

Large Cap Core

Marketing communication | As of 31 Mar 2025

- **During the first quarter, the Large Cap Core SMA underperformed the benchmark Russell 1000® Index.**
- **Security selection drove the relative shortfall versus the benchmark, most notably in the information technology sector, as well as financials. However, favorable stock selection within consumer staples offset some of the negative impact.**
- **Investors rotated into more defensive and value-oriented stocks during the quarter as tariff concerns and economic uncertainty resulted in a broader market sell-off.**

Market review

U.S. economic activity remained strong in the first quarter but showed additional signs of a slowdown ahead. Across the globe, inflation remained above central bank targets, but monetary policy diverged among key central banks. Following three straight cuts toward the end of 2024, the U.S. Federal Reserve (Fed) remained on hold throughout the quarter as policymakers paused to assess the impact of the Trump administration's aggressive economic agenda. Following March's meeting, however, Fed policymakers lowered their growth outlook and increased inflation forecasts, while reiterating the likelihood of two 25-basis-point rate cuts in 2025. In contrast, other global central banks, including the European Central Bank (ECB), Bank of England and Bank of Canada, cut rates during the first quarter, while the Bank of Japan hiked rates for the second time this cycle to their highest level since 2008. Meanwhile, Chinese officials pledged looser monetary policy in 2025, which is likely given the risks associated with U.S. tariffs.

As the quarter progressed, uncertainty surrounding the erratic global trade policies of the new U.S. administration rattled global markets, driving U.S. rates and the dollar lower. The greenback, as measured by the U.S. Dollar Index, fell 4% against a basket of currencies as U.S. growth concerns increased. Despite the lack of Fed rate cuts during the quarter, Treasury yields retraced about half of fourth quarter's increase as investors rushed to safe haven assets, while gold and other precious metals also notched new highs due to tariff-related fears. Growing uncertainty also affected U.S. surveys of consumer and business sentiment, which softened in March, while consumer inflation expectations moved higher. Nevertheless, actual data regarding U.S. job creation, personal income, retail sales and industrial production remained healthy during the quarter.

Despite high hopes for the U.S. stock market heading into 2025, the elevated policy uncertainty and rising geopolitical tensions led to the worst quarterly start since 2022. The market rapidly shifted from record high levels in mid-February to correction territory, typically defined as a 10% or greater decline, by mid-March. Almost all major U.S. stock market indexes ended the quarter in the red as investors worried about



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the economic fallout from tariffs and the possibility of stagflation gripping the U.S. economy. Some of the hottest stocks of 2024, especially technology-related companies at the center of the artificial intelligence (AI) boom, were some of the hardest hit by the selloff, including the so-called Magnificent Seven. As a result, the tech-heavy Nasdaq Composite was one of the worst-performing indexes for the quarter with a -10.26% return.

The benchmark Russell 1000® Index was also dragged down by double-digit declines in both the information technology and consumer discretionary sectors, ending the quarter with a -4.49% return. Despite the negative overall result, seven Russell 1000® sectors advanced for the quarter led by energy stocks, which investors favored in the face of persistent inflationary pressures and constrained oil supply. Investors rapidly rotated into more defensive and value-oriented sectors, including health care, utilities, consumer staples, real estate and financials, which also posted gains for the quarter. Within the large-cap space, the disparity between growth and value-oriented stock returns was quite wide during the quarter with value outperforming by more than 12%, as measured by the Russell 1000® Value and Growth indexes.

Coming into the quarter, expectations were also high that small-cap companies would benefit the most from the incoming administration's policies. However, the rapid shift in U.S. growth expectations punished this segment more because of its greater reliance on borrowing to finance growth. As a result, small caps continued to underperform their large-cap counterparts in the first quarter as measured by the -9.48% return of the Russell 2000® Index.

