

Dividend Growth

Marketing communication | As of 30 Jun 2025

- **The U.S. stock market staged one of its most dramatic comebacks in recent history as risk assets recovered from their early April selloff, led by stocks in the technology sector.**
- **The Dividend Growth strategy underperformed its benchmark, the S&P 500 on a gross and net of fees basis, due to stock selection and allocation effects.**
- **Looking forward, we believe an investment approach that emphasizes the fundamental strengths of dividend growth equities, offers advantages to investors seeking to maintain diversified equity exposure that balances quality, stable growth, and defensive characteristics.**

Market review

U.S. economic data showed more signs of deceleration during the quarter, including a downward revision to first-quarter's U.S. gross domestic product (GDP) growth to -0.5% annualized. Although much of the weakness was due to a short-term surge in imports as businesses tried to front run tariffs, underlying U.S. consumer spending also slowed. June's U.S. employment report beat expectations, with higher job creation and a lower unemployment rate, but other labor market data continued to signal a further slowdown ahead. While inflation moderated to around 2.4% annually, according to the most recent Consumer Price Index print, the effects from tariffs will likely push core goods prices higher in the third quarter.

The Federal Reserve (Fed) held rates steady throughout the quarter as policymakers remained cautious about tariff-related inflationary pressures that could push consumer prices further above the 2% target. At his June testimony, Fed Chair Powell reaffirmed the central bank's wait-and-see posture due to the still-healthy job market and uncertain impact of the Trump administration's trade and immigration policies. The Bank of Japan also remained on hold during the quarter, while the European Central Bank (ECB) and Bank of England cut by another 50 basis points and 25 basis points, respectively.

The U.S. dollar experienced continued weakness, ending the quarter down another 7% versus a basket of currencies as measured by the U.S. Dollar Index. The greenback's decline reflected investors' concerns over projections for ballooning U.S. deficits, geopolitical tensions due to President Trump's trade policies and reduced confidence in continued outperformance by U.S. assets. Following the Liberation Day tariff announcement in early April, the 10-year Treasury yield spiked 50 basis points and remained volatile before retracing nearly the full amount to end the quarter virtually unchanged at 4.24%. Meanwhile, short to intermediate rates fell due to better inflation data while longer-term rates rose based on fears about fiscal policy and the country's growing debt load, resulting in a steeper Treasury yield curve for the quarter.



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The U.S. stock market produced strong results after staging one of the most dramatic comebacks in recent history. Markets began the quarter with a sharp selloff following President Trump's announcement of across-the-board tariffs that were materially higher than expectations. The subsequent 90-day pause for the most extreme measures led volatility to decline and risk assets to quickly recover. All major U.S. stock market indexes advanced for the quarter as technology-related stocks soared once again. Growth stocks recaptured the lead over value, posting double-digit gains across all market capitalization tiers for the quarter after lagging during the first three months of the year.

Not surprisingly, the technology-heavy Nasdaq Composite led all major U.S. market indexes for the quarter with a 17.96% gain, bolstered by the stellar performance of several of the "Magnificent Seven" stocks. The S&P 500 Index was also led by the information technology sector, as well as double-digits advances by communication services, industrials and consumer discretionary, ending the quarter with a 10.94% return. First quarter's winners, including energy, health care, real estate and consumer staples, produced negative to flat returns. While smaller-cap companies also saw solid gains for the quarter, they lagged their large-cap counterparts, with the Russell 2000® Index returning 8.50% for the quarter.

Portfolio review

During the second quarter of 2025, the Dividend Growth portfolio underperformed its benchmark, the S&P 500 Index on a gross and net of fee basis. Both security selection and sector allocation effects had a negative impact on relative performance during the quarter. The financials sector had the largest contribution to relative performance driven by positive stock selection effects. The consumer discretionary sector was the largest detractor to relative performance due to security selection and not having exposure to two non-dividend paying, mega-cap technology-oriented sector constituents which outpaced the market during the quarter. The strategy's defensive and broadly diversified composition had an adverse effect on relative performance given the risk-on environment and strong performance of higher beta companies and industries.

