Small/Mid Cap Value

Marketing communication | As of 31 Dec 2025

- **During the fourth quarter, the Small-Mid Cap Value strategy outperformed its benchmark, the Russell 2500 Value Index.**
- **Value stocks notably outpaced their growth counterparts during the quarter, driven largely by investor sentiment that growth valuations had become overextended.**
- **The long U.S. government shutdown disrupted economic data releases, heightened market volatility, and obscured labor market trends, challenging investors' decision making during the quarter.**

Market review

Global equities capped a stellar year with healthy fourth-quarter gains, led by non-U.S. developed markets, with emerging markets (EM) performing nearly as well. Both topped the S&P 500 Index by double digits in 2025, the first calendar year that's happened since 2006. 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 on hopes for continued U.S. Federal Reserve easing and strong corporate earnings. Monetary policy worldwide continued to diverge as central banks sought to nurture economic growth while remaining alert to a possible resurgence of inflation.

With two 25 basis points (bps) rate reductions from the Fed in November and December, following one in September, the target federal funds rate ended 2025 in a range of 3.50%-3.75%. Despite the easier policy, rhetoric accompanying the final decision of the year leaned hawkish, and the Fed's heavily scrutinized "dot plot" projected just one 25 bps cut in 2026 — which would put the rate at about 3.4% by year-end. Chair Jerome Powell, whose tenure as Fed chair ends in May, described the prevailing monetary backdrop as "very challenging," adding that the central bank will continue to "wait and see how the economy evolves." Across the Atlantic, the Bank of England (BoE) also trimmed rates by 25 bps in December, to 3.75%. The BoE struck a cautious tone regarding further cuts, however, warning that future decisions would be a "closer call," even as data pointed to cooling inflation, softer economic growth and a weakening U.K. labor market. Meanwhile, the more hawkish BoJ increased its benchmark interest rate to 0.75% in December as Japanese core inflation stayed above its 2% target for the 44th consecutive month. And though borrowing costs in Japan are at a 30-year high, they remain far below those in other major economies, reflecting the BoJ's decades-long use of near-zero rates to battle deflation.

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Small/Mid Cap Value

The quarter started on a strong note for U.S. equities. Investors accentuated the positive in October, focusing on advancements in AI and strong third-quarter corporate earnings, rather than on the U.S. government shutdown, elevated valuations and the relative lack of market breadth as the biggest gains remained concentrated in high-flying tech shares.

But risk appetite receded in early November as markets downgraded the odds of a near-term Fed rate cut given sticky inflation and as worries of corporate overspending on AI mounted. By month-end, however, U.S. stocks had erased their losses, supported by continued healthy earnings and renewed confidence in the prospect of Fed easing as the U.S. labor market softened.

In December, the S&P 500's performance was a study in contrasts: the index both hit its 38th record high of the year and suffered a downturn between Christmas and New Year's Eve, missing out on a hoped-for "Santa Claus" rally and barely eking out a +0.1% return for the month. For the fourth quarter as a whole, the S&P 500 gained +2.7%, lifting its 2025 total return to 17.9%.

Based on MSCI benchmark indexes in U.S. dollar terms, non-U.S. developed equity markets were the fourth quarter's star performers, edging their EM counterparts, 4.9% to 4.7% (Figure 3). For the 12 months ended 31 December, non-U.S. developed and EM shares bested the S&P 500 by more than 10 percentage points apiece — the first calendar year that's happened since 2006.

Within non-U.S. developed markets, the MSCI Euro Index (+5.2%) benefited from healthy gains for European banks and insurers, while Japan's Nikkei 225 Index (+5.7%) got a lift from technology stocks.

Tech also drove the +27.3% surge of South Korea's equity market (representing 13% of the MSCI EM index by market capitalization). At the other end of the EM performance spectrum were Chinese stocks (-7.4%, 28% of the EM Index), which struggled amid falling business optimism, stagnant manufacturing activity and sluggish domestic demand.

U.S. fixed income markets posted modest gains during the quarter, with the Bloomberg U.S. Aggregate Bond Index returning 1.1%. The yield curve steepened significantly as the Federal Reserve executed 25 basis point rate cuts in both October and December, totaling 75 basis points of easing for the year. This drove shorter-term yields lower while the 10-year Treasury yield edged up slightly from 4.11% to 4.18%, widening the 2-year to 10-year spread to approximately 69 basis points by year-end. The uptick in longer-dated yields reflected investor concerns about fiscal deficits and potential inflation from tariffs, even as a softening labor market supported the Fed's accommodative stance. High starting yields, particularly at shorter maturities, provided favorable income tailwinds where rallies were most pronounced.

Portfolio review

The **Nuveen Small-Mid Cap Value** portfolio outperformed its benchmark on a gross of fees and net of fees basis, the Russell 2500 Value, during the 4th quarter of 2025 with the index delivering an overall return of +3.2%. The quarter's progression was marked by modest contraction in October of approximately 0.3%, followed by a stronger November advance of 2.9%, before concluding with a 0.5% gain in December. This quarterly performance contributed to the index's full-year return of +12.7%. Small cap performance trailed large caps but showed signs of improving breadth, as smaller companies began to participate more in the equity rally after lagging earlier in the cycle. Microcaps were notably stronger, with the Russell Microcap Index advancing more than 6% and outpacing traditional small caps by one of the widest quarterly spreads since the benchmark's inception. The index's best performing sectors during the quarter were health care (+16.8%), technology (+9.1%), materials (+4.3%), and financials (+3.4%). Meanwhile, several sectors posted negative returns, including consumer staples (-6.3%), consumer discretionary (-1.7%), real estate (-1.2%), and utilities (-0.4%). Energy (+2.7%), industrials (+2.0%), and communication services (+0.7%) also lagged the broader index despite posting modest gains.

