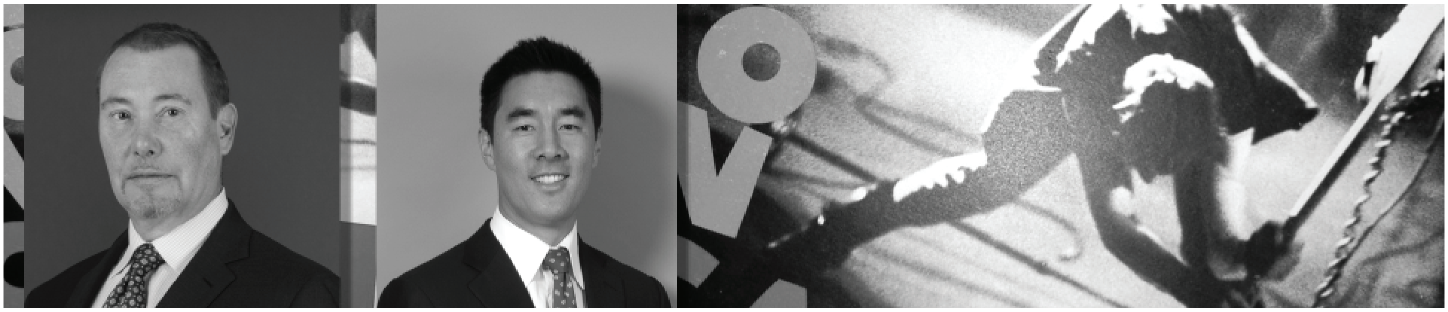
DoubleLine Total Return Bond Fund Webcast Recap

Originally aired on June 8, 2021



About this Webcast Recap

On June 8, 2021, Chief Executive Officer Jeffrey Gundlach and Portfolio Manager Andrew Hsu held a webcast titled “Clampdown,” discussing the current market, and the DoubleLine Total Return Bond Fund (DBLTX/DLTNX).

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 and Mr. Hsu’s views, please listen to the full version of this webcast on www.doublelinefunds.com and click on the “Webcasts” tab under “Latest Webcast.”

Total Return Bond Fund									
				Annualized					
Month-End Returns May 31, 2021	1 Month	3 Months	Year-to-Date	1 Year	3 Years	5 Years	10 Years	Since Inception (4-6-10 to 5-31-21)	Gross Expense Ratio
I-share (DBLTX)	0.28%	0.18%	-0.40%	2.30%	3.85%	3.01%	3.93%	5.42%	0.49%
N-share (DLTNX)	0.26%	0.12%	-0.51%	2.05%	3.59%	2.76%	3.67%	5.17%	0.73%
Bloomberg Barclays US Agg Index	0.33%	-0.14%	-2.29%	-0.40%	5.06%	3.25%	3.29%	3.70%	
				Annualized					
Quarter-End Returns March 31, 2021	1 Month	1Q2021	Year-to-Date	1 Year	3 Years	5 Years	10 years	Since Inception (4-6-10 to 3-31-21)	
I-share (DBLTX)	-0.94%	-1.51%	-1.51%	3.32%	3.53%	2.85%	4.10%	5.40%	
N-share (DLTNX)	-0.96%	-1.57%	-1.57%	3.06%	3.27%	2.59%	3.84%	5.15%	
Bloomberg Barclays US Agg Index	-1.25%	-3.37%	-3.37%	0.71%	4.65%	3.10%	3.44%	3.65%	

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than the original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained by calling (213) 633-8200 or by visiting www.doublelinefunds.com.

Economic Data

- Quarterly estimates for U.S. real GDP through the first quarter of 2022 have ranged widely from 3.7% to 9.2%, as the effects of fiscal stimulus and reopening of economies have made predicting future economic growth difficult.
  - The forecast for 2021 U.S. nominal GDP is 10.4%.[1]
- Deficit spending has accelerated, with the U.S. budget deficit as a percentage of nominal GDP at negative 16.3% as of April 30.
  - This acceleration has been aided by the expansion of the Federal Reserve's balance sheet, which has doubled from roughly $4 trillion prior to the pandemic to nearly $8 trillion as of June 2.
- Commercial bank loan-to-deposit ratios have collapsed, as deposits have significantly increased due to fiscal stimulus and transfer payments.
  - Increased deposits have led to distortions in the Fed overnight reverse repurchase agreement facility.
- The increase in imports from U.S. trading partners can be observed in the widening of the U.S. trade deficit.
  - China has been a direct beneficiary of increased U.S. disposable income, which has been spent on goods made in China.
- Continuing claims for unemployment insurance benefits have remained elevated relative to pre-pandemic levels.
  - Although state unemployment claims have declined, additional Pandemic Unemployment Assistance and Pandemic Emergency Unemployment Compensation claims have increased.
- Despite unemployment still elevated above pre-pandemic levels, as of June 8, U.S. job openings by industry were at an all-time high.
  - There is a shortage of workers as businesses compete with U.S. government stimulus checks.

