thrivent

Mutual Funds

Thrivent Municipal Bond Fund

Q1 2024 Commentary

TMBIX (Class S) • March 28, 2024

Management

Johan Åkesson, CFA
Senior Portfolio Manager

Industry: 1993
Firm: 1993
Fund: 2022

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Senior Portfolio Manager

Industry: 2004
Firm: 2022
Fund: 2023

Executive Summary

- Thrivent Municipal Bond Fund outperformed the Bloomberg Municipal Bond Index in the first quarter by 38 basis points, the Fund outperformed by 93 basis points for the trailing 12-month period.
- The Fund benefited from credit spread tightening in the A-rated and BBB-rated categories.
- The Fund’s performance for the first quarter was hampered by its longer duration compared to the Index. Longer maturity bonds modestly underperformed as the municipal yield curve backed up to higher yields.

Performance factors

The Fund outperformed the Index by 38 basis points in the first quarter of 2024 due in large part to the Fund’s overweight positions in bonds with A and BBB ratings, as well as the Fund’s position in non-rated credits. Credit spreads tightened during the quarter as investors seemingly gained confidence in the economy and the possibility of avoiding a domestic recession. Additionally, the new issuance of high-yield municipal bonds was not sufficient to meet the demand from investors, as most deals were heavily oversubscribed, also leading to tighter credit spreads.

Market expectations at the beginning of the year called for the Federal Reserve (the Fed) to aggressively cut the Fed Funds rate. These expectations were quickly confronted with the reality of persistent and stronger-than-expected inflationary pressures, as indicated by the Consumer Price Index and Personal Consumption Expenditure readings. Somewhat countering these measures, the job market started to indicate a little softening as the unemployment rate ticked slightly higher.

The municipal yield curve experienced a relatively uniform increase across the curve, although yields on maturities inside of five years rose more than intermediate and long-dated maturities. The 2-year AAA Municipal yield increased 42 basis points, while the 30-year AAA Municipal yield increased 26 basis points. This movement added to the front-end yield curve inversion and was likely in response to inflation measures remaining persistent at around 3%.

The Fund benefited from strong performance in the senior living sector, which experienced a meaningful quarter of spread tightening. The Fund also benefited due to its underweighted holdings of General Obligation (GO) bonds, which underperformed. GO bonds tend to be more highly rated and as such, the sector did not benefit from credit spread tightening seen in other sectors.

The Fund’s performance over the trailing 12-month period was 4.06% vs the Index return of 3.13%. Outperformance was again supported by recent purchases of both A- and BBB-rated credits, as well as non-rated and BB-rated holdings which outperformed for the 12 months. Echoing the results of the quarter, revenue bonds generally performed better than GO bonds and the senior living sector had very strong returns, joined by the industrial development, airport, and tobacco sectors.

Over the past 12 months, the Fund added to its hospital, airport, and senior living holdings gaining attractive absolute and relative yields. Higher quality pre-refunded bonds, as well as state and local GO bonds, have declined as a percentage of the Fund’s holdings.

Portfolio outlook

Currently, it appears that the odds of a soft landing are improving. This should be beneficial to municipal credits, which could continue to strengthen without facing the stress of a severe recession. Shorter yields are still expected to move lower this year, especially if there is a modest reduction in inflation. Longer rates are likely to remain range-bound to slightly lower, with yields dependent on any news pointing to a change in the economic outlook and inflation.

The Fund will continue to maintain a longer duration than the benchmark while utilizing interest rate futures, both long and short, on U.S. Treasuries. The Fund will continue to selectively add exposure to A- and BBB-rated bonds to pick up additional yield. To hedge against economic uncertainties, the Fund will continue to seek out bonds where the obligors have a robust financial profile and may provide investors with a strong security package. The Fund actively manages its credit risk exposure and seeks to avoid sectors or bonds that could be more severely impacted by an economic slowdown, such as land development and more speculative industrial development.

Modest volatility in the fixed income markets is poised to continue because of conflicting economic data, domestic political and tax policy, and even broader geopolitical events. An additional concern for the fixed income markets is the perceived lack of urgency from the two major party presumptive presidential nominees regarding the size of the Federal deficit. Overall, the Fund should be well-positioned to take advantage of a market outlook that currently calls for three Federal Reserve rate cuts 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 Municipal Bond Fund — S share	-0.01	-0.01	4.06	-0.68	1.38	2.44	3.99
- Expense ratio: net 0.51%, gross 0.56%; Incept. date 10/31/1997							
Bloomberg Muni Bd Index	-0.39	-0.39	3.13	-0.41	1.59	2.66	
Morningstar Muni National Long Avg	0.23	0.23	4.25	-0.97	1.34	2.62	

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Top 10 Holdings (excluding derivatives and cash) 56.46% of Fund, as of Feb 29 2024: Texas: 12.16%, New York: 7.82%, California: 6.62%, Illinois: 5.28%, Florida: 5.16%, Ohio: 4.27%, Colorado: 4.14%, Minnesota: 4.06%, Michigan: 3.51%, Massachusetts: 3.44%

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 Municipal Bond Index is a market value-weighted index of investment grade municipal bonds with maturities of one year or more.

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: 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. 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 the federal and state alternative minimum tax. 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. High yield securities are subject to increased credit risk as well as liquidity risk. 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. 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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