THRIVENT MUTUAL FUNDS

SEPTEMBER 30, 2019

OUR VIEW

Market perspectives from Thrivent Asset Management

A look ahead: Fourth quarter 2019 outlook

What are some key factors influencing the economy and markets in the coming months?

Several unsettling factors.

- Tariff talks likely to dominate investment markets and economic headlines.
- Corporate earnings reports seem poised to disappoint.
- Global interest rates are likely to continue to move lower.
- Oil prices and other commodities are declining—but precious metals have been strong, which is often an indicator of investor nervousness.
- Brexit seems no closer to a resolution.
- Indications suggest U.S. manufacturing and industrial activity are declining.

Consumers buoy economy.

- Consumer sentiment remains positive, due to a strong labor market and wage gains.
- Tariffs are impacting corporate behavior but has not yet hampered employment.

Monetary policy still cautious.

- Central bankers are seeing pockets of weakness and risks created by the tariff issues.
- Monetary policy is becoming more accommodative around the globe.
- The Federal Reserve (Fed) has lowered rates and seem willing to go further.

Broader concern over recession risks.

- Similar increase in recession risk in 2015-16 was driven by collapse in oil prices.
- When oil recovered, risk moderated and the expansion continued.
- Now, the weakness is more broad-based.
- Resolution of the tariff issues would provide better environment, but few signs of progress there.

Asset Allocation Views: Current Outlook

Strategic | Tactical

Tactical vs. Strategic Position

EQUITY VS. FIXED INCOME

- We maintain an underweighting to our long-term strategic allocation to stocks.
- Earnings comparisons are expected to be flat or negative for 2019; 2020 consensus growth expectations are above our outlook; our proprietary economic models are still generating cautionary signals.
- However, accommodative monetary policy and low interest rates are powerful offsets and leave us comfortable with having equity exposure slightly higher than peers.

Total Equity

Total Fixed-Income

Strategic Tactical

Asset Allocation Views: Current Outlook *(cont'd)*

Tactical vs. Strategic Position

Equities

U.S. VS. INT'L

- We recently reduced our international exposure after increases earlier in the year.
- Domestic markets are relatively stronger and the higher volatility and uncertainty around global trade disputes is more harmful to the more export-driven overseas markets.
- Valuation differences between the U.S. and international markets are surprisingly low given the weaker economic and corporate earnings trends outside of the U.S.
- We continue to believe that international exposure will be crucial to future outperformance, but the volatility and event risk associated with trade disputes is simply too great relative to the better economic stability of the U.S..

U.S.

International

MARKET CAP

- We remain overweight to large caps but have reduced the magnitude.
- We also prefer mid-caps vs. small caps, but the small cap underweight has similarly shrunk.
- With the high levels of market uncertainty and the recent reversal of momentum and growth trades, we feel it prudent to reduce this significant source of positioning risk.

Lg. cap

Mid/Sm. cap

Fixed Income

DURATION

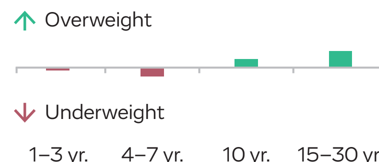
- Interest rates continued to fall to multi-year lows and the Fed cut rates twice during the quarter.
- Negative rates in Europe and Japan have driven investors to higher yielding U.S. Treasuries, pushing rates downward.
- The Fed is likely to cut rates once more in the fourth quarter and once again in 2020.
- We are maintaining a modestly long duration position to take advantage of further drops in rates, but will reduce the duration overweight if we feel the fall in rates has been overdone.

Shorter Longer

YIELD CURVE

- The Treasury yield curve flattened during the third quarter, with more parts of the yield curve inverting.
- In the past, a curve inversion has been a harbinger of a slowing economy or recession anywhere from about six months to two years out.
- The persistent curve inversion may suggest monetary policy is still too tight, which is one of the primary reasons that markets are anticipating more rate cuts.
- We are currently positioned roughly neutral to the yield curve but are open to opportunities to change our yield curve structure should opportunities arise.

Exposure relative to strategic targets



CREDIT QUALITY[1]

- Higher quality fixed-income segments outperformed in the third quarter, aided by lower interest rates, which push bond prices higher. Credit spreads were little changed.
- Accommodative monetary policy should continue to support credit-sensitive fixed-income assets while low yields in Treasuries and global fixed-income should also support demand for higher-yielding securities.
- Overall, we remain tilted slightly toward higher quality fixed-income as we are cautious on lower-rated credit due to rising debt levels and default risks.
- We would move further to higher quality credit on signs the economy is slowing more significantly.
- We would move to lower quality credit if we see signs of an upturn in global growth and lessening trade frictions.

Lower Higher

[1] Credit Quality ratings are determined by credit rating agencies Moody's Investor Services, Inc. or Standard & Poor's Financial Services, LLC.

Past performance is not necessarily indicative of future results.

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