Aided by the weaker dollar, overseas equity markets broadly outperformed the U.S. market for the quarter, led by Europe and China. In U.S. dollar terms, European stocks delivered their strongest quarterly return versus the U.S. in three decades, gaining 12.28% (MSCI EMU Index) and outpacing the S&P 500 by nearly 17%. Stocks in the region were broadly boosted by slightly improving economic data and the likelihood for increased fiscal stimulus as Germany proposed a historic increase in borrowing to fund defense and infrastructure spending. Overall, developed markets returned 6.86% for the quarter, as measured by the MSCI EAFE Index. Chinese equities, which account for 31% of the market capitalization of the MSCI Emerging Markets Index, also rallied sharply during the quarter. Investors shook off pending tariff concerns as optimism surrounding the country's AI capabilities following Deepseek's breakthrough helped drive the Chinese market 15.02% higher, as

measured by the MSCI China Index. The broader MSCI Emerging Markets Index gained 2.93% for the quarter.

Portfolio review

The Large Cap Core SMA underperformed the Russell 1000® Index on a gross and net of fees basis for the quarter. Security selection drove the portfolio's relative shortfall versus the benchmark, most notably in the quarter's hard-hit information technology sector, as well as the financials sector. However, favorable stock selection within the consumer staples sector offset some of the negative impact. An underweight to more volatile stocks and overweight to stocks with larger market capitalizations also contributed favorably.

Contributors

Tobacco company Philip Morris International was the top contributor to performance. The company reported solid quarterly financial results and provided guidance for 2025 that exceeded expectations. Management expects higher iQOS (an electronic tobacco-based aerosol alternative to traditional cigarettes) and Zyn (smoke-free nicotine pouches for oral use) volume growth and cost reductions will drive solid operating profit and earnings per share (EPS) growth. Philip Morris continues to gain global market share, resulting in greater pricing power, stronger operating profits, and geographic expansion of its iQOS and Zyn products. The company also benefited during the quarter as investors favored defensive sectors and companies given the uncertainty surrounding slower growth and tariffs.

Environmental services company Republic Services reported quarterly results that exceeded expectations due to lower costs. Quarterly earnings beat consensus estimates handily while revenues came in just shy of expectations. Management also provided bullish guidance highlighting higher margins ahead, while also outlining plans for a \$1 billion merger and acquisitions (M&A) target for the year.

Medical device company Boston Scientific reported quarterly results that beat expectations on both the top and bottom lines, while delivering 2025 guidance that was modestly better than expectations. The company's quarterly sales of \$4.56 billion beat consensus estimates by \$139 million, which drove EPS growth of 27% despite slightly softer margins. Management also provided full-year guidance of 10-12% organic revenue growth, along with earnings slightly ahead of expectations.

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Detractors

Despite delivering a solid fourth quarter, shares of software company ServiceNow declined after the results fell short of investors' elevated expectations. The company entered the year trading near all-time highs following steady execution and company momentum. The slightly softer-than-expected fourth quarter beat, combined with rather conservative fiscal year 2025 guidance, underwhelmed investors and weighed on the stock price. However, ServiceNow's ability to monetize generative AI remains encouraging as the adoption of its new generative AI-driven Pro+ SKU continues to gain traction. We believe this should continue to drive profitability with operating margins and free cash flow margins growing faster than expected.

Global semiconductor and software infrastructure solutions company Broadcom also detracted from performance during the quarter. After outlining highly positive growth prospects over the next several years and spotlighting the growth of its custom AI chips business, Broadcom saw its stock decline sharply in late January when news of DeepSeek's AI model rattled the information technology sector. More broadly, mega-cap technology companies, particularly those with AI exposure, underperformed during the quarter due to increased competition, AI spending doubts, and uncertainty surrounding semiconductor tariffs. Despite these headwinds, the company reported quarterly earnings in March that exceeded expectations and management raised guidance driven by its AI/custom application-specific integrated circuits (ASICs) leadership and strength in the VMware business.

