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Mutual Funds

Thrivent High Yield Fund

Q4 2023 Commentary

LBHIX (Class S) • December 29, 2023

Management

Paul Ocenasek, CFA
Senior Portfolio Manager

Industry: 1987
Firm: 1987
Fund: 1997

Paul Tommerdahl, CFA
Research Director

Industry: 2008
Firm: 2016
Fund: 2023

Executive Summary

- The Bloomberg US Corporate High Yield Bond Index fourth quarter total return of over 7.0% ranked as one of the top quarters of the past decade.
- Resilient growth, moderating inflation, and the prospect for earlier and more aggressive Federal Reserve (Fed) easing caused a sudden shift in sentiment and propelled returns.
- With spreads (the additional yield over risk-free Treasuries) of the High Yield market near the lows of the last decade, additional return from spread compression is limited.

Performance factors

For the fourth quarter, the return of the high-yield market benefited from a combination of declining Treasury bond interest rates of about sixty basis points and declining high-yield market spreads of about seventy basis points. This caused the yield of the high-yield market to decline, boosting returns above the earned coupon yield for the quarter. All rating categories and risk profiles participated as there were no meaningful differences in returns between BB-rated and CCC-rated bonds. Consumer Cyclical industries led performance with Retail, Building Materials, and Finance industries outperforming. Thrivent High Yield Fund's largest contributor to underperformance versus Bloomberg US Corporate High Yield Index was its ¼ year shorter duration as 5-year Treasury rates declined from 4.57% to 3.88% during the quarter. Underweighted holdings in consumer-cyclical industries such as retail and Financials also detracted from performance. Credit selection in the Technology and food/beverage industries were positive contributors to relative performance.

For the 1-year period, Thrivent High Yield Fund's more conservative risk profile was the largest contributor to underperformance when compared to the Bloomberg US Corporate High Yield Bond Index. The riskiest CCC-rated bond segment of the market returned 19.84% during 2023 while the highest quality BB-rated segment returned a much lower 11.60%. The Fund is underweighted by 4% to 5% in CCC-rated bonds vs. the Index. An underweighting in the retail and leisure industries—which both had returns of over 20%—detracted from performance while credit selection in the banking industry was the largest contributor to positive industry relative performance. Duration did not have a meaningful impact for the full year as the 10-year Treasury yield ended the year unchanged despite significant volatility and a 150-basis point swing from its low and high points reached during the year.

Relative industry exposure to Energy and autos has increased as several large high-yield issuers were upgraded out of the Index. We have been reducing exposure to bonds with yields less the 5.5% and reinvesting proceeds in attractive bonds with yields above 7.5%. We continue to slowly reduce exposure to bank loans (floating rate securities) which have performed well in the face of rising interest rates. We continue to pair back on our holdings in high-yield bonds that have been upgraded to investment grade status and have limited room for continued outperformance.

Portfolio outlook

The high-yield market is starting 2024 in a healthy position. The new issue market increased by 65% in 2023 and is expected to be more robust in 2024. The rating quality of the new issuance is higher than historical averages with much of it being secured. Cash flowing into high-yield mutual funds once again turned positive in the fourth quarter with an inflow of $5.3 billion. The number of distressed bonds has continued to decline and is now below 5% of the market. A lower number of distressed bonds points to a lower number of defaults in the near term.

Resilient growth, moderating inflation, and the prospect for earlier and more aggressive Fed easing should continue to support the market heading in to 2024, but with spreads near the lows of the last decade, much of this good news has been accounted for by the market. Historically, with spreads starting at this level (+323 basis points over risk-free Treasury yields), generating significant positive returns above the current coupon rate of the market has proven difficult. While we are less convinced than the market that the Fed has successfully conquered inflation without damaging the economy, we are looking to take advantage of adding higher-yielding opportunities as they present themselves during market corrections. We are not averse to increasing duration during periods of Treasury selloffs and will continue to reduce floating-rate bank loan exposure.

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 High Yield Fund — S share	6.36	11.93	11.93	1.55	4.29	3.62	4.62
- Expense ratio: 0.54%; Incept. date 10/31/1997							
Bloomberg U.S. Corp Hi Yld Bd Index	7.16	13.45	13.45	1.98	5.37	4.60	
Morningstar High Yield Bond Avg	6.21	12.08	12.08	1.88	4.70	3.68	

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Top 10 Holdings (excluding derivatives and cash) 7.37% of Fund, as of Nov 30 2023: SPDR Bloomberg Sh-Tm HY Bd ETF: 2.19%, Herc Holdings, Inc.: 0.68%, Albertson's Cos, Inc.: 0.62%, H&E Equipment Srvcs, Inc.: 0.59%, SS&C Tech, Inc.: 0.58%, Tenet Healthcare Corp: 0.57%, 1011778 B.C., ULC/New Red Finance Inc: 0.56%, Teva Pharma Fin Netherlands III BV: 0.53%, Gray Escrow II, Inc.: 0.53%, GFL Environmental, Inc.: 0.52%

Any indexes shown are unmanaged and do not reflect the typical costs of investing. Investors cannot invest directly in an index.

Bloomberg US Corporate High Yield Bond Index measures the performance of fixed-rate non-investment grade 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: High yield securities are subject to increased credit risk as well as liquidity risk. 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. Convertible securities are subject to additional risks and may also be forced to convert at an inopportune time which may decrease returns. The use of derivatives such as futures involves additional risks and transaction costs. Foreign investments involve additional risks, such as currency fluctuations and political, economic and market instability. The Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. Leveraged loans also known as bank loans are subject to numerous risks. 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. When interest rates fall, certain obligations will be paid off more quickly and proceeds may have to be invested in securities with lower yields. 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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