

Large Cap Core

Marketing communication | As of 30 Sep 2025

- **During the third quarter, the Large Cap Core SMA underperformed the benchmark Russell 1000® Index.**
- **Stock selection detracted overall for the quarter, particularly in the financials and communication services sectors. While an emphasis on large capitalization stocks contributed favorably, the positive impact was more than offset by an underweight to more volatile stocks, which detracted.**
- **The U.S. stock market continued to advance in the third quarter driven by artificial intelligence (AI) enthusiasm, better-than-expected earnings growth and expectations for easier monetary policy in the coming quarters.**

Market review

While uncertainty continued to overhang the markets during the third quarter, worst-case scenario fears regarding the impact of tariffs on economic growth and inflation were avoided. The U.S. economy continued to steadily slow, and the labor market softened, but overall growth continued to hold up well. Real consumption accelerated to above a 2% annualized pace, despite a sharp slowdown in job creation. The U.S. unemployment rate ticked up to a new cyclical high of 4.3% in August, while other measures of labor market slack pointed to more stability. However, the partial government shutdown prevented the Bureau of Labor Statistics from releasing September's jobs report on the first Friday of October. Inflation increased as the impact from tariffs steadily fed through to consumer prices, with the core personal consumption expenditures (PCE) index reaching 2.9% year-on-year, up from its recent low of 2.6% in April.

Monetary policy worldwide continued to diverge, with central banks balancing still-sticky inflation and economic growth concerns amid ongoing tariff uncertainty. After holding rates steady at its July meeting, the Federal Reserve (Fed) cut rates for the first time this year in September, bringing the target federal funds rate to a range of 4.00%-4.25%. Chair Powell noted the Fed's challenging backdrop of rising inflation due to the impact of tariffs combined with a cooling U.S. job market. While the Fed's updated economic projections in September showed few changes, the heavily scrutinized dot plot indicated two more rate cuts this year and one in 2026. The Bank of England (BOE) also cut rates once by 25 basis points in August, while the European Central Bank (ECB) and Bank of Japan (BoJ) held policy steady throughout the quarter. Gold prices soared more than 17% during the period to a new record high of \$3,800 per ounce as investors continued to flock to this safe-haven asset, while oil prices fell around 4% due to increased production.

The U.S. stock market overcame the prevailing economic, trade and fiscal policy uncertainties and the so-called "September effect" to hit new record highs near quarter end. Technology stocks and the AI theme continued to propel the advance, joined by



Scott M. Tonneson, CFA
Portfolio Manager, Senior Research Analyst



David A. Chalupnik, CFA
Head of U.S. Active Equities Portfolio Management



David S. Park, CFA, CPA
Portfolio Manager

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the more economically and interest-rate sensitive small-cap segment, which was boosted by September's rate cut. All major U.S. stock market indexes posted gains for the quarter, led by the small-cap focused Russell 2000® Index, which surged 12.39%. The tech-heavy Nasdaq Composite was not far behind with an 11.41% advance, bolstered again by the strong performance of several "Magnificent Seven" stocks such as Apple, Alphabet and Nvidia.

The benchmark Russell 1000® Index notched its fifth straight monthly advance and ended the quarter just shy of its September 22 all-time high. Strong corporate earnings helped drive the quarter's advance. The index returned 7.99% for the quarter fueled by double-digit gains in information technology and communication services, followed by solid advances in consumer discretionary and utilities. Consumer staples stocks lagged, producing the only negative return at the sector level during the quarter. While value stocks rallied and outpaced growth stocks in the smaller capitalization ranges, they still lagged in the large cap space, which was dominated by technology stocks.

On the heels of the year's strong first-half rally, non-U.S. developed markets experienced more muted gains in the third quarter. As measured by the MSCI EAFE Index, developed markets advanced 4.77% in U.S. dollar terms for the quarter. European stocks lagged despite the onset of Germany's fiscal boost with a 4.43% return for the MSCI EMU Index, while returns in Japanese and Canadian stock markets were stronger. Meanwhile, emerging market (EM) equities were the period's star performers, outpacing both the United States and other developed markets with an 10.64% quarterly return as measured by the MSCI Emerging Markets Index. Chinese stocks, which now account for just over 30% of the market capitalization of the EM index, were buoyed by AI-related momentum, government stimulus measures and a strong IPO market in Hong Kong. China's large-cap focused CSI 300 Index advanced 19.78%.