Inflation

- Consumer expectations for rising prices have increased substantially over the past 12 months.
- As of April 30, the headline Personal Consumption Expenditures (PCE) Price Index rose 3.6% year-over-year (YoY), the highest reading since 2008. Core PCE, ex food and energy, rose 3.1% YoY, the highest reading since 1990.
- As of April 30, the U.S. core Consumer Price Index (CPI), ex food and energy, rose 3.0% YoY, a post-Global Financial Crisis (GFC) high.
  - The CPI uses a shelter component that has only shown a modest increase YoY despite double-digit increases in national home prices. Replacing the shelter component in the CPI with actual home price changes would likely cause the CPI to rise 8.5% YoY.
- Increases in the Commodity Research Bureau (CRB) Foodstuffs Price Index typically lead the food component in the CPI by roughly six months.
  - The recent increase in the CRB foodstuffs index, at 6% YoY as of May 31, suggests it is possible that the CPI food component could increase in the months ahead, putting further upward pressure on the CPI.
- Another measure of inflation is U.S. input prices, as measured by the Producer Price Index (PPI). As of April 30, the PPI was up 6.2% YoY. The MoM increase in the PPI also has accelerated, which implies base effects might only be part of the equation, and inflation might be less transitory than some project it to be.
  - Manufacturing inventories tracked as part of the ISM Manufacturing Purchasing Managers Index also suggest inflation might not be transitory. As of May 31, ISM manufacturing customer inventories were at their lowest numbers of the past 20 years, which will likely put upward pressure on prices.
- Used-cars prices have nearly doubled over the past year, largely due to the limited supply of both new and used inventory.

Currencies and Commodities

- The U.S. Dollar Index (DXY) has generally traded in a range of 80 to 100 over the last roughly five years. Recently, it has been trading in the lower end of that range.
  - Jeffrey Gundlach is largely neutral on the dollar in the short term based on technicals, although his long-term view is for the dollar to decline based on fundamentals including the widening twin deficits.
- The Bloomberg Commodity Index (BCOM) is up markedly from its lows at the onset of the pandemic.
  - The dollar has historically been negatively correlated to commodity prices, i.e., when the DXY has declined, the BCOM has increased.
  - The correlation between interest rates and commodity prices has recently diverged, likely due in part to the Fed's purchases of U.S. Treasuries.
- Lumber prices have exploded to the upside, driven by strong demand from home remodeling and building.
  - Recently, lumber futures prices have experienced a 25% correction from their local highs.
- Mr. Gundlach is neutral on gold at current levels, although ultimately believes gold will go higher in the long term, particularly if the dollar falls.
- The copper-to-gold ratio suggests the 10-year Treasury yield should be around 2.7%.

Equities

- The MSCI USA Index outperformed the MSCI World ex U.S. Index by a wide margin from 2005 to 2020.
  - Recently, that trend has potentially reversed as non-U.S. stocks have started to outperform U.S. equities.
- The S&P 500 Index outperformed the MSCI Europe Index from the beginning of 2018 through the middle of 2020 by a wide margin. Since then, the MSCI Europe has marginally outperformed the S&P 500.
  - Mr. Gundlach turned positive on European equities last summer for the first time since the inception of DoubleLine.[2]
- Equity markets broadly have been strongly supported by retail flows thus far in 2021.

Corporate Bonds

- As of June 4, the option-adjusted spread (OAS) for the Bloomberg Barclays US Aggregate Corporate Bond Index was 85 basis points (bps), its lowest OAS of the last 20 years.
  - Although investment grade corporate bond spreads have tightened year-to-date, returns are broadly negative, largely attributable to rising interest rates and the asset class's longer duration.
- As of June 4, the OAS for the Bloomberg Barclays US Corporate High Yield Index was 297 bps, the lowest level since May 2007.
- Nearly every credit rating cohort of the S&P/LSTA Leveraged Loan Price Index has had price recovery to pre-COVID-19 levels as of June 7.

