DoubleLine Total Return Bond Fund Webcast Recap “The Byrds”

Originally aired on March 7, 2017

About this Webcast Recap

On March 7, 2017, Chief Executive Officer Jeffrey Gundlach held a webcast discussing the DoubleLine Total Return Bond Fund (DBLTX/DLTNX) titled “The Byrds.”

This recap is not intended to represent a complete transcript of the webcast. It is not intended as solicitation to buy or sell securities. If you are interested in hearing more of Mr. Gundlach’s views, please listen to the full version of this webcast on www.doublelinefunds.com on the **“Webcasts”** tab under **“Latest Webcast”**. You can use the **“Jump To”** feature to navigate to each slide.

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The Most Synchronized Economic Upturn in Years

- Surprise indices for the major regions of the world (United States, Eurozone, Emerging Markets, Latin America, and Asia Pacific) have been in a synchronized uptrend.

What Does the U.S. Import from the Rest of the World?

- The percentage of total imports from each country by end use classification shows that a great deal of our imports is cars and car parts.
  - Most Important U.S. Imports:
    - Mexico: Car parts
    - Germany: Cars
    - Japan: Cars
    - Korea: Cars

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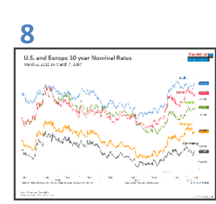

U.S. and Europe 10-year Nominal Rates

- Interest rates have been rising globally ever since Mr. Gundlach called the bottom on July 6, 2016.
- 10-year rates have risen in the U.S., Italy, Spain, France and Germany.

“Zone of Death”

- The 10-year U.S. Treasury (UST) has been coiling in what Mr. Gundlach refers to as the “zone of death,” meaning the bond market has had the sentiment and short positioning set up that would normally support a rally, but instead, we have pretty much gone sideways.
- DoubleLine accurately predicted a small tradable rally in the bond market back in December as 10-year UST rates went from roughly 2.6% to 2.3%, but now they seem to be anchored around 2.5%.
- Mr. Gundlach believes there is a range around 2.5% to 2.6% on the 10-year UST yield where, if yields rise above that on a closing basis, we are going to see a small leg up in yields before moving back down to 2.3%.
- Mr. Gundlach’s roadmap for the year has not changed. He is still looking for a rally down below 2.3% followed by a move up to 3.0%.

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10	**German Consumer Price Index (CPI) and German 10-year Yields** • German CPI is officially at 2.2% with the German 10-year yield down at 0.3%. This gap between the German 10-year yield and German CPI is the biggest gap ever, with yield being considerably low compared to CPI.
12	**Citi Global Inflation Surprise Index** • The Citi Global Inflation Surprise Index has surged to the upside and is currently 23.3% after being in the red for nearly 4.5 years. **Inflation** • The market consensus is that inflation seems to be rising and that bond yields should rise in tandem. Mr. Gundlach agrees with the near-term consensus view. **S&P 500®** • The S&P 500® has been moving up in sync with global quantitative easing (QE). • Mr. Gundlach correctly turned positive on stocks November 11, 2016, when he discussed that a close above 2,200 was a "go-with signal," and that stocks have the ability to grind higher with optimism. • Valuations seemed to be marked up on hopes for better outcomes on earnings based on Gross Domestic Product (GDP) and tax cuts. • Mr. Gundlach does not believe stocks are cheap, but he sees some price appreciation. He thinks that stocks will grind higher until we see the next move up in the 10-year UST yield.
22	**U.S. Nominal GDP** • Nominal GDP can be seen as a signpost for interest rates, and is now predicted to end the year at 4.7%. **The Fed** • Mr. Gundlach correctly predicted that the Federal Reserve ("Fed") would capitulate and not raise rates the anticipated amount in 2016. The Fed dialed back their rhetoric because the market was not pricing in rate hikes and the data was not supportive of rate hikes.
27	• Nominal GDP has now been upgraded, inflation is now at or above 2.0% by many measures and the unemployment rate has been below 5.0% for several quarters. Mr. Gundlach believes that, based on these measures, the Fed should not raise interest rates. • The World Interest Rate Probability (WIRP) function on Bloomberg as of March 7th priced a 100% chance of a Fed hike next week. • If the Fed starts hiking sequentially, they won't stop until something breaks, which is usually preceded by a flat or inverted yield curve. • The yield curve has clearly been flattening, particularly since July and post-election, but it is nowhere near inverted. This is consistent with DoubleLine's view that a recession is not likely in the near future.
56	**DoubleLine Total Return Bond Fund (DBLTX) as of February 28, 2016** • DBLTX has duration of 4.0 years compared to 6.0 years of the Bloomberg Barclays U.S. Aggregate Bond Index. • We are still defensive within DBLTX, which can be seen in our lower duration. Typically, we actively manage duration to be at its lowest when 10-Year UST yields are at their low and at its highest when the 10-year UST yields are at their highs. • Cash is 7.3**%.**

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Slide # **Question and Answer**

- Why are analysts talking about a steepening yield curve if the Fed is tightening?
  - They are not only talking about it, but averting their eyes from reality, year-to date (YTD) the yield curve has been flattening. When the Fed is talking about sequential tightening, it is not appropriate to be forecasting a steepening yield curve, based upon history.
- How do you feel about the Financial sector?
  - There may be reasons one could own Financials, such as deregulation and tax cuts, but a steepening yield curve is not favorable to the sector.
- Will the 10-year UST yield hitting 2.3% this year?
  - Yes, but perhaps from a slightly higher level than we are at right now because of the zone of death.
- How could the 10-year UST yield go to 6.0%?
  - This is something I have been talking about since July. Yields go higher because nominal GDP goes up. You could have nominal GDP go up and you have a massive supply of bonds that are rolling over in High Yield and Bank Loans over the next three or four years. You have QE 1, 2, and 3 that will start maturing in size. You have the budget deficit, which is about to explode higher in the United States. With just the baseline on entitlements and the demographics, then you ladle on top of that the infrastructure spending, defense spending, tax cuts that are promised to be massive, the rollover of corporate bonds, junk bonds and bank loans in 2018-2019. There are a lot of reasons why the 10-year UST yield might go to 6.0%.

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Definitions:

Bloomberg Barclays Capital U.S. Aggregate Bond Index - The Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.
Citigroup Global Inflation Surprise Index – Index for various locales, which shows how economic data are progressing relative to the consensus forecasts of market economists.
Consumer Price Index (CPI) - A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.
Duration - A measure of the sensitivity of the price of a fixed income investment to a change in interest rates, expressed as a number of years.
S&P 500 Index - A capitalized-weighted index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. This index is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

One may not directly invest in an index.

Disclaimer

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Credit Distribution is determined from the highest available credit rating from any Nationally Recognized Statistical Rating Organization (S&P, Moody's and Fitch).
Diversification does not assure a profit or protect against loss in a declining market.
Fund Holdings and sector allocations are subject to change at any time and should not be considered a recommendation to buy or sell any security.
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