

Large Cap Value Balanced

Marketing communication | As of 30 Sep 2024

- **During the third quarter, the Large Cap Value Balanced strategy produced positive returns, but underperformed its benchmark, a 60% Russell 1000 Value/40% Bloomberg Aggregate Credit Index**
- **The Russell 1000 Value Index rallied sharply in July, and continued through August (after a brief selloff, and September, resulting in near double digit gains for the quarter**
- **Small stock outperformance: Although the S&P 500 underperformed the Russell 2000 by over 300 basis point in the quarter, it remained ahead year-to-date by nearly 1100 basis points**
- **Federal Reserve cut rates in September, the expected start of lowering short-term interest rates. Strong fixed income returns driven by decline in interest rates**

Market review

Economic growth continued to expand during the third quarter, although more signs of a slowdown emerged. Second quarter's U.S. gross domestic product (GDP) growth came in stronger than expected at an annualized pace of 3.0%, while full-year growth is tracking just slightly below that rate, underpinning investors' hopes for an economic soft landing. Encouraging headline inflation prints during the quarter led key central banks to lower interest rates, even as core inflation remained sticky. The Federal Reserve (Fed) garnered the biggest headline by kicking off its long-awaited policy easing cycle with a 50-basis-point cut in September, larger than many investors had expected. The Bank of England also began lowering rates while the European Central Bank made its second rate cut of this cycle. The People's Bank of China launched a battery of stimulus measures including rate cuts to help kickstart the country's deteriorating economy and ward off deflation. Meanwhile, the Bank of Japan (BoJ) was the outlier with a surprise increase to the country's key interest rate to help curb the yen's fall versus the U.S. dollar.

The stock market started the quarter on a positive note in July, aided by falling Treasury yields and optimism over approaching Fed rate cuts. By month end, the bullish start had given way to concerns about slowing earnings growth for technology companies, which have powered the market for much of the year. In early August, global equity markets sold off sharply after a disappointing U.S. jobs report fanned recession fears, China's economy showed greater signs of deterioration, and the BoJ's surprise rate hike sparked an unwinding of the yen carry trade. As the month progressed, however, the tide quickly turned as inflation reports showed pricing pressures continuing to ease, corporate earnings remained strong, and Fed Chair Powell indicated the time had come for U.S. rate cuts. Throughout September, various market indexes such as the Dow Jones Industrial Average, S&P 500 Index and Nasdaq Composite notched new record highs as investors anticipated the Fed's cut.



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While all major U.S. equity indexes performed well, the market rally broadened out during the quarter with small- and mid-cap stocks and more value-oriented stocks leading the way. Smaller companies, which tend to carry more floating-rate debt on their balance sheets, rallied as the Fed lowered borrowing costs. The small-cap focused Russell 2000® Index returned 9.27% for the quarter but still substantially lags large caps with its 11.17% year-to-date return.

The Bloomberg Aggregate Index returned +5.20% for the quarter and +4.45% YTD. A significant portion of the return came from the rally in interest rates during the quarter, as the excess return for the Aggregate Index was just +40 bps. The yield curve steepened as US Treasury yields declined, with the 2s-10s curve moving towards positive territory after being negative for the past two years. During the quarter, the 2yr Treasury declined 111 bps to 3.64% while the 10yr moved 62 bps lower to 3.78%. While short term rates fell, yields on intermediate to long term bonds actually rose post the Federal rate cut on September 18th. Investment grade corporates posted a total return of +5.84% and an excess return of +77 bps.

The S&P 500 ended the final day of the quarter at another all-time high, gaining 5.89% for the quarter and now up 22.08% year to date. The defensive utilities sector led the pack as earnings expectations continued to be very high for these companies. Real estate and industrials followed close behind as the market rotated into interest-rate sensitive sectors in anticipation of the beginning of the Fed's easing cycle. Energy was the worst-performing sector, and the only S&P 500 sector in the red, as oil prices fell amid cooling demand from China.

Portfolio review

The Nuveen Large Cap Value Balanced portfolio underperformed (both gross and net of fees) the blended benchmark of 60% Russell 1000 Value/ 40% Bloomberg Aggregate Credit Index during the third quarter of 2024. Regarding equities, the value benchmark had strong returns during the quarter; initially rising in July, dropping in early August, and then strengthening through the rest of August and September, closing the quarter with near double digit returns. With the exception of energy, all sector returns in the index were positive, with the largest gainers including utilities (+18.4%), real estate (+16.5%), and consumer discretionary (+12.2%). All sectors for the year to date results generated positive returns.

