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Separately Managed Accounts | Value

# Small/Mid Cap Value

**Marketing communication** | As of 30 Jun 2025

- **During the second quarter, the Small-Mid Cap Value strategy underperformed its benchmark, the Russell 2500 Value Index.**
- **The quarter started with elevated volatility and negative sentiment as a result of President Trump's "Liberation Day" announcement, sending markets in a downward spiral. As the quarter progressed, positive earnings news along with what seemed to be a less hardened tariff stance drove markets higher.**
- **Tech names and industrials led the Q2 rally with AI, software, and infrastructure names being major beneficiaries. Growth largely outperformed value during the quarter.**

## Market review

Global equities delivered strong results in the second quarter. Non-U.S. benchmarks generated double-digit gains, led by emerging markets (EM), with returns amplified by a weakening U.S. dollar. U.S. equities overcame a steep decline in early April following the Trump administration's "Liberation Day" announcement of high tariffs on U.S. trading partners. Monetary policy worldwide diverged considerably, as central banks continued to fight inflation amid concerns of disruptions to global trade. While the Federal Reserve and Bank of Japan (BoJ) stood pat, the European Central Bank (ECB) and Reserve Bank of India cut rates, and the Central Bank of Brazil (CBoB) hiked.

The **Fed** kept its target federal funds rate steady (a range of 4.25%-4.50%) in the second quarter of 2025. At its June meeting, Chair Jerome Powell stated that although conditions were "highly uncertain" due to the Trump administration's trade and immigration policy, the current environment is nonetheless "a solid economy with decent growth." But given that uncertainty, Powell emphasized that "the appropriate thing to do is hold where we are." Inflation rates have declined with the holdback on further interest rate cuts being the Fed's concern over the inflationary impact of potential tariffs.

In its updated Summary of Economic Projections, the Fed lowered its 2025 forecast for annualized GDP growth from +1.7% in March to +1.4%, while raising expectations for core inflation from 2.8% to 3.1% by year-end. As to the central bank's next move, its dot plot suggests two rate cuts (of 25 basis points apiece) over the next four meetings in 2025, in line with our outlook. This would take the policy rate range to 3.75%-4.00%.


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In contrast to the Fed, the **ECB** continued to ease policy, reducing its benchmark deposit rate by an additional 50 bps during the quarter, to 2.0%, but refusing to commit to further cuts or a particular rate path. At the same time, ECB President Christine Lagarde noted the ECB is "in a good position," suggesting a pause in cutting rates is forthcoming. The ECB's economic forecasts were little changed from March. Inflation is expected to register 2% by year-end, while annualized GDP growth is anticipated to hit 0.9%.

The S&P 500 kicked off a volatile quarter by plunging more than 11% — and almost 19% from its 19 February peak— while ten yield Treasury rates rose during the first six trading days through April 8 as the Trump administration unexpectedly unveiled "Liberation Day" broad increases to U.S. tariffs on its trading partners. U.S. stocks recouped most of those losses on April 9, with the index posting its highest one-day return (+9.5%) since 2008 following the president's decision to pause his reciprocal tariffs on most countries for 90 days and exempt certain sectors (such as steel and aluminum) from the levies. Returns for April ended modestly negative.

After April's sluggish start, the S&P 500 clawed back into positive territory for the year to date thanks to its best calendar May in 35 years. The advance was concentrated on May 2, after a better-than-expected U.S. payroll report that helped alleviate concerns of an economic slowdown, and on May 12 in the wake of news that the U.S. and China had agreed to dial back tariffs and continue negotiations on a long-term deal.

U.S. shares completed their sharp shaped recovery in June, with the S&P 500 hitting all-time highs. Investors overlooked fresh hostilities in the Middle East, focusing instead on resilient economic data, progress on trade deals moderating inflation, and hopes for Fed interest-rate cuts later this year. Outsized gains from the technology sector (+23.7% for the period), which made up 33% of the index as of 30 June, also drove stocks higher. The S&P 500 returned +10.9% in the second quarter, a major turnaround from its -4.3% first-quarter loss.

