nuveen
A TIAA Company

Separately Managed Accounts

Value

Large Cap Value Balanced

Marketing communication | As of 31 Mar 2025

- **During the first quarter, the Large Cap Value Balanced portfolio produced positive returns, modestly underperforming its blended benchmark of 60% Russell 1000 Value/ 40% Bloomberg US Gov/Credit Aggregate. Value strongly outperformed growth.**
- **Market volatility elevated by news of changes in the A.I. landscape and shifting to anticipation of the new Presidential administration policies, particularly related to tariffs and the meaning of "free and fair trade."**
- **Mag 7 stocks fell sharply in March, driving 1Q losses in the Nasdaq and S&P500. European equity markets (as well as the Euro) appreciated in the quarter, meaningfully outperforming the S&P500.**

Market review

Global equities posted mixed results in the first quarter. Non-U.S. benchmarks generated gains, led by developed markets, with returns amplified by a weakening U.S. dollar. In contrast, U.S. equities delivered losses, hindered by concerns over the Trump administration's aggressive trade action and its impact on the domestic economy. Monetary policy around the globe also varied considerably, with central banks reporting varied success in lowering inflation. Although the Federal Reserve and People's Bank of China (PBoC) stood pat, the European Central Bank (ECB), Bank of England (BoE) and Reserve Bank of India cut rates while the Bank of Japan (BoJ) and Central Bank of Brazil hiked.

Following three straight cuts (totaling 100 basis points) from September through December 2024, the Fed kept its target fed funds rate steady at 4.25%-4.50% at the January and March meetings. In the latter meeting, Chair Jerome Powell stated that although "the economy is strong overall," uncertainty is high due to the Trump administration's "significant" changes in trade and immigration. Given that uncertainty, Powell also emphasized that "We do not need to be in a hurry to adjust our policy stance."

In its updated Summary of Economic Projections following its March meeting, the Fed lowered its forecast for annual GDP growth from 2.1% to 1.7% while raising expectations for inflation from 2.5% to 2.8% by year-end, even further above its 2% target. Powell noted that "clearly some of it, a good part" of the Fed's hotter inflation outlook was due to the Trump tariffs. Looking ahead from the end of the first quarter, the market anticipates two 25 bps cuts in the second half of the year. Uncertainty and deteriorating sentiment-based economic data may translate into weaker hard data around growth, putting pressure on the Fed as we move through the year.

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The S&P 500 endured a volatile January en route to a solid start to the year, with the index gaining 4% in the first three weeks. Investors ignored high valuations, focusing instead on strong corporate earnings in addition to expectations for tax cuts and deregulation under the incoming Trump administration. But the S&P 500 gave back gains led by a sharp selloff in technology stocks following the sudden surfacing of Chinese tech startup DeepSeek and the revelation that its new artificial intelligence (AI) models might rival those of the established industry leaders at a fraction of the cost. A great deal of scrutiny developed very quickly though, suggesting that the data underlying the extremely low cost cited by DeepSeek is highly questionable.

The U.S. equity benchmark seemingly found its footing in February, reaching a series of record highs mid-month. Minutes from the Fed's January meeting, released February 19th, assured investors that despite still-sticky inflation, the central bank had not ruled out rate cuts and expected to lower borrowing costs over time. That rally was short-lived, though. Declines for several of the "Magnificent Seven" mega cap growth companies (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla), a batch of bearish economic indicators, and ongoing tariff tensions sent stocks lower for the month overall.

March proved to be particularly challenging for the S&P 500, with the index falling into correction territory. (A correction is generally defined as a decline of 10% or more from a recent high.) Investors worried about the economic fallout of Trump's aggressive trade policy and the possibility of stagflation gripping the U.S. economy. Major U.S. equity benchmarks finished in the red for the quarter (the Russell 1000 Value index return was positive), led by the 30-stock Dow Jones Industrial Average (-0.9%). The Nasdaq Composite (-10.3%) was weighed down by the poor performance of technology stocks (59% of the index), including Apple (-11.2% for the quarter), Microsoft (-10.8%) and Nvidia (-19.3%). The more economically sensitive small cap Russell 2000 (-9.5%) lagged its mid cap (-3.4%) and large cap counterparts (-4.5%). Following five straight positive quarters, the S&P 500 (-4.3%) suffered its worst three-month period since 2022.

