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Separately Managed Accounts

Value

Small Cap Value Opportunities

Marketing communication | As of 31 Dec 2024

- **During the fourth quarter, the Small Cap Value Opportunities strategy produced positive returns, outperforming its benchmark, the Russell 2000 Value Index**
- **The index rallied sharply in November, but sold off in December as investors began to rethink the possibility for deep rate cuts**
- **The market looks to digest a more vocal leadership and shifts in monetary and political policies**

Market review

The U.S. economy continued to expand during the fourth quarter fueled by robust consumer spending. Although inflation worldwide remained above desired levels, monetary policy varied among key central banks. The Federal Reserve (Fed) made its second and third consecutive rate cuts of the year, trimming by 25 basis points in November and December. After the December meeting, however, Fed policymakers projected a slower pace of cuts in 2025 given still-sticky inflation and the potential for inflationary policy moves under the incoming Trump administration. The Bank of England made its second rate cut of the year in November and then paused, while the European Central Bank (ECB) made its fourth rate cut of this cycle in December amid signs of weakening European Union growth, political chaos in France and tariff concerns. The People's Bank of China remained on hold but continued to affirm its supportive policy stance as it faced pressure to reflate the country's economy. The Bank of Japan also stood pat at its October and December meetings, awaiting more information on the policies of the new U.S. administration while debating timing of a pending rate hike.

The U.S. equity market experienced significant volatility during the quarter, losing ground in October as strong economic data propelled U.S. Treasury yields higher. Stocks rebounded in November following Donald Trump's election victory and optimism over his pro-growth agenda featuring lower taxes and fewer regulations. However, the rally stalled in December as hawkish comments by the Fed quickly dampened the enthusiasm. The bond market struggled throughout the quarter with yields steadily rising as progress on inflation slowed and the election results increased the potential for more persistent price pressures down the road.

Despite fourth quarter's volatility, 2024 ended as a banner year for equity investors. The technology-heavy Nasdaq Composite continued to notch new record highs, particularly in the aftermath of the U.S. presidential election, crossing the 20,000 milestone during the period. The Nasdaq ended the quarter and year returning 6.35% and 29.57%, respectively, fueled by ongoing enthusiasm for technology stocks, artificial intelligence (AI) and crypto in the wake of lower rates and the Trump victory.

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Meanwhile, the Dow Jones Industrial Average faced more downward pressure in December, posting its worst monthly performance in more than two years. However, the index still eked out a positive return of 0.93% for the quarter and was up 14.99% over the full year.

The S&P 500 Index ended the quarter up 2.41% despite some year-end weakness caused by the Fed comments. However, only four of 11 sectors posted positive returns for the quarter including consumer discretionary, communication services, financials, and information technology. The materials and health care sectors lagged the most, both declining by double digits over the three-month period. For the full year, the S&P 500 produced a stellar return of 25.02%, only the fourth time in history that the index has notched two consecutive years of returns over 20%.

After rallying in the third quarter following the Fed's super-sized rate cut, small-cap and value-oriented stocks took a back seat once again during the fourth quarter as policymakers dampened expectations for cuts in 2025. The small-cap focused Russell 2000® Index was virtually flat for the quarter with a 0.33% return and continued to significantly lag large-cap stocks for the full year with an 11.54% advance. Meanwhile, value stocks across the market cap spectrum posted negative returns for the quarter as measured by Russell indexes.

Outside the U.S., equity markets generally performed poorly for the quarter. Fueled by the health of the U.S. economy and the Fed's hawkish outlook comments in December, the U.S. dollar reached its highest level in more than two years against a basket of currencies. This dollar strength weighed heavily on non-U.S. stock market returns when translated into dollars. Broadly speaking, both emerging markets (EM) and non-U.S. developed markets trailed the S&P 500 by more than 10% during the quarter as measured by the MSCI Emerging Markets Index return of -8.01% and the MSCI EAFE Index return of -8.11%. European markets notably struggled amid sluggish economic data in the eurozone and markedly softer business and consumer confidence in the U.K. Chinese equities, which represent a significant weight in the EM index, also lost ground despite the government's pledge to implement looser policies to boost consumption and domestic demand.

