

## Small Cap Value Opportunities

Marketing communication | As of 30 Sep 2025

- **During the third quarter, the Small Cap Value Opportunities strategy generated positive returns, but underperformed its benchmark, the Russell 2000 Value Index.**
- **Driven by a cooling labor market, the Fed made its first interest rate cut in September, lowering bond yields and supporting risk assets. Two more cuts expected by year-end.**
- **Non-fundamental factors including high beta and momentum were the leading drivers of the small cap market which made it difficult for active managers to keep pace.**

### Market review

While uncertainty continued to overhang the markets during the third quarter, worst-case scenario fears regarding the impact of tariffs on economic growth and inflation were avoided. The U.S. economy continued to steadily slow, and the labor market softened, but overall growth continued to hold up well. Real consumption continued to expand at around a 2% pace, despite a sharp slowdown in job creation. The U.S. unemployment rate ticked up to a new cyclical high of 4.3% in August, while other measures of labor market slack pointed to more stability. However, the partial government shutdown prevented the Bureau of Labor Statistics from releasing September's jobs report on the first Friday of October. Inflation increased as the impact from tariffs steadily fed through to consumer prices, with the core personal consumption expenditures (PCE) index reaching 2.9% year-on-year, up from its recent low of 2.6% in April.

Monetary policy worldwide continued to diverge, with central banks balancing still-sticky inflation with resilient global growth despite ongoing tariff uncertainty. After holding rates steady at its July meeting, the Federal Reserve (Fed) cut rates for the first time this year in September, bringing the target federal funds rate to a range of 4.00%-4.25%. Chair Powell noted the Fed's challenging backdrop of rising inflation due to the impact of tariffs combined with a cooling U.S. job market. While the Fed's updated economic projections in September showed few changes, the heavily scrutinized dot plot indicated two more rate cuts this year and one in 2026. The Bank of England (BOE) also cut rates once by 25 basis points in August, while the European Central Bank (ECB) and Bank of Japan (BoJ) held policy steady throughout the quarter. Gold prices soared more than 17% during the period to a new record high of \$3,800 per ounce as investors continued to flock to this safe-haven asset, while oil prices fell around 4% due to increased production.



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The S&P 500 Index notched its fifth straight monthly advance and ended the quarter just shy of its September 22 all-time high. Strong corporate earnings helped drive the quarter's advance, with nine of 11 S&P 500 sectors beating consensus expectations for second-quarter earnings per share (EPS). The index returned 8.12% for the quarter fueled by double-digit gains in the information technology and communication services sectors, followed by solid advances in consumer discretionary and utilities. Consumer staples stocks lagged, producing the only negative return at the sector level during the quarter. While value stocks rallied and outpaced growth stocks in the smaller capitalization ranges, they still lagged in the large cap space, which was dominated by tech stocks.

On the heels of the year's strong first-half rally, non-U.S. developed markets experienced more muted gains in the third quarter. As measured by the MSCI EAFE Index, developed markets advanced 4.77% in U.S. dollar terms for the quarter. European stocks lagged despite the onset of Germany's fiscal boost with a 4.43% return for the MSCI EMU Index, while returns in Japanese and Canadian stock markets were stronger. Meanwhile, emerging market (EM) equities were the period's star performers, outpacing both the United States and other developed markets with an 10.64% quarterly return as measured by the MSCI Emerging Markets Index. Chinese stocks, which now account for just over 30% of the market capitalization of the EM index, were buoyed by AI-related momentum, government stimulus measures and a strong IPO market in Hong Kong. China's large-cap focused CSI 300 Index advanced 19.78%.

U.S. Treasury rates declined across the yield curve, with the 10-year Treasury yield ending eight basis points lower at 4.16%. Shorter rates fell more due to expectations for further cuts, while the long end remained pressured by concerns over long-term inflation and fiscal deficits, resulting in a steeper yield curve. Lower rates and tightening credit spreads fueled positive returns across fixed income asset classes with spread sectors broadly outperforming Treasuries. The Bloomberg U.S. Aggregate Bond Index posted a 2.03% quarterly return.

### Portfolio review

The **Nuveen Small Cap Value Opportunities** portfolio underperformed its benchmark on a gross of fees and net of fees basis, the Russell 2000 Value, during the 3rd quarter with the index delivering an overall return of +12.6%. July saw a gain of about 1.8%, August posted roughly 3.2%, and September contributed a solid 7.3%, driving the strong quarterly performance. The index notably outpaced many

large-cap counterparts during the quarter, reflecting a robust small-cap value rally amid continued market risk appetite and easing monetary conditions. This was part of a broader trend where small-cap stocks, especially value-oriented ones, rebounded well in Q3 2025 after a mixed first half of the year. The best performing sectors leading the index were and communication services (+32.0%), materials (+25.2), tech (22.0%), and health care (+21.1%). All sectors were positive during the quarter, but the largest laggards were consumer staples (+4.8%), financials (+6.3%), real estate (+7.1%), and industrials (+10.0%). The majority of the portfolio's equity underperformance came from stock selection in industrials, consumer discretionary, and health care. Offsetting some of the underperformance were our investments in communication services, real estate, and tech. Our top stock contributors in the 3rd quarter were **ViaSat**, **Vimeo**, and **LENZ Therapeutics** while leading detractors included **Alight**, **Simply Good Foods**, and **ADMA Biologics**.

