Small Cap Value Opportunities

Marketing communication | As of 30 Jun 2026

Key takeaways

- **During the second quarter, the Small Cap Value Opportunities strategy outperformed its benchmark, the Russell 2000 Value Index.**
- **Growth stocks notably outpaced their value counterparts during the quarter with small cap stocks being a significant leader overall.**
- **The market, particularly within small caps, was very narrow during the quarter heavily driven by the tech sector.**

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Market review

The U.S. stock market mounted an impressive rebound during the second quarter of 2026, delivering its strongest quarterly performance in six years. Market participants looked past concerns surrounding the disruptions caused by the Iran conflict and shifting expectations about the potential for Federal Reserve (Fed) rate hikes. Easing tensions in the Middle East helped West Texas Intermediate (WTI) oil prices retreat from above $110 per barrel to below $70 by quarter end, relieving worst-case scenario inflation fears. However, inflation still moved materially higher during the quarter, with the most recent Consumer Price Index (CPI) figure running above 4% year-over-year. Meanwhile, U.S. economic growth remained healthy with the backdrop of a steady labor market, including slightly lower unemployment. Although rising inflation weighed on consumer purchasing power, real consumer spending rebounded from around 0.5% annualized in the first quarter to approximately 2.0% in the second quarter.

Responding to the heightened inflationary pressures, global central banks generally adopted a more hawkish stance during the quarter. Fed policymakers continued to hold rates steady in the 3.50%-3.75% range at Kevin Warsh's first meeting as chair in June but upgraded their median core inflation forecast for the year to 3.3%. Half of the 18 Federal Open Market Committee members also conveyed expectations of a rate hike before year-end. Also in June, the European Central Bank (ECB) and Bank of Japan (BoJ) both increased rates by 25 basis points, with Japan's key short-term rate reaching its highest level since 1995. Other major central banks also signaled hawkish intentions. Following a historic rally in precious metals prices, the potential for rising rates caused gold to post its biggest quarterly decline since 2013.

Despite ongoing concerns about inflation, rates and one of the biggest oil shocks in history, investor appetite for equities remained robust as the market concluded one of its strongest corporate earnings seasons in recent memory. According to FactSet, aggregate S&P 500 earnings grew by more than 25% year-over-year last quarter and are expected to record a similar trend in the second quarter.

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The second-quarter rally was led by a resurgence in the artificial intelligence (AI) trade and technology stocks; however, this time the advance was led by semiconductor and hardware-related stocks. The upswing helped the market reverse all of first quarter's losses, and more, with the bellwether S&P 500 gaining 15.20% for the period. Information technology was by far the strongest performing sector in the index, advancing nearly 32%, while energy stocks gave back some of first quarter's gains, falling more than 13%. The tech-heavy Nasdaq Composite Index performed even better during the quarter with a gain of 21.60%, while the blue-chip Dow Jones Industrials Average advanced 13.38%, ending the period at a record high.

Small cap stocks, as represented by the Russell 2000® Index, outpaced their large-cap counterparts by a wide margin, advancing 21.49% for the quarter and notching their best first-half performance since 1991. The segment benefited from both a valuation catch-up trade as investors rotated out of mega-cap technology stocks, as well as the flow-through of massive spending related to AI infrastructure. Many of the top performers in the small-cap index were semiconductor-related companies. The period also represented the fifth consecutive quarter of gains for the small cap segment, its longest winning streak since the post-pandemic rally.

Overseas, emerging markets substantially outpaced the United States and other developed stock markets, with the MSCI Emerging Markets Index gaining 24.05% for the quarter. However, the quarter was marked by significant performance divergence as Asian markets like Taiwan and South Korea, which together now represent more than half of the EM index by market capitalization, experienced huge AI-related rallies. Meanwhile, China, which accounts for around one-fifth the index, delivered another negative quarter after the country posted a recent slew of weak economic data.

