

Multi Cap Value

Marketing communication | As of 31 Mar 2025

- **During the first quarter, the Multi-Cap Value portfolio produced positive returns, modestly outperforming our Russell 3000 Value Index benchmark. Value strongly outperformed growth.**
- **Market volatility elevated by news of changes in the A.I. landscape and shifting to anticipation of the new Presidential administration policies, particularly related to tariffs and the meaning of "free and fair trade."**
- **Mag 7 stocks fell sharply in March, driving 1Q losses in the Nasdaq and S&P500. European equity markets (as well as the Euro) appreciated in the quarter, meaningfully outperforming the S&P500.**

Market review

Global equities posted mixed results in the first quarter. Non-U.S. benchmarks generated gains, led by developed markets, with returns amplified by a weakening U.S. dollar. In contrast, U.S. equities delivered losses, hindered by concerns over the Trump administration's aggressive trade action and its impact on the domestic economy. Monetary policy around the globe also varied considerably, with central banks reporting varied success in lowering inflation. Although the Federal Reserve and People's Bank of China (PBoC) stood pat, the European Central Bank (ECB), Bank of England (BoE) and Reserve Bank of India cut rates while the Bank of Japan (BoJ) and Central Bank of Brazil hiked.

Following three straight cuts (totaling 100 basis points) from September through December 2024, the Fed kept its target fed funds rate steady at 4.25%-4.50% at the January and March meetings. In the latter meeting, Chair Jerome Powell stated that although "the economy is strong overall," uncertainty is high due to the Trump administration's "significant" changes in trade and immigration. Given that uncertainty, Powell also emphasized that "We do not need to be in a hurry to adjust our policy stance."

In its updated Summary of Economic Projections following its March meeting, the Fed lowered its forecast for annual GDP growth from 2.1% to 1.7% while raising expectations for inflation from 2.5% to 2.8% by year-end, even further above its 2% target. Powell noted that "clearly some of it, a good part" of the Fed's hotter inflation outlook was due to the Trump tariffs. Looking ahead from the end of the first quarter, the market anticipates two 25 bps cuts in the second half of the year. Uncertainty and deteriorating sentiment-based economic data may translate into weaker hard data around growth, putting pressure on the Fed as we move through the year.



Jon D. Bosse, CFA
Portfolio Manager



Jujhar S. Sohi, CFA
Portfolio Manager

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The S&P 500 endured a volatile January en route to a solid start to the year, with the index gaining 4% in the first three weeks. Investors ignored high valuations, focusing instead on strong corporate earnings in addition to expectations for tax cuts and deregulation under the incoming Trump administration. But the S&P 500 gave back gains led by a sharp selloff in technology stocks following the sudden surfacing of Chinese tech startup DeepSeek and the revelation that its new artificial intelligence (AI) models might rival those of the established industry leaders at a fraction of the cost. A great deal of scrutiny developed very quickly though, suggesting that the data underlying the extremely low cost cited by DeepSeek is highly questionable.

The U.S. equity benchmark seemingly found its footing in February, reaching a series of record highs mid-month. Minutes from the Fed's January meeting, released February 19th, assured investors that despite still-sticky inflation, the central bank had not ruled out rate cuts and expected to lower borrowing costs over time. That rally was short-lived, though. Declines for several of the "Magnificent Seven" mega cap growth companies (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla), a batch of bearish economic indicators, and ongoing tariff tensions sent stocks lower for the month overall.

March proved to be particularly challenging for the S&P 500, with the index falling into correction territory. (A correction is generally defined as a decline of 10% or more from a recent high.) Investors worried about the economic fallout of Trump's aggressive trade policy and the possibility of stagflation gripping the U.S. economy. Major U.S. equity benchmarks finished in the red for the quarter (the Russell 1000 Value index return was positive), led by the 30-stock Dow Jones Industrial Average (-0.9%). The Nasdaq Composite (-10.3%) was weighed down by the poor performance of technology stocks (59% of the index), including Apple (-11.2% for the quarter), Microsoft (-10.8%) and Nvidia (-19.3%). The more economically sensitive small cap Russell 2000 (-9.5%) lagged its mid cap (-3.4%) and large cap counterparts (-4.5%). Following five straight positive quarters, the S&P 500 (-4.3%) suffered its worst three-month period since 2022.

Equity markets outside the U.S. performed well in the first quarter, aided by a weaker dollar (Figure 4). The greenback fell 4% against a basket of currencies (measured by the U.S. Dollar Index), as U.S. growth concerns increased the odds of the Fed lowering interest rates. (Interest rate movements are one the key drivers of the dollar's relative value.) Based on non-U.S. MSCI benchmark indexes in U.S. dollar terms,

EM equities delivered a +2.9% gain, while their developed market counterparts (+6.9%) outpaced the S&P 500 by more than 1,100 basis points (or 11 percentage points) — the widest margin since 2002.

