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Separately Managed Accounts

Growth

Large Cap Growth

Marketing communication | As of 30 Sep 2024

- **During the third quarter, the Large Cap Growth SMA outperformed the benchmark Russell 1000® Growth Index.**
- **Security selection had a positive overall impact on relative performance, particularly in the information technology and financials sectors, the latter of which also benefited from an overweight. Allocation effect modestly detracted from results.**
- **Market leadership shifted during the quarter away from larger-cap, growth-oriented names and toward smaller-cap and value-oriented stocks, as well as more interest rate sensitive sectors, as the Federal Reserve (Fed) made its first rate cut of the current cycle.**

Market review

Economic growth continued to expand during the third quarter, although more signs of a slowdown emerged. Second quarter's U.S. gross domestic product (GDP) growth came in stronger than expected at an annualized pace of 3.0%, while full-year growth is tracking just slightly below that rate, underpinning investors' hopes for an economic soft landing. Encouraging headline inflation prints during the quarter led key central banks to lower interest rates, even as core inflation remained sticky. The Fed garnered the biggest headline by kicking off its long-awaited policy easing cycle with a 50-basis-point cut in September, larger than many investors had expected. The Bank of England also began lowering rates while the European Central Bank made its second rate cut of this cycle. The People's Bank of China launched a battery of stimulus measures including rate cuts to help kickstart the country's deteriorating economy and ward off deflation. Meanwhile, the Bank of Japan (BoJ) was the outlier with a surprise increase to the country's key interest rate to help curb the yen's fall versus the U.S. dollar.

The stock market started the quarter on a positive note in July, aided by falling Treasury yields and optimism over approaching Fed rate cuts. By month end, the bullish start had given way to concerns about slowing earnings growth for technology companies, which have powered the market for much of the year. In early August, global equity markets sold off sharply after a disappointing U.S. jobs report fanned recession fears, China's economy showed greater signs of deterioration, and the BoJ's surprise rate hike sparked an unwinding of the yen carry trade. As the month progressed, however, the tide quickly turned as inflation reports showed pricing pressures continuing to ease, corporate earnings remained strong, and Fed Chair Powell indicated the time had come for U.S. rate cuts. Throughout September, various market indexes such as the Dow Jones Industrial Average, S&P 500 Index and Nasdaq Composite notched new record highs as investors anticipated the Fed's cut.

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Large Cap Growth

While all major U.S. equity indexes performed well, the market rally broadened out during the quarter with small- and mid-cap stocks and more value-oriented stocks leading the way. Smaller companies, which tend to carry more floating-rate debt on their balance sheets, rallied as the Fed lowered borrowing costs. The small-cap focused Russell 2000® Index returned 9.27% for the quarter but still lags large caps with its 11.17% year-to-date return.

In a reversal from the first half of the year, the benchmark Russell 1000® Growth Index lagged other U.S. equity indices across the market cap spectrum, returning 3.19% for the quarter led by double-digit gains in five sectors. The defensive utilities sector led the pack as earnings expectations continued to be very high for these companies. Real estate and materials followed close behind as the market rotated into interest-rate sensitive sectors in anticipation of the start of Fed easing. The year's previous high-flying sectors, communication services and information technology, posted only modest gains, as did health care. Year to date, however, the Russell 1000® Growth still leads the pack with a 24.55% advance.

Overseas, both emerging market (EM) stocks and non-U.S. developed markets outpaced the U.S. market, with the dollar's decline boosting returns for U.S. dollar-based investors. The aggressive stimulus package by the Chinese government sent equities in that country soaring, with the Shanghai SE Composite Index returning 18.32% for the quarter. China's strong advance helped fuel an 8.88% gain for the MSCI Emerging Markets Index as results among other EM countries were mixed. Developed markets, as measured by the MSCI EAFE Index, returned 7.33% as European markets rallied in the face of mixed economic data. Meanwhile, Japan's market quickly recovered from its 15% plunge in early August triggered by the BoJ's surprise rate increase and the resulting strengthening of the yen. The Nikkei 225 Index ended the quarter with an 8.38% return.

Portfolio review

The Large Cap Growth SMA outperformed the Russell 1000® Growth Index on a gross and net of fees basis for the quarter. Security selection had a positive overall impact on relative performance, particularly in the information technology and financials sectors, the latter of which also benefited from an overweight. Allocation effect modestly detracted from results.

Contributors

In the consumer discretionary sector, a position in global specialty coffee retailer Starbucks contributed to performance. The company reported an in-line quarter with soft international sales offsetting better-than-expected cost of sales. However, shares popped in mid-August following the announcement that former Chipotle CEO Brian Niccol would join Starbucks as chairman and CEO, effective in September. In addition to some operational issues the company could stand to improve, Starbucks' stock has suffered from a "faith in management" issue with investors for some time. The appointment of experienced restaurant executive Niccol as CEO has definitively quelled this concern.