Developed markets outside the United States benefited from the welcome pullback in energy prices during the quarter, which helped lower input costs for many of the energy-importing nations. The MSCI EAFE Index returned 10.82% in U.S. dollar terms, led by Japanese stocks, which also surged based on the massive rally in semiconductor and AI-related stocks. The Nikkei 225 Index advanced 34.42% for the quarter, reaching an all-time high in June. However, the U.S. dollar strengthened versus most major currencies, weighing on non-U.S. stock market returns when translated into dollars. Japan illustrated this point most vividly as the yen depreciated to a 40-year low versus the dollar despite Tokyo's attempts to shore up the struggling currency. As a result, U.S. dollar-denominated investors captured meaningfully less of Japan's outsized local returns than the headline Nikkei number would suggest.

Portfolio review

The Nuveen Small Cap Value Opportunities portfolio outperformed the Russell 2000 Value benchmark on both a gross and net of fees basis during the first quarter, a period in which the index posted a return of +17.2%. It's worth noting that the large dispersion the Russell 2000 Growth and Value indices during Q2 with growth leading by over 850 basis points (+25.7% return for the Russell 2000 Growth Index).

Small cap value stocks, as measured by the Russell 2000 Value Index, entered 2Q on a strong note, surging 9.7% in April before extending those gains with an additional 2.8% return in May and then finishing the quarter with adding another 4.0%. While absolute returns were eyepopping during the quarter, the market tended to be narrow with approximately 3/4ths of benchmark names underperforming the benchmark return.

Within the benchmark, technology led all sectors by a wide margin with a +77.6% return, followed by health care (+22.3%), industrials (+21.1%), consumer discretionary (+17.0%) real estate (+16.5%), financials (+15.2%), communication services (+8.6%), consumer staples (+5.0%), and materials (+2.8%). The utilities sector was essentially flat during the quarter while energy (-13.2%) was the only area to suffer significant declines.

The portfolio's outperformance was driven primarily by driven its heavy overweight in the tech sector. Stock selection was negative during the quarter although portfolio names in industrials added to relative return. Leading contributors during the second quarter included MaxLinear, ViaSat, and Cardinal Infrastructure while Northern Oil & Gas, Olin, and Magnolia Oil & Gas were the primary detractors.

Contributors

MaxLinear shares rallied significantly following the recognition of meaningful design wins and volume production for the company's 400G and 800G deployments with major hyperscale and data center customers. The

guidance and visibility around its optical programs carry into 2027 and beyond. The company's improving fundamentals and exposure to AI infrastructure spending were highlighted along with potential ramps for 1.6T market share wins. Investors also became more confident that weakness in legacy broadband markets had bottomed, allowing higher-growth optical networking products to drive future earnings.

ViaSat benefited from improving operating execution and growing investor confidence in its long-term satellite communications strategy. Improved free cash flow, lower capex and a focus on the sum of parts valuation, highlighting the growth in Defense and Advanced Technologies segment as well as potential monetization of the spectrum holdings rallied the stock. Expanding defense demand, improving aviation connectivity trends, and expectations surrounding the upcoming launch and deployment of ViaSat-3 satellites could significantly expand network capacity.

Cardinal Infrastructure Group rallied around the initial award of its first data center project award as well as meaningful increases to the company's backlog by 25% sequentially, and over 60% annually. The acquisition of ALGC and Piedmont Pipe Construction provide contracting services and expand the company's end markets. Expectations for increased public and private capital investment remained favorable. Strong execution on existing projects, improving backlog visibility, and expectations for continued infrastructure spending supported positive sentiment throughout the quarter.

Detractors

Northern Oil & Gas shares underperformed despite relatively solid operational performance with stronger production and pricing and expenses well managed. The capital spending for the company was below expectations. The company experienced temporary production shut-ins in portions of the Permian Basin due to unfavorable regional natural gas pricing, while several well completions were deferred into the third quarter. Despite management's reaffirmed production guidance and continued returning capital through share repurchases, softening crude prices on the quarter also weighed on the stock as peak energy volatility fears regarding the Iran war diminished.

