

Large Cap Value Balanced

Marketing communication | As of 31 Dec 2024

- **During the fourth quarter, the Large Cap Value Balanced strategy outperformed its benchmark, 60% Russell 1000 Value/40% Bloomberg US Government/Credit Aggregate Index.**
- **For full year 2024, the strategy produced strong absolute and relative performance.**
- **The equity index rallied sharply in November following the presidential election, but sold off in December as investors began to question the likelihood for meaningful further rate cuts. Fixed income returns were negative as interest rates rose.**
- **While the Federal Reserve has cut the funds rates 100bps since September, 10 year Treasury bond yields have risen 100bps over the same period.**

Market review

The U.S. economy continued to expand during the fourth quarter fueled by robust consumer spending. Although inflation worldwide remained above desired levels, monetary policy varied among key central banks. The Federal Reserve (Fed) made its second and third consecutive rate cuts of the year, trimming by 25 basis points in November and December. After the December meeting, however, Fed policymakers projected a slower pace of cuts in 2025 given still-sticky inflation and the potential for inflationary policy moves under the incoming Trump administration. The Bank of England made its second rate cut of the year in November and then paused, while the European Central Bank (ECB) made its fourth rate cut of this cycle in December amid signs of weakening European Union growth, political chaos in France and tariff concerns. The People's Bank of China remained on hold but continued to affirm its supportive policy stance as it faced pressure to reflate the country's stagnant economy. The Bank of Japan also stood pat at its October and December meetings, awaiting more information on the policies of the new U.S. administration while debating timing of a pending rate hike.

The U.S. equity market experienced volatility during the quarter, losing ground in October as strong economic data propelled U.S. Treasury yields higher. Stocks rebounded sharply in November following Donald Trump's election victory and optimism over his pro-growth agenda featuring lower taxes and less regulation. However, the rally stalled in December as hawkish comments by the Fed quickly dampened the enthusiasm. The bond market struggled throughout the quarter with yields steadily rising as progress on inflation slowed and the election results increased the potential for more persistent price pressures down the road.



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Despite the fourth quarter's volatility, 2024 ended as a banner year for equity investors. The technology-heavy Nasdaq Composite continued to notch new record highs, crossing the 20,000 milestone during the period before retreating in late December, and ending the quarter and year returning 6.35% and 29.57%, respectively. Fueling the substantial gains is the ongoing enthusiasm for technology stocks, artificial intelligence (AI) and crypto in the wake of lower rates and the Trump victory. Meanwhile, the Dow Jones Industrial Average faced more downward pressure in December, posting its worst monthly performance in more than two years. However, the index still eked out a positive return of 0.93% for the quarter and was up 14.99% over the full year.

The S&P 500 Index ended the quarter up 2.41% despite some year-end weakness caused by economic data and the Fed comments. However, only four of 11 sectors posted positive returns for the quarter including consumer discretionary, communication services, financials, and information technology. The materials and health care sectors lagged the most, both declining by double digits over the three-month period. For the full year, the S&P 500 produced a stellar return of 25.02%, only the fourth time in history that the index has notched two consecutive years with returns over 20%.

After rallying in the third quarter following the Fed's super-sized rate cut, small-cap and value-oriented stocks took a back seat once again during the fourth quarter as policymakers dampened expectations for significant cuts in 2025. The small-cap focused Russell 2000® Index was virtually flat for the quarter with a 0.33% return and continued to significantly lag large-cap stocks for the full year with an 11.54% advance. Meanwhile, value stocks across the market cap spectrum posted negative returns for the quarter as measured by Russell indexes.

The Bloomberg Aggregate Index returned -3.06% for the quarter and +1.25% for the year. The Fed continued to ease policy, but at a slower pace; cutting rates as mentioned above by 25 bps at both the November and December meetings, taking the range to 4.25-4.50%, while acknowledging that December was a "close call." Markets perceived the December takeaway as hawkish, as the Fed's dot plot lowered the expected number of cuts in 2025 from four to two, matching market pricing for 2025. The 2-year/10-year segment of the Treasury curve briefly inverted before continuing to normalize, with the 2-year yield ending the period +59 bps higher and the 10-year yield +77 bps higher — resulting in the steepest 2/10 curve since

2022.

