Thornburg Income & U.S. Government Bonds

Portfolio Manager Commentary
31 December 2023

Market Review

Interest rates began the fourth quarter on the same upward march that characterized the previous few months, with the 10-year Treasury in mid and late October briefly eclipsing 5%, the highest level in over 15 years. This set the stage for a meaningful reversal, with rates rallying significantly into year-end. The broad measure of the U.S. bond market, the Bloomberg U.S. Aggregate Index, generated the highest single quarterly total return since the 2nd quarter of 1989. The interest rate rally was powered by further optimism on falling inflation, with headline CPI falling to 3.1% in December from 3.7% two months prior. Most significantly, the output from the Federal Reserve's December meeting was judged by markets to be unexpectedly dovish, with the FOMC projecting three cuts in 2024 instead of the previous forecast of two. In response, risk assets rallied strongly into the year-end, with spreads across many sub-markets moving tighter for the quarter.

Attractive yields provide an offset to tight spreads given current macro uncertainties.

Fourth Quarter 2023 Performance Highlights

- In 4Q23 the Thornburg Limited Term Income (I share class) returned 4.44%, -12 basis points behind the Bloomberg Intermediate U.S. Government/Credit Index. Year to date the portfolio (I share class) returned 6.49%, 125 basis points ahead of the Index.
- The portfolio's short duration position versus the index was a modest detractor in an environment where interest rates fell rapidly on inflation optimism and Fed dovishness. Nonetheless, positive duration contributed from a total return perspective. The portfolio held an average duration of 3.5 years for the fourth quarter.
- The allocation to investment-grade corporates was beneficial, as credit outperformed in sympathy with the broader risk rally. However, an up-in-quality bias given our defensive risk posture detracted for the quarter.
- Exposure to low-coupon MBS pass-throughs, which serve as a high-quality hedge to the portfolio's credit exposure, contributed to performance, as mortgage spreads tightened during the interest rate rally.
- Our allocation to collateralized mortgage obligations detracted, as the sector generally lagged other spread sectors during the quarter.
- Positions within asset-backed securities proved to be neither a material contributor nor detractor.

Portfolio Managers

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Supported by the entire Thornburg investment team

Current Positioning and Outlook

Markets entered calendar year 2024 grappling with two significant macro uncertainties. One is, to what extent the Federal Reserve pivots its policy and delivers on rate cuts. Second is whether the economy can successfully navigate a soft landing, or if recession still looms. Markets reacted with surprise at the Fed's dovish pause in mid-December, and there is little doubt the tone has shifted in a way that suggests a reasonable pivot ahead. However, we believe the Fed will be reluctant to cut rates in a significant way because of the still arduous task to lower core inflation back to the 2% target. While energy, goods, and even food inflation has moderated, services inflation remains resilient and is now by far the dominant driver of the CPI print.

What does this mean for the Fed? For one, services inflation is most closely aligned with wage inflation, and indeed we have seen upward wage pressures given the still tight U.S. employment market, and notable wage increases secured in the last year by unionized workers. The Powell Fed has been explicit in stating their desire to see wage gains be broad based socioeconomically, and for this reason the FOMC may very well be willing to tolerate inflation above 2% given that so much of the current CPI contribution is driven by services. With the Fed Funds upper bound at 5.5%, a full three percentage points above their median long-term projection, the Fed appears to have the flexibility to deliver cuts to navigate a soft landing while keeping rates in restrictive enough territory to keep the inflation push downward.

Regarding the second major uncertainty – recession or no recession – the headline data, in the form of real GDP and non-farm payrolls, make the persuasive case for a soft landing. We broadly disagree with this assessment. The underlying trends in the economy we believe are weaker than the headlines appear. Although the consumer by and large is still employed, credit card delinquencies nonetheless continue to rise across all age groups. The corporate balance sheet is pressured by still elevated rates, falling interest coverage ratios, and rising bankruptcies. Data shows that bank lending has tightened to levels last seen during COVID, and before that, the global financial crisis. These macro risks give us enough caution to position the portfolio defensively as these conditions play out.