The portfolio's outperformance was primarily driven by our underweight position in consumer staples combined with an overweight allocation to technology, along with strong stock selection in the industrials sector. However, stock selection in financials, technology, and health care detracted from relative returns. Our top contributors in the fourth quarter were **Vicor**, **Flowserve**, and **Ciena**, while **Parsons**, **Rambus**, and **Bath & Body Works** were the leading detractors.

Contributors

Vicor shares surged in Q4 2025, propelled by robust Q3 financial results announced in late October, including revenues up 18.5% year-over-year, expanded gross margins, and net income that far exceeded expectations. Escalating

demand for its high-density power systems from AI data centers and electric vehicles, coupled with lucrative IP licensing deals and a large backlog, fueled investor optimism.

Flowserve stock climbed in Q4 2025 following standout Q3 earnings released in late October, with a positive earnings surprise and a 23% surge in power generation bookings led by nuclear projects. Aftermarket bookings also rose, enhancing margins, while strategic divestiture of asbestos liabilities freed resources for growth investments. Management also raised full-year 2025 EPS guidance, alongside cost-saving initiatives, sustained the rally despite modest sales growth forecasts.

Ciena stock rose sharply in Q4 2025 after fiscal Q4 results (ended Nov. 1) showed revenue beating estimates, adjusted EPS up almost 70% year-over-year, and a $5 billion backlog of business. Additionally, surging demand for optical networking from AI data centers and hyperscalers, which is a significant portion of Ciena's core business, drove the performance. Positive analyst sentiment and the company's issuance of strong fiscal 2026 guidance further amplified gains.

Detractors

Parsons shares tumbled over 20% in early December 2025 after losing a multi-billion-dollar U.S. air traffic control contract to rival Peraton, marking a major blow to its infrastructure and defense pipeline. Analysts also cut price targets citing slower contract conversion post-government shutdown and Q4 revenue forecasts down 2%. 2025 declines were exacerbated by prior Q3 revenue misses and weaker-than-expected organic growth outlook.

Rambus stock dropped sharply in Q4 2025, falling after Q3 EPS missed estimates, despite a revenue beat and being up over 20% year-over-year. Spend on product development weighed on shares despite strong revenue growth. Companion chip, content gains, and Silicon IP remain robust, however, broader sector pressures weighed on shares near year-end.

Bath & Body Works shares weakened in Q4 2025 after slashing full-year net sales guidance to a low single-digit decline from prior 1.5-2.7% growth expectations, blaming persistent negative consumer sentiment and weak holiday demand. Turnaround efforts and new product uptake has been slower than expected, impacting the share price. We eliminated the position in the quarter.

Portfolio positioning

As we enter the new year, we review the policies and market dynamics shaping our investment landscape. Many issues from 2025 persist into 2026, including a more lenient regulatory environment, the potential appointment of a new Fed Chair, and an active foreign policy stance promoting AI advancement and energy independence.

Financials and Energy: Our exposure in these sectors remained stable throughout the period.

Healthcare: Following a challenging period of constrained medical funding and heightened budget scrutiny, we believe a stabilization is underway as spending patterns normalize. In response, we increased positions in medical technology companies Bruker and Bio-Techne, while eliminating animal healthcare company Elanco after significant gains.

Industrials and Technology: After a substantial run in data center and AI-associated stocks, we eliminated positions in Seagate, Ciena, and Curtiss-Wright. Heightened contract scrutiny facilitated the removal of Aecom, while similar concerns regarding restaurant equipment spending led to Middleby's exit. We initiated positions in Regal Rexnord and Idex. Additionally, the migration to edge computing and the enablement of robotic agents prompted purchases of UiPath and Akamai Technologies.

Consumer: The bifurcated consumer landscape continues to present challenges at the lower end, with spending remaining selective across income levels. We eliminated our position in Bath & Body Works following disappointing guidance and an extended store refresh timeline. We also exited shoe manufacturer Crocs in favor of Birkenstock, where constrained capacity and understated growth projections present compelling upside potential.

Real Estate: We see continued momentum in reshoring initiatives and industrial warehousing demand, prompting new positions in First Industrial Realty Trust and Rexford Industrial, while exiting grocery-anchored Regency Centers Corp.

Outlook

While headlines carry mixed messages and the political divide appears wider than ever, markets have entered the year near record highs. Investors appear to be overlooking both foreign and domestic tensions, including ongoing strife between Washington insiders and heads of state.

Small/Mid Cap Value

With risk spreads approaching the lows last seen during the COVID crisis and market breadth continuing to widen, we see enhanced opportunities for small and mid cap stocks. This environment—characterized by sustained GDP growth, manageable inflation, and stable employment—provides a favorable backdrop for quality companies. Improvements in corporate profitability are evident across companies of all sizes, driven by disciplined pricing strategies, operational productivity, and rigorous capital allocation. Notably, the ever-increasing allocation of capital toward technology initiatives continues to gain momentum.

Against this backdrop, the portfolio remains dynamic as we actively seek dislocated companies, emerging catalysts, and attractive valuations. In our engagements with analysts and management teams, we observe rapid adoption of AI-enabled tools and heightened management awareness of both the opportunities and challenges presented by shifting—and potentially shrinking—profit pools. We remain positioned to capitalize on these opportunities and appreciate your trust in our process and the privilege of managing your capital.

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is $100,000.

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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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