thrivent

Mutual Funds

Thrivent Balanced Income Plus Fund

Q3 2024 Commentary

IBBFX (Class S) • September 30, 2024

Management

Stephen Lowe, CFA
Chief Investment Strategist
Industry: 1996
Firm: 1997
Fund: 2013

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

Theron Whitehorn, CFA
Senior Portfolio Manager
Industry: 2002
Firm: 2018
Fund: 2021

Executive Summary

- In the third quarter, a structural underweight to overall equity detracted from relative performance. Equity managers modestly detracted.
- Thrivent Balanced Income Plus Fund (BIP) outperformed its category average for the trailing 1-year. However, a structural underweight to overall equity detracted from relative performance. Within equity, BIP is overweight domestic over international.

Performance factors

Over the last quarter, equity market performance was nearly identical to fixed income markets. The approximate 1% overweight to domestic equity detracted from performance with domestic underperforming both developed and emerging markets. Modest underweight to small and mid (SMID) caps detracted somewhat from performance. Managers in aggregate modestly underperformed their respective benchmarks. Outperformance came from Large Cap Growth and quantitative multi-cap core managers. Within market factors, the overweight to growth detracted.

Over the last year, the approximate 1% underweight to equity detracted from performance as equity outperformed fixed income for the period by a significant amount. The approximate 1% underweight to domestic equity modestly detracted from performance with domestic outperforming developed international by about 10%. Modest underweight to mid-caps detracted from performance with mid-caps trailing large caps by about 6%. Managers in aggregate performed in line to their benchmarks. Outperformance came from strong Large Cap Growth performance, however Mid Cap Stock significantly underperformed. Within market factors, the overweight to growth added to performance with growth outperforming value by 10%. As equity markets continue to rise, we reduced equity by 0.50% mid-July, 1.0% in mid-August and 0.50% in mid-September.

In the third quarter, interest rates declined significantly across the Treasury curve as the Federal Reserve (Fed) began to lower its target rate. Short-term rates, which are most influenced by the Federal Funds rate, fell the most. Credit spreads were volatile but narrowed slightly and remained very tight.

Fixed income was positioned overweight credit risk and moderately long interest rate exposure. Interest rate and Treasury curve positioning contributed positively to relative performance, as the Fund was long duration. Other positives included overweight positions in convertible and preferred securities. Additional positive contributions included selection within agency pass-through mortgage-backed securities (MBS), an underweight to Treasuries, an overweight to emerging markets debt, and investment-grade corporate selection. Negative factors included an overweight to non-agency mortgages and an underweight to leveraged loans.

For the trailing twelve months, positive contributors to relative performance were strong selection within securitized assets, including agency and non-agency MBS and collateralized loan obligations (CLOs). Other positives included overweight positions in convertible and preferred securities, closed-end funds and emerging markets debt, and strong selection within emerging markets debt. Negatives included underweight positions in leveraged loans and investment-grade corporates, high yield selection, and overweight positions in securitized assets and cash. We decreased risk as credit spreads tightened to very rich levels. We significantly lowered leveraged loans while increasing agency and non-agency mortgages, investment-grade and high-yield corporates, and emerging markets debt. The strategy is to control duration with Treasury futures while holding high yield bonds, essentially replicating floating-rate loans but with more liquidity. Additionally, we increased duration.

Portfolio outlook

The economy appears to be at a tipping point, with a soft landing the base case but with the potential for a sharp slowdown or recession. Overall, economic growth remains solid and lower interest rates should help support growth. We expect inflation to continue its descent, but the path is likely to be bumpy with setbacks given stickier core services inflation, especially housing costs. Lower inflation has allowed the Federal Reserve to pivot from a primary focus on fighting inflation to lowering its target interest rates to support the labor market. We expect the Fed to continue to lower the Fed funds rate. Treasury rates should follow Fed Funds lower, with short rates falling more. Credit spreads remain rich versus history with limited room to materially tighten further. We lean toward high-quality fixed income such as investment-grade corporates. While we are cautious at current valuations, we are watching for opportunities to add credit risk should spreads widen materially.

