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Core

Large Cap Core

Marketing communication | As of 30 Jun 2025

- **During the second quarter, the Large Cap Core SMA performed in line with the benchmark Russell 1000® Index.**
- **Security selection contributed versus the benchmark, notably in the information technology and energy sectors. Overweights to momentum stocks and stocks with larger market capitalizations also benefited performance, offset somewhat by an underweight to more volatile stocks.**
- **The U.S. stock market staged one of its most dramatic comebacks in recent history as risk assets recovered from their early April selloff, led by growth stocks and the technology sector.**

Market review

U.S. economic data showed more signs of deceleration during the quarter, including a downward revision to first-quarter's U.S. gross domestic product (GDP) growth to -0.5% annualized. Although much of the weakness was due to a short-term surge in imports as businesses tried to front run tariffs, underlying U.S. consumer spending also slowed. June's U.S. employment report beat expectations, with higher job creation and a lower unemployment rate, but other labor market data continued to signal a further slowdown ahead. While inflation moderated to around 2.4% annually, according to the most recent Consumer Price Index print, the effects from tariffs will likely push core goods prices higher in the third quarter.

The Federal Reserve (Fed) held rates steady throughout the quarter as policymakers remained cautious about tariff-related inflationary pressures that could push consumer prices further above the 2% target. At his June testimony, Fed Chair Powell reaffirmed the central bank's wait-and-see posture due to the still-healthy job market and uncertain impact of the Trump administration's trade and immigration policies. The Bank of Japan also remained on hold during the quarter, while the European Central Bank (ECB) and Bank of England cut by another 50 basis points and 25 basis points, respectively.

The U.S. dollar experienced continued weakness, ending the quarter down another 7% versus a basket of currencies as measured by the U.S. Dollar Index. The greenback's decline reflected investors' concerns over projections for ballooning U.S. deficits, geopolitical tensions due to President Trump's trade policies and reduced confidence in continued outperformance by U.S. assets. Following the Liberation Day tariff announcement in early April, the 10-year Treasury yield spiked 50 basis points and remained volatile before retracing nearly the full amount to end the quarter virtually unchanged at 4.24%. Meanwhile, short to intermediate rates fell due to better inflation data while longer-term rates rose based on fears about fiscal policy and the country's growing debt load, resulting in a steeper Treasury yield curve for the quarter.

Scott M. Tonneson, CFA
Portfolio Manager, Senior Research Analyst

David A. Chalupnik, CFA
Head of U.S. Active Equities Portfolio Management

David S. Park, CFA, CPA
Portfolio Manager

Large Cap Core

The U.S. stock market produced strong results after staging one of the most dramatic comebacks in recent history. Markets began the quarter with a sharp selloff following President Trump's announcement of across-the-board tariffs that were materially higher than expectations. The subsequent 90-day pause for the most extreme measures led volatility to decline and risk assets to quickly recover. All major U.S. stock market indexes advanced for the quarter as technology-related stocks soared once again. Growth stocks recaptured the lead over value, posting double-digit gains across all market capitalization tiers for the quarter after lagging during the first three months of the year. In the large-cap space, for example, the Russell 1000® Growth Index returned 17.84%, far exceeding the Russell 1000® Value Index's return of 3.79% for the quarter.

Not surprisingly, the technology-heavy Nasdaq Composite led all major U.S. market indexes for the quarter with a 17.96% gain, bolstered by the stellar performance of several of the "Magnificent Seven" stocks. The benchmark Russell 1000® Index was also led by the information technology sector, as well as strong advances by communication services, industrials and consumer discretionary, ending the quarter with an 11.11% return. First quarter's winners, including energy, health care, real estate and consumer staples, produced negative to flat returns. While smaller-cap companies also saw solid gains for the quarter, they lagged their large-cap counterparts, with the Russell 2000® Index returning 8.50% for the quarter.

Helped along by the significantly weaker dollar, international markets surpassed the U.S. market led by Japan, Europe and Canada. As measured by the MSCI EAFE Index, developed markets advanced 11.78% in U.S. dollar terms for the quarter. Japan's Nikkei 225 Index was a star performer, advancing 18.29% on the back of strong consumer spending and a surge in fund flows from foreigners. European stocks delivered another quarter of double-digit gains with a 14.61% return for the MSCI EMU Index. Stocks in the region were broadly aided by continued ECB easing, increased defense spending and improving economic data, including benign inflation readings. Emerging market (EM) equities slightly surpassed both the United States and other developed markets with an 11.99% quarterly return as measured by the MSCI Emerging Markets Index. However, Chinese equities, which account for nearly 30% of the market capitalization of the EM index, notably trailed for the quarter while other Asian EM countries like Korea and Taiwan produced impressive gains.