### Contributors

Our position in **ViaSat** was a top contributor to the portfolio after reporting an earnings beat and multiple positive developments during the quarter. Sentiment was already improving heading into the quarter with a better-than-expected settlement with Ligado in June, which will pay \$568 million to ViaSat in fiscal 2026 alone with additional quarterly payments lasting through the year 2107. In late July, shares rose as an activist published a letter urging ViaSat to spin-off or IPO its Defense and Advanced Technologies business and outlined an investment case supporting a valuation of \$50-100 per share for VSAT. Finally, VSAT reported quarterly results in early August that beat expectations and outlined progress related to its upcoming satellite launches.

**Vimeo's** stock surged after Bending Spoons SpA announced the acquisition of the company for a cash price of \$7.85, a premium of nearly 90% over its 60-day average. The merger is expected to close in the fourth quarter

**LENZ Therapeutics** shares rallied during quarter following the FDA approval of the company's Vizz presbyopia (reading glasses) drops. The expected launch of product is expected in the fourth quarter. The company also announced a licensing agreement for Vizz in Canada.

### Detractors

**Alight** experienced a slight revenue decline of 1.9% year-over-year and faced a significant \$983 million goodwill impairment charge that impacted net income, reflecting

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macroeconomic pressures and industry valuation challenges. Slower uptake of services and a benign employment backdrop has weighed on the stock. We decided to exit the position during the quarter.

Shares of **Simply Good Foods** declined during the quarter as the company suffered margin compression despite 13.8% sales growth, with gross margin declining from 39.9% to 36.4%, mainly due to product mix shifts and inflated cocoa costs. The struggling Atkins brand also faced distribution losses, dragging overall profitability and causing shares to fall.

**ADMA Biologics** posted flat earnings and reiterated its outlook for strong revenues in 2025 and revenue outlook of over 20% growth in 2026. Despite improvements in immunoglobulin product yield and expected gross margin expansion, the stock lagged.

### Portfolio positioning

As we enter the fourth quarter, there are continued expectations of cuts by the Federal Reserve, carrying into 2025, with expected help to the consumer from tax policy and sustained employment.

During the quarter, the portfolio maintained relatively in line with the benchmark in most sector weighting, while increasing our portfolio exposure to technology and lowered exposure to industrials, real estate, and utilities.

In technology, we initiated positions in Knowles and MaxLinear, where accordingly, developments in defense and energy applications, as well as optical transport are seeing design win activity and adoption. Flotek Industries, a provider of measurement software for the energy sector, was added.

Our lower exposure to real estate reflects concerns around occupancy and renewal rates that have showed lower yields for properties and a deceleration rent pricing.

In financials, we consolidated some bank positions and lowered our insurance holdings, with the elimination of Axis Capital Holdings, and took a position in PennyMac Financial, where we believe refinancing activity can accelerate into 2026. In consumer discretionary, we eliminated Stride following meaningful appreciation, and initiated a position in Standard Motor Products, which provides critical motor control and air conditioning systems for autos and Taylor Morrison, a homebuilder.

### Outlook

With the pending Federal government shutdown looming to start the quarter, we see markets that continue to persevere despite numerous fits and starts. Beyond threats, tariff, tax, and trade issues, corporate profits have demonstrated staying power and stand to continue to as the markets look toward 2026; on the heels of tax policy, potential consumer tailwinds and capital incentives favor spending and further onshoring efforts.

Appetite for AI and data driven monetization and solutions remain incredibly robust throughout technology spending, with euphoric deal making amongst the largest of market players. As small cap managers, we continue to assess value chains and the supporting infrastructure that will support such models as well as the downstream beneficiaries and secondary network effects from the billions, if not trillions of spend. We believe that the multitude of small catalysts can provide large benefits throughout our portfolio.

With the first of Fed cuts recognized within the quarter, it is expected that two more cuts are on deck to close the year, facilitating both deal flow, refinancing and mergers and acquisitions. We believe a virtuous cycle of accommodation will provide a better floor for earnings, despite continued challenges to the consumer. To that end, we appreciate your trust in our process and the opportunity to manage your capital.

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**For more information contact: 800.752.8700 or visit [nuveen.com](http://nuveen.com)**

Minimum investment is \$100,000.

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## Glossary

The **Russell 2000® Index** measures the performance of the small cap segment of the U.S. equity universe which includes approximately 2000 of the largest securities based on a contribution of their market cap and current index measurement. The **Russell 2000® Value Index** measures the performance of those Russell 2000® companies with lower price-to-book ratios and lower 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. **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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