Equity markets outside the U.S. performed well in the first quarter, aided by a weaker dollar (Figure 4). The greenback fell 4% against a basket of currencies (measured by the U.S. Dollar Index), as U.S. growth concerns increased the odds of the Fed lowering interest rates. (Interest rate movements are one the key drivers of the dollar's relative value.) Based on non-U.S. MSCI benchmark indexes in U.S. dollar terms, EM equities delivered a +2.9% gain, while their developed market counterparts (+6.9%) outpaced the S&P 500 by more than 1,100 basis points (or 11 percentage points) — the widest margin since 2002.

The Bloomberg Aggregate Index returned +2.78% for the quarter led by lower Treasury yields. Concerns over a slowing economy and escalating tariff disputes led U.S. Treasury rates lower across the curve, notwithstanding the Fed's decision not to lower the Fed Funds rate given policy uncertainty. The 10yr peaked around 4.79% in early January and closed the quarter at 4.21% while the 2yr moved 36 bps lower over the period to end at 3.88%. Investment grade spreads widened 20 bps given the decline in equities and higher volatility. Investment grade corporates posted a total return of 2.31%, slightly less than Treasuries or the Aggregate given the modest credit spread widening.

Portfolio review

The Nuveen Large Cap Balanced portfolio underperformed its blended 60% Russell 1000 Value / 40% Bloomberg US Gov/Credit Aggregate benchmark on a gross of fees and net of fees basis during the 1st quarter of 2025, although both the benchmark and portfolio delivered positive returns. The year started off with optimism with the equity index gaining 4.6% in January, but February ushered in a period of uncertainty with large value stocks being the only area in the U.S. equity market to produce positive results (+0.4%). Even large value names were not immune from damaging headlines in March as the index fell 2.8% but remained up (+2.1%) for the quarter. The best performing sectors leading the index were Energy (+9.5%), Communication Services (+6.8%), Health Care (+6.4%), and Utilities (+6.2%). The largest declines occurred in Technology (-5.7%), followed by Consumer Discretionary (-4.5%) and Industrials (-2.9%).

The majority of the portfolio's equity underperformance came from stock selection in industrials, followed by financials, and communication services. Offsetting some of the underperformance were our investments in health care, consumer staples, and utilities. Our top stock contributors in the first quarter were **Shell, AT&T,** and **Gilead Sciences**, while leading detractors included **KKR, nVent Electric,** and **Regal Rexnord.**

Regarding fixed income, we have modestly increased duration as yields remain attractive, although less than benchmark given the risk of stagflation/inflation due to trade/tariff disruptions. We will evaluate adding to industrials, vs treasuries, if credit spreads widen. We were a net seller of equities moderating equity exposure earlier in the quarter, and opportunistically rebalanced as equities declined.

The industrials sector has been a major source of outperformance the past several years driven significantly by investments focused on electrification and data center spending. We have been extremely disciplined, reducing positions materially as risk/reward became less favorable, although we remain overweight versus the benchmark given structural growth and profitable opportunities. This did impact first quarter performance as mentioned above, but only by a small fraction of the outperformance captured the past several years.

Contributors

Shell plc (SHEL) was the top contributor to performance this quarter based on solid appreciation and its large portfolio weight. Positive change driven by the focused efforts of CEO Wael Sawan and CFO Sinead Gorman is driving value through the company's powerful liquefied natural gas (LNG), integrated gas, and trading group, in addition to cost cutting, portfolio reshaping, and capital return. Shell upped its targets during its March 25th capital markets day for capital returns to shareholders to 40-50% of operating cash flow (from 30-40%), as well as doubled its cost reduction program efforts and reduced cap ex further. Shell has reduced its net debt from $60 billion to $10 billion over the past 5 years. We believe that Shell continues to offer strong risk/reward and future catalysts to unlock value. We believe a meaningful increase in the dividend would propel the stock further, but at this point the company prefers to allocate as much free cash flow to share repurchases instead.

AT&T (T) was another top contributor, reporting strong Q4 results with consumer fiber and postpaid phone net adds above expectations. AT&T continues to execute at a high level and will be in the enviable position to further repurchase shares after the sale of its DTV business closes in the middle of 2025.

Shares of **Gilead Sciences (GILD)** rose as revenue and EPS surprised to the upside fueled by its growing HIV franchise (fantastic results from Lenacapavir). Importantly, Gilead also provided robust 2025 guidance, highlighted by better operating leverage that appears sustainable for several years to come. We trimmed positions in AT&T and Gilead (several trims) given appreciation and a favorable outlook but less compelling risk/reward.