Portfolio review

The Large Cap Core SMA outperformed the Russell 1000® Index on a gross fees basis but underperformed on a net of fees basis for the quarter. Security selection contributed versus the benchmark, most notably in the information technology and energy sectors. Overweights to momentum stocks and stocks with larger market capitalizations also benefited performance. However, an underweight to more volatile stocks offset some of the positive impact.

Contributors

A position in global semiconductor and software infrastructure solutions company Broadcom was the leading contributor to performance during the quarter. Broadcom reported solid results for the April quarter with earnings and guidance that modestly exceeded expectations. The most important announcement highlighted improving visibility for sustained artificial intelligence (AI) business momentum, which management now expects can grow 60% in fiscal 2026 on top of the 60% growth from fiscal 2025. This improved growth outlook only includes the company's three current hyperscale customers, with potential upside from new customers in the pipeline. Management comments also centered around strong growth driven by XPUs (a custom application-specific integrated circuit developed in partnership with technology companies like Google, Amazon and Meta) where customers have been resilient with their spending and in some cases expanded their business with Broadcom. The VMware business also continues to shine under Broadcom's leadership, with the company largely done with customer conversions to the VMware Cloud Foundation platform.

In the industrial sector, the strategy benefited from a position in Howmet Aerospace, a leading producer of engineered metal products for the aerospace, defense and transportation industries. The company reported quarterly adjusted earnings per share (EPS) of $0.86, above consensus of $0.78, largely based on strong profitability in its Fastening Systems and Engineered Structures segments. Howmet also posted record revenue of $1.94 billion, up 6% year-over-year, led by strong Commercial Aerospace sales, plus record quarterly cash flow. The company continues to be well positioned to meet ongoing aftermarket demand as well as increasing demand from original equipment manufacturers (OEMs) through the end of the decade. While management seemed less confident regarding an increase in new truck builds this year given macro uncertainty in North America, they do not expect this to adversely affect Howmet's broader business.

Streaming and entertainment services company Netflix was also a top contributor to performance during the quarter. The company reported strong quarterly results with operating margins and EPS well above consensus estimates. Management provided revenue, operating income, and EPS guidance for the second quarter that also surpassed consensus estimates. The company's content spending continues to drive strong engagement across geographies, while investments in new genres, such as live events and gaming, are helping to support even more subscriber growth. Additionally, Netflix has very limited exposure to tariffs, which has appealed to investors.

Detractors

Within the health care sector, a position in UnitedHealth Group detracted from performance. Shares of the health insurance provider fell in mid-April after the company reported disappointing results driven by a miss at Optum Health, although its medical loss ratio (MLR) was better than consensus expectations. In mid-May, the stock price decreased further because of uncertainty regarding the withdrawal of guidance due to higher-than-expected medical costs and press reports regarding a potential federal investigation. At the same time, UnitedHealth's CEO announced he would step down for personal reasons with the chairman and prior CEO taking over. We exited the position during the quarter.

A position in financial technology company Fiserv detracted during the quarter. Shares first traded down in April following disappointing results for the company's Clover platform in its first-quarter 2025 earnings report. Clover is a comprehensive business management platform and merchant services provider, offering a range of point-of-sale hardware and software solutions. The company's stock took another hit in mid-May amid comments from CFO Robert Hau that quarterly volume growth for Clover was tracking similar to the prior quarter's 8% reported growth rate. That said, management has reiterated that Clover's volume growth rate would have been closer to 11% after adjusting for the leap year, Easter holiday timing and a tough gateway conversion comparison from the first quarter of 2024.

In industrials, defense company Northrop Grumman detracted from performance during the quarter. The stock sold off sharply after the company announced that it recognized a $477 million pre-tax loss on the B-21 bomber program because of a change in manufacturing process and higher-than-projected material costs due to the macroeconomic impacts on prices. As a result of the B-21 charge, Northrop's first quarter results missed expectations, and management reduced its 2025 calendar year EBIT and EPS guidance. The loss provision resulted in lower investor confidence and concerns that inflationary pressures driven by tariffs could put further pressure on the fixed cost of the B-21 program. On a positive note, the program continues to perform in line with model performance and test objectives, while the manufacturing process change should enable the company to deliver higher quantities.

Portfolio positioning

The Large Cap Core portfolio management team remains intently focused on identifying companies supported by dependable fundamentals, attractive earnings growth potential and upcoming catalysts. 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. Because of market hypersensitivity to economic data given the impact of policy uncertainty, concerns about slowing economic growth, the impact of potential tariffs on global trade and potential changes to monetary policy, we anticipate persistent volatility during the coming quarters. We believe it is particularly important to maintain a balance between companies with compelling earnings growth potential and defendable competitive advantages, while being mindful of current valuations and maintaining broad diversification.

