THRIVENT MUTUAL FUNDS

SEPTEMBER 30, 2018

OUR VIEW

Market perspectives from Thrivent Asset Management

Summary

EQUITIES

- Domestic equities had a solid third quarter, with the S&P 500 gaining 8%, bringing its year-to-date advance to 11%. Every sector produced positive returns in the quarter, led by Healthcare, up 15%, Industrials, up 10%, and Technology, up 9%.
- Bolstering the strong performance was earnings growth that exceeded expectations, even after accounting for the effects of reduced corporate tax rates.
- Growth continued to dominate Value in the quarter, while Large Cap exceeded Small Cap after the latter's strong first half performance.
- Globally, the U.S. outperformed aggregates for the Developed and Emerging markets (in dollar terms) in the 3rd quarter. Japan and Europe were up 4% and 1%, respectively, while China lost almost 8%.
- Looking to 2019, we look for 10-15% earnings per share growth, benign inflation trends and a gradual increase in interest rates to keep equity markets biased upward.

FIXED-INCOME

- Fixed-income assets posted mixed results in the 3rd quarter, with credit sectors and risk generally outperforming. Interest rates rose, but the impact was offset in credit sectors by income and lower credit spreads.
- The Treasury yield curve continued to flatten with short-term interest rates up the most, tracking the increase in the Federal Reserve's target rate. The Fed raised rates once in the 3rd quarter, the eighth 0.25% increase since December 2015.
- Riskier and lower-quality fixed-income sectors generally outperformed, including high yield, leveraged loans and emerging markets debt, all returning around 2%.
- Investment-grade corporates posted a 1% return, while high-quality mortgages were about flat, and Treasuries were negative due to higher rates.
- Municipal bonds were roughly even on the quarter while high-yield municipals rose about 1%.
- We expect short-term rates to continue to rise and the Treasury curve to flatten over time with further rate increases by the Federal Reserve.

Strategic Tactical

Asset Allocation Views: Current Outlook

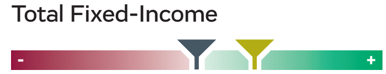
Tactical vs. Strategic Position

EQUITY VS. FIXED INCOME

We retain a small underweighting to our long-term strategic allocation to stocks, reflecting our belief that valuations and growth trends hold limited capacity to improve materially from current healthy levels. Domestic economic resilience, margin structures and policy have proven to be longer-lasting influences than we had expected and continue to trend positively, but we consider the downside risks in the current environment of trade tensions and global slowing to merit a stance that tilts toward caution.

Total Equity

Total Fixed-Income



Equities

U.S. VS. INT'L

We maintain our underweighting in international developed markets relative to the U.S. as slowing and disappointing economic measures (especially in Europe and the emerging markets) result in moderating earnings expectations. These trends are exacerbated by a strong dollar, rising energy prices and greater exposure to key export markets, including China. While valuations have shrunk meaningfully, and values could emerge from a stabilization of the trading environment or trading weakness in the dollar, we think it best to get better visibility on trade and economic stabilization before increasing exposure to most international markets relative to the United States.

U.S.

International

Strategic · Tactical

Asset Allocation Views: Current Outlook *(cont'd)*

Tactical vs. Strategic Position

MARKET CAP

We remain largely neutral relative to our strategic splits between large and mid/small caps, and the valuation disparities between the two groups are no longer a compelling point of differentiation. Small business optimism is near record highs, and domestic-focused stocks (a category to which most small caps belong) have outperformed those that are foreign-focused for most of 2018. However, earnings growth among small caps has been disappointing relative to earlier expectations, and the group remains heavily leveraged relative to large caps—a growing concern in a rising rate environment. Rising wage rates would also pose a greater danger to small-cap profitability relative to large caps.

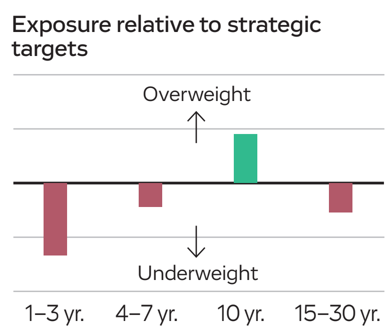
Fixed Income

DURATION

We expect shorter-term interest rates to continue to rise as the Federal Reserve tightens monetary policy into 2019. U.S. economic growth remains robust, and inflation has reached the Fed's 2% target. Strong economic growth and additional tightening in the labor market should lead to higher wages and inflationary pressures. Also, deficit spending and the resulting increase in Treasury supply could pressure rates higher over time. While we expect short-term rates to rise, we do not expect longer-term rates to rise dramatically given still low global rates, concerns over trade frictions, and flight-to-quality demand for Treasuries during bouts of market volatility. Overall, the risk/return of longer duration bonds in a low-yield environment is not favorable. Floating-rate bonds and short- to intermediate-maturity bonds are currently more attractive.

YIELD CURVE

The Treasury yield curve has flattened significantly in 2018 as the Federal Reserve has continued to raise its target interest rate. Increases in the federal funds target rate typically impact short-term interest rates more than longer maturity rates, which drives the yield curve flatter. We expect the flattening trends to continue over time as the Fed raises rates in response to a strong economy and tightening labor market. The curve could steepen, however, if the Fed slows increases in rates in response to concerns such as weakening growth, a strong dollar and trade frictions. The curve also could steepen if investors demand greater compensation on longer-dated Treasuries for uncertainties over long-term inflation risks. Higher deficits pose an additional risk, since a greater supply of Treasuries could pressure rates higher at the long end of the curve, especially if demand lessens at the same time. While we expect curve volatility and episodes of steepening, we also expect the curve to flatten longer term, potentially inverting.



CREDIT QUALITY[1]

Lower-quality fixed income moderately outperformed through the first three quarters of 2018, largely due to greater income returns. Below investment-grade corporate bonds (high yield) and leveraged loans posted higher returns than more interest-rate sensitive and high-quality sectors, such as Treasuries and investment-grade corporates. While we are cautious on lower-rated corporate credit over the longer term given high debt levels and greater default risks, we remain neutral on quality as recession risks are muted in the near-term and corporate fundamentals such as earnings remain solid. Also, yields are more attractive with the move higher in interest rates. Valuations of most credit-oriented sectors, however, are rich relative to longer-term historical levels.

[1] Credit Quality ratings are determined by credit rating agencies Moody's Investor Services, Inc. or Standard & Poor's Financial Services, LLC.

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