

## Stable Growth

Marketing communication | As of 31 Dec 2025

- **During the fourth quarter, the Stable Growth SMA slightly underperformed the benchmark Russell 1000® Growth Index.**
- **Stock selection modestly detracted overall for the quarter in the energy and industrials sectors, while contributing in consumer staples and financials. While an emphasis on large capitalization stocks benefited results, the positive impact was offset by an underweight to more volatile stocks, which detracted.**
- **The U.S. stock market continued to advance in the fourth quarter propelled by ongoing enthusiasm surrounding artificial intelligence (AI) spending, broadening economic growth and two Federal Reserve (Fed) rate cuts.**

### Market review

Continued easing by the Fed helped equity markets overcome various headwinds during the quarter, including the extended U.S. government shutdown, weakening job market, concerns about elevated valuations and geopolitical issues. U.S. markets were flying blind for much of the quarter because of delayed economic data releases due to the closure, with the most recent figures likely still reflecting the effects of incomplete data collection. At the headline level, inflation improved, with the core Consumer Price Index (CPI) rising 2.6% year-over-year in November, while U.S. unemployment also ticked up slightly, to 4.6%. The U.S. consumer remained resilient and continued to spend during the quarter, leading to a modest improvement in the Fed's gross domestic product (GDP) growth projection of 1.7% for full-year 2025 and a stronger outlook for 2.3% growth in 2026.

Monetary policy worldwide continued to diverge, with the Fed cutting rates by 25 basis points in both October and December, bringing the target federal funds rate to a range of 3.50%-3.75%. The dovish pivot was driven by mounting evidence of labor market softening and inflation data that remained surprisingly benign; however, the Fed's accompanying statement in December telegraphed a more patient approach going forward with potentially only one rate cut in the coming year. The Bank of England (BOE) also cut rates in December by 25 basis points, while the European Central Bank (ECB) held policy steady. Meanwhile, the Bank of Japan (BoJ) bucked the global trend by hiking rates by 25 basis points in December.

The U.S. stock market ended 2025 on a high note, overcoming bouts of volatility during the quarter and year. Despite rich valuations and concerns about narrow market leadership by a small group of mega cap technology names tied to artificial intelligence (AI), the S&P 500 Index posted its eighth consecutive positive month in December based on hopes for continued Fed easing and strong corporate earnings. Before year-end, the bellwether index hit both its 38<sup>th</sup> record high of the year on



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## Stable Growth

Christmas Eve but also suffered a downturn before New Year's Eve, missing out on the hoped for year-end rally. The index returned 2.66% for the quarter and 17.88% for the year.

Meanwhile, the market broadened out beyond the "Magnificent Seven" technology-focused stocks, as value stocks outpaced growth stocks across the various market capitalization ranges for the quarter. The benchmark Russell 1000® Growth Index gained 1.12% for the quarter led by a double-digit advance in the health care sector and followed by gains in communication services. However, seven sectors in the index fell during the quarter, most notably a double-digit decline in utilities, followed by the real estate, materials and consumer staples sectors. For the full year, the benchmark was up 18.56%.

### Portfolio review

The Stable Growth SMA slightly underperformed the Russell 1000® Growth Index on a gross and net of fees basis for the quarter. Stock selection modestly detracted overall for the quarter in the energy and industrials sectors, while contributing in consumer staples and financials. While an emphasis on large capitalization stocks in the strategy benefited results, the positive impact was offset by an underweight to more volatile stocks, which detracted.

### Contributors

Within the information technology sector, semiconductor equipment manufacturer Lam Research contributed to the strategy's performance for the second quarter in a row. The company delivered yet another strong quarter and raised its full-year 2025 outlook again, led by better-than-expected strength from China. Lam Research continued to experience surging demand for its wafer fabrication equipment (WFE) driven by elevated AI data center spending, with growth in the segment expected to continue in 2026. The company also benefited from strong sales in its next-generation technologies like Gate-All-Around (GAA) nodes and backside power distribution systems. While management has yet to provide official 2026 WFE estimates, the company's Foundry, Logic, DRAM and NAND segments are all expected to drive WFE strength in the coming year.

In the health care sector, the strategy's position in Intuitive Surgical, the manufacturer of robotic-assisted surgical systems for minimally invasive procedures, rebounded after a weak third quarter. The company delivered strong quarterly results, with procedure growth and margins surpassing consensus estimates. Investors were encouraged as management raised its 2025 forecast for worldwide Da

Vinci 5 procedure growth. Despite headwinds such as tariffs, Intuitive Surgical showed strong operational efficiencies. Additionally, the company repurchased \$1.92 billion in shares during the prior quarter.

Payments company American Express was also a top contributor to relative performance during the quarter. The company reported strong quarterly financial results driven by accelerating billed business, higher card acquisitions and healthy credit quality. Strong billed business reflected accelerating growth across three key U.S. segments: travel and entertainment, goods and services, and small-to-medium-sized enterprises. The company raised its revenue guidance following the early success with its Platinum card refresh, which management indicated was significantly exceeding expectations. American Express continues to benefit from strong spending among its affluent customer base. Additionally, increased fees for Platinum cards should support robust fee growth over the next 24 months.

### Detractors

In the health care sector, shares of Veeva Systems declined following quarterly results that, despite beating earnings expectations and raising guidance, were overshadowed by results from competitor Salesforce. Management disclosed that the company now expects to retain 14 of the top 20 biopharmaceutical companies on Vault CRM, down slightly from initial projections. We believe this development will have minimal material impact over the next two years and should not affect the company's \$6 billion revenue run rate target for 2030, particularly given strength in other business segments. Our outlook remains positive because of Veeva Systems' strong positioning within the attractive life sciences vertical, growing excitement surrounding AI applications and reasonable current valuation.

