

Small/Mid Cap Value

Marketing communication | As of 31 Mar 2026

Key takeaways

- **During the first quarter, the Small-Mid Cap Value strategy generated positive returns, but underperformed its benchmark, the Russell 2500 Value Index.**
- **Value stocks notably outpaced their growth counterparts during the quarter which was an extension of sentiment coming into the year.**
- **Investors retreated towards the end of Q1 as the U.S. and Israel began a missile campaign against Iran, sending oil prices higher and introducing more economic uncertainty into the global economy.**

Market review

Geopolitical conflict in the Middle East dominated the first quarter of 2026, lifting oil prices and driving broad market volatility. With the Strait of Hormuz effectively closed, Brent crude prices swung sharply above and modestly below the \$100-per-barrel level. Asia was most exposed, as more than 80% of oil and gas transiting the narrow waterway is destined for the region. The turmoil drove the average price of U.S. gasoline above \$4 per gallon for the first time since 2022. The U.S. dollar strengthened for a third consecutive quarter on safe-haven demand and higher inflation expectations tied to the energy shock.

Economic growth remained solid, although the outlook was clouded by geopolitical uncertainty. U.S. gross domestic product (GDP) grew roughly 2.5%–3.0% year over year in the first quarter, a slight acceleration from 2025's pace. Following earlier signs of softening, the U.S. labor market surprised to the upside, with March's report showing 178,000 jobs added and unemployment edging down to 4.3%. Inflation data—still affected by reporting delays following last quarter's government shutdown—showed core Personal Consumption Expenditures (PCE), the preferred measure used by the Federal Reserve (Fed), slightly above 3.0% year over year through January.

The Fed held rates steady at its January and March meetings due to elevated uncertainty and renewed inflation concerns. Three other major developed-market central banks—the European Central Bank (ECB), Bank of Japan (BoJ) and Bank of England (BoE)—also left policy unchanged during the quarter, while the Reserve Bank of Australia raised rates by 50 basis points. Messaging broadly shifted more cautious with the Fed and BoE adopting a wait-and-see approach for additional cuts this year. Meanwhile, the ECB signaled rate hikes may be coming due to upside inflation risks, and the BoJ maintained its hawkish outlook, noting a preference for raising rates to combat inflation over protecting against growth risks.



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Equity markets were choppy as investors rotated toward more defensive exposures. Many major U.S. indexes ended lower despite a last-minute rally, pressured by renewed inflation concerns, higher energy costs and a pullback in mega-cap technology amid broader artificial intelligence (AI) uncertainty. As investors moved away from the "Magnificent Seven" and other high-growth tech-focused stocks, market leadership broadened toward areas that have lagged in recent years, including value, dividend payers and small caps. Value stocks outpaced growth for a second consecutive quarter, and small caps outperformed large caps, supported by improving earnings momentum, more attractive valuations and sensitivity to earlier rate cuts. The small-cap focused Russell 2000® Index returned 0.89% for the quarter.

The bellwether S&P 500 returned -4.33%, its weakest first quarter since 2022 and approximately 7% below its January peak. Leadership shifted with the energy sector surging 34%, supported by supply concerns and geopolitical risk. Other more defensive sectors, including utilities and consumer staples, also held up well. Meanwhile, persistent inflation reignited a higher-for-longer interest rate narrative, challenging rate-sensitive sectors such as financials, information technology and consumer discretionary, which each fell more than 9%.

Non-U.S. equities also weakened amid the March pullback. Higher oil prices weighed on European and Asian economies that are more dependent on energy imports, while a stronger U.S. dollar also reduced returns for U.S.-based investors. Offsetting some of these negatives, many non-U.S. market indexes were less impacted by the selloff in software and technology due to their lower concentration in these stocks. Developed markets (MSCI EAFE Index) fell -1.24%, led lower by Europe, which was down -4.19% as measured by the MSCI EMU Index. Japan's Nikkei 225 Index fared better, rising 0.46% on yen weakness and the Liberal Democratic Party's snap-election victory, which increased expectations for additional stimulus.

