Thornburg Income & U.S. Government Bonds

Portfolio Manager Commentary
31 December 2024

Thornburg

Market Review

The fourth quarter of 2024 proved challenging for fixed income investors, as a surprising surge in government bond yields overshadowed the Federal Reserve's rate cuts. Despite the easing of monetary policy, the resilience of the U.S. economy and persistent inflation fueled expectations of a less accommodative stance in the future, driving yields higher and leading to negative returns across fixed income assets. Most U.S. indexes finished in negative territory for the quarter but were positive on the year. The 10-year Treasury yield climbed 79 basis points during the quarter which reflected the market's anticipation of sustained economic strength and potential inflationary pressures. While shorter-term bonds saw some benefit from the Fed's actions, the overall sentiment in the fixed income market remained cautious in light of the evolving economic landscape.

Attractive yields provide an offset to richly valued spreads.

Fourth Quarter 2024 Performance Highlights

- In 4Q24 the Limited Term Income Portfolio (I share class) returned -0.91%, 69 basis points ahead of the Bloomberg Intermediate U.S. Government/Credit Index. Year to date the portfolio (I share class) returned 4.72%, 172 basis points ahead of the index.
- A rise in the short and intermediate portions of the curve aided performance given the portfolio's modestly short duration position versus the index.
- An allocation to non-agency RMBS (CMO) contributed for the quarter given the continued trend of favorable housing fundamentals and solid investor demand for the sector.
- Exposure to asset-backed securities generated a modest level of positive excess return in the benign risk-on environment.
- Our allocation to both corporate credit and agency MBS proved to be neither a material contributor nor detractor for the quarter.

Portfolio Managers

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Supported by the entire Thornburg investment team

Current Positioning and Outlook

To some extent, markets front ran Donald Trump's election victory, as the rise in yields coincided with better polling numbers for the Trump campaign beginning in mid-September. From a policy perspective, the implementation of broad-based tariffs is the most acute catalyst for both the direction of rates and marginal growth. We believe the risk of tariff implementation is very real and not simply a bargaining tool to extract better terms from trading partners. Investors are also looking ahead to the inflation impacts from reduced border crossings, given the potential for labor costs to rise. But it should not be overlooked that higher rates may simply reflect the general market optimism about growth, given the pairing of a Republican administration and congressional majority. However, there are reasons to believe that the next four years will not be as successful on the legislative front as the markets anticipate, given the thin majority in the House, and intra-party disagreements on logistics and bill composition.

That said, President Trump's agenda will impact the Fed's reaction function overall, as well as the possibility Mr. Trump could replace Jerome Powell in 2026 with a Fed Chair willing to be less independent from Administration opinions on monetary policy. The result could be a more aggressive path on rate cuts, but for now, in the present Fed regime, the FOMC is likely going to abide by an extremely slow pace of cuts in response to the still above trend inflation data and steady growth.

Presently, there is no catalyst for a strong rally in interest rates, nor do we believe the economy can remain on firm footing very long with a cost of capital built on Treasury yields at 5%. The risk/reward of taking duration risk remains favorable, and as such the portfolio's duration is at the top end of its historical range. Further, real yields are at their highest levels in 15 years, leading part of our Treasury allocation to be in 5- and 10-year TIPS. Within the agency mortgage space, low coupon MBS dollar prices remain discounted, and although they appear closer to fair value than earlier in the year, they are interesting on a relative value basis versus investment-grade corporates. We have added a bit to Agency CMOs, which have relatively wide spreads as well versus corporates and remain cheap as bank buyers have yet to step back in.

In the investment-grade (IG) corporate credit sector, the technical backdrop remains solid, but historically tight IG spreads still warrant caution here. We continue to be highly selective with a focus on more defensive, less cyclical issuers. The IG new issuance calendar is expected to be active going into 2025. In this landscape we prefer to add where pricing concessions provide better opportunities to exploit relative value on a security level.

There are good relative value opportunities in the securitized space. Although we are cautious on the subprime consumer, senior ABS bonds remain compelling. These bonds are well protected from loss, pay down principal faster than junior tranches, and have good front end yields. In non-agency RMBS (CMO), the backdrop for housing remains strong, with low LTVs and demand exceeding supply. We continue to fundamentally like non-QM, though valuations are fair in our view. The reperforming (RPL) loan space looks appealing, with discounted dollar prices, low LTVs, and a high percentage of borrowers paying on their mortgage loans. In regard to commercial mortgage-backed securities (CMBS), the sector continues to be a small position in the portfolio. There have been select opportunities in single asset single borrower (SASB) deals backed by high quality office properties with robust occupancy and in attractive locations within metropolitan areas.

AVERAGE ANNUAL TOTAL RETURNS (AS OF 31 DECEMBER 2024)

								EXPENSE RATIOS (%)	
THORNBURG LIMITED TERM INCOME FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	GROSS	NET
A Shares THIFX (Incep: 1 Oct 92)									
Without sales charge	-1.06	4.34	4.34	0.91	1.77	2.10	4.32	--	--
With sales charge	-3.27	1.96	1.96	0.14	1.45	1.95	4.27	0.78	0.78
I Shares THIIX (Incep: 5 Jul 96)	-0.91	4.72	4.72	1.22	2.05	2.42	4.65	0.54	0.49
Bloomberg Intermediate U.S. Government/Credit Index (Since: 1 Oct 92)	-1.60	3.00	3.00	-0.18	0.86	1.71	4.19		

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	-2.09	2.40	2.40	-0.72	-0.06	0.59	3.96	--	--
With sales charge	-4.29	0.12	0.12	-1.47	-0.36	0.44	3.92	0.95	0.95
I Shares LTUIX (Incep: 5 Jul 96)	-2.09	2.65	2.65	-0.43	0.22	0.89	4.31	0.65	0.65
Bloomberg U.S. Government Intermediate Index (Since: 16 Nov 87)	-1.68	2.44	2.44	-0.47	0.49	1.24	4.65		

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	1.20	5.65	5.65	3.71	2.85	2.26	2.18	--	--
With sales charge	-1.06	3.28	3.28	2.92	2.54	2.11	2.04	0.86	0.50
I Shares TLDIX (Incep: 30 Dec 13)	1.17	5.79	5.79	3.90	3.04	2.45	2.37	0.52	0.30
ICE BofA U.S. Treasury Bill Index (Since: 30 Dec 13)	1.17	5.30	5.30	3.89	2.48	1.79	1.63		

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 1 February 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 2024.

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.

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.

TIPS (Treasury Inflation Protected Securities) - A U.S. Treasury note or bond that offers protection from the effects of inflation. Using the Consumer Price Index as a guide, the value of the principal is adjusted to reflect the effects of inflation. A fixed interest rate is paid semi-annually on the adjusted amount. At maturity, if inflation has increased the value of the principal, the investor receives the higher value. If deflation has decreased the value, the investor receives the original face amount of the security.

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.

Collateralized Mortgage Obligation (CMO) - A type of mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Commercial Mortgage-backed Securities (CMBS) - A type of mortgage-backed security backed by commercial mortgages rather than residential real estate. CMBS tend to be more complex and volatile than residential mortgage-backed securities due to the unique nature of the underlying property assets. CMBS issues are usually structured as multiple tranches, similar to collateralized mortgage obligations, rather than typical residential pass-throughs.

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.

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 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 $45.3* billion in total assets across mutual funds, institutional accounts, separate accounts and UCITS.

*Includes assets under management ($44.1B) and assets under advisement ($1.2B).

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