Contributors

Global semiconductor and software infrastructure solutions company **Broadcom Inc.** was the top contributor to relative performance. The company reported strong quarterly financial results and guidance that slightly exceeded expectations. Management comments centered around strong growth driven by XPU's (a custom application

specific integrated circuit, or ASIC, developed in partnership with tech companies like Google, Amazon, and Meta) where customers have been resilient with their spend and in some cases expanded their business with Broadcom particularly around inference. AI semiconductors are expected to grow again in fiscal year Q3 to ~\$5.1 billion, up 60% year-over-year. Management was clear that they expect their growth rate in this business to remain steady into 2026. In May, good news came from peer companies with major exposure to artificial technology (AI), such as Nvidia, which beat revenue expectations despite headwinds from the U.S. embargo on exports of the company's advanced H2O chip to China. Notably, the company continues to execute well on the software side of the business and is largely done with its customer conversions to the VCF (VMware Cloud Foundation) platform.

Global connector systems and sensor producer **Amphenol Corporation** was another top contributor to performance. The company reported quarterly revenue and adjusted earnings per share above consensus estimates driven by strong end-market growth and margin expansion. The company continues to benefit from sustained investment in artificial intelligence (AI) infrastructure and the recovery in their non-AI end-markets. Furthermore, investors were encouraged as management provided guidance above consensus estimates for the upcoming quarter despite an uncertain macroeconomic environment. We continue to view Amphenol as a high-quality compounder with diversified end-market exposure and a key supplier and benefactor from the secular tailwinds around artificial intelligence.

Semiconductor manufacturer **Taiwan Semiconductor Manufacturing Co. (TSMC)** also contributed meaningfully during the quarter. In April, the company reported quarterly financial results in-line with expectations while management reaffirmed calendar year 2025 guidance. As the quarter progressed, TSMC benefited from the easing of trade tensions, as most of its customers have exposure to China, and the company has chip fabrication plants in China. Investors were encouraged as TSMC reported year-over-year revenue growth of 48% for the month of April and 40% for the month of May, indicating the quarter is tracking better than expected. Additionally, its board of directors approved a quarter-over-quarter dividend increase of 11% in May.

Detractors

Managed care organization **UnitedHealth Group, Inc.** detracted the most from relative performance during the

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quarter as the company is facing pressure from rising utilization and ongoing reforms in the Medicare Advantage risk-coding process. In mid-April, the company reported quarterly results slightly below expectations, but reduced its fiscal year guidance as management cited higher physician and outpatient exit trends in the company's Medicare Advantage (MA) plans. In mid-May, the company abruptly announced the resignation of its CEO and removed its annual guidance as utilization likely increased further during the month. We exited our position in the stock as we expect the company will be slow to recover its historical earnings power, likely resulting in a smaller valuation premium relative to peers in the future.

Consulting and insurance broker **Marsh & McLennan Companies** was another detractor to performance during the quarter. The company reported quarterly revenue slightly above expectations but earnings per share missed due to lower-than-expected margins. Management reiterated its broad guidance of mid-single digit organic growth, margin expansion, and "solid" adjusted EPS growth, however, negative revisions to consensus organic growth were broad-based, with the analyst community now expecting 4% organic growth in 2025 on potential GDP weakness and fiduciary income headwinds. Furthermore, the company's less-cyclical business model, high-quality tilt, and lower beta relative to the financials sector drove relative underperformance during the risk-on market environment following the 90-day pause on "reciprocal" tariffs imposed by the Trump administration.

Global provider of mission-critical communication infrastructure, devices, and services **Motorola Solutions Inc.** further detracted from performance during the quarter. The company reported first-quarter results and near-term guidance that missed consensus expectations. Management assured investors that revenue growth for the year would be back-end loaded and that orders were still coming in at a healthy rate. Tariffs were estimated to hurt Motorola's top line by about \$100 million because some of the company's products are manufactured in Malaysia. Management did not revise its full-year guidance, however, because it expects to offset this impact through cost controls and price revisions.

