DoubleLine® FUNDS

Economic Update

June 30, 2019

DoubleLine Macro-Asset Allocation Team
Sam Garza, Portfolio Manager
Fei He, Quantitative Analyst
Ryan Kimmel, Analyst

333 S. Grand Ave., 18th Floor || Los Angeles, CA 90071 || (213) 633-8200

Second Quarter 2019 Review

With the first half of 2019 in the books, it is helpful to reflect on the dynamics and postulate how things may play out in the remainder of the year. In a sharp contrast to 2018, when most asset classes produced losses, this year many asset classes are having their best year-to-date performance in decades. As measured by the S&P 500, U.S. equities posted their strongest first-half return since 1997, reaching record highs in June. As measured by the benchmark Bloomberg Barclays US Aggregate Bond Index, U.S. bonds returned +6.11%, the strongest first half since 1995 (Figures 1 and 2). U.S. High Yield bonds returned +9.94%, the highest YTD performance since 2009. (See Figure 3 for cross-asset performance for second quarter (Q2) and first half (H1) of 2019.)

Government bond yields declined sharply across the globe with 10-year U.S. Treasury yield dropping to the lowest level since Q4 2016. The yield on German government 10-year bonds dropped to -0.33%, the lowest level in the post-war period. At the end of June, nearly $13 trillion of the Bloomberg Barclays Global Bond Index traded with a negative yield (Figure 4).

