Thrivent Asset Allocation Funds

Q1 2025 Commentary

TAAIX, TMAFX, TMAIX, TCAIX, THYFX (Class S) • March 31, 2025

Management

Stephen Lowe, CFA
Chief Investment Strategist
Industry: 1996
Firm: 1997
Fund: 2016

David Royal
Chief Investment Officer, Chief Financial Officer
Industry: 1997
Firm: 2006
Fund: 2018

David Spangler, CFA
Head of Mixed Assets & Market Strategies
Industry: 1989
Firm: 2002
Fund: 2019

Executive Summary

- 1Q performance was negative with relative performance ranging from -2.12% to -0.73%.
- 1-year performance was weak owing to the weak first quarter this year, with relative performance ranging from -1.91% to -0.46%.
- Fixed-income performance was roughly neutral in the Asset Allocation funds outside of the Conservative Fund, which underperformed.

Performance factors

For the quarter, top-level strategic and tactical allocations were negative contributors. The approximate 2% public equity overweight was negative with equity market performance trailing fixed income by about 5%. The approximate 6% overweight to domestic was the largest detractor from performance, as domestic markets trailed international, and especially Europe, but more than 13%. Overweight mid caps modestly added to performance as mid caps were the least negative market cap segment, while the modest underweight to small caps added to performance with small trailing large by more than 5%. Managers in aggregate underperformed their respective benchmarks.

February and March were very poor reversing all the prior 10 months' strong performance. Top-level strategic and tactical allocations were negative contributors overall. The approximate 6% overweight to domestic was slightly positive. Overweight mid caps detracted with mid underperforming large by about 6%, but the modest underweight to small caps added to performance as small trailed large by 12%. The overweight to growth and large cap tech was a strong contributor to performance. In early January, equity was reduced by 1.5%.

In the first quarter long to intermediate interest rates fell across the Treasury curve, while very short-term rates inside of two years were anchored by the Federal Funds rate. The Federal Reserve (Fed) held its target rate range steady at 4.25% to 4.5%. The widely followed 2-year to 10-year Treasury curve was essentially unchanged with both the 2-year rate and 10-year rate falling. Corporate credit spreads widened in the quarter amid broader market volatility and down equity markets. High-yield and investment grade corporate credit spreads, however, remained relatively tight versus long-term averages but began to widen materially early in the second quarter with the announcement of widespread tariffs. Emerging markets spreads were little changed while mortgage spreads tightened.

Fixed income in the first quarter for the Asset Allocation funds outside of the Conservative Fund returned 2.47%, which was roughly even with the estimated performance of fixed income in the Morningstar peer group. Positives include an overweight to investment grade corporates and an underweight to high yield. Selection also was positive within corporate bonds. Emerging markets debt underperformed as did securitized assets. Interest rate positioning was modestly positive.

Fixed income within the Conservative Allocation Fund underperformed with a return of 2.16% as it was overweight high yield corporates and underweight U.S. Treasuries. High yield corporates lagged higher-quality fixed income. In the quarter credit risk in the Asset Allocation funds was reduced moderately as spread levels were rich.

Portfolio outlook

The year began with great optimism for pro-growth policies such as tax cuts, deregulation and reducing the size of the Federal deficit. However, trade wars have cast a pall on the market that was already weakening since mid-February. While economic growth, jobs and retail sales remain firm, the market is forward looking and concerned with the magnitude of tariffs and tariff retaliation causing a material slowing of global growth. We have capacity to add risk, likely in equity, and will look for entry points as we see seller exhaustion and a bottom forming.

We maintain our long-term strategic underweight to international, primarily in Europe and emerging markets. European growth, especially France and Germany, remains significantly challenged and China's stimulus has only modestly supported growth. Trade wars, while challenging for the US, are more challenging for Europe, China, etc. who are materially more dependent on exports. Our positioning of modestly underweight small caps is supported by their materially higher debt levels than large caps and negative earnings growth. In the event of small cap performance gaining on large caps, we would look to further reduce our small cap positions.

Within fixed income we expect continued volatility with high levels of economic and trade policy uncertainty along with shifting policy stances, particularly in relation to tariffs. The economy was solid heading into the second quarter, but the odds of a recession have increased materially with tariffs likely to deliver a stagflationary impulse by increasing inflation and dampening growth. Rising productivity, capital investments related to artificial intelligence and deregulation remain tailwinds. We expect inflation to remain sticky with pressure from tariffs and supply disruptions. As a result, we expect the Fed to move slowly and remain on hold in the near term with the initial rate cuts likely in the second half of the year. Rate hikes are unlikely, but still possible if higher inflation expectations become ingrained. Should the economy tip into a recession more rapid cuts are likely.

We expect continued interest rate volatility. Short-term Treasury rates should gradually follow the Fed Funds rate lower, while long-term rates face conflicting forces with slowing growth pushing rates lower as investors seek safety while any inflation uptick will pressure rates higher along with ongoing large deficits. We lean toward high-quality fixed income such as investment-grade corporates. We are watching for opportunities to add credit risk should spreads widen materially.

Performance

For the period ending March 31, 2025 | Periods less than one year are not annualized.

Average annualized returns (%)	3 months	YTD	1 year	3 years	5 years	10 years	Expense ratio Gross	Expense ratio Net
Thrivent Aggressive Allocation Fund[1] (TAAIX)	-3.55	-3.55	3.01	4.90	14.23	8.60	1.19%	1.02%
Thrivent Moderately Aggressive Allocation Fund[1] (TMAFX)	-2.15	-2.15	4.13	4.60	11.32	7.31	1.14%	0.91%
Thrivent Moderate Allocation Fund[1] (TMAIX)	-1.70	-1.70	4.69	4.38	9.41	6.31	1.03%	0.83%
Thrivent Moderately Conservative Allocation Fund[1] (TCAIX)	0.14	0.14	4.73	3.00	5.75	4.44	0.96%	0.80%
Thrivent Conservative Allocation Fund[2] (THYFX)	0.71	0.71	5.62	2.80	6.05	4.02	0.70%	0.70%

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[1]The Adviser has contractually agreed, for as long as the current fee structure is in place, to waive certain investment advisory fees associated with the Fund. If not waived, returns would have been lower. Refer to the Fees & Expenses table in the prospectus.

[2]Prior to Feb. 28, 2025, Thrivent Conservative Allocation Fund was named Thrivent Diversified Income Plus Fund.

Risks: The value of the Funds is influenced by a number of factors, including the performance of the broader market, the effectiveness of the Adviser's allocation strategy, and risks specific to the Funds' asset classes, market cap groups, investment styles, and issuers. 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 Funds invest in other funds; therefore, the Funds are dependent upon the performance of the other funds and are subject to the risks, additional fees and expenses of the other funds. Foreign investments involve additional risks, such as currency fluctuations and political, economic and market instability, which may be magnified for investments in emerging markets. The Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. The Adviser is also subject to actual or potential conflicts of interest. The use of quantitative investing techniques and derivatives (such as futures) also involve risks. High yield securities are subject to increased credit risk as well as liquidity risk. U.S. government securities and mortgage-related and other asset-backed securities are subject to additional risk. When interest rates fall, certain obligations are paid off more quickly and proceeds may have to be invested in securities with lower yields. These and other risks are described in the prospectus.

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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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