thrivent

Mutual Funds

Thrivent Government Bond Fund

Q1 2024 Commentary

TBFIX (Class S) • March 28, 2024

Management

Kent White, CFA
VP, Fixed Income Mutual Funds
Industry: 1999
Firm: 1999
Fund: 2023

Jon-Paul (JP) Gagne
Senior Portfolio Manager
Industry: 2004
Firm: 2018
Fund: 2022

Executive Summary

- Thrivent Government Bond Fund outperformed the Bloomberg US Treasury Index by 0.12% during the quarter due to tightening in Mortgage-Backed Securities (MBS) spreads and duration positioning.
- Similarly, over the last 12 months, Thrivent Government Bond Fund outperformed the Bloomberg US Treasury Index by 0.72% due to an allocation and timing of MBS positioning. Although we lagged most of 2023 as rates went higher and MBS spreads widened, we reversed course in the fourth quarter of 2023 and into 2024 as we saw a rally in MBS spreads.
- The Federal Reserve ("Fed") initiated their pause in 2023 while maintaining a steady Fed Funds rate into 2024. However, interest rates have continued to be volatile due to the uncertain timing of the first rate cuts. Unemployment has remained low. Inflation, although lower, is still above comfort levels for the Fed and markets. We still expect to see rate cuts in 2024, however, the higher for longer narrative is still holding serve through the first quarter of 2024.

Performance factors

During the quarter, the Fund outperformed the Bloomberg US Treasury Index by 0.12%. The primary driver of the outperformance was our allocation to Mortgage-Backed Securities (MBS). Although the MBS index was flat relative to Treasuries, our selection within MBS was positive and drove our outperformance. Furthermore, we carried a slightly shorter duration position versus the benchmark, which also contributed positively to performance.

The Fed made it clear the next move for Fed Funds is lower. This removed the uncertainty around the Fed's restrictive policy, leaving investors more confident in the forward path of interest rates. Over time, this should bring rate volatility down, which will bode well for MBS. Meanwhile, we have positioned our duration much closer to the benchmark until we have more clarity as to when the Fed will ultimately begin cutting rates.

Interest rates sold off in the first quarter, and the 2-year vs. 10-year U.S. Treasuries curve inverted another 5 bps, ending the quarter inverted by 42 bps. As the Fed begins cutting rates, we would expect this curve to continue to steepen and the shape of the Treasury curve to normalize. Thus, we continue to position the portfolio with a steepening bias, with our expectation that the 2-year will rally more than the 10-year once the Fed begins cutting rates.

Over the last twelve months, the Fund outperformed the Bloomberg US Treasury Index by 0.72%. Positive performance in the fourth quarter of 2023 and the first quarter of 2024 drove the annual performance. The Fund's allocation to MBS and the timing of our duration positioning drove the outperformance. Our priority during this period was to remain nimble and opportunistic, giving us the ability to take advantage of the volatility we continue to see in interest rates.

Additionally, although MBS spreads entered the fourth quarter of 2023 near crisis levels (i.e., historically high), we added to our MBS positioning, which saw dramatic tightening starting in early November, as the market's expectation of a Fed pivot was realized. We took down our MBS position late in the fourth quarter and entered 2024 with a slightly overweight positioning to MBS and a nearly flat duration positioning. MBS comprise 60% of the Fund's assets, but zero percent of the Index's assets. During this period, it was a positive contributor having a mix of MBS in the portfolio.

Portfolio outlook

Although economic data and interest rates have fluctuated, it still appears as though Interest rates have peaked. We believe the Fed has ended their hiking cycle and rate cuts are now on the table for 2024. We expect the yield curve will continue steepening once the Fed begins cutting, with 2-year Treasury rates continuing to rally into 2024. We have eliminated the Fund's flattening bias we had early in 2023 and have positioned the portfolio with a mild yield curve steepening bias to reflect this view.

As noted, the Fed appears to be done; however, Fed commentary suggests a longer pause is in the cards if inflation doesn't continue its march lower. With the most recent year-over-year Consumer Price Index (CPI) reading at 3.2%, still above the Fed's 2% target for inflation, the Fed is within its mandate to keep rates higher for longer if necessary. This means we will continue to see periods of interest rate volatility due to uncertainty around when the Fed will ultimately begin cutting rates. Thus, we are cognizant of the risks and will position the portfolio to be nimble as we await clarity.