For fixed income, barring an unexpected economic shock,

we anticipate spreads to remain range-bound in the near term as credit fundamentals have stabilized and remain healthy. We continue to maintain a balanced allocation between credit and Treasuries with a slight overweight in Treasuries while keeping our overall portfolio duration posture defensive versus the benchmark. Asset allocation remains fairly consistent as we have not let equity exposure grow meaningfully given outperformance.

Our equity performance versus the benchmark in the quarter was hurt by underperformance in our industrials, energy, and consumer discretionary holdings, while our investments in consumer staples substantially outperformed the benchmark. Our top outperforming sectors for the nine months ending September 30 were consumer staples, consumer discretionary, and industrials, while energy, technology, and health care results were our biggest detractors. Our top stock contributors in the third quarter were **Haleon**, **Oracle**, and **Walmart**, while leading detractors included **Intel**, **Shell**, and **Permian Resources**.

Contributors

Haleon's strong stock performance in Q3 2024 can be attributed to several key factors. The company reported 9% growth in operating profit, driven by successful pricing strategies and operational efficiencies that helped offset inflationary pressures. Growth in core product categories, particularly oral care (with brands like Sensodyne), pain relief (such as Voltaren), and respiratory treatments (like Theraflu), also contributed to its success. International markets like China and Australia saw significant demand, further boosting revenues. Additionally, Haleon experienced strong performance from its Centrum brand, supported by consumer campaigns and new scientific findings promoting the cognitive benefits of Centrum Silver, especially for older adults. These factors, combined with effective cost management and positive operating leverage, positioned Haleon for solid growth in a challenging market. Haleon has substantially outperformed consumer staples peer Kenvue, which we initially trimmed, and subsequently eliminated, to fund our investment.

Our position in **Oracle** was a top contributor during the quarter, largely driven by its continued success in cloud services, which grew by 25%, including a 40% jump in its cloud infrastructure segment (IaaS). This growth was fueled by increasing demand for Oracle's Gen2 Cloud, particularly for AI applications, where demand far exceeded supply. Additionally, the company reported a 29% increase in total Remaining Performance Obligations, reaching an all-time

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high of \$80 billion, indicating sustained future revenue from large cloud contracts. Oracle's cloud-based Enterprise Resource Planning (ERP) offerings also performed well, with both Fusion and NetSuite Cloud ERP revenues growing by double digits, reflecting strong demand from businesses for cloud transformation solutions.

Walmart stock performed well in Q3 2024 due to strong financial results driven by multiple growth factors. The company reported a 5.2% increase in revenue, reaching \$160.8 billion, boosted by strong same-store sales in the U.S. (up 4.9%) and a surge in eCommerce sales, which grew 24%, particularly from pickup and delivery services. Walmart's international segment also saw a 5.4% increase in sales, and Sam's Club sales were up 3.8%, with membership income rising 7.2%. Additionally, Walmart raised its full-year guidance for both sales and earnings per share, which further fueled investor confidence. The company is moving toward sustainable margin enhancement, not only taking share from a wide range of competitors but allowing enhanced profitability to flow to the bottom line.

Detractors

Intel stock performed poorly in Q3 2024 due to a combination of factors, including weaker-than-expected financial results. Revenue was below estimates, impacted by sluggish demand in the PC and data center markets. The company's gross margin also fell, partly due to increased costs from its aggressive five-nodes-in-four-years strategy, which has yet to translate into meaningful gains. Additionally, concerns over Intel's ability to keep up with rivals like AMD in the AI and semiconductor space dampened investor sentiment. The company is under pressure to find a solution to its subscale position in its foundry operation, where it is predominantly its only customer.

Shell shares declined modestly given Brent crude fell 17% in the quarter. Refining margins fell nearly 30% compared to the previous quarter, driven by weakening global demand for refined oil products, particularly in key markets like China, as well as an oversupply from new refineries coming online. Additionally, Shell's oil and chemicals trading results were weaker than expected, further dampening performance. Although the company did revise its forecasts for higher LNG production and upstream oil output, these improvements were not enough to offset the broader declines in commodity prices and challenges in refining and trading. We maintain strong conviction in our Shell investment, where recently appointed CEO Wael Sawan is driving substantial improvement and returning significant

capital to shareholders.