Structured Products

- The housing market has been strong through the pandemic, driven in part by limited supply.
  - Home inventories available for sale in 2021 are at record-low levels.
  - Listed homes for sale per capita have roughly halved over the past five years.
- Prior to the pandemic, there was a historically positive correlation between the percentage of mortgage loans delinquent by 90-plus days and foreclosures.
  - More recently, fiscal stimulus in conjunction with foreclosure moratoriums contributed to that correlation breaking down, as delinquencies rose while foreclosures declined.
- Lending standards improved following the GFC.
  - Prior to 2008, there was a much higher percentage of loans originated to subprime borrowers with FICO scores of less than 620.
  - Last year, most loans were originated to prime borrowers with a 760-plus FICO score.
    - DoubleLine does not expect the housing market to exhibit the same type of stress in 2008, largely based on more-disciplined lending.
- Transitions into 90-plus-day delinquencies have recently declined across consumer loan types.
  - Credit card, auto and mortgage loan delinquencies have modestly declined since the onset of the pandemic, while student loan delinquencies have experienced an outsized decline.
  - Unlike other consumer loan types that offered more-traditional forms of forbearance, student loans were extended a payment moratorium, meaning at the onset of the pandemic, borrowers were no longer required to make payments on their student loans.
    - That moratorium will end in September, and DoubleLine will be watching carefully to see how these borrowers return to a payment process.
- The percentage of consumers with new bankruptcies is at an all-time low, due in part to fiscal stimulus.
- During the first two rounds of fiscal stimulus in March and December 2020, consumer loan voluntary prepayments were largely unchanged. However, there was a notable uptick in prepayments following the latest round of fiscal stimulus in March 2021.
  - This leads DoubleLine's Andrew Hsu to believe that consumers have stronger balance sheets today relative to prior to the pandemic, as borrowers have used fiscal stimulus to increase savings and pay down their debt obligations.

DoubleLine Total Return Bond Fund

- The DoubleLine Total Return Bond Fund (the "Fund") continues to allocate across a diversified pool of securitized credit, including non-Agency residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) and collateralized loan obligations (CLOs).
  - Over the past year, the Fund increased its exposure to CMBS and ABS and remains constructive on RMBS and CLOs.
    - The pandemic caused a large repricing of CMBS bonds, and the investment team viewed that as an opportunity to add exposure in a diversified manner.
    - Given the strength of the consumer, the Fund increased its exposure to consumer-related ABS.
    - The RMBS sector is supported by a mostly strong housing market.
    - CLOs are floating-rate bonds and can offer relatively attractive yields without taking on additional interest rate risk.

- Credit enhancement, as it relates to structured products, is essentially the cushion of how much loss a bond can absorb before its first dollar of principal loss.
  - Most sectors within the Fund have much higher credit enhancement relative to the serious delinquency rate of their underlying assets.
  - Another factor to consider is the average dollar price, which equates to additional hedging. For example, the Fund's legacy RMBS positions were purchased at an average price of $79, which means there is an additional 21 points of hedging relative to a par-priced security.
- The portfolio management team has actively managed the Fund's duration positioning over the past year.
  - For most of 2020, the Fund maintained a duration at the higher end of its historical range by utilizing discount Agency MBS, Agency CMBS and Treasuries.
  - In the first quarter of 2021, as longer dated Treasury rates quickly rose and the curve steepened, the Fund extended duration to the highest it has been since the Fund's April 6, 2010 inception.
    - The investment thesis behind this move was based on past instances of rapid Treasury rate rises that have been followed by a period of retracement. The Fund has benefited from increasing its duration, as rates have recently declined following their sharp rise in the first quarter.
    - As of May 31, the Fund's duration was 4.3 years, down from 4.9 years as of the end of the first quarter and remained roughly two years shorter than its benchmark, the Bloomberg Barclays US Aggregate Bond Index.
- The DoubleLine team is focused on managing portfolio convexity. In its simplest form, convexity measures the upside relative to the downside of a security or portfolio. When there are call risks, investors generally don't want to own high-premium-priced securities, as principal would be eroded should the security be called back at par.
  - As of May 31, the Fund had an average price of $102.23 relative to the Agg's average price of $105.77. By managing the Fund's convexity and maintaining its lower duration relative to its benchmark, the team believes this puts the Fund in a position to generate attractive risk-adjusted returns for investors.
- The investment team often refers to the Fund as a "barbell portfolio," with roughly half of the exposure in government-backed assets and the other half invested across various securitized credit sectors.

