MARCH 31, 2019

OUR VIEW
Market perspectives from Thrivent Asset Management

Summary

EQUITIES
• Domestic equities rallied strongly in the first quarter, with the S&P 500 jumping 13.7%. Only the Real Estate, Information Technology, Consumer Discretionary and Consumer Staples all returned over 4% for the quarter.
• International markets also fared quite well with the MSCI EAFE Index up 10.0% and the MSCI EM Index up 9.9%.
• The equity market rebound followed sharp declines in the fourth quarter of 2018; January was the strongest month, February also provided gains, but March was relatively muted.
• Investors seem to be increasingly concerned with the outlook for economic growth, particularly globally. European countries are seeing a significant slowdown, as is China as the cloud of tariff disputes remains.
• We are monitoring these issues closely and have taken a modestly defensive position in our equity portfolios, but at this point, we feel the most likely course is stabilization of global growth and perhaps even a pickup as the year progresses.

FIXED-INCOME
• Fixed-income asset classes generally delivered strong results in the first quarter as the Federal Reserve (Fed) announced that it expects a relatively long delay in further rate hikes, which caused intermediate and long-term Treasury prices to rise and yields to fall.
• The Bloomberg Barclays US Aggregate Bond Index was up 2.9%. Other fixed-income asset classes got into the act, too, with high yield bonds up 7.3%, investment-grade corporate bonds up 5.1% and municipal bonds up 2.9%.
• The falling Treasury yields actually caused an inversion to the yield curve, with three-month Treasuries yielding more than 10-year Treasuries. Yield curve inversions often precede recessions, but the lead times can be substantial. And not all inversions lead to recessions, particularly so if the inversion is short-lived.
• While our proprietary economic research has detected some weakness in the domestic economy, we do not have any indication at this point that we are on the cusp of serious economic decline.

Asset Allocation Views: Current Outlook

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<tr>
<th>EQUITY VS. FIXED INCOME</th>
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<td>• We maintain an underweighting to our long-term strategic allocation to stocks.</td>
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<td>• With S&amp;P 500 earnings comparisons expected to be lower and our proprietary economic models generating mixed signals, we are concerned that domestic markets could slow down.</td>
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<td>• With low volatility and sentiment measures signaling some complacency amid strong performance in the first quarter, we feel it appropriate to be positioned modestly conservative.</td>
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<th>Total Equity</th>
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<td>Tactical vs. Strategic Position</td>
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### Asset Allocation Views: Current Outlook (cont’d)

#### Equities

**U.S. VS. INT’L**
- We maintain our strategic underweighting in international markets.
- Mixed and disappointing economic measures are resulting in lower earnings expectations amidst growing fiscal risks.
- These trends have been exacerbated by a strong U.S. dollar and greater exposure to export markets.
- We believe international valuations will be attractive when earnings improve and the dollar weakens.
- We have increased our emerging market exposure, while remaining underweight international in total.

**MARKET CAP**
- Within our underweighting of equities, we favor large cap exposure relative to small/mid cap.
- Margins and earnings growth among small caps were disappointing in 2018 and are expected to remain so into 2019.
- Rising wage rates pose a greater danger to small-cap profitability relative to large caps.
- We see greater potential in large caps for buybacks and dividends, as well as greater leverage to any improvement in international trade conditions.

#### Fixed Income

**DURATION**
- Interest rates entered the second quarter at the lowest levels in more than a year amid concerns about slowing growth and tepid inflation.
- The Federal Reserve backed off expectations to raise rates this year, which helped spark the rally.
- We expect the Fed to remain on hold until there are clear signs that economic growth and inflation are picking up.
- Rates will eventually increase as global economic growth perks up.
- While we forecast rates to eventually move higher, we do not expect longer-term rates to rise dramatically.

**YIELD CURVE**
- The Treasury yield curve has continued to flatten, with portions of the curve inverting.
- An inverted curve is a sign that the market expects the Federal Reserve to eventually cut rates.
- Curve inversions have often preceded recessions, but the lead time varies greatly.
- Near-term, we expect the curve to be relatively range-bound.
- If recessionary risks continue to rise, we would expect to see the curve invert more deeply and stay inverted for a longer period of time.

**CREDIT QUALITY**
- Riskier fixed-income segments bounced back to start 2019.
- Credit spreads decreased sharply, pushing bond prices higher.
- Within high yield, lower-rated CCC bonds produced similar returns to higher-rated BB bonds, a sign that investors are being more cautious.
- Credit risks are rising with softer earnings and a slowing global economy.
- The odds of a near-term recession still appear relatively low.
- Overall, we are currently neutral on quality.

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1The S&P 500 Index is a widely followed index and is composed of 500 widely held U.S. large-cap stocks.
2The MSCI EAFE Index measures developed-economy stocks in Europe, Australasia and the Far East.
3The MSCI EM Index measures emerging-economy stocks.
4The Bloomberg Barclays US Aggregate Bond Index measures a wide variety of investment-grade U.S. bonds.
5Credit Quality ratings are determined by credit rating agencies Moody’s Investor Services, Inc. or Standard & Poor’s Financial Services, LLC.

Past performance is not necessarily indicative of future results.

The Senior Investment Team is discussing the asset classes, sectors and portfolios they oversee at a macroeconomic level. The views expressed are as of the date given unless otherwise noted and may change as market or other conditions change, and may differ from views expressed by other Thrivent Asset Management associates. Actual investment decisions made by Thrivent Asset Management will not necessarily reflect the views expressed. This information should not be considered investment advice or recommendations of any particular security, strategy or product.

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