THRIVENT ASSET MANAGEMENT

Market Update from Thrivent

April 7, 2020

Mark Simenstad, CFA
Chief Investment Strategist,
Thrivent Asset Management

Recent price action in the equity market supports the notion that positive news on the COVID-19 infection statistics will be accompanied by rising stock prices. Monday saw glimmers of hope that the infection and death rate curves may be flattening in Europe. Meanwhile, the best that can be said of the tragedy in New York is that it isn't getting overwhelmingly worse. Stocks surged 7% Monday and were only very slightly down today on this news. As of now, COVID-19 statistics remain the single biggest factor influencing markets.

As we have said repeatedly, volatile markets will be the norm for a while longer. Over the last 21 trading days, the stock market has seen 47 moves of 3% either higher or lower. Yes, this implies we have experienced many days where the market has moved in increments of at least 3% more than once during the day. This type of intraday volatility is why fixating on market swings, trying to time entry or exit points, is a fruitless endeavor.

The "VULI" question

Investors, market analysts and even economists frequently use letters of the alphabet – "V", "U", "L" and "I" – as shorthand to describe the various possibilities for the direction of economic activity and/or markets. Below is a description—and our view—of prospective "VULI" paths that the economy and investors are facing.

- "V" describes a swift, but relatively short decline, followed by an equally swift recovery and ascent. The economy and markets followed this pattern at the end of 2018 and into 2019. The downside was driven by a manufacturing and capital spending slowdown induced by trade frictions. It seems quite unlikely this path will be followed again in 2020. The economic impact from global economies being shut down, tens of millions of people unemployed (at least temporarily), and plummeting consumer and business confidence are too much to overcome. A "V" pattern is typical in an economic slowdown accompanied by a market correction, not in a recession and bear market.

- "U" describes a steep decline in economic activity and markets due to a recessionary environment. Recessions typically take more time to work through, as markets work off and reprice the excesses of the previous cycle. They involve a longer bottoming process and a series of bear market rallies in the capital markets before a durable economic recovery can be established. We believe that the ultimate recovery in the economy and the markets in 2020 will follow this "U"-shaped path.

- "L" describes a steep decline in economic activity followed by a long period of stagnation. This type of pattern is less frequent. It's an environment of a recession followed by poor economic policies and/or secular shifts in demographics or other economic variables. A good example of an "L" is the economy and

markets of the 1970s that were driven by OPEC price shocks. An "L" pattern seems much less likely given that the economy did not appear to have significant imbalances before this crisis hit. Furthermore, significant government policies have already been enacted to respond to the economic challenges created by the government-mandated closures of large sectors of the economy.

- "I" describes a scenario like the Great Depression. Fortunately, with the multitude of automatic economic stabilizers, such as unemployment insurance, and an economy that is now far more flexible and oriented around services rather than cyclical manufacturing, another depression seems highly unlikely.

"U" recovery seems likely

The "U"-shaped recovery seems the most likely path as the global economy comes out of this crisis. Economic statistics will soon show the breadth and depth of the near-term damage from the coronavirus pandemic. It's wishful thinking to presume that once the contagion has been significantly reduced or even eliminated, economic activity will immediately bounce back to pre-crisis levels, forming a "V"-shape recovery. Business and consumer confidence will take time to recover from the shock of this event. However, the more ominous "L" or certainly "I" scenarios seem overly pessimistic. The economy was on relatively solid footing before the crisis, the banking system was in strong shape, and market valuation—although somewhat stretched—was not excessive. Investors should also not underestimate the degree to which fiscal and monetary policy has aimed to provide a bridge to economic stability later this year and into the next. In fact, even more support from a policy perspective is being considered.

It takes patience and discipline to weather "U"-shaped recoveries. We are striving to adhere to our discipline of patiently and systematically rebalancing portfolios, while carefully examining and taking advantage of market opportunities to help our members and shareholders achieve their long-term goals.

All information and representations herein are as of April 7, 2020 unless otherwise noted.

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Media contact: Samantha Mehrotra, 612-844-4197; samantha.mehrotra@thrivent.com

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