Citations

[1] Forecast based on Atlanta Fed GDPNow for Q2 2021, Bloomberg economist survey for Q3-Q4 2021, and DoubleLine CPI forecast as proxy for GDP deflator.

[2] December 23, 2009

Definitions

Basis Points (BPS) – Basis points (or basis point (bp)) refer to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% or 0.0001, and is used to denote the percentage change in a financial instrument. The relationship between percentage changes and basis points can be summarized as: 1% change = 100 basis points; 0.01% = 1 basis point.

Bloomberg Barclays US Aggregate Bond Index – This index represents securities that are SEC registered, taxable and dollar denominated. It covers the U.S. investment grade, fixed-rate bond market, with components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indexes that are calculated and reported on a regular basis.

Bloomberg Barclays US Aggregate Corporate Bond Index – This index tracks the corporate securities component of the US Aggregate Bond Index, a flagship measure of global investment grade debt from 24 local currency markets.

Bloomberg Barclays US Corporate High Yield (HY) Index – This index measures the U.S. dollar-denominated, HY, fixed-rate corporate bond market. Securities are classified as HY if the respective middle ratings of Moody's, Fitch and S&P are Ba1, BB+ or BB+ or below. The Bloomberg Barclays US HY Long Index, including bonds with maturities of 10 years or greater, and the Bloomberg Barclays US HY Intermediate Index, including bonds with maturities of 1 to 9.999 years, are subindexes of the Bloomberg Barclays US Corporate HY Index.

Bloomberg Commodity (BCOM) Index – This index (formerly the Dow Jones-UBS Commodity Index) is calculated on an excess return basis and reflects the price movements of commodity futures. It rebalances annually, weighted two-thirds by trading volume and one-third by world production, and weight caps are applied at the commodity, sector and group levels for diversification. The roll period typically occurs from the sixth to 10th business day based on the roll schedule.

Commodity Research Bureau (CRB) Foodstuffs Price Index – This subindex tracks the price direction of foodstuffs and is a component of the Commodity Research Bureau Price Index, which acts as a representative indicator of today's global commodity markets. The parent index, which measures the aggregated price direction of various commodity sectors, comprises a basket of 19 commodities, with 39% allocated to energy contracts, 41% to agriculture, 7% to precious metals and 13% to industrial metals.

Consumer Price Index (CPI) – This index examines the weighted average of the prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by averaging price changes for each item in the basket. Changes in the CPI are used to assess price changes associated with the cost of living. The CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

Convexity – A measure of the curvature, or the degree of the curve, in the relationship between bond prices and bond yields. Convexity demonstrates how the duration of a bond changes as the interest rate changes. Portfolio managers will use convexity as a risk-management tool, to measure and manage the portfolio's exposure to interest rate risk.

Copper-Gold Ratio (CGR) – Calculated by dividing the market price of a pound of copper by the market price of an ounce of gold.

Core Consumer Price Index (CPI) – The CPI examines the weighted average of the prices of a basket of consumer goods and services, such as transportation, food and medical care; the Core CPI excludes the volatility of energy and food prices. "Headline CPI" is another term for the CPI. It is calculated by averaging price changes for each item in the basket. Changes in the CPI are used to assess price changes associated with the cost of living. The CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

Core Personal Consumption Expenditures (PCE) Price Index – This index, published by the U.S. Bureau of Economic Analysis, measures prices paid by consumers for goods and services, excluding the volatility of food and energy prices, to gauge underlying inflation trends. It is the Federal Reserve's preferred index for tracking inflation.

Correlation – A statistical measurement of the relationship between two variables. Possible correlations range from +1 to -1. A zero correlation indicates no relationship between the variables; -1 indicates a perfect negative correlation; +1 indicates a perfect positive correlation.

Duration – Commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration.

FICO Score – This credit score, created by the Fair Isaac Corp., is used by lenders along with other details on a borrower's credit report to assess credit risk and determine whether to extend credit.

Gross Domestic Product (GDP) – Market value of all final goods and services produced within a country in a given period. GDP is considered an indicator of a country's standard of living.

High Yield (HY) – Bonds that pay higher interest rates because they have lower credit ratings than investment grade (IG) bonds. HY bonds are more likely to default, so they must pay a higher yield than IG bonds to compensate investors.