In the industrials sector, electrical and utility solutions provider Hubbell detracted from performance following disappointing quarterly results where core sales declined 3%. The primary headwinds included continued destocking in telecommunications and difficult comparisons in grid automation. The company's 2025 guidance was in line with expectations, incorporating improving organic growth with an adjusted EPS target of \$17.60 at the midpoint. We believe the potential for additional M&A activity coupled with the improving organic growth will provide a compelling backdrop for stronger earnings growth to resume.

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 supported by strong free cash flow

generation, balance sheet strength and the ability to maintain and improve profit margins. Because of market hypersensitivity to economic data given the impact of policy uncertainty, concerns of slowing economic growth, the impact of potential tariffs on global trade and potential changes to monetary policy, we anticipate persistent volatility during the coming quarters. We believe it is particularly important to maintain a balance between companies with compelling earnings growth potential and defendable competitive advantages, while being mindful of current valuations and maintaining broad diversification.

During the first quarter, we established new positions in Republic Services, Lam Research, Corpay, Kenvue and Hilton Worldwide Holdings. We fully eliminated the portfolio's positions in Intercontinental Exchange, ConocoPhillips, Honeywell International and Royal Caribbean Group. While the portfolio did not have meaningful shifts in positioning during the quarter, the portfolio management team implemented adjustments at the company level which we believe upgrade our exposures given the fast-changing market environment. Our activity has been focused on increasing exposure to companies we believe present more attractive fundamentals, upcoming catalysts and better risk/reward potential while reducing exposure to companies we believe have limited upside or face company specific risks.

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 communication services and industrials sectors. The portfolio's largest relative sector underweights were in the health care and information technology sectors.

Outlook

Heightened uncertainty is increasing the risks to global growth and inflation outlooks, presenting a quandary for global central banks. In the U.S., we expect a shift to below-trend economic growth later this year with risks heavily skewed to the downside. The Fed now must incorporate potentially inflationary trade policy and signs of a slowing economy into its calculations. We expect the Fed to continue reducing rates this year, however, the exact timing of these cuts will depend on incoming data and developments surrounding the tariffs. Although the European growth outlook may be supported by increasing

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monetary and fiscal policy, the potential impact of a global trade war looms large. The trade war also weighs on our China forecast, with expected 2025 growth now in the 3.75%-4.25% range, below the government's target. However, both the ECB and People's Bank of China may have more latitude to loosen policy than the Fed.

Given increased market concerns over inflation and tariffs following quarter end, analysts have lowered their first-quarter EPS estimate for the S&P 500 to +7.0% year-over-year. Although this number is lower than estimates at the beginning of the year, it remains solid and is still forecast to rise over the remaining quarters in 2025. If the current estimate is realized, it would mark the seventh straight quarter of year-over-year earnings growth for the index. Meanwhile, the S&P 500's net profit margins are forecast at +12.1% for the first quarter, below the previous quarter's +12.6% but above the five-year average of +11.7%. (Source: FactSet)

Although the S&P 500 is in the red year to date, we believe it can recoup losses if there is a change of course on the trade front (with concessions by the White House and U.S. trading partners) and/or tax cuts are enacted. We believe a rebound could also be supported by three factors: a 10-year Treasury yield that remains rangebound, making equities relatively more attractive versus the risk-free return on government

securities; continued easing by the Fed; and solid EPS growth that will help keep a lid on the S&P 500's price/earnings (P/E) ratio, which has already come down since quarter end.

That said, investors should brace for further volatility this year given the various headwinds facing the equity market. We will continue to monitor the impact of U.S. tariffs on economic data to determine if weaker consumer and business activity is a temporary setback, the beginning of a recession or the start of stagflation. As of this writing, it's too soon to tell, although so-called soft data, such as confidence and sentiment surveys, have plummeted. As long as investors remain concerned about U.S. growth, the equity market will likely remain volatile. However, history has shown us that it's important for investors to resist knee-jerk reactions in response to dramatic market events. 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 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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