Detractors

Alternative investment manager **KKR & Co.'s (KKR)** stock fell sharply, along with industry peers, during the quarter after reporting fourth quarter results (early February) with softness in management fees versus consensus. The stock continued to weaken over the remainder of the period due to economic uncertainty and concerns over trade/tariff policy. We believe the fundamental drivers for growth remain intact.

nVent Electric (NVT) stock fell, along with other electrification/data center equipment stocks, following news of DeepSeek's AI model being comparable to U.S. models but at a fraction of the cost. The news soured sentiment for industrial stocks with data center exposure. Despite the DeepSeek news, nVent subsequently reported in-line earnings and a strong growth outlook for 2025, led by its rapidly growing and highly profitable liquid cooling segment, which is critically important to effectively dissipate the heat generated by data center semiconductor chips. nVent stock has performed extremely well since our initial investment in 2020, and we have consistently trimmed our position in the past several years.

Shares of industrial powertrain and automation component manufacturer **Regal Rexnord (RRX)** declined as sizeable year-end push-outs from customers dragged down top-line growth and margins in the quarter. 2025 guidance also missed expectations. Moving forward, we believe valuation and solid order growth in Regal Rexnord's higher-margin automation and power solutions businesses should offer support for the stock, which trades at a compelling absolute and relative valuation. Onshoring activity should be a strong catalyst propelling growth.

Portfolio positioning

As we've mentioned in our letters consistently, the portfolio continues to be broadly diversified but not indexed. The tariff and policy uncertainty coming out of the Trump administration has increased volatility and led to market declines. We are starting to see confirmation of a more favorable/less onerous regulatory environment in several sectors, particularly financials and energy, while the regulatory outlook for pharmaceuticals remains unclear. The primary unknowns are the trade/tariff issues and disruptions. We do expect merger and acquisition activity to accelerate as the Justice Department and Federal Trade Commission will stop challenging and delaying deals, albeit the bid/ask spread makes it tougher to come to terms in the immediate future. We were, on balance, a net seller of equities earlier in the quarter, and used market/stock declines to establish/add to positions.

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The portfolio maintained its overweight position in energy amidst the macro uncertainty given our investments in Shell, Cheniere, and Baker Hughes are significant beneficiaries from the growth in LNG. We trimmed our investments in the pharmaceutical sector reflecting increased regulatory risk as well as company specific issues (Gilead trims on appreciation, less favorable risk/reward, Merck elimination on weak fundamentals/outlook and patent expirations). In terms of new investments, we initiated new positions in **Freeport-McMoRan**, **Micron Technology**, and **Eversource,** and eliminated holdings in **BHP Group**, **FirstEnergy, Merck,** and **RTX Corp (Raytheon).**

New Investments:

We initiated a position in copper producer **Freeport-McMoRan (FCX)** after the stock fell given global economic weakness concerns. Copper has secular demand growth and it takes over a decade to find and develop new copper resources. Freeport also produces approximately 800,000 ounces of gold per year in Indonesia, significantly enhancing profitability. Freeport produces a significant amount of copper domestically which is an asset given potential trade and tariff issues/threats, and it possesses a strong balance sheet. We also thought FCX offered an interesting free option to potentially participate in Ukraine in a minerals deal (FCX not mentioned or discussed at all) given it's one of the extremely few
large-scale U.S. mining companies. We used the proceeds of our elimination of Australia based mining company **BHP Group** as well as additional cash to fund our FCX purchase.

We initiated a position in **Micron Technology (MU)** after the shares fell 40% from their summer 2024 high, on the belief that Micron's leading position in HBM (high bandwidth memory) serving advanced data center/AI applications will further drive profitability. We were looking to opportunistically add to our minimal semiconductor exposure in the portfolio. We believe the sell-off in shares of MU is overdone and expect it to reverse as HBM becomes a larger portion of revenue and as margin pressure from the NAND business dissipates.

Eversource (ES) is a Connecticut based utility with operations in New England. The stock has been depressed for several reasons that we believe are backward, rather than forward looking. Eversource has had a turbulent relationship with the head of the Connecticut public utility commission, but that commission will be expanding to five members from three, which will mitigate that issue. Eversource is in the process of selling a troubled wind investment (Aquarion), and while it still retains some liability for cost overruns, eliminating that burden from the company will serve as an additional catalyst. We view risk/reward as extremely attractive, as the stock trades at a 15-20% discount to comparable utilities. We funded the purchase with the elimination of our **FirstEnergy** stake and additional cash.