Portfolio review

The Nuveen Small Cap Value Opportunities portfolio outperformed its benchmark on a gross of fees and net of fees basis, the Russell 2000 Value, during the 4th quarter of 2024 and generated strong gains above the index for the year (both gross and net of fees). The benchmark declined during the quarter; initially falling in October, the index had a sharp rise in November after the U.S. election, and then proceeded to fall in December as consensus for steep interest rate cuts seemed to wane. Performance varied within sectors from gains in tech of 10.4% to losses of 7.6% in consumer discretionary. Following tech, sectors that managed positive quarter performance included consumer staples (+6.5%), financials (+3.0%), and industrials (+1.7%). Bettering consumer discretionary, at the opposite end but still negative were health care (-7.1%), real estate (-5.9%), utilities (-4.6%), materials (-4.3%), communication services (-3.9%), and energy (-2.6%).

The portfolio's outperformance was led by strong stock selection in financials, tech, and industrials. Conversely, our picks in real estate, health care, and materials detracted from relative performance.

Contributors

Shares of **MYR Group** surged during the quarter as Street sentiment for the company increased, citing an improved project outlook. Although MYR experienced a year-over-year revenue decline in the third quarter, the company reported earnings per share numbers that exceeded analyst expectations by 55%. Analysts also moved consensus expectations to a 4.2% annual revenue growth for the company over the next three years. Additionally, as a specialty contractor in the electric utility infrastructure and commercial/industrial construction markets, the company may benefit from industry trends of increased investments in infrastructure and clean energy projects.

In Q4 2024, the **Skyward Specialty Insurance Group** reported net income of $36.7 million, up from $21.7 million in Q3 2023, sending shares higher. This growth was driven by a 12.4% increase in gross written premiums, reaching $400.0 million. During the quarter, three different sell side analysts increased their price targets on Skyward which gave investors further confidence. From a macro perspective, the specialty insurance sector has been experiencing growth, with companies like Skyward Specialty Insurance Group benefiting from increased demand for specialized insurance products and services.

Securities broker **Marex Group** shares contributed to the portfolio's outperformance in Q4. The company reported a 32% increase in Adjusted Operating Profit to $62.4 million with revenue increasing by a similar level, reflecting favorable market conditions and successful integration of recent acquisitions. Following robust Q3 results, Marex raised its full-year Adjusted Operating Profit forecast to approximately $300 million to $305 million, up from the previous estimate of $280 million to $290 million. Additionally, the successful integration of acquisitions, such as Cowen's Prime Services and Outsourced Trading business, contributed to revenue growth and expanded Marex's capabilities in financial securities. This strategic expansion has enhanced the company's market position and attracted additional investors.

Detractors

Shares of **ADMA Biologics** detracted during the quarter due to the company's announcement that the auditing firm (CohnReznick) had released ADMA as a client. The market reaction was significant and swift, sending shares negative; despite this setback, ADMA acted swiftly with the appointment of KPMG as its new independent auditor within the quarter. Confidence in the stock ensued, which rebounded following the announcement. In the company's quarterly results, the company again raised it guidance on revenues, EBITDA, and net income for the year, while improving supply agreements for plasma.

Alternative asset manager **DigitalBridge** shares stumbled in Q4 after announcing a year over year drop in revenue, raising investor concern over the company's revenue generation capabilities. Additionally, the digital infrastructure sector faced challenges during this period, including increased competition and market saturation.

Neurological biopharma company **Biohaven** shares declined in Q4 after announcing widening losses year over year. The company continues to maintain a robust research and development (R&D) effort to support the company's clinical development pipeline. Further data releases and submissions are expected later in the quarter on Phase 2 and Phase 3 trials.