We maintain our underweight to international primarily in Europe and emerging markets. China's recent stimulus announcements brings the 2024 year-to-date total to almost $1.1 trillion (~6% of gross domestic product - GDP) if fully implemented. Equity markets in China have responded very strongly, contributing to recent strength in the emerging markets index. However, the recent stimulus in China remains relatively small versus GDP and even if stimulus is increased, very significant current and longer-term structural issues remain. These include a material decline in working age population, massive oversupply of housing, and negative foreign direct investment as the predictability of doing business in China has declined. Europe continues to struggle, with weak GDP growth, declining industrial production, and declining employment growth. Domestically, we are overweight large and mid caps, and modestly underweight small caps. In the absence of a strong catalyst that can support renewed economic growth, large caps will likely maintain investor preference given superior earnings growth and materially higher quality.

Performance

For the period ending September 30, 2024 • Periods less than one year are not annualized.

Average annualized returns (%)	3 months	YTD	1 year	3 years	5 years	10 years	Since Inception
Thrivent Balanced Income Plus Fund — S share	5.43	10.04	18.83	3.32	6.47	5.83	6.02
- Expense ratio: 0.78%; Incept. date 12/29/1997							
MSCI World Index - USD NR	6.36	18.86	32.43	9.08	13.04	10.07	
Bloomberg MBS Index	5.53	4.50	12.32	-1.20	0.04	1.41	
Bloomberg U.S. Hi Yld Ba/B 2% Issuer Capped Index	4.36	6.93	14.62	2.74	4.45	4.95	
Morningstar Moderately Conservative Allocation Avg	5.44	9.71	18.31	2.61	5.13	4.73	

Learn more: thriventfunds.com • Advisors: 800-521-5308 | sales@thriventfunds.com • Investors: 800-847-4836 | contact your advisor

Top 10 Holdings (excluding derivatives and cash) 20.53% of Fund, as of Aug 30 2024: Thrivent Core Int'l Eq Fd: 7.05%, Thrivent Core EMD Fd: 4.96%, FNMA 30-Yr Pass-Thru: 1.62%, Microsoft Corp: 1.26%, Apple, Inc.: 1.19%, NVIDIA Corp: 1.14%, U.S. Treasury Bds: 0.93%, U.S. Treasury Notes: 0.83%, FNMA 30-Yr Pass-Thru: 0.79%, Alphabet, Inc., Class C: 0.76%

Any indexes shown are unmanaged and do not reflect the typical costs of investing. Investors cannot invest directly in an index.

MSCI World Index - USD Net Returns represents large- and mid-cap stocks in 23 developed-market countries.

Bloomberg Mortgage-Backed Securities Index represents the performance of securities backed by pools of mortgages.

Bloomberg US High Yield Ba/B 2% Issuer Capped Index represents the performance of Ba or B-rated corporate bond market. Issuers are constrained to a maximum 2% weighting.

The Morningstar average represents the average total return annualized when greater than one year for all reported funds in the category. Morningstar averages do not include sales charges/fees. If included, returns would have been lower.

Risks: The Fund's value 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 Fund's 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 Adviser is also subject to actual or potential conflicts of interest. The use of derivatives (such as futures) involves additional risks and transaction costs. Foreign investments involve additional risks, such as currency fluctuations and political, economic and market instability, which may be magnified for investments in emerging markets. High yield securities are subject to increased credit risk as well as liquidity risk. The Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. Sovereign debt and mortgage-related and other asset-backed securities are subject to additional risks. When bond inventories are low in relation to the market size, there is the potential for decreased liquidity and increased price volatility. The Fund invests in other funds; therefore, the Fund is dependent upon the performance of the other funds and is subject to the risks, additional fees and expenses of the other funds. When interest rates fall, certain obligations are paid off more quickly and proceeds may have to be invested in securities with lower yields. The use of quantitative investing techniques also involves risk. 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 and summary prospectuses are available at thriventfunds.com or by calling 800-847-4836.

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