We have maintained the portfolio's duration at approximately 3.5 years as rates have come down from their fall peak. The continued prospect for a pivot, and the potentially growth-challenged 2024, keep duration risk attractive versus credit risk. We plan to stay patient in reducing duration even if rates resume a downward trajectory. Meanwhile, agency mortgage-backed securities (MBS) have compelling relative value versus high grade credit. Low coupon pass-throughs in particular have attractive dollar prices and provide diversification to credit in a stressed environment. Likewise, collateralized mortgage obligations (non-agency RMBS) are attractive relative to IG credit, given a still strong housing market, low LTVs, and robust mortgage loan underwriting. In the asset-backed securities (ABS) space, our caution on the consumer has been consistent with a reduced allocation as bonds pay down, with a current focus on senior bonds that provide structural protection but offer still good yield.

Spreads within investment-grade corporates tightened to levels in the fourth quarter not seen since early 2022. Though our exposure is still somewhat meaningful, we made a modest reduction in the fourth quarter, with current holdings focused on defensive, strong cash flow businesses. Tight spreads warrant keeping our spread duration down, but we expect an active new issuer calendar in the first quarter to provide select opportunities. Within USD dollar denominated emerging markets, valuations overall appear stretched, but pockets of value exist. There is the prospect for our exposure to improve modestly given expected increased issuance during the early part of the year and the expectation for certain sovereigns to pivot to cutting cycles.

Thanks for your continued support and investing alongside us in Thornburg's fixed income products.

AVERAGE ANNUAL TOTAL RETURNS (AS OF 31 DECEMBER 2023)

THORNBURG LIMITED TERM INCOME FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	EXPENSE RATIOS (%) GROSS	NET
A Shares THIFX (Incep: 1 Oct 92)									
Without sales charge	4.37	6.27	6.27	-0.87	1.96	2.01	4.32	--	--
With sales charge	1.99	3.85	3.85	-1.61	1.66	1.86	4.27	0.77	0.77
I Shares THIIX (Incep: 5 Jul 96)	4.44	6.49	6.49	-0.59	2.25	2.33	4.65	0.51	0.49
Bloomberg Intermediate U.S. Government/Credit Index (Since: 1 Oct 92)	4.56	5.24	5.24	-1.63	1.59	1.72	4.23		

THORNBURG LIMITED TERM U.S. GOVERNMENT FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	GROSS	NET
A Shares LTUSX (Incep: 16 Nov 87)									
Without sales charge	4.25	3.85	3.85	-2.10	0.18	0.58	4.00	--	--
With sales charge	1.95	1.51	1.51	-2.85	-0.13	0.43	3.96	0.92	0.92
I Shares LTUIX (Incep: 5 Jul 96)	4.43	4.25	4.25	-1.82	0.46	0.89	4.35	0.62	0.62
Bloomberg U.S. Government Intermediate Index (Since: 16 Nov 87)	3.97	4.30	4.30	-1.83	1.03	1.24	4.71		

THORNBURG ULTRA SHORT INCOME FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	GROSS	NET
A Shares TLDAX (Incep: 30 Dec 13)									
Without sales charge	1.66	5.57	5.57	1.87	2.48	1.84	1.84	--	--
With sales charge	-0.63	3.19	3.19	1.10	2.16	1.68	1.68	1.05	0.50
I Shares TLDIX (Incep: 30 Dec 13)	1.71	5.78	5.78	2.07	2.66	2.03	2.03	0.60	0.30
ICE BofA U.S. Treasury Bill Index (Since: 30 Dec 13)	1.41	5.09	5.09	2.14	1.90	1.27	1.27		

Returns for less than one year are not annualized. ITD is inception to date.
Class I shares may not be available to all investors. Minimum investments for the I share class may be higher than those for other classes.

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than quoted. For performance current to the most recent month end, visit thornburg.com or call 877-215-1330. The maximum sales charge for the Fund's A shares is 2.25%. There is no up-front sales charge for class I shares. Thornburg Investment Management and/or Thornburg Securities LLC have contractually agreed to waive fees and reimburse expenses through at least February 1, 2025, for some of the share classes; these are reflected in the net expense ratio. For more detailed information on fund expenses and waivers/reimbursements, please see the fund's prospectus.

Important Information

Unless otherwise noted, the source of all data, charts, tables and graphs is Thornburg Investment Management, Inc., as of 31 December 2023.

The views expressed are subject to change and do not necessarily reflect the views of Thornburg Investment Management, Inc. This information should not be relied upon as a recommendation or investment advice and is not intended to predict the performance of any investment or market.