Furthermore, although it appears the likelihood of a soft landing has increased this quarter due to continued strong jobs data and moderating inflation, the underlying economic data suggests the economy could see some stress in 2024. If the economic data does turn over and we head into a recession, we believe it will look different than the recent slowdowns which were caused by a collapse of the financial markets and Covid. This recession will likely be much more moderate. In the end, we ultimately expect to see inflation stabilizing with slower economic growth as the year closes, thus pushing all interest rates lower later in 2024.

Performance

For the period ending March 28, 2024 • Periods less than one year are not annualized.

Average annualized returns (%)	3 months	YTD	1 year	3 years	5 years	10 years	Since Inception
Thrivent Government Bond Fund — S share	-0.84	-0.84	0.77	-2.09	0.21	1.16	1.76
- Expense ratio: net 0.52%, gross 0.70%; Incept. date 2/26/2010							
Bloomberg U.S. Treasury Index	-0.96	-0.96	0.05	-2.73	-0.08	1.03	
Bloomberg U.S. Agency Index	0.08	0.08	3.06	-0.94	0.97	1.50	
Morningstar Intermediate Government Avg	-0.82	-0.82	0.81	-2.84	-0.30	0.73	

Learn more: thriventfunds.com • Advisors: 800-521-5308 | sales@thriventfunds.com • Investors: 800-847-4836 | contact your advisor

Top 10 Holdings (excluding derivatives and cash) 33.86% of Fund, as of Feb 29 2024: U.S. Treasury Notes: 10.17%, U.S. Treasury Notes: 6.17%, FNMA 30-Yr Pass-Thru: 2.62%, FNMA 30-Yr Pass-Thru: 2.26%, FNMA 30-Yr Pass-Thru: 2.23%, FNMA 30-Yr Pass-Thru: 2.20%, FNMA 30-Yr Pass-Thru: 2.12%, U.S. Treasury Notes: 2.08%, FNMA 30-Yr Pass-Thru: 2.02%, U.S. Treasury Notes: 1.99%

The Adviser has contractually agreed, for a period of one year from the date of the most recent prospectus, to waive certain fees and/or reimburse certain expenses associated with the Fund. If not waived, returns would have been lower. Refer to the Fees & Expenses table in the prospectus.

Any indexes shown are unmanaged and do not reflect the typical costs of investing. Investors cannot invest directly in an index.

Bloomberg US Treasury Index measures the performance of the public debt obligations of the U.S. Treasury with remaining maturities of one year or more.

Bloomberg US Agency Index measures the performance of the publicly issued debt of U.S. Government agencies (e.g. Fannie Mae, Freddie Mac) and the Federal Home Loan Bank System.

The Morningstar average represents the average total return annualized when greater than one year for all reported funds in the category. Morningstar averages do not include sales charges/fees. If included, returns would have been lower.

Risks: U.S. government securities may not be fully guaranteed by the U.S government and issues may not have the funds to meet their payment obligations. The value of U.S. government securities may be affected by changes in credit ratings, which may be negatively impacted by rising national debt. The value of mortgage-related and other asset-backed securities will be influenced by the factors affecting the housing market and the assets underlying such securities. Debt securities are subject to risks such as declining prices during periods of rising interest rates. The use of derivatives (such as futures) involves additional risks and transaction costs. Inflation-linked debt securities, such as TIPS, are subject to the effects of changes in market interest rates caused by factors other than inflation (real interest rates). The Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. When bond inventories are low in relation to the market size, there is the potential for decreased liquidity and increased price volatility. The Fund's value is influenced by the performance of the broader market. The Fund may engage in active and frequent trading of portfolio securities, which may result in higher transaction costs and higher taxes. In unusual circumstances, the Fund could experience a loss when selling portfolio securities to meet redemption requests for a variety of reasons. Sovereign debt securities are subject to additional risks. These and other risks are described in the prospectus.

This commentary may refer to specific securities which Thrivent Mutual Funds may own. A complete listing of the holdings for each of the Thrivent Mutual Funds is available on thriventfunds.com.

All data represents past performance. Past performance does not guarantee future results. The investment return and principal value of the investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance data quoted. Call 800-847-4836 or visit thriventfunds.com for performance results current to the most recent month-end.

Investing involves risks, including the possible loss of principal. The prospectus and summary prospectus contain more complete information on the investment objectives, risks, charges and expenses of the fund, and other information, which investors should read and consider carefully before investing. Prospectuses and summary prospectuses are available at thriventfunds.com or by calling 800-847-4836.

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