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Mutual Funds

Thrivent Asset Allocation Funds

Q1 2022 Commentary

TAAIX, TMAFX, TMAIX, TCAIX (Class S) • March 31, 2022

Management

Stephen Lowe, CFA
Chief Investment Strategist

Industry since: 1996
Thrivent since: 1997
Fund since: 2016

David Royal
Chief Investment Officer

Industry since: 1997
Thrivent since: 2006
Fund since: 2018

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

Executive Summary

• For the first quarter, equity performance within the Funds lagged from -0.60% to -0.67%, with the exception of Thrivent Aggressive Allocation Fund which outperformed approximately +0.86%.
• Fixed Income within the asset allocation funds was strong both in the first quarter and the trailing 12 months.
• Interest-rate positioning was the largest contributor to the first quarter's relative performance.
• We remain positioned for higher rates and a flatter yield curve, but more moderately given current levels. We would switch to a long duration stance should it appear the Federal Reserve (Fed) has slowed the economy too much.

Performance factors

For the first quarter, performance lagged from -0.60% to -0.67%, with the exception of the Thrivent Aggressive Allocation Fund which outperformed approximately +0.86%. The approximate 2% to 3% overweight to equity did not detract from performance despite the highly volatile and negative equity markets, as fixed income also underperformed by a similar amount. The overweight to domestic aided performance only modestly as domestic and international markets underperformed by similar amounts. Within selection, positive aggregate manager performance came large-cap growth, large-cap value, and especially the small cap core manager. Within market factors, the overweight to growth detracted from relative performance with value's strong relative performance while country effects were positive driven by exposure to Western Europe.

For the trailing year, equity performance was strong. The approximate 2% to 3% overweight to equity aided relative performance as overall equity markets were positive versus fixed income for the period. The overweight to domestic provided strong relative performance as the domestic markets strongly outperformed international markets, and the underweight to emerging markets provided strong relative performance as emerging markets underperformed by more than 15%.

The fixed-income segment within the Asset Allocation funds had strong performance in the first quarter of 2022. Fixed-income market returns were mostly negative in the first quarter. Interest rates rose in response to expected rate increases by the Federal Reserve to dampen high inflation. Treasury returns were negative, varying from -2.5% for a two-year bond to -11.4% for a 30-year bond. Investment-grade bonds and Agency mortgage-backed securities (MBS) also were negative, with investment-grade corporate bonds down 7.7%. High yield fell 4.8% while leveraged loans were about flat. Emerging-markets bonds declined 9.7% due to higher rates and a plunge in Russian bonds and debt from other countries impacted by the Ukraine war.

Interest-rate positioning was the largest contributor to relative performance in the quarter. The Funds entered the quarter positioned short duration and for a flatter Treasury yield curve. An underweight to Treasuries also helped relative returns. The Funds were slightly overweight emerging-markets debt, which modestly detracted from performance.

Fixed income also performed strongly over the trailing 12-months. The largest positive contributor to relative performance was positioning for higher interest rates and a flatter yield curve. Over the last 12 months, key changes in the portfolio include shorter duration positioning to lower interest rate sensitivity. Management also increased high-yield bonds while lowering investment-grade corporate bonds, which are more sensitive to interest-rate moves.

Portfolio outlook

Thrivent Asset Allocation Funds maintain an overweight to equity at our strategic target of approximately 2% and approximately 4–5% overweight domestic to international equity. The U.S. economy remains relatively insulated with an inflation adjusted Real Gross Domestic Product (GDP) growth fastest since 1984, fueled by strong consumer spending post COVID-19, supported by a strong labor market, wage gains and historically high returns in mid cycles. There is uncertainty surrounding growth forecasts, due to the impact of supply disruptions and rising costs to businesses and consumers but the near-term risk of recession in the U.S. is relatively low. While it is not yet time to become substantially defensive (bearish), we expect a predominantly sideways trade, accompanied by higher levels of volatility, especially when contrasted with the post-shutdown rally. Additionally, within equity, we maintain an overweight to more defensive areas of the market including large-cap technology, which can benefit from a decelerating economy as growth becomes scarce.

We expect continued volatility into the second quarter as markets grapple with high geopolitical uncertainty driven by the war in Ukraine. We also expect Fed rate hikes to spark episodic volatility. On the positive side the economy remains solid with a very strong jobs market, excess savings, low consumer debt levels and increased business investment. Markets have on average performed well following the first Fed rate hike, including equities and fixed-income credit markets. We expect interest rates to continue to rise and the yield curve to flatten in the coming months, although markets already have priced in significant Fed rate increases into 2023. The key risk is that financial conditions tighten significantly over time, and the economy slows as the Fed raises rates to dampen inflation. We remain positioned for higher rates and a flatter curve, but more moderately given market pricing.

Performance

For the period ending March 31, 2022 | 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 (TAAIX)	-5.62	-5.62	7.77	13.46	11.90	10.90	1.19%	0.99%
Thrivent Moderately Aggressive Allocation Fund (TMAFX)	-5.76	-5.76	6.03	11.11	9.72	9.30	1.13%	0.89%
Thrivent Moderate Allocation Fund (TMAIX)	-5.23	-5.23	4.56	9.59	8.25	7.81	0.99%	0.79%
Thrivent Moderately Conservative Allocation Fund (TCAIX)	-5.37	-5.37	1.06	6.23	5.72	5.70	0.91%	0.77%

Financial Professionals: contact us at sales@thriventfunds.com or call 800-521-5308

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.

Risks: The value of the Funds are 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. Markets may also be impacted by domestic or global events, including public health threats, terrorism, natural disasters or similar events. 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 is 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 London Interbank Offered Rate (LIBOR) is being phased out, which brings uncertainty to instruments tied to it. The Adviser's assessment of investments and ESG considerations 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. Leverage loans, U.S. Government securities and mortgage-related and other asset-backed securities are subject to additional risk. The Funds may engage in active and frequent trading of portfolio securities, which may result in higher transaction costs and higher taxes. When interest rates fall, certain obligations will be 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.

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 are available at thriventfunds.com or by calling 800-847-4836.

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