Small/Mid Cap Value

Marketing communication | As of 30 Jun 2026

Key takeaways

- **During the second quarter, the Small-Mid Cap Value strategy generated positive returns and outperformed its benchmark, the Russell 2500 Value Index.**
- **Growth stocks notably outpaced their value counterparts during the quarter with small cap stocks being a significant leader overall.**
- **The market, particularly within small caps, was very narrow during the quarter heavily driven by the tech sector.**

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Market review

The U.S. stock market mounted an impressive rebound during the second quarter of 2026, delivering its strongest quarterly performance in six years. Market participants looked past concerns surrounding the disruptions caused by the Iran conflict and shifting expectations about the potential for Federal Reserve (Fed) rate hikes. Easing tensions in the Middle East helped West Texas Intermediate (WTI) oil prices retreat from above $110 per barrel to below $70 by quarter end, relieving worst-case scenario inflation fears. However, inflation still moved materially higher during the quarter, with the most recent Consumer Price Index (CPI) figure running above 4% year-over-year. Meanwhile, U.S. economic growth remained healthy with the backdrop of a steady labor market, including slightly lower unemployment. Although rising inflation weighed on consumer purchasing power, real consumer spending rebounded from around 0.5% annualized in the first quarter to approximately 2.0% in the second quarter.

Responding to the heightened inflationary pressures, global central banks generally adopted a more hawkish stance during the quarter. Fed policymakers continued to hold rates steady in the 3.50%-3.75% range at Kevin Warsh's first meeting as chair in June but upgraded their median core inflation forecast for the year to 3.3%. Half of the 18 Federal Open Market Committee members also conveyed expectations of a rate hike before year-end. Also in June, the European Central Bank (ECB) and Bank of Japan (BoJ) both increased rates by 25 basis points, with Japan's key short-term rate reaching its highest level since 1995. Other major central banks also signaled hawkish intentions. Following a historic rally in precious metals prices, the potential for rising rates caused gold to post its biggest quarterly decline since 2013.

Despite ongoing concerns about inflation, rates and one of the biggest oil shocks in history, investor appetite for equities remained robust as the market concluded one of its strongest corporate earnings seasons in recent memory. According to FactSet, aggregate S&P 500 earnings grew by more than 25% year-over-year last quarter and are expected to record a similar trend in the second quarter.

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The second-quarter rally was led by a resurgence in the artificial intelligence (AI) trade and technology stocks; however, this time the advance was led by semiconductor and hardware-related stocks. The upswing helped the market reverse all of first quarter's losses, and more, with the bellwether S&P 500 gaining 15.20% for the period. Information technology was by far the strongest performing sector in the index, advancing nearly 32%, while energy stocks gave back some of first quarter's gains, falling more than 13%. The tech-heavy Nasdaq Composite Index performed even better during the quarter with a gain of 21.60%, while the blue-chip Dow Jones Industrials Average advanced 13.38%, ending the period at a record high.

Small cap stocks, as represented by the Russell 2000® Index, outpaced their large-cap counterparts by a wide margin, advancing 21.49% for the quarter and notching their best first-half performance since 1991. The segment benefited from both a valuation catch-up trade as investors rotated out of mega-cap technology stocks, as well as the flow-through of massive spending related to AI infrastructure. Many of the top performers in the small-cap index were semiconductor-related companies. The period also represented the fifth consecutive quarter of gains for the small cap segment, its longest winning streak since the post-pandemic rally.

Overseas, emerging markets substantially outpaced the United States and other developed stock markets, with the MSCI Emerging Markets Index gaining 24.05% for the quarter. However, the quarter was marked by significant performance divergence as Asian markets like Taiwan and South Korea, which together now represent more than half of the EM index by market capitalization, experienced huge AI-related rallies. Meanwhile, China, which accounts for around one-fifth the index, delivered another negative quarter after the country posted a recent slew of weak economic data.

Developed markets outside the United States benefited from the welcome pullback in energy prices during the quarter, which helped lower input costs for many of the energy-importing nations. The MSCI EAFE Index returned 10.82% in U.S. dollar terms, led by Japanese stocks, which also surged based on the massive rally in semiconductor and AI-related stocks. The Nikkei 225 Index advanced 34.42% for the quarter, reaching an all-time high in June. However, the U.S. dollar strengthened versus most major currencies, weighing on non-U.S. stock market returns when translated into dollars. Japan illustrated this point most vividly as the yen depreciated to a 40-year low versus the dollar despite Tokyo's attempts to shore up the struggling currency. As a result, U.S. dollar-denominated investors captured meaningfully less of Japan's outsized local returns than the headline Nikkei number would suggest.

Portfolio review

The **Nuveen Small-Mid Cap Value** portfolio outperformed the Russell 2500 Value benchmark on both a gross and net of fees basis during the second quarter, a period in which the index posted an overall return of +18.5 It's worth noting that the large dispersion the Russell 2500 Growth and Value indices during Q2 with growth leading by over 550 basis points (+24.0% return for the Russell 2500 Growth Index).

SMID value stocks, as measured by the Russell 2500 Value Index, entered 2Q on a strong note, surging 10.4% in April before extending those gains with an additional 3.1% return in May and then finishing the quarter with adding another 4.2%. While absolute returns were eyepopping during the quarter, the market tended to be narrow with over sixty percent of benchmark names underperforming the benchmark return.

Within the benchmark, technology led all sectors by a wide margin with a +77.8% return, followed by health care (+18.3%), industrials (+15.7%), real estate (+15.0%), financials (+12.9%), consumer discretionary (+12.2%), communication services (+6.7%), consumer staples (+2.8%), utilities (+2.6%) and materials (+0.7%). The energy sector (-11.3%) was the only area to suffer declines.