Outside the U.S., equity markets generally performed poorly for the quarter. Fueled by the health of the U.S. economy and the Fed's hawkish outlook comments in December, the U.S. dollar reached its highest level in more than two years against a basket of currencies. This dollar strength weighed heavily on non-U.S. stock market returns when translated into dollars. Broadly speaking, both emerging markets (EM) and non-U.S. developed markets trailed the S&P 500 by more than 10% during the quarter as measured by the MSCI Emerging Markets Index return of -8.01% and the MSCI EAFE Index return of -8.11%. European markets notably struggled amid sluggish economic data in the eurozone and markedly softer business and consumer confidence in the U.K. Chinese equities, which represent a significant weight in the EM index, also lost ground despite the government's pledge to implement looser policies to boost consumption and domestic demand.

Portfolio review

The Nuveen Large Cap Value Balanced portfolio outperformed (both gross and net of fees) the blended benchmark of 60% Russell 1000 Value/ 40% Bloomberg Aggregate Credit Index during the fourth quarter of 2024. Regarding the equity value benchmark, the index declined during the quarter; initially falling in October, the index had a sharp rise in November after the U.S. election, and then proceeded to fall in December as consensus for the number/magnitude of further interest rate cuts seemed to wane. With the exception of financials (+7.1%) and communication services (+1.9%), all sector returns in the index were negative (information technology was flat), with the largest declines including materials (-11.5%), health care (-10.4%), and real estate (-6.8%).

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 aided by outperformance in our financials, communication services, and energy holdings, while our investments in information technology and real estate lagged the benchmark. Our top outperforming sectors for

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the year were led by financials and consumer staples, followed by strong results in consumer discretionary, industrials, and communications services. The only meaningful lagging sectors in performance were informational technology and real estate. Our top stock contributors in the fourth quarter were **Wells Fargo**, **General Motors**, and **Discover Financial Services**, while leading detractors included **Elevance Health**, **Sanofi**, and **DuPont**.

Contributors

Our position in **Wells Fargo** was a leading contributor to relative outperformance during the fourth quarter. The bank reported a large increase in third quarter net income year-over-year, beating analysts' expectations. A notable rise in investment banking fees, contributing to the overall profit increase, was part of a broader trend among major U.S. banks, which saw profits surge due to increased dealmaking and trading activities. Wells also reduced its non-interest expenses by 12% compared to the previous year, which gave investors additional confidence in management's ability to control costs. The prospect of a more favorable regulatory environment including lower excess capital requirements for the banks, in addition to higher investment banking fees and the removal of Well Fargo's asset cap restriction should propel profitability further.

General Motors' stock rose during the quarter as the company reported a 21% increase in vehicle sales. This surge was driven by strong demand for trucks, SUVs, and even electric vehicles (EVs). Notably, EV sales jumped 125% for the quarter, reflecting GM's successful expansion in the electric vehicle market. The company also made significant strategic moves, including discontinuing its Cruise robotaxi program and restructuring its operations in China. These decisions were viewed positively by investors. GM has managed inventories exceptionally well, and its core highly profitable truck segment continues to drive profits/free cash flow. If the company is correct in the sustainability of its cash flow, its multi-year decision to focus extensively on share repurchases rather than dividends will reward shareholders greatly. President Trump's relaxation/elimination of EV requirements is a meaningful positive, while potential tariff issues with Canada and particularly Mexico could cause some disruption.

Discover Financial Services shares rose sharply after producing strong third quarter earnings, as well by the results of the presidential election which should lead to the successful completion of the proposed Capitol One merger (less hostile government/regulatory approach to mergers).

We are optimistic that Capitol One will be able to successfully utilize Discover's payment network to lower exchange fees, leverage infrastructure, and perhaps achieve a higher multiple for its stock.

Detractors

Elevance Health shares fell sharply during the quarter as investors reacted to the company's remarks related to headwinds related to their ACA and Medicaid businesses in 2025 along with social pressure on the health insurance industry following the assassination of UnitedHealthcare CEO Brian Thompson in early December. We elected to concentrate our two modest managed care holdings (Elevance and Cigna) into a larger United Healthcare position (and add further) as we believe that United Healthcare has the strongest market position and best ability to execute in a more difficult market and regulatory environment.

Sanofi stock fell during the period, mostly due to negative sentiment in the sector during the quarter. Investors seemed to weigh the U.S. election results and how the appointment of Robert F. Kennedy Jr. as the head of the Department of Health and Human Services could mean for Sanofi as a leading provider of vaccines. Sanofi remains one of our two largest pharmaceutical positions, along with Gilead Sciences, based on product profile, limited upcoming patent expirations, and valuation.