The Bloomberg Aggregate Index returned +2.78% for the quarter led by lower Treasury yields. Concerns over a slowing economy and escalating tariff disputes led U.S. Treasury rates lower across the curve, notwithstanding the Fed's decision not to lower the Fed Funds rate given policy uncertainty. The 10yr peaked around 4.79% in early January and closed the quarter at 4.21% while the 2yr moved 36 bps lower over the period to end at 3.88%. Investment grade spreads widened 20 bps given the decline in equities and higher volatility. Investment grade corporates posted a total return of 2.31%, slightly less than Treasuries or the Aggregate given the modest credit spread widening.

Portfolio review

The **Nuveen Multi-Cap Value** portfolio outperformed its Russell 3000 Value benchmark on a gross of fees and net of fees basis during the 1st quarter of 2025, with both the benchmark and portfolio delivering positive returns. The year started off with optimism with the benchmark gaining 4.5% in January, but February ushered in a period of uncertainty with large value stocks being the only area in the U.S. equity market to produce positive results (+0.2%). Even value names were not immune from damaging headlines in March as the index fell 2.9% but remained up (+1.6%) for the quarter. The best performing sectors leading the index were energy (+8.2%), communication services (+6.2%), Health utilities (+6.2%), and health care (+5.7%). The largest declines occurred in technology (-6.1%), followed by consumer discretionary (-5.1%) and industrials (-3.2%).

The majority of the portfolio's equity outperformance came from stock selection in health care and utilities. Offsetting some of the outperformance were our investments in industrials and materials. Our top stock contributors in the first quarter were **Shell, AT&T, and Gilead Sciences**, while leading detractors included **nVent Electric, Regal Rexnord, and Oracle**.

Contributors

Shell plc (SHEL) was the top contributor to performance this quarter based on solid appreciation and its large portfolio weight. Positive change driven by the focused efforts of CEO Wael Sawan and CFO Sinead Gorman is driving value through the company's powerful liquefied natural gas (LNG), integrated gas, and trading group, in addition to cost cutting, portfolio reshaping, and capital

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return. Shell upped its targets during its March 25th capital markets day for capital returns to shareholders to 40-50% of operating cash flow (from 30-40%), as well as doubled its cost reduction program efforts and reduced cap ex further. Shell has reduced its net debt from \$60 billion to \$10 billion over the past 5 years. We believe that Shell continues to offer strong risk/reward and future catalysts to unlock value. We believe a meaningful increase in the dividend would propel the stock further, but at this point the company prefers to allocate as much free cash flow to share repurchases instead.

AT&T (T) was another top contributor, reporting strong Q4 results with consumer fiber and postpaid phone net adds above expectations. AT&T continues to execute at a high level and will be in the enviable position to further repurchase shares after the sale of its DTV business closes in the middle of 2025.

Shares of **Gilead Sciences (GILD)** rose as revenue and EPS surprised to the upside fueled by its growing HIV franchise (fantastic results from Lenacapavir). Importantly, Gilead also provided robust 2025 guidance, highlighted by better operating leverage that appears sustainable for several years to come. We trimmed positions in AT&T and Gilead (several trims) given appreciation and a favorable outlook but less compelling risk/reward.

Detractors

nVent Electric (NVT) stock fell, along with other electrification/data center equipment stocks, following news of DeepSeek's AI model being comparable to U.S. models but at a fraction of the cost. The news soured sentiment for industrial stocks with data center exposure. Despite the DeepSeek news, nVent subsequently reported in-line earnings and a strong growth outlook for 2025, led by its rapidly growing and highly profitable liquid cooling segment, which is critically important to effectively dissipate the heat generated by data center semiconductor chips. nVent stock has performed extremely well since our initial investment in 2020, and we have consistently trimmed our position in the past several years.

Shares of industrial powertrain and automation component manufacturer **Regal Rexnord (RRX)** declined as sizeable year-end push-outs from customers dragged down top-line growth and margins in the quarter. 2025 guidance also missed expectations. Moving forward, we believe valuation and solid order growth in Regal Rexnord's higher-margin automation and power solutions businesses should offer support for the stock, which trades at a compelling absolute and relative valuation. Onshoring activity should be a strong

catalyst propelling growth.

Oracle (ORCL) shares fell as fiscal Q3 results and Q4 guidance disappointed. Capital expenditures to facilitate growth were also higher than expected, resulting in lower than expected free cash flow. We believe the outlook for Oracle remains strong, and we have been disciplined in reducing our position during its strong appreciation over the past several years. Some of the incremental growth opportunities may come with lower margins, but absolute margin dollar profitability should grow.

Portfolio positioning

As we've mentioned in our letters consistently, the portfolio continues to be broadly diversified but not indexed. The tariff and policy uncertainty coming out of the Trump administration has increased volatility and led to market declines. We are starting to see confirmation of a more favorable/less onerous regulatory environment in several sectors, particularly financials and energy, while the regulatory outlook for pharmaceuticals remains unclear. The primary unknowns are the trade/tariff issues and disruptions. We do expect merger and acquisition activity to accelerate as the Justice Department and Federal Trade Commission will stop challenging and delaying deals, albeit the bid/ask spread makes it tougher to come to terms in the immediate future. We were, on balance, a net seller of equities earlier in the quarter, and used market/stock declines to establish/add to positions.