In the financial sector, alternative investment manager KKR & Co. also aided results. The company reported another high-quality earnings beat as it continued to execute well within the fastest growing segment of the financial services industry. Management was constructive about fundraising, deployment, and capital markets activity across all areas. Furthermore, the company expects the ramp up in deal activity to continue through year end, which is ultimately a positive for continued momentum in the coming years.

Also in financials, U.S. credit ratings agency S&P Global reported a strong second-quarter 2024 earnings per share (EPS) beat attributable to another solid quarter of debt issuance. The company once again raised guidance with 2024 EPS now revised up 4% since the initial forecast at the beginning of the year. S&P Global remains a compelling combination of two unique business models (ratings business and data and analytics business) that have generated steady organic growth, recurring revenues, pricing power, and consistent margin expansion.

Detractors

In health care, a position in medical technology company DexCom, the maker of continuous glucose monitoring systems for diabetes management, detracted. The company reported second-quarter revenue that was short of consensus estimates, primarily driven by international sales. However, the bigger surprise was that management decreased the company's full-year guidance by $200-$300 million. This change led investors to question the longer-term growth profile for DexCom and ultimately led to the sell-off after earnings. Management now expects organic revenue growth of 11%-13%, down from its projection of 17%-21% back in April 2024. As a result, we exited this position during the quarter.

Semiconductor equipment supplier Applied Materials also gave back last quarter's gains despite posting a solid quarterly earnings report and modest increase in guidance, driven by increased demand for artificial intelligence (AI) related products and services. Investors remained cautious toward the stock as one of the company's major clients, Intel, continued to reduce its capital expenditures. Several other issues weighed on Applied Materials' shares including subdued memory spending and U.S. election uncertainty as the country considers tighter restrictions on exports of semiconductor equipment to China. In addition, the U.S. Commerce Department denied the company's Chips Act funding request for its new research and development facility in California. We sold Applied Materials shortly after quarter end.

Also in the technology sector, consumer electronics company Apple was a detractor during the quarter due to the strategy's underweight position. After lagging during the first half of the year, the stock performed strongly during the third quarter. Investors anticipate that the company's plans to incorporate AI capabilities into its products will lead to a strong upcoming product cycle. We increased the strategy's exposure to an overweight during the quarter given our higher conviction in Apple's future growth prospects.

Portfolio positioning

We remain cautiously constructive on U.S. equities but see the potential for increased market volatility leading up to and immediately following the U.S. general election. As we head into the final months of 2024, equity valuations are above longer-term averages and both monetary conditions and the labor market remain relatively tight. We believe we are entering an environment that will largely be driven by company fundamentals and broader equity market participation.

The Large Cap Growth portfolio management team continues to focus on companies supported by healthy fundamentals, balance sheet strength, free cash flow generation, attractive relative valuations, and the ability to maintain and improve profit margins. Within the portfolio, this focus has resulted in a slight defensive tilt with overweights to the health care and financials sectors, while underweighting the consumer discretionary and consumer staples sectors. Our bottom-up security selection process has resulted in a modest tilt toward companies with lower volatility and less currency sensitivity.

Outlook

We anticipate U.S. economic growth will continue to decelerate over the balance of the year. Consumer spending, which makes up about 70% of GDP, is facing headwinds from depleted household savings and increased use of credit. Manufacturing activity is also contracting, while the housing market continues to face challenges from steep home prices and still-high mortgage rates. Markets may also be too optimistic about future rate cuts as Fed officials have indicated a preference to move steadily, which means they will likely cut 25 basis points per meeting. We expect the Fed will eventually get back to a neutral policy stance of around 3.25% to 3.50% by the middle of 2025.

Several factors have the potential to increase market volatility going forward including recession fears, an unusually busy global election season, and the escalation of military conflicts in the Middle East. We anticipate market volatility will likely continue to remain elevated until the November 5th U.S. elections, and potentially beyond, fueled by the market's hypersensitivity to disappointing economic data and multiple global military conflicts. Equity valuations have become less favorable amid the 2024 rally with the S&P 500's forward P/E ratio currently trading above its five- and 10-year averages, according to FactSet, and not reflecting even a modest economic contraction.

Given the uncertainty facing capital markets, we believe investors should maintain adequate portfolio diversification and focus on identifying companies supported by attractive fundamentals, sustainable growth, ample free cash flow, and healthy balance sheets. Although volatility and uncertainty present challenges for investors, we continue to believe equity investors are best served by staying in the market, and may benefit from a flexible investment approach supported by rigorous, bottom-up research, careful stock selection, and thoughtful portfolio construction.

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is $100,000.

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Glossary

The **Russell 1000® Growth Index** measures the performance of those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. Index returns assume reinvestment of dividends, but do not reflect any applicable sales charges or management fees. The **S&P 500® Index** measures the performance of large capitalization U.S. stocks. The S&P 500® Index is a market weighted index of 500 stocks traded on the NYSE, AMEX and NASDAQ. **Volatility** is the fluctuations in market value of a portfolio or other security. The greater a portfolio's volatility, the wider the fluctuations between its high and low prices. **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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