Shares of **Permian Resources** fell in Q3 2024 due to a combination of industry-specific and company-specific challenges. One major factor was the decline in oil and natural gas prices, which negatively impacted cash flow across U.S. oil and gas firms. Additionally, political uncertainties ahead of the 2024 elections weighed on investor sentiment toward energy stocks. Another challenge was the weak market conditions at the West Texas Waha hub, where negative pricing during the summer led some producers to reduce output. Despite Permian Resources' efforts to control costs and increase production, the company's stock dropped by over 22% in the six months leading to Q3. However, the company has strengths, such as efficient cost management and solid free cash flow growth, which could present long-term recovery opportunities once market conditions improve. We believe the management team is truly one of the best in the industry, and the valuation is compelling.

Portfolio positioning

The portfolio continues to be broadly diversified, with sector overweights in energy (largest position is Shell discussed above, holdings in Baker Hughes and Cheniere less oil price dependent) and communications services (continued investment in Alphabet, though trimmed position in the quarter). While we are not overweight consumer discretionary stocks, we have a meaningful exposure to the automotive sector through our significant investment in General Motors, one of our largest positions and top performing companies/stocks in the portfolio. Our belief has been that traditional ICE (internal combustion engines) will generate profits for a longer than expected period given lack of demand for EV's. Currently we maintain underweight positions in industrials (no current holdings in transports), health care (no current holdings in instruments after eliminating investments in Medtronic and BioRad earlier this year), and REITs (increased investments but less than the Russell 1000 Value Index).

In terms of new investments, we initiated a position in **Las Vegas Sands (LVS)**, a major operator of casinos in Macau and Singapore. LVS's Singapore operations continue to execute at a high level, while the company's Macau properties have been negatively impacted by a sluggish Chinese economy, disruptions from renovations/expansions which are nearing completion, and uncertain policies toward Macau. We believe that the stock reflects maximum uncertainty and negative sentiment, and the possibility of a New York license provides a free option.

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We eliminated our investments in **Globe Life and Kenvue**. **Globe Life** recovered a substantial portion of its second quarter losses following a short report on the company's purported aggressive sales practices. At that point, the stock no longer offered compelling risk/reward as the sales practice issue remained outstanding and we decided to remove the potential tail risk. We initially made consumer health company Kenvue one of our largest positions following its spinoff from Johnson and Johnson.

We added to our positions in **Ford, Honeywell, Permian Resources, Viasat, and Pfizer** during the quarter and trimmed our positions in **Alphabet, AT&T, DuPont, Haleon, and Oracle**.

Outlook

With the recent first cut by the Fed at 50 basis points, market expectations for an additional 50 basis points by year end is anticipated, along with up to another 100 basis points by midyear 2025. At this time, it appears that peak inflation has passed and a path toward a neutral rate around 2% is hoped for by the markets. The fact that longer term bond yields have actually increased since the Fed rate cut implies meaningful skepticism though. The impact of government deficits and debt may certainly provide an issue in achieving inflation targets. What remains to be seen is if or how these cuts affect business planning, relieve pressures, or liberate shareholder returns.

Irrespective of one's political affiliation or leaning, the outcome of the upcoming Presidential and Congressional elections resulting in other that divided government poses risks to the markets (government gridlock is generally a more favorable backdrop), let alone we believe greater than expected risk in any outcome. Volatility and fear remain at extremely low levels, and again, it has been a market with upward momentum and almost at worst, just a question of which stocks to buy. We would not expect a significant increase in oil and gas capital spending with a Trump win (No "drill baby drill), but a less burdensome regulatory framework and less hostile attitude toward mergers and acquisitions would be favorably received broadly. Tariffs, higher taxes, regulatory burdens lifting or becoming more burdensome are certainly major issues.

Our consistent search for unrecognized and unrealized catalyst rich companies remains at the heart of our process. While broad indexes have attained recent highs, we believe our portfolio remains undervalued, mispriced, and full of catalysts. Our continued focus on identifying and investing in companies actively addressing problems, liberating hidden assets and free options, and driving to improve corporate returns remains our core focus.

Once again, we greatly appreciate the opportunity to be stewards of your capital.

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is \$100,000.

Important information on risk

All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. Equity investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio management team considers the true business value or because the portfolio management team has misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other style investing during given periods. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, and income risk. As interest rates rise, bond prices fall. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Investments in mortgage-backed and asset-backed securities are subject to prepayment risks. There is no assurance that the private guarantors or insurers will meet their obligations.

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Glossary

The Blended Index is comprised of 60% Russell 1000 Value Index and 40% Bloomberg U.S. Aggregate Bond Index. The **MSCI EAFE Index** (Europe, Australasia, Far East) is a freefloat-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. **Russell 1000® Value Index** measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. **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. **Russell 2000® Value Index** measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. **Russell 2000® Growth Index** measures the performance of those Russell 2000 companies with a greater-than-average growth orientation. **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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