Emerging markets modestly outperformed developed markets, with the MSCI Emerging Markets Index returning -0.17%. South Korea and Taiwan, which together represent more than one-third of the index by market capitalization, were supported by constructive AI sentiment. Despite the Chinese economy's strong start to 2026, its market ended the quarter lower amid heightened geopolitical pressure.

Portfolio review

The **Nuveen Small-Mid Cap Value** portfolio underperformed the Russell 2500 Value benchmark on both a gross and net of fees basis during the first quarter, a period in which the index posted an overall return of +4.8%. While the Russell 2500 is not the portfolio's designated benchmark, it is worth noting that the portfolio outperformed that index during the quarter, as there was a wide dispersion between value and growth stocks during the quarter. Small/mid cap value stocks, as measured by the Russell 2500 Value Index, entered 2026 on strong footing, surging 5.9% in January before extending those gains with an additional 3.9% return in February. March brought a reversal, however, as investor sentiment soured amid U.S. and Israeli air strikes against Iran, resulting in a 4.8% decline for the month. Despite that late-quarter pullback, the asset class finished the period with a positive return of 4.8%. Within the benchmark, energy blew away all other sector performance with a +40.5% return, followed by tech (+21.8%), consumer staples (+10.0%), materials (+5.8%), industrials (+5.6%), and utilities (+4.3%). All other sectors were in red during the quarter with the sharpest declines in consumer discretionary (-4.6%) and financials (-4.6%). The portfolio's underperformance was driven primarily by stock selection, with the most significant challenges concentrated in the tech and health sectors. This weakness was partially offset by strong performance from our holdings in industrials and materials. Leading contributors during the first quarter included **Vicor**, **APA Corp**, and **ViaSat**, while **ADMA Biologics**, **Zillow Group**, and **QuidelOrtho** emerged as the primary detractors.

Contributors

Vicor's strong Q1 2026 move was driven by a powerful mix of AI enthusiasm, bullish technical momentum, and growing investor interest in its high-performance power solutions. The stock also benefited from strong options activity and the perception that demand tied to AI infrastructure could support a larger long-term opportunity. Recent analyst commentary pointed to faster-than-expected capacity utilization and licensing revenue momentum as additional positives. That said, the move also reflected a stock that had become highly sensitive to sentiment, so the rally was as much about narrative as fundamentals.

APA Corporation shares delivered robust performance in Q1 2026, with shares surging nearly 75% during the quarter, ranking fifth in its index. This momentum built on prior

beats, like Q4 2025's \$0.91 EPS surpassing estimates of \$0.62, driven by higher production and cost efficiencies despite softer commodity prices. Revenue hit \$1.99 billion, topping forecasts, while free cash flow exceeded \$1 billion annually, enabling \$640 million in shareholder returns. Analysts raised targets, citing undervalued assets and a 2.4% dividend yield. Strong upstream capex of \$2.1 billion positions it for sustained output around 436,000 BOE/d yearly.

Viasat showcased strong Q1 fiscal 2026 results, posting \$1.17 billion in revenue—a 4% YoY rise beating \$1.13 billion estimates—and adjusted EPS of \$0.17 versus expected -\$0.73. Defense and advanced tech revenues jumped 15% to \$344 million, fueled by \$224 million in infosec awards (225% surge). Positive \$60 million free cash flow and adjusted EBITDA of \$48 million (up 1%) highlighted cash discipline despite a \$56 million net loss. Shares hit a 52-week high of \$26.71, reflecting investor optimism post-Inmarsat integration. Net leverage held steady at 3.6x, underscoring strategic execution in satellite comms.

Detractors

ADMA Biologics' weak Q1 2026 performance was dominated by controversy rather than routine operating results. A short-seller report in late March alleged channel stuffing and questioned the quality of reported revenue growth, triggering a sharp selloff and undermining investor confidence. The report also pointed to a large jump in days sales outstanding and a mismatch between adjusted EBITDA and operating cash flow, which raised concerns about the sustainability of the business model. Even before the report, the stock had been vulnerable to sentiment shifts, so the allegations hit especially hard.