In the consumer discretionary sector, auto parts retailer O'Reilly Automotive gave back some of the year's earlier gains despite posting another strong quarter and raising full-year guidance amid meaningful commercial growth. However, comments from management on the earnings call regarding negative tariff pricing impacts and pressure in the company's do-it-yourself (DIY) business weighed on investor sentiment during the quarter. We believe the market overreacted somewhat on the heels of O'Reilly's strong year-to-date performance leading up to the call. The auto aftermarket business has historically demonstrated strong pricing power with both DIY consumers and professional installers, making the auto parts retailer one of the best ways to hedge tariff risks.

## Stable Growth

Software company ServiceNow detracted from relative performance as investor concerns persisted regarding cautious corporate IT spending on non-AI related projects and decelerating growth. While the company continues to experience subscription revenue growth, the pace has decelerated compared to recent years. Management's recent guidance for 2025 subscription growth missed consensus expectations. In December, ServiceNow agreed to acquire cybersecurity start-up company Armis for \$7.75 billion, the company's largest deal to date. While we view the deal as strategically sound and believe the company is well positioned over the medium-to-long term, the stock declined following the announcement. We believe the Armis acquisition may intensify investor scrutiny regarding the durability of ServiceNow's organic growth and potential for additional acquisitions. Given our concerns about limited near-term catalysts and the potential for organic revenue growth to further decelerate, we eliminated ServiceNow from the portfolio in late December.

### Portfolio positioning

The Stable Growth portfolio management team remains intently focused on identifying companies with dependable fundamentals, attractive earnings growth potential and upcoming catalysts while being mindful of current valuations. 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.

During the fourth quarter, we established new positions in Quanta Services, Copart and Gilead Sciences, while fully eliminating the portfolio's positions in ServiceNow. As of quarter end, the portfolio maintained a slight defensive tilt via its largest relative overweights in the consumer staples and industrials sectors. The portfolio's largest relative sector underweights were in the consumer discretionary and information technology sectors. Bottom-up stock selection resulted in modest tilts toward stocks with less leverage and lower volatility.

### Outlook

Entering 2026, we expect U.S. real GDP growth to improve modestly. With stronger growth, we're looking for the labor market to stabilize and unemployment to remain near its current level. On the inflation front, we believe there is still some near-term upside from pending tariffs; however, we ultimately expect core inflation to moderate to around 2.5% by year-end. We anticipate the Fed will slow its pace of rate reductions in 2026 but deliver two additional 25-basis-point cuts over the course of the year versus one currently

telegraphed by policymakers. That would take the policy rate to 3.00%-3.25%, near our estimate of neutral. Outside the United States, we expect the ECB will likely remain on hold in the near term while the BoJ will probably raise rates at least once more in 2026. China's policymakers are likely to continue with their fiscal policy support, although substantial monetary easing is unlikely.

We believe the S&P 500 can continue to move higher in 2026 fueled by resilient U.S. economic growth, controlled inflation and solid corporate earnings driven by AI, but this advance will likely be accompanied by volatile patches. Thanks to more optimistic earnings forecasts, along with a historically high percentage of companies issuing positive earnings per share (EPS) guidance, S&P 500 companies are projected to report +8.3% year-over-year earnings growth in the fourth quarter, up from +7.2% estimated at the end of September, according to FactSet. Looking ahead, analysts expect earnings growth rates of +12.6% in the first quarter of 2026 and +14.9% for 2026 as a whole.

Other catalysts that could help support our outlook for the S&P 500 include upside surprises to earnings growth, expanded market breadth, diminished inflation risks, more Fed rate cuts than anticipated and further clarification regarding tariff policy and rates, to name a few. We also anticipate that AI-related capital expenditure spending by hyperscalers Amazon, Meta, Microsoft and Alphabet, which was estimated to be \$347 billion in 2025, will continue to drive the market. AI has emerged as a transformative force across nearly every major industry. Given its potential for reshaping the economy, we currently don't believe the valuations of technology/AI companies constitute a bubble. Crucially, these firms have generated substantial profits and cash flows that we believe support their rich multiples.

Although our view remains constructive overall regarding the equity market in 2026, several material risks could challenge our baseline scenario for the S&P 500. The potential for higher consumer prices remains the biggest risk, as the Fed's preferred inflation barometer, the core Personal Consumption Expenditures (PCE) Price Index, registered 2.8% in September (the latest data available due to the U.S. government shutdown) — well above the 2% target. Hotter inflation would almost certainly force the Fed to remain on pause longer or even tighten policy sooner than markets currently anticipate, potentially triggering a selloff in risk assets.

Other risks to our outlook include a more significant deterioration in employment conditions, which could

## Stable Growth

undermine consumer spending, the primary engine of U.S. growth. While employment data released after quarter-end showed slightly lower-than-expected job growth, the drop in the U.S. unemployment rate to 4.4% in December suggests a firmer job market than previously forecasted. We do not currently see an elevated probability of recession over the next 12 months, although this assessment could change if labor market conditions deteriorate further.

U.S. foreign policy also has surged to the forefront as the recent U.S. action in Venezuela represents a fundamental shift in geopolitical strategy. And finally, the Trump administration's criticism of the Fed's decisions, if it continues or intensifies, could fundamentally alter how

markets price long-term interest rates and inflation expectations, potentially leading to sharp declines in bond and stock prices.

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](http://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® Index is a market weighted index of 500 stocks traded on the NYSE, AMEX and NASDAQ. The **Russell 1000® Growth Index** measures the performance of those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. 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. **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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