Investment Grade (IG) – Rating that signifies a municipal or corporate bond presents a relatively low risk of default. Bonds below this designation are considered to have a high risk of default and are commonly referred to as "junk bonds." The higher the bond rating the more likely the bond will return 100 cents on the U.S. dollar.

ISM Manufacturing Purchasing Managers Index (PMI) – This index is compiled by the Institute for Supply Management and tracks the economic health of the manufacturing sector. The index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and employment environment.

Legacy Asset – Distressed investment security held by the asset management estates (AMEs) of failed corporate credit unions. Legacy assets primarily consist of the following: private-label, aka non-Agency, residential mortgage-backed securities (non-Agency RMBS); Agency mortgage-backed securities (Agency MBS); commercial mortgage-backed securities (CMBS); student loan and other asset-backed securities (ABS); and corporate bonds.

Loan-to-Deposit Ratio (LDR) – Used to assess a bank's liquidity by comparing a bank's total loans to its total deposits for the same period. The LDR is expressed as a percentage. If the ratio is too high, it means that the bank might not have enough liquidity to cover any unforeseen fund requirements. Conversely, if the ratio is too low, the bank might not be earning as much as it could be.

Morgan Stanley Capital International (MSCI) Europe Index – This index is U.S. dollar denominated and represents the performance of large- and mid-cap equities across 15 developed countries in Europe. It covers approximately 85% of the free float-adjusted market capitalization in each country.

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Morgan Stanley Capital International (MSCI) USA Index – This index measures the performance of the large- and midcap segments of the U.S. market. With 627 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the U.S.

Morgan Stanley Capital International (MSCI) World ex U.S. Index – This broad global equity index represents large- and midcap equity performance across 23 developed markets (DM) countries, excluding the U.S.. It covers approximately 85% of the free float-adjusted market capitalization in each country.

Option-Adjusted Spread (OAS) – Measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is then adjusted to take into account an embedded option. Typically, an analyst uses U.S. Treasury yields for the risk-free rate. The spread is added to the fixed-income security price to make the risk-free bond price the same as the bond.

Overnight Reverse Purchase Agreement Facility – Facility through which the Federal Reserve accepts overnight cash investments from banks, government-sponsored enterprises (the housing agencies plus the Federal Home Loan Banks) and money market mutual funds and provides U.S. Treasury securities as collateral. A reverse repurchase agreement is a transaction where one party (a housing agency, say) purchases a security from another (the Fed) with an agreement that the second party will repurchase it the following day, usually at a slightly higher price in order to provide interest to the cash provider. The facility was created in 2013 as a tool to ensure that the Fed could lift the effective federal funds rate, the interest rate the Fed targets to conduct monetary policy, above zero when it decides it is appropriate to do so.

Par – Short for "par value," par can refer to bonds, preferred stock, common stock or currencies, with different meanings depending on the context. Par most commonly refers to bonds, in which case, it means the face value, or value at which the bond will be redeemed at maturity.

Pennant – Type of continuation pattern formed when there is a large movement in a security, known as "the flagpole," followed by a consolidation period with converging trend lines – "the pennant" – followed by a breakout movement in the same direction as the initial large movement, which represents the second half of the flagpole.

Personal Consumption Expenditures (PCE) Price Index – This index, published by the U.S. Bureau of Economic Analysis, measures price changes in consumer goods and services exchanged in the U.S. economy to reveal underlying inflation trends.

Producer Price Index (PPI) – This index, published by the U.S. Bureau of Labor Statistics, uses a target set of goods and services to tack the entire marketed output of U.S. producers. This includes goods, services and construction products purchased by other producers as inputs to their operations or as capital investment, goods and services purchased by consumers either directly from the service producer or indirectly from a retailer, and products sold as export and to government.

S&P 500 Index – This unmanaged capitalization-weighted index of the stocks of the 500 largest publicly traded U.S. companies is designed to measure performance of the broad domestic economy through changes in the aggregate market value of the 500 stocks, which represent all major industries.

S&P/LSTA Leveraged Loan Price Index – This index tracks the prices of institutional weighted loans based on market weightings, spreads and interest payments.

U.S. Dollar Index (DXY) – A weighted geometric mean of the U.S. dollar's value relative to a basket of six major foreign currencies: the euro, Japanese yen, British pound, Canadian dollar, Swedish krona and Swiss franc.

It is not possible to invest in an index.

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Diversification does not assure a profit, nor does it protect against a loss in a declining market.

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