The portfolio maintained its overweight position in energy amidst the macro uncertainty given our investments in Shell, Cheniere, and Baker Hughes are significant beneficiaries from the growth in LNG. We trimmed our investments in the pharmaceutical sector reflecting increased regulatory risk as well as company specific issues (Gilead trims on appreciation, less favorable risk/reward, Merck elimination on weak fundamentals/outlook and patent expirations). In terms of new investments, we initiated new position in **Eversource**, and eliminated holdings in **FirstEnergy** and **Merck**.

New Investments:

Eversource (ES) is a Connecticut based utility with operations in New England. The stock has been depressed for several reasons that we believe are backward, rather than forward looking. Eversource has had a turbulent relationship with the head of the Connecticut public utility commission, but that commission will be expanding to five members from three, which should mitigate that issue.

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Eversource is in the process of selling a troubled wind investment (Aquarion), and while it still retains some liability for cost overruns, eliminating that burden from the company will serve as an additional catalyst. We view risk/reward as extremely attractive, as the stock trades at a 15-20% discount to comparable utilities. We funded the purchase with the elimination of our **FirstEnergy** stake and additional cash.

Eliminations:

As mentioned above, the rationale for our elimination of U.S. utility holding **FirstEnergy** was to swap into more a attractive investment within the same sector (**Eversource**). **FirstEnergy**, the Ohio based utility, reported weak fourth quarter results, in addition to bearing some upcoming risk with its rate case covering the recoverability of intangible assets.

We eliminated our investment in pharmaceutical company, **Merck (MRK)**. Merck has historically been a high-quality innovator, with a history of drug innovation and pipeline development. While the stock appreciated sharply immediately after our purchase and we trimmed our position, the company missed numbers, had an enormous sales falloff in China with its Gardasil vaccine, and the upcoming patent expiration of its enormous Keytruda drug can't be offset. Eliminating Merck was also part of a broader reduction of pharmaceutical stocks in the portfolio given heightened risk of price reductions/controls from the Trump administration.

On weakness, we added to positions in TripAdvisor, Disney, Citigroup, Flowserve, Permian Resources, Smurfit Westrock, Wells Fargo, Regal Rexnord, PulteGroup, and Atlas Energy (after trimming at higher prices earlier in the quarter). We trimmed positions in AT&T, Boeing, Ford Motor, General Motors, Gilead, Pinnacle West, and Walmart (multiple trims in several of the names).

Outlook

President Trump announced a set of tariff initiatives that were more severe than expected, leading to market declines. Trade imbalances between countries became an important measure over and above the removal of reciprocal tariff rates. While free and fairer trade was the rallying cry and policy objective, the economic impact of reshoring activity to the United States is an extremely expensive and long-term process. Penalizing companies in the interim to make this transition risks major economic disruption in addition to stagflation (loss of jobs and economic activity combined

with higher prices). Reasonableness, moderating demands, and striking strong but fair trade deals could certainly propel a strong market rally and mitigate potential economic fallout.

We are optimistic that a meaningful part of this is President Trump negotiating, and using his leverage to get better trade deals and more onshoring accomplished. The Fed has provided direction that they are not going to jump in early with interest rate cuts in the midst of this uncertainty, which creates greater risk to continue his rhetoric or policies unabated. Market signals such as bond yields backing up, and companies suspending hiring and expansion capital until the end game is known and reasonable should operate as constraints. While there isn't evidence yet that American consumers will avoid/boycott foreign made goods, our policies have angered foreign governments/consumers and that risk is much more real. Some stores in Canada have taken products off shelves and/or placed signs saying buy Canadian. The anger is fairly widespread.

Stocks in several industries including banking, industrials, and technology have encountered severe declines, albeit from elevated prices. With fear comes opportunity, and we have added to positions across industries where we see much more compelling risk/reward. Last quarter, we questioned how long the equity markets could continue to post significant ongoing appreciation. The economic and market outlook is heavily conditioned on how the Trump administration defines/pursues free and fair trade. Getting a better deal that provides fairer access for U.S. products overseas makes sense to us. We believe that can be accomplished. Suggesting that the U.S. needs to have some critical supply chains fortified also makes sense. Defining fair trade as no trade deficits for goods (ignoring services) with other countries and increasing prices through tariffs on goods that can't even realistically be made in this country for years (if ever) doesn't.

We certainly believe we will be in a period of positive deregulation for a number of industries including financial services, domestic manufacturing, and energy. Onshoring domestic production and increasing investment in electrification have strong secular momentum. The picture for certain other industries such as technology and health care (pharmaceuticals) may be more mixed. Rather than "drill baby drill," oil companies appear likely to reduce capital spending. The demand outlook for natural gas looks robust as it is needed to fuel the requirements of new liquified natural gas plants scheduled to open in the next few years.

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Market declines coupled with increased volatility and fear will create investment opportunities for both equities as well as fixed income. Our consistent search for unrecognized and unrealized catalyst rich companies remains at the heart of our process.

Once again, we greatly appreciate the opportunity to be stewards of your capital.

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 **MSCI EAFE Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. **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. **Russell 3000® Value Index** measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market with lower price-to-book ratios and lower forecasted growth values. **S&P 500® Index** is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. **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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