Portfolio positioning

At Nuveen, we believe dividend growth-oriented companies offer desirable long-term attributes and are well positioned for compelling relative performance in the coming year. Over the long-term, companies that continued to grow or initiate dividends have generated higher annualized returns

with a lower annualized standard deviation, than all other segments of the equity market. While dividend growth companies do not outperform in all market environments, their strong risk-adjusted returns over long periods of time make them an ideal core building block for any equity allocation.

We believe an allocation to dividend growth-oriented companies offer advantages to investors seeking to maintain equity exposure that balances quality, stable growth, and defensive characteristics. In our view, dividend-paying equities supported by attractive fundamentals, sustainable growth potential, healthy balance sheets, ample free cash flow, stable profit margins, and management teams committed to returning capital to shareholders should be well-positioned to benefit from continued economic growth. The ability of these companies to maintain and expand margins amid input cost inflation and higher interest rates — while also providing investors with a cushion against market volatility — is likely to be rewarded in the coming months. We believe an actively managed approach focused on companies with the financial ability to maintain and increase their dividends regardless of the economic environment is appropriate today given the various crosscurrents impacting capital markets.

We continue to focus on companies supported by attractive fundamentals and sustainable dividend growth potential while maintaining adequate diversification. As of quarter-end, the Dividend Growth portfolio's largest absolute sector allocations were in the information technology, financials, health care, and industrials sectors.

During the second quarter, we added Meta Platforms to the portfolio. The company's accelerating integration of new AI tools across its core Family of Apps should drive improved monetization and engagement, creating an increasingly compelling experience for both advertisers and users, and driving revenue growth ahead of expectations. New opportunities around Business Messaging provide another potential leg of growth, while upside optionality also exists from the potential curtailment of ongoing massive Reality Labs (RL) losses. Given Meta's ad auction model, the company's extremely large and diverse base of advertisers, and a highly compelling ROAS proposition, we believe the company is more recession resistant than its advertising peers. While the company's recently announced dividend increase of 5% is not overly compelling in its own right, it is above the current projected S&P 500 dividend growth rate for 2025. We also believe the company has the capacity to grow it more meaningfully over time, especially as currently

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high capex needs decrease going forward. Despite the improved fundamental outlook, the stock trades at a discount on a relative basis to both the S&P and its own history.

UnitedHealth Group was fully eliminated from the portfolio following the retraction of 2025 guidance and departure of the CEO announced on Tuesday 5/13. UNH has suffered a string of difficulties beginning with rising utilization pressures in 2023. In 2024, cost pressures continued to rise, the company's claims management system was hacked, and the CEO of its insurance business was murdered. In 2025, utilization has continued to exceed the company's expectations and caused the company to substantially reduce its guidance for the full year during its first quarter financial update. The retraction of 2025 guidance and departure of senior management further reduces our confidence in business trends. UNH has substantially grown its services business and embraced value-based care strategies over the last decade and assumes more risk from patient utilization than its peers. Despite missteps, UNH has retained a substantial valuation premium to its peers. We believe this premium should be smaller than historic levels and are concerned that the company will be slow to recover its historic earnings power due to ongoing reforms in the Medicare Advantage risk-coding process.

The news of the CEOs resignation and pulling 2025 guidance on 5/13 was very unexpected following a poor Q1 earnings report just one month earlier due to issues with member risk coding and higher than expected utilization. While we were very surprised at the abrupt departure of CEO Andrew Witty, the replacement CEO (Stephen Hemsley) is well-respected. After the earnings report we thought the company had taken enough of a guidance cut to account for higher utilization, but apparently, utilization has increased further over the past month. After a decade plus of consistent execution and strong stock performance, the recent events have been deeply concerning and therefore we decided to exit our position.

