thrivent®

Mutual Funds

Our View

March 28, 2024

A look ahead: Second quarter 2024 outlook

A look ahead: 2024 outlook

In our view, we are nearing the turning point from weaker growth and higher rates to stronger growth and lower rates. Turning points in the economy are notoriously difficult to time as markets become more sensitive to economic data, and thus can become more volatile. For this reason, we recommend investors stay the course, remaining invested in both stocks and bonds. We expect the economy will achieve a soft landing (the first in a very long time), and that inflation will continue to fall—but not in a straight line and not quickly.

We maintain our view that the Federal Reserve (Fed) will be conservative, preferring to hold rates as high and as long as it can to ensure inflation doesn't reignite. At the earliest, we don't expect a rate cut until the June or July meeting, and don't anticipate more than two or three cuts for the remainder of the year. The largest risk, in our view, is that inflation stubbornly refuses to decline to the Fed's target level, delaying interest rate cuts.

Asset allocation current outlook

Current quarter weighting | Previous quarter weighting (if changed)

Fixed income vs. equity

Since the late October low, the S&P 500 has rallied 27.61% without so much as a 2% pullback (as of March 28)—a move which marks the largest "low volatility" rally in more than 75 years. Although this type of strength instinctively raises concerns regarding a material drawdown, history suggests otherwise. When we examine the few examples where a rally of similar character occurred, returns over the following year are generally above average. Typically, a rally of this form is associated with a recent and meaningful drawdown (such as in 2022), an improving economic landscape, and a dovish pivot in monetary policy. Presently, all three conditions are met.

Fixed income · · · ● · **Equity**

Equities: U.S. vs. international

We are underweighted international primarily in Europe and emerging markets. We favor domestic over international in the intermediate- to long-term for a variety of reasons including peak globalization, a higher degree of innovation domestically, greater demographic challenges internationally, structural issues in Europe, and a more favorable climate for businesses domestically (e.g., regulation). While we are not calling for international markets to outperform in the short-term, we retain the capacity to add to our international underweighting if that occurs.

U.S. · ● · · · **International**

Equities: Market cap

Domestically, we are overweighted to both large and mid caps, while maintaining a modest underweighting in small caps. While substantial returns from the largest constituents of the S&P 500 since the beginning of 2023 are noteworthy, historical shorter-term outperformance of the largest stocks hasn't been predictive of future returns on its own. At present, we favor the higher quality and profitability typically found in large caps over small caps. Our concurrent overweighting to mid caps positions us to benefit from any potential outperformance in the small and mid cap (SMID) sector, should it materialize.

Large caps · · ● ○ · **Small caps**

Fixed income: Duration

We expect the Fed to start cutting rates around mid-year but to proceed at a measured pace with two or three rate cuts this year. Proceeding slowly allows the Fed to assess the impact of rate cuts. The key risks to this view are that inflation comes in higher than expectations and prompts the Fed to hold rates high longer or hike again, or that the economy decelerates quickly prompting rate cuts. We are modestly long duration with roughly neutral positioning across the yield curve. We expect the 10-year/2-year curve to steepen in 2024, eventually ending the lengthy curve inversion that began in July of 2022.

Short · · · ● · **Long**

Fixed income: Credit quality*

Spreads are likely to remain range-bound at relatively rich levels absent an unexpected deterioration of the economy. Defaults are likely to edge higher in lower-quality high-yield and especially for leveraged loans, where credit quality has deteriorated more. We are positioned roughly neutral credit risk versus our long-term strategy within broad fixed income portfolios. We favor high-quality fixed income such as investment-grade corporates versus lower-quality fixed income, such as high-yield and leveraged loans.

High quality · ● · · · **Low quality**

---

*Credit Quality ratings are determined by credit rating agencies Moody's Investor Services, Inc. or Standard & Poor's Financial Services, LLC.

Past performance is not necessarily indicative of future results. Investing involves risks, including the possible loss of principal.

The Thrivent Asset Management, LLC Senior Investment Team is discussing the asset classes, sectors and portfolios they oversee at a macroeconomic level. The views expressed are as of the date given unless otherwise noted and may change as market or other conditions change, and may differ from views expressed by other Thrivent Asset Management, LLC associates. Actual Investment decisions made by Thrivent Asset Management, LLC will not necessarily reflect the views expressed. This information should not be considered investment advice or recommendations of any particular security, strategy or product.

Thrivent Distributors, LLC, a registered broker-dealer and member FINRA, is the distributor for Thrivent Mutual Funds. Asset management services are provided by Thrivent Asset Management, LLC, an SEC-registered investment adviser. Thrivent Distributors, LLC, and Thrivent Asset Management, LLC are subsidiaries of Thrivent, the marketing name for Thrivent Financial for Lutherans.