season due to the "One Big Beautiful Bill Act" which could present a tailwind for demand across the company's tax business offerings, and the company could be one of the earliest application vendors to benefit from an AI product cycle.

Portfolio positioning

As the market transitions from AI buildout to AI disruption, the portfolio is focused on companies enabling AI deployment or applying AI technologies to drive efficiencies in their businesses. Consistent with this view, our largest overweights are in the Industrials (12% versus 7% in the benchmark) and Communication Services (16% versus 12%) sectors. Our largest relative underweights are in the Consumer Staples (0% versus 3%) and Consumer Discretionary sectors (11% versus 13%) given the bifurcation of the consumer and our preference of higher growth opportunities. We are also underweight the Financials sector (4% versus 6%) given AI disintermediation risk and liquidity concerns. The remaining sectors are within 1% of the benchmark and we are void the small Energy, Materials, Real Estate and Utilities sectors.

From a Growth Type perspective, the Cyclical Growth sector is the largest overweight at 39% versus 32% in the benchmark. Consistent Growth at 28% versus 36% is the largest underweight. Dynamic Growth is overweight at 33% versus 31%.

Outlook

Much like the start to 2025 with Liberation Day, 2026 is off to a very weak start driven by concerns of AI disrupting existing company profit pools and the uncertain duration of the Iran war. We have no particular insight into the Iran war other than to observe President Trump strongly prefers a near-term resolution. AI disruption is likely to persist as a key theme in the market for the foreseeable future. Please see our white paper published in February entitled "The AI Disruption Phase Has Dawned" for additional insights.

The AI disruption phase has already caused substantial volatility as the market begins to understand the advances in AI are accelerating and this will hurt the future growth prospects of many public and private companies. In addition, a new AI oligopoly seems to have emerged with Google, Anthropic and OpenAI. Anthropic's recent improvements in Claude Cowork/Agents have dramatically reduced the cost of coding, analysis and reporting and the customer response speaks for itself. In the last nine months of 2025, Anthropic was adding $1 billion in annual revenue per month. Thus far in 2026, they are adding $1 billion per week. Anthropic just revised its base case revenue estimate for 2028 to $100 billion from essentially no revenue only two years ago. Similarly, OpenAI has just raised its 2030 revenue forecast to $284 billion from their $125 billion 2029 forecast one year ago. We believe AI leaders will drive a large amount of economic productivity, but it is also true that many existing public and private companies will be losers.

We believe the market today is focused on "digital-based" losers in software, information services, legal, brokerage, distribution, payments and other service industries. We estimate this group represents 12% of the S&P 500® Index and 19% of the RLG as of February 2026. Software is the largest piece of this potentially disruptive cohort and the average software stock has declined 25% year-to-date. It is clear that the cost of developing software is plummeting, and the technology stack of enterprises is evolving where the AI layer will deliver the value. With competition rising and a business model change ahead for incumbent software companies (moving from collecting revenue on a per-seat to consumption basis), we agree with the market's concerns around the terminal value of certain equities.

As AI applications proliferate, we believe certain adapters of the technology may be in a strong position to accelerate their revenue and margins if they have a leading position in a non-commoditized industry. One example is C.H. Robinson Worldwide. The leading freight forwarder is using AI agents to respond to freight quote requests faster and more accurately than in the past. We believe their deep AI integration will dramatically accelerate their profitability. AI productivity has just begun and we believe this is a real alpha opportunity for the foreseeable future.

Looking ahead a few years, we may transition from the digital phase to analog/physical disruption. As AI progresses in autonomous vehicles and robots, this phase could be even more disruptive. The labor market impact could be substantial as robots are employed to build more robots to displace human tasks. There are many business models that are dependent on selling their services per employee, not to mention the consumer spending implications and increased demand for energy.

The very good news about corrections is they set the stage for the next bull phase. And with a large correction in valuation we believe the winter storm will soon turn into the spring/summer bloom. The majority of our holdings are selling below their five-year average valuations. The best kindling for a sustained advance is attractive valuation. One classic sign the correction may be ending is that the Mag 7 (the leading large growth companies) are trading at a notable discount to the low-growth consumer staples group. Fear is indeed present.

Market Structure

We have written about how today's market structure is heavily influenced by passive investing, retail ownership and high-frequency hedge funds. Retail and high-frequency hedge funds are heavily influenced by price direction whereas valuation may not be an input to the process. In recent years we have observed indiscriminate and/or forced selling - often referred to as "de-risking" - during market corrections. Fundamental investors are now a small fraction of market participants and, in times of stress, are not setting prices. This explains why during the first quarter traditional fundamental inputs like positive earnings revisions had no correlation to stock returns. We believe this will normalize as the correction ends, providing a nice opportunity in a set of dislocated stocks.

Risk Management

Winslow Capital has a strong culture of continuous improvement that applies particularly to our investment process. In a recent letter we discussed the creation of a new economic sector we call "Datacenter" that incorporates stocks from various sectors, but whose primary business is selling into AI data centers. This sector is now 25% of the RLG and based on our modeling of the Russell reconstitution in June, it will likely go to 29%. We believe our approach to modeling this provides us with more accurate risk assessment.

We are also in the process of transitioning our risk management software from Barra to a more comprehensive platform. Barra has not kept up with important new factors in the market that we find insightful such as stock ownership crowding, macroeconomic beta and technical factors. Risk management remains an important part of our process.

Index Thoughts

Our benchmark, the RLG, continues its quarterly rebalances to remain in compliance with the 25/5/50 U.S. Regulated Investment Company IRS capping thresholds. The rebalancing methodology is incredibly complex and has caught investors by surprise. The first quarter rebalance resulted in a 0.9% increase in the weight of the Mag 8[1]. During 2025, the four quarterly rebalances resulted in a cumulative 5.2% decrease of the Mag 8. This increase in benchmark turnover is driving up active manager turnover.

Toward the end of the second quarter, Russell will reconstitute the Russell 1000® Growth and Russell 1000® Value Indexes. Their rigid and flawed methodology has led to dramatic concentration in the RLG Index which now has 56% of the index in eight stocks and only 387 total stocks, down from 635 stocks a decade ago. The value index has 867 stocks. We have been in consultation with Russell to change their definition of value and believe that would provide balance between the two style indexes. We do not anticipate this change to happen before June and thus predict the number of stocks in the RLG will decline further to 349, driving further concentration and turnover. As explained in great detail in our white paper "The Index is Not The Market" the RLG is not the Large Cap Growth market. We strongly encourage our stakeholders to also consider the S&P 500® Index and peer group rankings when assessing managers.

One new development this year for U.S. index providers (Nasdaq, S&P 500 and Russell) we believe, will be fast entry for very large IPOs. We can expect SpaceX, Anthropic and OpenAI to join indexes within their first few weeks of trading as opposed to months or years based on historical inclusion methodologies. We think this makes sense given the liquidity of these assets.

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For more information contact: 800.752.8700 or visit nuveen.com

Important information on risk

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Glossary

Free cash flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. Free cash flow (FCF) represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. Free cash flow is important because it allows a company to pursue opportunities that enhance shareholder value. Without cash, it's tough to develop new products, make acquisitions, pay dividends and reduce debt. **Inflation** is a rise in the prices of goods and services, often equated with loss of purchasing power. **Valuation** is the process of determining the current worth of an asset or a company; there are many techniques used to determine value. An analyst placing a value on a company looks at the company's management, the composition of its capital structure, the prospect of future earnings and market value of assets. The **Russell 1000® Value Index** measures the performance of those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values. The **Russell 1000® Growth Index** measures the performance of those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. The **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.

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