Outlook

Despite first quarter's negative U.S. GDP reading, underlying growth remains strong at a 2.5% annualized rate, albeit slightly lower than 2024's pace. That said, we expect U.S. growth to slow in the second half of the year to around 1.0% due to tariff and immigration impacts. Tariffs will also likely push near-term U.S. inflation higher, with our forecast calling for core inflation to increase to around 3.0% this year. While we are seeing signs of weaker consumption and business investment, the U.S. economy is entering this

period of uncertainty on strong footing.

With U.S. and global economic growth set to slow, we believe most global central banks will remain in easing mode. That said, uncertainty remains high because of tariffs, fiscal policy and the associated economic impact, causing central banks to seek more clarity before making decisions. While policy changes and macroeconomic factors could potentially change our outlook for interest rate cuts, we currently expect the Fed to reduce rates two more times this year, likely in September and December.

While we believe the equity markets can move higher, we expect returns to moderate in the coming years. We believe continued gains could be supported by three factors: a 10-year Treasury yield that we expect to remain rangebound, making equities relatively more attractive versus the risk-free return on government securities; additional easing by the Fed; and solid earnings per share growth that will help keep a lid on the S&P 500's already stretched price/earnings (P/E) ratio. As of 30 June, the 12-month P/E ratio for the S&P 500 stood at 22.1x, which was above its 10-year average of 18.4x.

That said, equity market volatility will likely remain elevated in the second half of 2025 given the various headwinds that still exist. We will continue to monitor the impact of U.S. tariffs on economic data to determine if continued weaker consumer and business activity is a temporary setback, the beginning of a recession or the start of stagflation. Although stocks have rallied on the potential for positive outcomes between the United States and its trading partners, higher taxes on imports can hurt businesses and consumers, leading to reduced investment and spending. While the tariffs have yet to push inflation higher, we believe that could change in the third quarter. Higher inflation could potentially limit the Fed's ability to lower interest rates, which is typically a tailwind for U.S. equities. Moreover, the deportation of immigrant populations could lead to U.S. labor shortages and upward price pressures in industries that depend on these workers.

Given expectations for persistent market volatility in the coming months, we believe investors may benefit more by focusing on high-quality companies and prudent stock selection, rather than basing decisions on broad macro factors or quick changing policy. A flexible investment approach that emphasizes the fundamental strengths of dividend growth equities, offers advantages to investors seeking to maintain diversified equity exposure that balances quality, stable growth, and defensive

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characteristics. Overall, despite challenges, we are confident that attractive opportunities can be found in global equity markets, and that companies remain poised for continued dividend growth in 2025. According to S&P Dow Jones, 190 companies in the S&P 500 increased or initiated a dividend during the first half of the year. We find the strong dividend

activity this past year to be an important positive signal from management teams regarding confidence in their business prospects despite persistent cost pressures, higher interest rates, and tariff uncertainty.

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

Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. **Earnings per shares (EPS)** is the portion of a company's profit allocated to each share of common stock. Earnings per share serve as an indicator of a company's profitability. **Federal funds rate** is the interest rate which is charged by banks to lend to other banks needing overnight loans. The Federal Reserve Board sets the target for this rate which is the most sensitive indicator of the direction of short-term interest rates. **Free cash flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. It represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. **Inflation** is a rise in the prices of goods and services, often equated with loss of purchasing power. **Payout ratio** is a financial metric showing the proportion of earnings a company pays shareholders in the form of dividends, expressed as a percentage of the company's total earnings. **Valuation** is the process of determining the current worth of an asset or a company; there are many techniques used to determine value. An analyst placing a value on a company looks at the company's management, the composition of its capital structure, the prospect of future earnings and market value of assets. **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. The **S&P 500®** measures the performance of large capitalization U.S. stocks. **It is not possible to invest directly in an index.** Clients should consult their financial professional regarding unknown financial terms and concepts.

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