thrivent

Mutual Funds

# Thrivent High Income Municipal Bond Fund

## Q1 2024 Commentary

THMBX (Class S) • March 28, 2024

### Management

**Johan Åkesson, CFA**
Senior Portfolio Manager

Industry: 1993
Firm: 1993
Fund: 2018

**Stephanie Woeppel**
Senior Portfolio Manager

Industry: 2004
Firm: 2022
Fund: 2023


## Executive Summary

• Thrivent High Income Municipal Bond Fund outperformed the Bloomberg 65% High Grade/35% High Yield Municipal Bond Index during the first quarter of 2024 by 126 basis points, the Fund outperformed the Index by 194 basis points for the trailing 12-month period.
• Municipal bond yields at the long end of the curve increased by only half as much as Treasury bonds with similar durations during the quarter; this occurred amidst muted Municipal bond supply and steady demand supported by net positive Municipal fund flows.


## Performance factors

For the first quarter of 2024, the Fund outperformed the Index, returning 1.54% vs. 0.28%. Trailing 12-month performance was 6.72% for the Fund vs. 4.78% for the Index. Outperformance was primarily driven by the Fund's overweight position to BBB-rated and high-yield bonds vs. the Index.

In January, Treasury yields rose from their December lows following a disappointing Consumer Price Index (CPI) reading which indicated inflation may be sticky at closer to 3% versus the Federal Reserve (Fed) goal of 2%. CPI also continued to come in above expectations during February and March, which led to waning confidence in the fixed income markets for a near-term Fed Funds rate cut. At the start of the year, the market indicated expectations for cuts to begin as early as March, with up to six total cuts forecasted in 2024. No cuts occurred during the first quarter of 2024, and the market now assumes a more modest three cuts for the year. Should the economy continue to prove resilient with persistent inflation measures, there could be fewer than three rate cuts this year.

After moving in close to lockstep with Treasury bonds for much of 2023, municipal bond rates at the long end of the curve rose only about half as much as treasuries in the first quarter of 2024. The more muted volatility in municipals was likely the result of lower issuance during the quarter paired with higher demand in the form of positive net fund flows into municipal bonds.

The biggest contributor to the Fund's outperformance vs. the Index was its credit exposure. The Fund's overweight to high-yield bonds, which returned 1.51% for the quarter, and its overweight to BBB-rated bonds, which returned 0.60%, as well as its underweight to high-quality bonds, which produced negative returns in aggregate, all contributed to Fund outperformance. The Fund's longer duration relative to the Index was a slight headwind on performance, as long-dated bonds underperformed both short- and intermediate-term bonds during the quarter.

The Fund remains overweight in its senior living holdings. Rebounding after weak sector performance in 2023, senior living was the best-performing sector for the quarter and contributed positively to the Fund's performance. The portfolio's underweight to tax-supported debt was a drag on performance. Bonds with longer-dated maturities often exhibit higher market price volatility, which can impact the Fund's returns. The Fund currently uses Treasury futures contracts to limit some duration risk, though Treasury futures are not a perfect hedge.

## Portfolio outlook

If inflation persists and economic indicators remain stable, a further delay of expected Fed Funds rate cuts will presumably follow. While some interest rate volatility is still likely, most forecasts call for yields to trend downwards at the short end of the curve and to remain range bound, if not also slightly lower, at the long end. Flows will likely remain positive throughout the year as investors should be eager to lock in longer-duration fixed income at the currently attractive yields. Debt issuance could soon increase as issuer revenues moderate and COVID relief aid is depleted. The upcoming presidential election and current geopolitical tensions will continue to bring uncertainty to the market, but the credit strengths inherent to most municipal issuers provide a high level of confidence in the return of investment principal for municipal bond investors. The Fund continues to seek out bonds that offer sustainable fiscal profiles and strong security packages. Ultimately, the Fund is well positioned to potentially benefit from expected performance in the municipal market, given its increased level of tax-exempt coupon income and the potential for price appreciation, especially if interest rates fall as broadly anticipated.

## 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 High Income Municipal Bond Fund — S share | 1.54 | 1.54 | 6.72 | -0.67 | 1.65 | N/A | 2.43 |
| - Expense ratio: net 0.60%, gross 1.22%; Incept. date 2/28/2018 | | | | | | | |
| Bloomberg 65% HG/35% HY Index | 0.28 | 0.28 | 4.78 | -0.06 | 2.12 | 3.34 | |
| Morningstar High Yield Muni Avg | 1.54 | 1.54 | 5.75 | -0.83 | 1.54 | 3.32 | |

**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) 57.20% of Fund, as of Feb 29 2024: New York: 9.97%, Florida: 7.99%, Texas: 7.33%, Wisconsin: 6.23%, California: 6.19%, Colorado: 5.04%, Minnesota: 4.28%, Arizona: 4.23%, Illinois: 3.20%, Alabama: 2.74%

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 65% High Grade/35% High Yield Bond Index** represents the US municipal bond market, composed of 65% investment grade municipal bonds with maturities of one year or more and 35% noninvestment grade or unrated bonds.

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. ©2024 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

**Risks:** Municipal bonds may be affected by political or economic conditions at the state, regional or federal level. Debt securities are subject to risks such as declining prices during periods of rising interest rates and credit risk, or the risk that an issuer may not pay its debt. High yield securities are subject to increased credit risk as well as liquidity risk. The use of futures contracts involves additional risks such as a loss in value in the underlying instrument, which could decrease the Fund's value. 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. In unusual circumstances, the Fund could experience a loss when selling portfolio securities to meet redemption requests for a variety of reasons. Changes in federal income tax laws or rates may affect both the net asset value of the Fund and the taxable equivalent interest generated from securities in the Fund. Some issues may be subject to state and local taxes and/or alternative minimum taxes (AMT). 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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