The portfolio's outperformance was driven primarily by driven stock selection with picks in the tech and industrials sectors adding to relative performance. Overall sector allocation decisions, including our overweight in energy, detracted from return. Leading contributors during the second quarter included MaxLinear, ViaSat, and Vicor while Westlake, APA Corporation, and Amentum Holdings were the primary detractors.

Contributors

MaxLinear shares rallied significantly following the recognition of meaningful design wins and volume production for the company's 400G and 800G deployments with major hyperscale and data center customers. The guidance and visibility around its optical programs carry

into 2027 and beyond. The company's improving fundamentals and exposure to AI infrastructure spending were highlighted along with potential ramps for 1.6T market share wins. Investors also became more confident that weakness in legacy broadband markets had bottomed, allowing higher-growth optical networking products to drive future earnings.

Viasat benefited from improving operating execution and growing investor confidence in its long-term satellite communications strategy. Improved free cash flow, lower capex and a focus on the sum of parts valuation, highlighting the growth in Defense and Advanced Technologies segment as well as potential monetization of the spectrum holdings rallied the stock. Expanding defense demand, improving aviation connectivity trends, and expectations surrounding the upcoming launch and deployment of ViaSat-3 satellites could significantly expand network capacity.

Shares of **Vicor** performed well in Q2 as investors increasingly recognized its strategic positioning within the artificial intelligence power infrastructure market. The company's high-performance power modules are used in demanding applications requiring efficient power conversion, including AI servers, aerospace, defense, and advanced computing systems. Capacity additions and a near doubling of orders drove backlog up over 70% annually, with guidance for its products to be essentially sold-out for the near future.

Detractors

Westlake shares underperformed in Q2 over concerns about continued weakness in global chemical markets. The company's earnings were pressured by soft demand in key end markets, including housing, construction, packaging, and durable goods. Higher input costs, excess industry capacity, and sluggish global manufacturing activity weigh the stock, with concerns about the timing and strength of a cyclical recovery. PE pricing and PVC pricing has trended higher and continued focus on cost initiatives remain underway for the company.

APA Corporation's stock struggled in Q2 as investors remained cautious toward exploration and production companies amid softening commodity prices in the quarter. The company continues to build out is its exploration opportunities in Suriname, Alaska, and Uruguay and free cash flow has remained robust for the company.

Amentum Holdings shares declined during Q2 as expectations for the pace of the growth in the government services business are still unproven. Amentum operates in attractive markets, including defense, intelligence, aerospace, and nuclear services, yet, concerns about execution risk, leverage levels, and the pace of realizing expected merger synergies. The company's digital solutions and global engineering solutions businesses have yet to demonstrate meaningful operating leverage.

Portfolio positioning

Following some meaningful changes to the Russell index as well as selective sector performance, consumer discretionary and staples weights remained largely unchanged. The portfolio is underweight consumer exposure as we believe pressures on the lower end consumer and choiceful spending weigh on those sectors. Newly added Coursera looks to build on merger synergies and meaningful free cash flow generation from its enterprise and learning software offerings.

In financials, the weighting remained largely unchanged, with a new position in Unum Group (insurance), additions to Pinnacle Financial Partners, and the elimination of AGNC Investment Corporation. Strong performance in the group from NIM stability, loan growth acceleration, and resilient credit quality has been supportive for the group and can provide for a greater re-rating.

In healthcare, we eliminated ADMA Biologics and QuidelOrtho. Waning confidence in execution by management at ADMA and lower 2026 guidance proved to be a negative catalyst while a poor respiratory season and negative preannouncement by QuidelOrtho demonstrated the challenges to turning the company. Bio-Techne was announced to be acquired by Merck at a robust premium during the quarter.

In industrials, on strong stock performance and elevated valuation, we made numerous trims to Vicor Corp., nVent, and ITT. Challenges to growth and margins warranted the elimination of Fortune Brands. Continued focus on datacenter spend, power, and defense initiatives benefited the sector.

In technology, we lowered our weight with trims to

Ambarella, Rambus, ViaSat, and MaxLinear as they all were beneficiaries of semiconductor spending for memory, power, and communications. The announced acquisition of Synaptics by ON Semiconductor resulted in an elimination of the position. DocuSign was initiated on the strong cash flow and its enduring digital signature positioning.

In energy and materials, softening crude prices and low housing activity weighted on the portfolio weights. In real estate, additions in Broadstone Net Lease and Mid America Apartment Communities increased our weighting.

Outlook

The ongoing Middle East conflict has sent mixed signals about a potential resolution. It appears the extremes—energy spikes on one end, a peace dividend on the other—have begun to establish their boundaries, supporting a healthy appetite for risk-taking and sustained capital deployment toward the highest-return opportunities in data and AI, effects that are trickling down the market cap and earnings spectrum. Meanwhile, new leadership is taking shape at the Federal Reserve, potentially bringing a different approach to policy decisions and a fresh lens on economic data. Amid all this, elevated costs and lingering inflationary pressures persist, yet employment and the consumer have proven weather-tested and resilient. As we enter the second half of 2026, we see continued prospects for an accommodative regulatory framework and a government regime willing to spend in support of growth.

Our engagements with management teams reflect a clear focus on pricing realizations, market opportunities, and disciplined capital allocation. Across every industry, and at companies large and small, we're seeing a consistent push to harness both new and established technologies.

We appreciate your trust in managing this portfolio, where catalysts and expectations appear understated and, despite elevated valuations, still offer a healthy risk/reward profile.

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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