

# Thrivent Government Bond Fund

## Q4 2023 Commentary

TBFX (Class S) • December 29, 2023

### 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 78 basis points during the quarter due to tightening in Mortgage-Backed Securities (MBS) spreads and duration positioning.
- Much like our quarterly performance, over the last 12 months, Thrivent Government Bond Fund outperformed the Bloomberg US Treasury Index by 50 basis points due to an allocation to MBS. Although we lagged most of the year as rates went higher and MBS spreads widened, we reversed course in the fourth quarter as we saw a strong rally in both rates and MBS spreads.
- The fourth quarter saw a big change in the Federal Reserve (Fed) policy. Although the first pause took place in the third quarter, the market received commentary from the Fed that forward expectations are towards rate cuts in 2024 during the fourth quarter.

### Performance factors

During the quarter, the Fund outperformed the Bloomberg US Treasury Index. The primary driver of the outperformance was our allocation to Mortgage-Backed Securities (MBS), which saw spreads tighten into lower rates and lower rate volatility. With the Fed making it clear the next move for Fed Funds is lower, this removed the uncertainty around the Fed's restrictive policy, leaving investors much more confident in the forward path of interest rates. The majority of MBS is trading at discount prices right now, so any potential for an improved housing market and a potential refinance wave is a positive for MBS.

Although rates rallied in the fourth quarter, the 2-year vs 10-year U.S. Treasury yield curve inverted another 10 bps, ending the quarter inverted by 59 bps. As the Fed begins cutting rates, we would expect this curve to continue to steepen and the shape of the Treasury yield curve to normalize. Thus, we continue to position the portfolio with a steepening bias.

Over the last twelve months, the Fund outperformed the Bloomberg US Treasury Index by 50 bps. Positive performance in the fourth quarter drove the annual performance, with our allocation to MBS and the timing of our duration positioning driving the outperformance. The portfolio was positioned with a longer duration than the index coming into the quarter, and we continued to add duration through most of the quarter. Near the end of the year, as the market rallied substantially, we reversed course and flattened our duration relative to the index. Our view proved correct as the Fed pivoted from a restrictive policy to a potential easing policy in early 2024.

Additionally, although MBS spreads entered the fourth quarter 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. Like our duration positioning, we took down our MBS position late in the fourth quarter and entered 2024 with a slight overweighting. 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

Interest rates have peaked with the Fed ending 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 yield curve steepening bias to reflect this view. Short-term interest rates are more affected by Fed policy moves than long-term interest rates, which are more impacted by long-term inflation expectations and economic growth.

As noted, the Fed appears to be done; however, Fed commentary suggests further restrictive policy is in the cards if inflation were to reappear. With the most recent year-over-year Consumer Price Index (CPI) reading at 3.1%, 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, even if less likely now.

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 still suggests the economy could see some stress in 2024. If the economic data continues to 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 December 29, 2023 • 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	6.44	4.55	4.55	-2.79	0.82	1.41	1.85
- Expense ratio: net 0.52%, gross 0.68%; Incept. date 2/26/2010							
Bloomberg U.S. Treasury Index	5.66	4.05	4.05	-3.82	0.53	1.27	
Bloomberg U.S. Agency Index	3.68	5.13	5.13	-1.50	1.32	1.59	
Morningstar Intermediate Government Avg	5.92	4.42	4.42	-3.26	0.27	0.96	

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**Top 10 Holdings** (excluding derivatives and cash) 34.46% of Fund, as of Nov 30 2023: U.S. Treasury Notes: 9.92%, U.S. Treasury Notes: 6.03%, GNMA 30-Yr Pass-Thru: 4.46%, FNMA 30-Yr Pass-Thru: 2.20%, FNMA 30-Yr Pass-Thru: 2.20%, FNMA 30-Yr Pass-Thru: 2.09%, U.S. Treasury Notes: 2.02%, U.S. Treasury Notes: 1.93%, U.S. Treasury Bds: 1.81%, U.S. Treasury Notes: 1.80%

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.

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**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. 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 use of derivatives (such as futures) involves additional risks and transaction costs. 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. The Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. The London Interbank Offered Rate (LIBOR) is being phased out, which brings uncertainty to instruments tied to it. When bond inventories are low in relation to the market size, there is the potential for decreased liquidity and increased price volatility. Securities markets generally tend to move in cycles with periods when security prices rise and periods when security prices decline. 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](https://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](https://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](https://thriventfunds.com) or by calling 800-847-4836.

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