THRIVENT ASSET MANAGEMENT

Thrivent View on Current Market Decline

Oct. 11, 2018

Mark Simenstad, CFA, Chief Investment Strategist
Darren Bagwell, CFA, Chief Equity Strategist
Steve Lowe, CFA, Head of Fixed-Income

Global equity markets have experienced declines since the beginning of October, accelerating into their weakest performance of the month on Wednesday, Oct. 10. A multitude of factors contributed to this sell off. Trade friction, especially with China, and rising bond yields—catalyzed by stronger inflation measures and hawkish commentary about the path of future rate hikes by Federal Reserve Chairman Jerome Powell—seem to be the most notable catalysts. Other contributing factors were uncertainty over continued profit growth as the market awaits third-quarter earnings results; political uncertainty given the upcoming midterm election and its implication for policy; and finally, faltering market leadership from big technology stocks. However, a very simple reason for this sell off may be that the market was due for a pullback after a somewhat surprisingly strong recovery from the February correction—a view supported by the relative stability of bonds and spreads despite the equity market volatility.

At the beginning of the year, we used the phrase "cautiously optimistic" for our view of the economy and the markets. However, we also thought that the extended period of extremely low volatility would not persist and that investors should have reduced return expectations relative to the past few years. As the year has progressed, this has proved to be an accurate characterization of the market. The S&P 500 and NASDAQ are up approximately 4% and 7%, respectively, year to date through October 10, despite a sharp 10% correction in the first quarter.

We feel that after the recent rate increase, markets repriced expectations; longer-term rates will stay in range, and if they were to increase much more, the markets would react negatively, creating a flight to quality. The Federal Reserve will likely stop raising rates at around 3.5%, at which point the 10-year Treasury should not be far off, as the curve typically is flat to inverted then. A spike in inflation is the key risk to this view, but the Consumer Price Index today looked a bit soft.

Looking ahead, we see no reason to change this view. Economic growth is surprisingly strong, inflation measures are not accelerating, and corporate profits have been excellent. Importantly, the risks mentioned above persist and could easily become more prevalent as the year winds to a close. Volatility has increased and could easily lead to further market weakness. However, we do not presently see the need to move to a substantially more defensive position. As always, investors should be aware of their degree of comfort with market risk relative to their long-range goals and have their portfolios positioned in accordance with those dimensions.

All information and representations herein are as of October 11, 2018, unless otherwise noted.

Past performance is no indication of future results.

The views expressed are as of the date given, 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 a recommendation of any particular security, strategy or product.

Thrivent Asset Management, a registered investment advisor, is the asset manager for Thrivent Mutual Funds. Thrivent Distributors, LLC is the principal underwriter for Thrivent Mutual Funds. Thrivent Distributors, LLC is a registered broker-dealer and member of FINRA and SIPC.

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

2275444-10112018