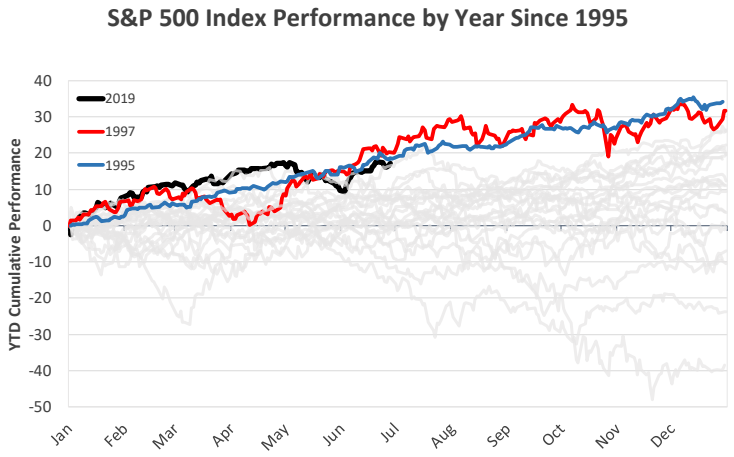

Figure 1
Source: Bloomberg, DoubleLine

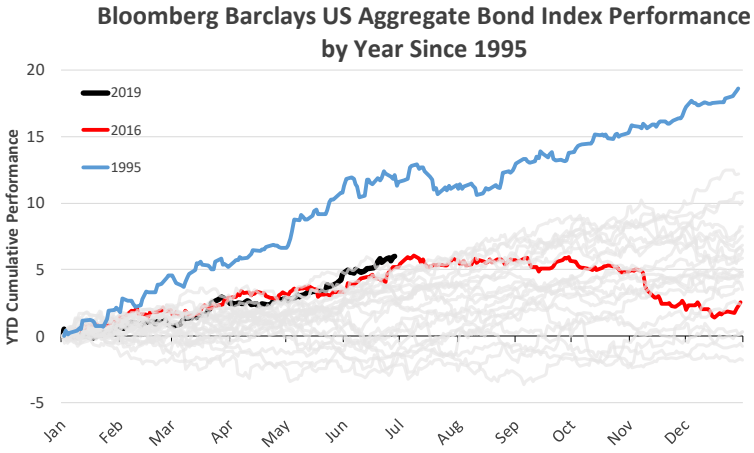

Figure 2
Source: Bloomberg, Federal Reserve, DoubleLine

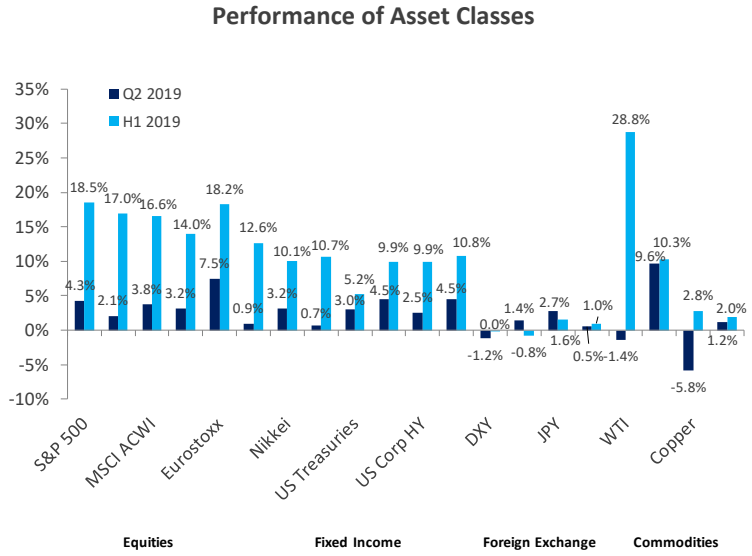

Figure 3
Source: Bloomberg, DoubleLine. Returns in U.S. dollars.

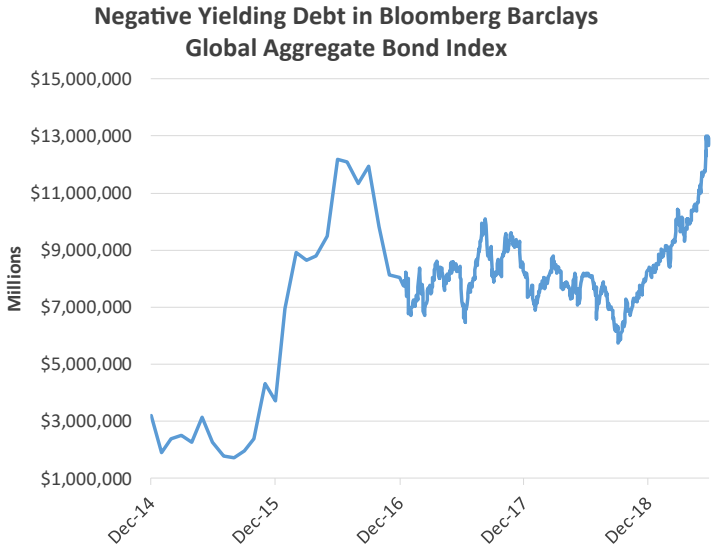

Figure 4
Source: Bloomberg, DoubleLine.

Second Quarter 2019 Review (cont'd)

Global central banks continued to be the predominant driver of asset performance in the second quarter. Market expectations for rate cuts rose significantly in the second quarter as global trade disputes reignited and global growth deteriorated. At the June Federal Open Market Committee (FOMC) meeting, the Fed guidance converged closer to market expectations, shifting away from the "patient" stance emphasized in previous communications. The central bank said it would react to the downside risks in an effort to sustain the economic expansion. As shown in the latest dot plot, eight of the 17 members expected rate cuts by the end of the year with seven members expecting a cumulative 50 basis points (bps) of cuts, although the median dot implied no change for 2019 (Figure 5). However, the Fed was not the only central bank to increase the dovish rhetoric in the second quarter. In June, European Central Bank (ECB) President Mario Draghi signaled additional stimulus will be required if economic growth remains stagnant and inflation remains below target. In response, the market quickly priced in easing for the ECB with more than one 10 bp cut this year. In addition, the Reserve Bank of Australia and Reserve Bank of New Zealand both cut their policy rates in Q2 and signaled the potential for further rate cuts later this year.

