Thrivent Asset Allocation Funds

Q3 2021 Commentary

Class S • September 30, 2021
TAAIX, TMAFX, TMAIX, TCAIX

Management

David Royal
Chief Investment Officer
Industry since: 1997
Thrivent since: 2006
Funds since: 2018

Stephen D. Lowe, CFA
Chief Investment Strategist
Industry since: 1996
Thrivent since: 1997
Funds since: 2016

David Spangler, CFA
Head, Mixed Asset & Mkt Strategies
Industry since: 1989
Thrivent since: 2002
Funds since: 2019

Executive summary

- Both equity and fixed-income did well in the third quarter.
- Key fixed-income performance drivers included an overweight in high-yield bonds and investment-grade selection and securitized selection.
- Equity performance was driven primarily by strong manager performance but was also aided by overweights to domestic and large cap stocks and an underweight to emerging markets.

Performance factors

Thrivent Asset Allocation Funds outperformed their peers for the quarter, with all Funds ranking in the top decile of their Lipper peer groups.

Equity performance was very strong for the quarter. The Funds were aided by an overweight to domestic large-caps, which strongly outperformed small-caps and international. Within international, an underweight to emerging markets aided performance, however, an overweight to Europe detracted from overall performance. The equity portion of the Funds saw strong aggregate manager performance from both the domestic and international strategies.

Fixed income modestly outperformed for the quarter as well. Interest rates rose moderately, with intermediate rates rising the most and longer-term rates down slightly. Rates moved higher late in the quarter in response to inflation and a more hawkish outlook from the Federal Reserve, with the first interest rate hike expected at the end of 2022 or early 2023. Total returns were muted across most of fixed income with rates and credit spreads little changed. Yields rose slightly but remain at levels well below long-term averages. Lower-quality segments such as high yield and leveraged loans outperformed with high-quality segments such as Treasuries and investment-grade corporates trailing slightly. Return differentials were compressed, though, driven by low rates and tight credit spreads. The Funds entered the quarter positioned short duration (meaning the Funds were less sensitive to changes in interest rates) and for a flatter Treasury curve, which slightly aided relative performance. An overweight in high-yield bonds aided relative performance along with strong selection within investment-grade credit. An underweight in securitized assets, particularly agency mortgage-backed securities (MBS) also helped. Performance within Treasuries was modestly positive while emerging-markets debt trailed slightly.

In June of this year, we reduced our NASDAQ exposure in favor of European exposure via the EuroStoxx 50. In August, within domestic equity we added back to our NASDAQ exposure and reduced the S&P 500. In September, we slightly raised equity, primarily in domestic SMID-caps.

Fixed income remains moderately overweight risk despite reducing credit risk as valuations richened earlier this year. Within the third quarter positioning changed only slightly, with small increases in high yield and decreases in leveraged loans and investment-grade corporates. Securitized assets and Treasuries also increased slightly while cash decreased. Interest rate positioning remains short duration. Over the last twelve months, Thrivent Aggressive Allocation Fund had the best relative performance, ranking in the 13th percentile of its Lipper peer group. The other three Funds were closer in line with their peers, ranking between the 39th and 52nd percentiles. Positive contributions came from being overweight to equity vs peers, as both domestic and international markets posted strong positive returns over the past year. Positive drivers within equities were the Funds' overweight to domestic and underweight to emerging markets, as well as strong manager performance, particularly from large cap value. Fixed income was aided by an overweight to corporate credit and underweights to agency MBS and Treasuries, as well as strong security selection in multiple sectors.

Portfolio outlook

We expect solid economic growth and interest rates to increase by the end of the year as the economy further normalizes as the surge in Delta variant COVID cases recedes. Monetary and fiscal policy should remain supportive. Higher than normal inflation should persist into 2022. Also, we expect the Fed to formally announce the start of tapering of asset purchases late this year and start raising rates at the end of 2022 or early 2023. Market reaction to the Fed should remain contained unless the timeline for hikes is accelerated. We expect rates to rise through the year and will maintain short duration positioning until it appears rates have topped. Credit spreads appear rich with levels well below average. We expect spreads to be rangebound to moderately wider. Future fixed income returns will come mostly from yield versus price appreciation. We favor high yield and leveraged loans over investment-grade credit but expect periodic episodes of volatility as rich valuations make credit more susceptible to backups. We expect to maintain a strategic overweight to credit but will remain tactical depending on valuation. When compared to our peers, we remain modestly overweight equity vs. fixed income by approximately 1% to 2% and we favor domestic over international. Within domestic equity, we remain overweight large and mid-caps, but have recently raised small-caps to neutral weight. In aggregate, the Funds are overweight more defensive areas of the market including growth, momentum and technology, which provided strong outperformance during the third quarter's mostly defensive market but hurt at the end of the quarter as cyclical value rebounded strongly with the rise in yields and the yield curve. We do not anticipate a material acceleration of the cyclical value outperformance but have hedged some of this underweight with an overweight to Europe and a recent increase to small-caps.

Thrivent Asset Allocation Funds performance

Class S shares | For the period ending September 30, 2021

Average annualized returns (%) Periods less than one year are not annualized.	3 months	YTD	1 year	3 years	5 years	10 years	Expense ratio	
							Gross	Net
Thrivent Aggressive Allocation Fund TAAIX	0.25	12.75	30.24	12.46	13.85	13.06	1.23%	1.03%
Thrivent Moderately Aggressive Allocation Fund TMAFX	0.50	10.05	22.26	11.01	11.49	11.27	1.13%	0.91%
Thrivent Moderate Allocation Fund TMAIX	0.38	7.62	17.30	10.10	9.56	9.42	0.99%	0.81%
Thrivent Moderately Conservative Allocation Fund TCAIX	0.15	4.06	10.19	7.79	6.88	7.06	0.92%	0.78%

[1] The Adviser has contractually agreed, for as long as the current fee structure is in place, to waive certain investment advisory fees associated with the Fund. Refer to the Fees & Expenses table in the Fund's prospectus for details. If this waiver had not been in effect, performance would have been lower.

Financial professionals: Contact us at sales@thriventfunds.com or call 800-521-5308

Risks: The Funds invest in other funds managed by the Adviser or an affiliate and in directly-held equity and debt instruments. The Funds are dependent upon the performance of the other funds and are subject to the risks and additional fees and expenses of the other funds. The value of the Funds is influenced by a number of factors, including the performance of the broader market, the effectiveness of the Adviser's allocation strategy, and risks specific to the Funds' asset classes, market cap groups, investment styles, and issuers. Foreign investments involve additional risks, such as currency fluctuations and political, economic and market instability, which may be magnified for investments in emerging markets. The London Interbank Offered Rate (LIBOR) is being phased out, which brings uncertainty to instruments tied to it. Markets may also be impacted by domestic or global events, including public health threats, terrorism, natural disasters or similar events. 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 not pay its debt. 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. The Adviser is also subject to actual or potential conflicts of interest. The use of quantitative investing techniques and derivatives, such as futures, also involve risks. The Funds may engage in active and frequent trading of portfolio securities, which may result in higher transaction costs and higher taxes. These and other risks are described in the prospectus.

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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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