The portfolio did not have any meaningful shifts in positioning during the quarter. However, the management team implemented adjustments at the company level, which we believe upgraded our portfolio given the fast-changing market environment because of policy uncertainty, concerns of slowing growth and still elevated market valuations. Amid heightened volatility surrounding Liberation Day and the continued tariff uncertainty, we made additional adjustments to further balance growth, defensive and cyclical exposures. In April, we added more defensive names and companies with less tariff exposure to the portfolio, while trimming and eliminating some positions that we believed faced greater risks from tariffs, supply chain disruptions, and increased recession fears. During the quarter, we established new positions in Casey's General Stores, Cigna, Cisco Systems, Coca-Cola, Comcast, Intel, Kinder Morgan, Northrop Grumman, O'Reilly Automotive, Palo Alto Networks, Procter & Gamble, RTX, Synopsys and United Therapeutics. We fully eliminated the portfolio's positions in Arch Capital Group, AMETEK, Analog Devices, Bristol-Myers Squibb, Citigroup, Hubbell, Live Nation Entertainment, Mondelez International, Oracle, Permian Resources, PTC, Starbucks, T-Mobile US and UnitedHealth Group. Overall, these transactions slightly reduced the portfolio's beta while increasing profitability metrics and margins.

Overall, our bottom-up security selection process has resulted in modest tilts toward cyclical stocks and companies with higher profit margins and attractive growth metrics. From a risk mitigation standpoint, we've focused on maintaining lower exposure to more volatile and highly leveraged companies compared to the index. As of quarter end, the portfolio's largest relative sector overweights were in the consumer staples and communication services sectors. The portfolio's largest relative sector underweights were in the health care and real estate sectors.

Outlook

Despite first quarter's negative U.S. GDP reading, underlying growth remains strong at a 2.5% annualized rate, albeit slightly lower than 2024's pace. That said, we expect U.S. growth to slow in the second half of the year to around 1.0% due to tariff and immigration impacts. Tariffs will also likely push near-term U.S. inflation higher, with our forecast calling for core inflation to increase to around 3.0% this year. While we are seeing signs of weaker consumption and business investment, the U.S. economy is entering this period of uncertainty on strong footing. Outside the United States, we expect similar full-year expansions of around 1.0% in both Europe and Japan.

With U.S. and global economic growth set to slow, we believe most global central banks will remain in easing mode. That said, uncertainty remains high because of tariffs, fiscal policy and the associated economic impact, causing central banks to seek more clarity before making decisions. We still expect the Fed to reduce rates two more times this year, likely in September and December, which would bring its policy rate range to 3.75%-4.00% by year-end 2025. Following earlier cuts, we expect the ECB to remain on hold for now but anticipate one more rate hike in Japan.

We're still calling for the S&P 500 to finish 2025 at around 6,400, up from 5,882 at the end of 2024 and 6,205 at the midpoint of 2025, which would represent a full-year advance of 9%. We believe this gain could be supported by three factors: a 10-year Treasury yield that we expect to remain rangebound, making equities relatively more attractive versus the risk-free return on government securities; additional easing by the Fed; and solid earnings per share growth that will help keep a lid on the S&P 500's already stretched price/earnings (P/E) ratio. As of 30 June, the 12-month P/E ratio for the S&P 500 stood at 22.1x, which was above its 10-year average of 18.4x.

That said, equity market volatility will likely remain elevated in the second half of 2025 given the various headwinds that still exist. We will continue to monitor the impact of U.S. tariffs on economic data to determine if continued weaker consumer and business activity is a temporary setback, the beginning of a recession or the start of stagflation. Although stocks have rallied on the potential for positive outcomes between the United States and its trading partners, higher taxes on imports can hurt businesses and consumers, leading to reduced investment and spending. While the tariffs have yet to push inflation higher, we believe that could change in the third quarter. Higher inflation could potentially limit the Fed's ability to lower interest rates, which is typically a tailwind for U.S. equities. Moreover, the deportation of immigrant populations could lead to U.S. labor shortages and upward price pressures in industries that depend on these workers.

In addition, the recent extension of the individual income and estate tax provisions from the 2017 Tax Cuts and Jobs Act, which had been scheduled to expire at the end of 2025, will add an estimated $3.9 trillion ($4.6 trillion with interest) to the U.S. debt through 2035, according to the nonpartisan Committee for a Responsible Federal Budget. Worries about rising deficits could cause bond yields to spike, and, in turn, financial conditions to tighten – both of which are negatives for stocks.

We believe investors should brace for further volatility this year, given the various headwinds facing equity markets, including the possibility of slower economic growth and higher inflation. While volatility and uncertainty may prove challenging for investors in the short term, we continue to believe equity investors are best served by staying in the market. We will continue to monitor events as they unfold and remain nimble, emphasizing our 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® is a market weighted index of 500 stocks traded on the NYSE, AMEX and NASDAQ. The **Russell 1000® Index**, a subset of the Russell 3000® Index, represents the 1000 top companies by market capitalization in the United States. 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. I**t 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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