Eliminations:

As mentioned above, the rationale for our eliminations of Australian mining company **BHP Group** and U.S. utility holding **FirstEnergy** was to swap into more attractive investments within the same sector **(Freeport-McMoRan and Eversource). BHP** is a world class mining company but it derives significant profitability from iron ore and coal, while Freeport is almost entirely copper (with a gold kicker in Indonesia). We were also concerned that BHP may renew large scale merger/acquisition interest either in Anglo American or others. **FirstEnergy**, the Ohio based utility, reported weak fourth quarter results, in addition to bearing some upcoming risk with its rate case covering the recoverability of intangible assets.

We eliminated our investment in pharmaceutical company, **Merck (MRK)**. Merck has historically been a high-quality innovator, with a history of drug innovation and pipeline development. While the stock appreciated sharply immediately after our purchase and we trimmed our position, the company missed numbers, had an enormous sales falloff in China with its Gardasil vaccine, and the upcoming patent expiration of its enormous Keytruda drug can't be offset. Eliminating Merck was also part of a broader reduction of pharmaceutical stocks in the portfolio given heightened risk of price reductions/controls from the Trump administration.

We exited our long-term investment in **RTX Corporation (RTX),** primarily due to its full valuation and reducing our investments in the defense industry given our recent significant investment in Boeing (both commercial and defense businesses) in the midst of its turnaround and continued investment in General Dynamics. While RTX continues to have a liability for the engine composite material crack issue, the stock at the time of our elimination did not reflect risk of that issue being a concern.

On weakness, we added to positions in TripAdvisor, Disney, Citigroup, Flowserve, Permian Resources, Smurfit Westrock, Wells Fargo, Regal Rexnord, and PulteGroup. We trimmed positions in AT&T, Boeing, Corteva, Ford Motor, General Motors, Gilead, Pinnacle West, and Walmart (multiple trims in several of the names).

Outlook

President Trump announced a set of tariff initiatives that were more severe than expected, leading to market declines. Trade imbalances between countries became an important measure over and above the removal of reciprocal tariff rates. While free and fairer trade was the rallying cry and policy objective, the economic impact of reshoring activity to the United States is an extremely expensive and long-term process. Penalizing companies in the interim to make this transition risks major economic disruption in addition to stagflation (loss of jobs and economic activity combined with higher prices). Reasonableness, moderating demands, and striking strong but fair trade deals could certainly propel a strong market rally and mitigate potential economic fallout.

We are optimistic that a meaningful part of this is President Trump negotiating, and using his leverage to get better trade deals and more onshoring accomplished. The Fed has provided direction that they are not going to jump in early with interest rate cuts in the midst of this uncertainty, which creates greater risk to continue his rhetoric or policies unabated. Market signals such as bond yields backing up, and companies suspending hiring and expansion capital until the end game is known and reasonable should operate as constraints. While there isn't evidence yet that American consumers will avoid/boycott foreign made goods, our policies have angered foreign governments/consumers and that risk is much more real. Some stores in Canada have taken products off shelves and/or placed signs saying buy Canadian. The anger is fairly widespread.

Stocks in several industries including banking, industrials, and technology have encountered severe declines, albeit from elevated prices. With fear comes opportunity, and we have added to positions across industries where we see much more compelling risk/reward. Last quarter, we questioned how long the equity markets could continue to post significant ongoing appreciation. The economic and market outlook is heavily conditioned on how the Trump administration defines/pursues free and fair trade. Getting a better deal that provides fairer access for U.S. products overseas makes sense to us. We believe that can be accomplished. Suggesting that the U.S. needs to have some critical supply chains fortified also makes sense. Defining fair trade as no trade deficits for goods (ignoring services) with other countries and increasing prices through tariffs on goods that can't even realistically be made in this country for years (if ever) doesn't.

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. Rather than "drill baby drill," oil companies appear likely to reduce capital spending. The demand outlook for natural gas looks robust as it is needed to fuel the requirements of new liquified natural gas plants scheduled to open in the next few years.

Market declines coupled with increased volatility and fear will create investment opportunities for both equities as well as fixed income. 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 indexthat 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-bookratios 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 performanceof 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 widelyregarded 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. 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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