Zillow Group shares faltered in Q1 2026, hitting new 52-week lows after a Q4 2025 EPS miss, sparking a selloff. Revenue grew 18.1% to \$654 million but weak net margins and insider sales eroded confidence. Guidance for \$700-710 million Q1 revenue offered some solace, yet profitability squeeze and housing market softness weighed heavily.

QuidelOrtho posted poor Q1 2026 results, trading at \$13.85 (-2.12%) after a 30-day -22.86% plunge. Prior quarters showed margin contraction and revenue dips, like Q1 2025's 16% reported decline despite ex-COVID growth. High debt and operating margin shrinkage hampered performance. Valuation concerns and regional variances

(strong China/EMEA offset elsewhere) also fueled the downturn.

Portfolio positioning

In light of energy conflict and supply constraints, we initiated a position in APA Corp (APA), an independent oil and gas producer with assets in the Permian Basin and international operations. We also added Flowco Holdings (FLOC), an oilfield production optimization and services company, increasing cyclical energy services exposure. Meaningful appreciation across the sector further contributed to increased sector weighting.

Information technology exposure increased through both market appreciation and new holdings. We initiated positions in Power Integrations (POWI), a semiconductor company specializing in energy-efficient power conversion chips, and Ralliant Corp (RAL), a diversified industrial technology spinout. Zebra Technologies (ZBRA) was eliminated as retail and warehouse technology rollouts have slowed and continue to be deferred.

Within consumer discretionary and communication services, weighting declined as stress on the lower-end consumer is likely to persist and affordability pressures continue to linger. Taylor Morrison (TMHC) was exited as homebuilders faced pressure from persistently elevated mortgage rates. Match Group was eliminated as the turnaround in subscription activity has proven challenging.

Financials positioning was reduced meaningfully. We eliminated PennyMac (PFSI) and Rithm Capital (RITM), both mortgage-focused companies, on concerns around elevated mortgage rates and lower housing turnover. Prosperity Bancshares (PB), a Texas-focused community bank, was also exited and replaced with Pinnacle Financial Partners (PNFP), a high-performing Tennessee-based commercial bank with strong organic growth.

Industrials increased in weight around power and automation providers. Vicor Corp (VICR) was trimmed following meaningful appreciation driven by its power design portfolio, and Fortune Brands Innovations (FBIN) was trimmed amid housing market headwinds. New positions were initiated in Franklin Electric (FELE), a water and fuel fluid management systems manufacturer; Gates Industrial Corp (GTES), a precision power transmission components maker; and Timken Co (TKR), a bearings and

mechanical power transmission manufacturer. We also added to our existing position in Regal Rexnord (RRX).

Health care weighting declined modestly, driven by poor performance in ADMA Biologics (ADMA) and QuidelOrtho Corp (QDEL), where diagnostics volumes remain a concern, as well as funding and spending headwinds weighing on Bruker Corp (BRKR). Within real estate, weighting decreased slightly as we eliminated Rexford Industrial in favor of LXP Industrial Trust and fully exited Regency Centers.

Outlook

The onset of Middle East conflict reversed many of the anticipated catalysts for consumer relief and rate accommodation during the quarter. More broadly, heightened volatility, elevated risk premiums, higher energy prices, and potential supply shocks point to a prolonged inflationary and elevated rate environment.

The portfolio was actively repositioned to reflect both shifting market expectations and our more tempered outlook for consumer activity and the rate-cut cycle. These new constraints around capacity, pricing, and industry dynamics have meaningfully shaped portfolio construction.

While many investors are drawn to the promise of unlimited compute capabilities, we remain focused on the risks of technological displacement and disintermediation. We also recognize the physical realities of power, capacity, and infrastructure demands tied to data centers and AI, where meaningful imbalances persist. We look to capitalize on these catalyst-driven opportunities across industries, while acknowledging that market forces have been quick to assign both winners and losers. Our process remains steadfast in identifying catalyst-rich, undervalued holdings.

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

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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