Portfolio review

The Large Cap Core SMA underperformed the Russell 1000® Index on a gross and net of fees basis for the quarter. Stock selection detracted overall, particularly in the financials and communication services sectors. While an emphasis on large cap stocks in the strategy contributed favorably, the positive impact was more than offset by an underweight to more volatile stocks, which detracted.

Contributors

In the health care sector, a position in biotechnology firm United Therapeutics contributed favorably to results,

despite reporting quarterly revenues of \$799 million, slightly below consensus expectations of \$801 million. Shares jumped sharply in August following the announcement of positive developments with the company's Tyvaso drug, which demonstrated improved lung function in patients suffering from idiopathic pulmonary fibrosis (IPF), a progressive lung disease with limited treatment options. The company is hoping to expedite the Food and Drug Administration's approval of the drug, which would make it the first inhaled therapy for IPF and expand the company's total addressable market for the drug. Investors were also encouraged by the company's announcement of plans to buy back a total of \$1 billion of common stock.

Within the information technology sector, semiconductor equipment manufacturer Lam Research also contributed to the strategy's performance. The company delivered record financial results for its fiscal fourth quarter, exceeding 50% gross margins for the first time since its merger with Novellus Systems. Management provided forward guidance well above consensus buoyed by a continued recovery in NAND flash memory and a record quarter for its foundry business. Better-than-expected sales in China, which represent nearly 35% of the company's revenue, led management to raise its wafer fabrication equipment (WFE) estimates for the year.

Semiconductor manufacturer Intel was another top technology contributor during the quarter. In late August, the company announced it had reached an agreement for the U.S. government to invest \$8.9 billion in Intel stock, representing approximately 10% of outstanding shares and becoming the largest shareholder. This news was followed by an announcement that Nvidia would invest \$5 billion in Intel stock. With this new partnership, Intel will manufacture and package a specialized Xeon central processing unit (CPU) that Nvidia will then integrate with its data center graphics processing units (GPUs). The announcements propelled Intel's shares higher and reduced some negative sentiment surrounding the company.

Detractors

After a strong first half of the year, streaming and entertainment services company Netflix detracted from relative performance during the quarter. The company reported quarterly earnings above consensus estimates due to better-than-expected operating margin. While management raised guidance, investors were concerned that engagement (viewing hours) remained relatively flat, despite continued growth in membership and higher spending on content. The engagement trend could suggest some

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competitive pressures, diminishing returns on content spending or some level of saturation. Our outlook regarding Netflix remains positive given the company's leadership position, investments in new genres to drive subscriber growth, strong international growth and potential for meaningful advertising revenue in the coming years.

A position in financial technology company Fiserv detracted for the second quarter in a row. Shares traded down sharply in July following the company's second quarter earnings report, which beat estimates but raised additional investor concerns about the slowing growth of its cloud-based payment platform Clover as management lowered its full-year revenue growth guidance. Management noted that the growth slowdown in Clover's point-of-sale operations is partly because of less spending by consumers on discretionary items like travel and dining. In September, multiple class action lawsuits were filed against the company, alleging that management made misleading statements related to the Clover platform and forced merchant migrations to inflate growth numbers. We exited the strategy's position in Fiserv during the quarter.

Software company ServiceNow also detracted from relative performance, lagging during the quarter due to concerns about a slowdown in corporate technology spending on non-AI related projects. While ServiceNow is seeing improved demand for its AI capabilities, investors remain concerned that AI could continue to disrupt service and software companies. Despite the stock price weakness, the company reported strong quarterly results above expectations and raised its full-year subscription revenue guidance in July. We continue to view ServiceNow as a high-quality company with attractive growth at scale and strong execution.

Portfolio positioning

The Large Cap Core portfolio management team remains intently focused on identifying companies supported by dependable fundamentals, attractive earnings growth potential and upcoming catalysts. The team continues to favor companies with strong free cash flow generation, balance sheet strength and the ability to maintain and improve profit margins. With elevated valuations in mind, we believe it is particularly important to maintain a balance between companies with compelling earnings growth potential and defensible competitive advantages, while maintaining broad diversification.