Investments carry risks, including possible loss of principal. Portfolios investing in bonds have the same interest rate, inflation, and credit risks that are associated with the underlying bonds. The value of bonds will fluctuate relative to changes in interest rates, decreasing when interest rates rise. Unlike bonds, bond funds have ongoing fees and expenses. Investments in mortgage-backed securities (MBS) may bear additional risk. Investments in the Fund are not FDIC insured, nor are they bank deposits or guaranteed by a bank or any other entity.

There is no guarantee that the Fund will meet its investment objectives.

Basis Point (bp) – A unit equal to 1/100th of 1%. 1% = 100 basis points (bps).

U.S. Treasury securities, such as bills, notes and bonds, are negotiable debt obligations of the U.S. government. These debt obligations are backed by the "full faith and credit" of the government and issued at various schedules and maturities. Income from Treasury securities is exempt from state and local, but not federal, taxes.

Fed Funds Rate - The interest rate at which a depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight.

Federal Open Market Committee (FOMC) - The branch of the Federal Reserve Board that determines the direction of monetary policy. The FOMC is composed of the board of governors, which has seven members, and five reserve bank presidents. The president of the Federal Reserve Bank of New York serves continuously, while the presidents of the other reserve banks rotate their service of one-year terms.

Consumer Price Index (CPI) - Index that measures prices of a fixed basket of goods bought by a typical consumer, including food, transportation, shelter, utilities, clothing, medical care, entertainment and other items. The CPI, published by the Bureau of Labor Statistics in the Department of Labor, is based at 100 in 1982 and is released monthly. It is widely used as a cost-of-living benchmark to adjust Social Security payments and other payment schedules, union contracts and tax brackets. Also known as the cost-of-living index.

Gross Domestic Product (GDP) - A country's income minus foreign investments: the total value of all goods and services produced within a country in a year, minus net income from investments in other countries.

A bond credit rating assesses the financial ability of a debt issuer to make timely payments of principal and interest. Ratings of AAA (the highest), AA, A, and BBB are investment-grade quality. Ratings of BB, B, CCC, CC, C and D (the lowest) are considered below investment grade, speculative grade, or junk bonds.

Credit Spread/Quality Spread - The difference between the yields of securities with different credit qualities.

Duration - A bond's sensitivity to interest rates. Bonds with longer durations experience greater price volatility than bonds with shorter durations.

Yield Curve - A line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates.

Asset-backed Security (ABS) - A security whose value and income payments are derived from and collateralized (or "backed") by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets.

Mortgage-backed Security - A type of asset-backed security that is secured by a mortgage or collection of mortgages. These securities must be grouped in one of the top two ratings as determined by a accredited credit rating agency and usually pay periodic payments that are similar to coupon payments. The mortgage must have originated from a regulated and authorized financial institution.

Mortgage Pass-Through - A security consisting of a pool of residential mortgage loans. Payments of principal, interest and prepayments are "passed through" to investors each month.

RMBS (Residential Mortgage Backed Securities) - A type of mortgage-backed debt securities where the cash flows are derived from residential mortgages.

ICE BofA U.S. Treasury Bill Index tracks the performance of US dollar denominated US Treasury Bills publicly issued in the US domestic market.

The Bloomberg Intermediate U.S. Government/Credit Index (BBG Int US Govt/Credit TR Value) is an unmanaged, market-weighted index generally representative of intermediate government and investment-grade corporate debt securities having maturities from one up to ten years.

The Bloomberg U.S. Government Intermediate Index (BBG US Govt Int TR Value) is an unmanaged, market-weighted index generally representative of all public obligations of the U.S. Government, its agencies and instrumentalities having maturities from one up to ten years.

The Bloomberg U.S. Aggregate Index (BBG US Agg TR Value) is composed of approximately 8,000 publicly traded bonds including U.S. government, mortgage-backed, corporate and Yankee bonds. The index is weighted by the market value of the bonds included in the index.

The performance of any index is not indicative of the performance of any particular investment. Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index.

Not FDIC Insured. May lose value. No bank guarantee.

Before investing, carefully consider the Fund’s investment goals, risks, charges and expenses. For a prospectus or summary prospectus containing this and other information, contact your financial advisor or visit thornburg.com. Read them carefully before investing.

Thornburg is a global investment firm delivering on strategy for institutions, financial professionals and investors worldwide. The privately held firm, founded in 1982, is an active, high-conviction manager of fixed income, equities, multi-asset solutions and sustainable investments with $42.9* billion in total assets across mutual funds, institutional accounts, separate accounts and UCITS.

*Includes assets under management ($41.8B) and assets under advisement ($1.1B).

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