Olin struggled during Q2 as investors remained concerned about soft industrial demand across several of its core end markets, including construction, manufacturing, and consumer products. Recent capacity rationalization and supply disruptions from the Iran conflict have been supportive to industry pricing, Management has taken steps to manage production levels and meaningfully control costs in a subdued market backdrop. Towards the end of the quarter, the company announced a merger with Huntsman Corp., which can provide meaningful cost synergies to the proposed combined entity.

Shares of **Magnolia Oil & Gas** underperformed despite generating healthy free cash flows and maintaining a lower levered balance sheet. In the quarter, the company deployed capital for a bolt on acquisition in the Karnes and Giddings areas, adding further inventory for development. Despite Magnolia maintaining one of the industry's stronger balance sheets and low-cost operating profiles, broader weakness across the energy sector and lower crude prices impacted the share price.

Portfolio positioning

Following meaningful changes to the Russell index and selective sector performance, our consumer discretionary and staples weights remained largely unchanged. We made selective trades within the sector, including eliminating Standard Motor Products and National Vision Holdings, as we believed pressures on lower-end consumers and increasingly choiceful spending would weigh on both companies. We added Coursera, which we believe is well-positioned to build on merger synergies and generate meaningful free cash flow from its enterprise and learning software offerings.

In financials, we added to the sector, with new positions in Wintrust Financial, UMB Financial Crop, and Federal Agricultural Mortgage. Strong performance in the group from NIM stability, loan growth acceleration, and resilient credit quality has been supportive for the group and can provide for a greater re-rating.

In healthcare, we eliminated ADMA Biologics, Addus Homecare and Castle Biosciences, Wave LifeSciences, while initiating positions in Integra Lifesciences, Sonida Senior Living, and Omnicell. Confidence in execution by management at ADMA and lower 2026 guidance proved to be a negative catalyst and Addus Homecare showed lower hospice volumes. Sonida Senior Living stands to benefit

from demographic benefits and a growing SHOP portfolio.

In industrials, on strong stock performance and elevated valuation, we eliminated Cardinal Infrastructure and Vicor Corp. Challenges to growth and margins warranted the elimination of Amentum in favor of new additions to Tudor Perini and Primoris Services. Continued focus on datacenter spend, power, and defense initiatives benefited the sector.

In technology, we lowered our weight with the elimination of Ambarella, Itron, Powerfleet, and Daktronics, with initiations of Indie Semiconductor and Enphase Energy. Technology spending priorities have pressured some industries and following meaningful appreciation in semiconductor, datacenter, and AI focused companies, we trimmed holdings where stocks demonstrated a less compelling risk/reward and expectations of accelerating catalyst appear embedded in the stocks.

In energy and materials, softening crude prices weighed on the portfolio weights, and we eliminated Minerals Technologies. In real estate, weights increased strong performance from Americold Realty and Curbline, as well as the addition of Broadstone Net Lease.

Outlook

The ongoing Middle East conflict has sent mixed signals about a potential resolution. It appears the extremes—energy spikes on one end, a peace dividend on the other—have begun to establish their boundaries, supporting a healthy appetite for risk-taking and sustained capital deployment toward the highest-return opportunities in data and AI, effects that are trickling down the market cap and earnings spectrum. Meanwhile, new leadership is taking shape at the Federal Reserve, potentially bringing a different approach to policy decisions and a fresh lens on economic data. Amid all this, elevated costs and lingering inflationary pressures persist, yet employment and the consumer have proven weather-tested and resilient. As we enter the second half of 2026, we see continued prospects for an accommodative regulatory framework and a government regime willing to spend in support of growth.

Our engagements with management teams reflect a clear focus on pricing realizations, market opportunities, and disciplined capital allocation. Across every industry, and at companies large and small, we're seeing a consistent push to harness both new and established technologies.

We appreciate your trust in managing this portfolio, where catalysts and expectations appear understated and, despite elevated valuations, still offer a healthy risk/reward profile.

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

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 marketcapitalization. **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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