Other major U.S. equity benchmarks also enjoyed healthy rebounds, led by the tech-heavy Nasdaq Composite (+18%), which was bolstered by the stellar performance of stocks like Microsoft (+32.7%), Nvidia (+45.8%) and Meta (+28.2%). These three stocks propelled the Magnificent Seven +18.6% following a 16% downdraft in the first quarter. Based on respective Russell indexes, more economically sensitive small caps (+8.5%) matched mid-caps (+8.5%) but lagged large cap stocks (+11.1%).

Non-U.S. equity market returns were significantly amplified by a plunging dollar. The greenback, as measured by the U.S. Dollar Index, fell -10.7% against a basket of currencies — its worst first half of the year since 1973, when the U.S. stopped linking the dollar to the price of gold. The dollar'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. Based on non-U.S. MSCI benchmark indexes in U.S. dollar terms, EM (+12%) and developed markets (+11.8%) both topped the S&P 500 for the quarter, with the MSCI EAFE outpacing U.S. stocks for the year to date by 13.3 percentage points — the widest margin of outperformance over the first half of the year since 1993.

The Bloomberg Aggregate Index returned +1.21% for the quarter led by lower Treasury yields. The rally was led by the front end of the yield curve, while longer-tenor yields increased. The 2-year/10-year and 5-year/30-year segments finished the quarter 19 bps and 36 bps steeper, respectively. While the 10-year Treasury yield peaked in May at nearly 4.60%, it finished the quarter at 4.24%, only 1 bp higher than where it started.

## Portfolio review

The **Nuveen Small-Mid Cap Value** portfolio underperformed its benchmark on a gross of fees and net of fees basis, the Russell 2500 Value, during the 2nd quarter of 2025 although both the benchmark and portfolio generated positive results. The quarter started off inundated in volatility with the benchmark falling 2.9% in April, but May ushered in a period of positive sentiment with SMID value stocks gaining 5.7% in May and another 4.5% in June, finishing the quarter up 7.3%. The best performing sectors leading the index were tech (+20.5%), industrials (+11.5%). (consumer discretionary (+9.7%), financials (+8.6%) and communication services (+8.1%%). The only sectors to see red for the quarter were real estate (-2.6%) and consumer staples (-0.5%).

The majority of the portfolio's underperformance came from stock selection in financials, staples, real estate, health care, and utilities. Offsetting some of the underperformance were our investments in tech and industrials. Our top stock contributors in the second quarter were **Seagate**, **Curtiss-Wright**, and **nVent Electric** while leading detractors included **Atlas Energy Solutions, PRIMO**

**Brands**, and **STAG Industrial.**

## Contributors

Shares of hard disk drive maker **Seagate Technologies** delivered exceptional appreciation as both confirmation of continued AI spending and a robust product set with industry leading HAMR hard disk drive technology adoption by leading cloud customers will generate sustainable growth in revenues, margins, and profitability. Earnings revisions have been extremely positive.

**Curtiss-Wright** shares rallied following the issuance of executive orders designed to reinvigorate U.S. nuclear energy production. As a key supplier of critical reactor components and life extension services, the company would be a primary beneficiary of accelerated development of reactor technology. Curtiss-Wright's core aerospace, defense, and industrial businesses continue to produce strong results.

**NVent Electric** stock rose sharply, ending 2Q modestly higher than year-end 2024 after its sharp 1q decline. Fundamental demand for its high growth liquid cooling (for data center) segment remained robust, after the Chinese Deepseek fear/sell-off in 1Q proved unfounded. AI and datacenter capital spending continue at robust levels while utility/electrification demand continued strong as well. nVent continues to execute extremely well, while its return and growth profile have been enhanced by the $1.6 billion sale of its lower growth businesses. The company reported strong Q1 revenues, profits, free cash flow, and growth in early May, leading to a resumption in confidence for the company's compelling investment case.

## Detractors

**Atlas Energy Solutions** shares fell sharply early on in the second quarter of 2025 as rump's tariff news led to a major market selloff along with crude oil prices falling nearly 17%. Atlas, which is an oilfield services company provider of fracking sand in the Permian Basin, reported in line earnings, but issued a weaker outlook.