Portfolio positioning

Within the quarter, the portfolio experienced turnover as more richly and larger cap positions were eliminated. In the consumer discretionary sector, we initiated a position in Under Armour, as CEO Kevin Plank has returned to the helm and an increased focus on margins and inventory management looks to maximize on the brands innovation and technology attributes. We eliminated Dave and Buster's, as our confidence in the company's improvements in the store traffic has been impaired by a poor marketing strategy and overly aggressive capital spend on store renovation.

In technology, the portfolio remains slightly overweight. Powerfleet was added to the portfolio, providing a focused and robust offering of asset tracking and vehicle telematics. The recent acquisition of Fleet Complete will augment the service and SaaS software offerings. We also initiated a position in Lumentum, where the company's offerings for Data Center Interconnect product starts to have meaningful design wins, and telecom and industrial laser orders appear to be coming cyclical lows.

In the industrial sector, labor requirements, workforce retention and further onshoring benefit new holdings TrueBlue and Alight for the business services. Vicor offers power solutions for the AI processing and the wider adoption of 48V for automotive power and EV applications remain underpenetrated. We eliminated Crane Company and Atmus Filtration, due to full valuation and market cap guidelines.

Within the quarter, we also eliminated Perella Weinberg Partners, Prestige Consumer Brands, Firstcash holdings, John B. Sanfilippo and Primo Brands. New additions included Alkemes PLC, Chain Bridge Bancorp, Pediatrix Medical Group and Vimeo.

Outlook

As we usher in the new year, an inflection is underway is in the market on two fronts: a renewed and vigorous Trump administration and a more accommodative Federal Reserve, seemingly past its peak in short term rates. Both changes garner meaningful headline attention; however, markets and the real economy rarely run at reality TV speed. Despite meaningful rhetoric around paradigm shift and regime change from the financial media, in both cases, real change may come slower than anticipated.

In the case of the Fed, once again, the market implied expectations of 5-6 rate cuts in 2025 has quickly faded to 1-2 with the backdrop of better employment and stickier inflation. The notion of higher for longer looks to persist, barring a more pronounced impact to the employment or inflation. For small cap stocks, hope springs eternal, with numerous constructive drivers falling in place.

On the rate front, despite a slower rate glide, the prospects for a virtuous cycle of debt refinancing lies in the wings, with at least the prospects of peak rates seemingly behind us. Volatility and credit spreads remain narrow, with high appetite in the market for issuances. With regard to a number of Trump policy initiatives, the domestically driven, pro-growth, lower regulatory, lower tax agenda provide positive underpinnings for small cap stocks.

With a less stringent regulatory environment endorsed by domestically driven companies, small caps stand to benefit due to their higher domestic manufacturing base. A lighter burden of regulations and accommodative M&A backdrop also suits small cap stocks. Finally, these agenda items coupled with the evolution of artificial intelligence and big data tools drive both productivity and profitability to the entire spectrum of companies from megacaps down to microcaps.

We believe the Trump 2.0 Presidency will certainly bring a more visible and vocal agenda to the markets. In response, we expect the market action of fits and starts, with bursts of both fear and enthusiasm as the market fully digests policy initiatives and impacts. Our bottom-up process continues to focus on mispriced companies where tangible catalysts drive improvements of the business though realizations of process, product and productivity to enhance profits. To that end, we welcome the challenges and opportunities of the new year.

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

The **Russell 2000® Index** measures the performance of the small cap segment of the U.S. equity universe which includes approximately 2000 of the largest securities based on a contribution of their market cap and current index measurement. The **Russell 2000® Value Index** measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.The **S&P 500® Index** is widely regarded as the best single gaugeof large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available marketcapitalization. **It is not possibletoinvest directly in an index.** Clients should consult their financial professionals regarding unknown financial terms and concepts.

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