DuPont stock was particularly weak in December along with many industrials and materials stocks as those sectors, as well as the market, digested economic news suggesting fewer potential interest rate cuts, and uncertain economic prospects for Dupont's China businesses. Dupont continues to progress with plans to separate/simplify its businesses, although the company decided that it would no longer spin off its water business as previously planned.

Portfolio positioning

The portfolio continues to be broadly diversified, and we highlight a more favorable/less onerous regulatory environment overall, particularly benefitting the financial and energy sectors amongst others. We expect merger and acquisition activity to accelerate as the Justice department and Federal Trade Commission will stop challenging and delaying deals. In terms of new investments, we initiated new positions in **Boeing**, **Regal Rexnord**, **Duke Energy**, **Smurfit Westrock** and **UnitedHealth Group**. We eliminated our investments in **Honeywell**, **Dominion Energy**, managed care operators **Elevance** and **Cigna**.

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We initiated a position in **Boeing** after successfully avoiding the stock during a lengthy period of poor performance driven by quality issues, cost overruns, and balance sheet deterioration. The catalyst to own the stock was the appointment of new CEO Kelly Ortberg, a well-respected industry veteran and former CEO of Rockwell Collins and the subsequent substantial \$20 billion equity offering that provided ample capital and liquidity to weather current/expected problems. Commercial aerospace is a duopoly with Airbus, with healthy demand decades into the future. We also invested in industrial powertrain and automation component manufacturer **Regal Rexnord**. We believe that two years of supply chain and inventory normalization have masked significant synergy capture and margin improvement. We expect shares to re-rate as reshoring initiatives and improving manufacturing activity drive demand for factory solutions. We took advantage of a further short-term disappointment in third quarter earnings to initiate a position. We eliminated a more recent stake in **Honeywell** to help fund the purchases as the catalysts and valuation for Boeing and Regal Rexnord were more compelling.

We swapped our holding in diversified utility **Dominion Energy** for a stake in **Duke Energy**. Both companies are Virginia based integrated utilities, and we preferred the investment in Duke after Dominion's stock rallied substantially and we were concerned about their exposure to wind investments. Virginia offers a strong demand backdrop with favorable regulation. **Smurfit Westrock** is a recently formed company created by the merger of, as you may guess, Smurfit and Westrock. Smurfit is principally a highly profitable, strong margin European packaging company, which we believe will improve the profitability of newly acquired Westrock by focusing on higher valued products and customers in addition to cost cutting and closing inefficient, high-cost plants.

We changed the mix of our managed care investments, eliminating smaller holdings in **Elevance** and **Cigna** in favor of a larger, concentrated position in **UnitedHealthcare Group**. In the midst of significant challenges with all managed care companies trying to execute in a higher utilization environment and the impact of profitability challenges, UnitedHealth has the most diverse business model, and we believe, the best ability to execute through this.

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

Haleon, **Oracle**.

Outlook

We continue to question how long the equity markets can continue to post significant ongoing appreciation, but our culture is to be both conservative as well as opportunistic. We certainly believe we will be in a period of positive deregulation for a number of industries including financial services, domestic manufacturing, and energy. Onshoring domestic production and increasing investment in electrification have strong secular momentum. The picture for certain other industries such as technology and health care (pharmaceuticals) may be more mixed. We expect a much higher level of merger and acquisition activity to take place, which will also serve to benefit the profitability of financial services firms providing merger advisory/investment banking services. We remain skeptical that domestic production of oil will ramp meaningfully, notwithstanding President Trump's call for "drill baby drill." The demand outlook for natural gas looks robust as it is needed to fuel the requirements of new liquified natural gas (LNG) plants scheduled to open in the next few years.

Important macro unknowns include the stickiness of inflationary forces, the ability for interest rates/mortgage rates to decline, the impact of ongoing government deficits and the absolute level of debt outstanding, and the ability of DOGE to reduce government spending and waste. President Trump was elected partly of his commitment to lower grocery prices and make every day living for working Americans more affordable; lower interest rates and energy prices will be critical components in that effort. The Federal Reserve lowered the funds rate at their meetings in November and December, bringing the total cut to 100bps since September, albeit the ten-year treasury rate increased by 100bps over the same period. Housing affordability is certainly not getting better unless mortgage rates/interest rates move down.

While the overall market isn't cheap, the ongoing concentration into the mag 7 leaves much of the market reasonably valued, with a number of opportunities possessing our desired attributes: attractive valuation, good risk/reward and downside protection, and the elements of change, inflection points, and solving problems that will lead to value recognition. Our consistent search for unrecognized and unrealized catalyst rich companies remains at the heart of our process.

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

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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 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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