Our stake in hydration beverage (i.e. water) company **PRIMO Brands** declined in Q2 concerns that higher growth for their premium brands (Saratoga and Mountain Valley) may not be an achievable goal to replicate across the broader portfolio. Additionally, tougher comps due to weather and seasonality put pressure on the stock.

Shares of **STAG Industrial**, which is a REIT for single tenant industrial properties, fell sharply early in the quarter as the company lowered growth guidance based on anticipated lower volumes. We ended up eliminating the portfolio's relatively small position early in the quarter as we felt the future provided limited upside.

## Portfolio positioning

Following the meaningful turmoil within the quarter, sentiment around early policy fears and the worst of tariff worries had abated in the market. Accordingly, the portfolio looks more toward the potentials of a Powell pivot and the prospects of Trump tax extensions and incentives to promote domestic self-sufficiency and employment as well as improved trading terms. It appears that changes in the regulatory and anti-trust regime have provided for a more accommodative Department and Federal Trade Commission. Deal flow and increased mergers and acquisitions appear to be accelerating, with a more populated IPO calendar.

With regard to investments in the portfolio, we increased consumer sensitive positions, with new holdings in Signet Jewelers, where new management is accelerating product refresh, and Yeti, where product innovation and global branding stands to improve. We also took a position in Bath & Body Works where new management accelerates product cadence and expands its men's offering and laundry product. Recent product collaborations, including Disney licensed product, have increased same store sales traffic. Also in consumer, we eliminated our position in Wayfair after tariff pressures looked to be a meaningful overhang to margin on international sourcing.

In consumer staples, we eliminated Molson Coors and Reynolds Consumer products after softer purchasing trends for their products. Wiley was eliminated on the as the pressures on university funding stall signing on deals and budget are further scrutinized.

Merger activity in the quarter ramped, with portfolio companies TXNM utility being acquired by Blackstone, and Chart Industries being acquired by Flowserve. In real estate and energy, larger market cap positions were replaced by smaller, in adherence with portfolio guidelines.

## Outlook

For the quarter, the market seems to carry a short memory, with the worst of tariff and trade fears waning with each week throughout the quarter. Some companies, while claiming to be 'driving without the headlights on', still stayed on track to deliver profits and product. Several management teams truncated annual guidance to only one

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quarter out or wholeheartedly withdrew guidance for the year.  Despite the turmoil, however, peak volatility waned, credit spreads remain tight, and long-term rates remain relatively rangebound.

With the second half of the year now underway, positioning by Trump administration continues to look for wins, large and small, on trade policy, economic growth, and employment gains.  With the pending "One Big Beautiful Bill" Act, tax cuts, spending cuts, and the budget priorities look to catalyze capital activity and further onshoring incentives.  We believe data center and AI tech initiatives continue as top of mind, with supporting infrastructure riding along, albeit at lofty valuations.  Recognition of niche, more domestically focused smaller caps stand to benefit from the belief that the worse of fears are largely embedded in the market. In this most recent heightened retail investor activity and the 'risk off' trade, we have witnessed companies with higher beta, momentum, with lower return hurdles and higher levered companies outpacing the index. Our focus remains on identifying and investing in catalyst rich displaced securities for the portfolio.  The spread between large cap and small cap valuations remains near historic highs; the breadth of the market may widen following the massive concentration of leading technology holdings.

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. There may be specific risks associated with small and mid-size company investing, including potentially increased volatility with smaller companies. 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. This strategy may invest in American Depositary Receipts (ADRs). ADRs do not eliminate the currency and economic risks for the underlying shares in another country. The strategy's potential investment in non- U.S. stocks presents risks such as political risk, exchange rate risk and inflationary risk, which included the risks of economic change, social unrest, changes in government relations, and differing accounting standards.

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### Glossary

**Russell 2500® Value Index** measures the performance of the 2500 smallest companies in the Russell 3000® Index. **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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