While the Large Cap Core portfolio did not experience meaningful shifts in positioning from a sector perspective

during the quarter, the portfolio management team implemented adjustments at the company level, which we believe upgraded our exposures. During the quarter, we established new positions in Citigroup, Eaton, Regeneron Pharmaceuticals, Vistra and Williams Companies. We fully eliminated the portfolio's positions Comcast, Fiserv, Kinder Morgan, Micron Technology, NextEra Energy, Procter & Gamble and Salesforce.

Overall, our bottom-up security selection process has resulted in modest tilts toward cyclical stocks and companies with higher profit margins and attractive growth metrics. From a risk mitigation standpoint, we've focused on maintaining lower exposure to more volatile and highly leveraged companies compared to the index. As of quarter end, the portfolio's largest relative sector overweights were in the industrials and consumer staples sectors. The portfolio's largest relative sector underweights were in the information technology and real estate sectors.

Outlook

We expect U.S. economic growth to moderate further through year-end 2025 before rebounding next year as tariff headwinds diminish while easier fiscal and monetary policy provide support. We also believe U.S. unemployment should stabilize near 4.5% through this period. Inflation presents a mixed picture, with less upside pressure than feared but ongoing acceleration driven by tariff effects. We anticipate core PCE inflation will peak slightly above 3.0% year-over-year by year-end. We expect the Fed to continue lowering interest rates with one more 25 basis point cut this year and two more next year, with the potential for one of the 2026 cuts to get pulled forward into 2025.

The third quarter 2025 earnings season is arriving with a mix of optimism and caution. According to FactSet, S&P 500 companies are projected to report 8% year-over-year earnings growth, marking the ninth straight quarter of expansion. Deviating from the norm, analysts have increased earnings estimates during the quarter for the first time since late 2021, underscoring a shift toward greater confidence in underlying companies despite geopolitical and policy uncertainty. Importantly, corporate sentiment has also improved, with 56 companies issuing positive earnings guidance, marking the highest number in four years, but matching the number issuing negative guidance.

As earnings season gets into full swing, several macro factors are likely to shape this cycle. Deregulation efforts under the Trump administration may continue to reduce compliance costs, particularly in financials, and stimulate

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merger and acquisition activity. AI-driven capital expenditures, now comprising approximately one-third of total S&P 500 capex, continue to grow, but investors are looking for evidence of productivity benefits. Meanwhile, the consumer outlook remains critical because spending has softened recently alongside labor market weakness but could rebound with policy stimulus. Finally, increasing electricity costs linked to AI and data center expansion are influencing both corporate margins and household budgets, placing utilities at the center of this major structural shift.

While the S&P 500's forward P/E of 22.8x remains above historical norms, consistent earnings growth and an improving macro backdrop support a cautiously optimistic view on equities heading into late 2025. Although the market has notched a strong year-to-date advance, we still see potential for the S&P 500 to reach 7000 or higher by year end. Catalysts that could provide further upside include continued earnings growth and upside surprises, expanded market breadth, diminished inflation risks, additional Fed rate cuts and further clarification regarding tariff policy and rates, to name a few.

That said, equity market volatility could also increase heading into year end, driven by a slowing U.S. economy. Ongoing trade tensions and lack of clarity around tariffs also remain key risks. Recent moves by the Trump administration, including new taxes on metals and technology imports, have added stress to supply chains and weighed on business confidence. These developments could push prices higher on select goods, complicating the Fed's efforts to manage inflation. Other headwinds facing equity markets include concerns about rising federal deficits and the ability of the United States to pay its debt; a weak U.S. housing market as evidenced by declining home construction and slower mortgage activity; and potential disruptions from the partial U.S. government shutdown.

While volatility and uncertainty may prove challenging for investors in the short term, we continue to believe equity investors are best served by staying in the market. We will continue to monitor events as they unfold and remain nimble, emphasizing our 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 **S&P 500® Index** measures the performance of large capitalization U.S. stocks. The S&P 500® is a market weighted index of 500 stocks traded on the NYSE, AMEX and NASDAQ. The **Russell 1000® Index**, a subset of the Russell 3000® Index, represents the 1000 top companies by market capitalization in the United States. Index returns assume reinvestment of dividends, but do not reflect any applicable sales charges or management fees. **Volatility** is the fluctuation 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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