The synchronized dovish pivot drove global yields to historic lows, which explains the dramatic rise in risk assets. For now, investors believe further liquidity provided by central banks could offset the deterioration in the growth picture.

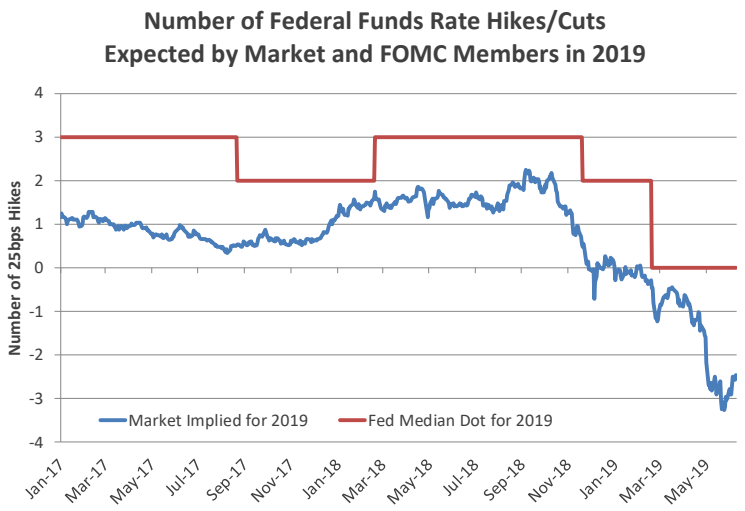

Figure 5
Source: Bloomberg, DoubleLine

Outlook

With global equities near all-time highs and bond yields near all-time lows, the question now becomes, "what's next?"

A battle is taking place over risk assets, between the opposing forces of deteriorating fundamentals and improving liquidity. While the growth outlook continues to get downgraded and earnings growth remains lackluster, risk assets are finding support from the dovish disposition of central banks and the expectation of a new round of liquidity being injected into the system via rate cuts and large-scale asset purchases.

Global economic momentum has been decelerating for some time. While we believe the economic expansion will persist for at least the remainder of the year, becoming the longest economic expansion in post-war history, the economic data have softened in select segments of the economy. For example, the closely followed ISM Manufacturing Purchasing Managers Index (PMI) compiled by the Institute for Supply Management (ISM) has declined to the lowest level since 2016, and the ISM New Orders is flirting with a recessionary signal at 50 (Figure 6).

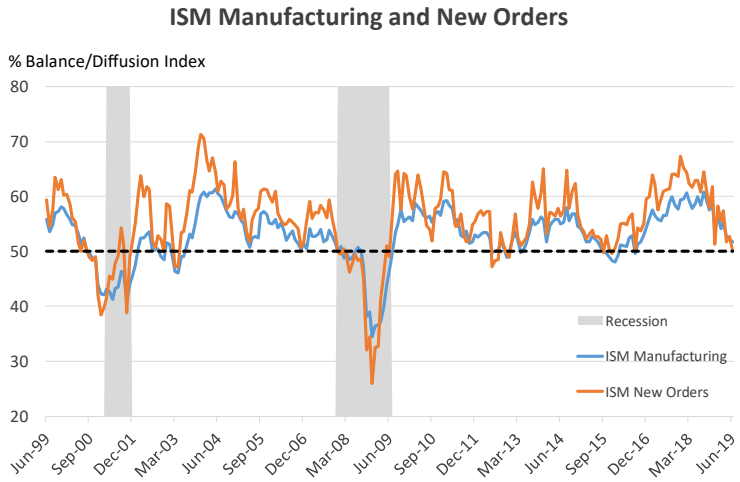

Figure 6
Source: Bloomberg, DoubleLine

Outlook (cont'd)

Lenders are also reporting lack of demand for Commercial and Industrial loans (Figure 7). On the other hand, the labor market remains strong with very low unemployment, supporting consumer confidence which has softened but remains near multi-cycle highs (Figure 8).

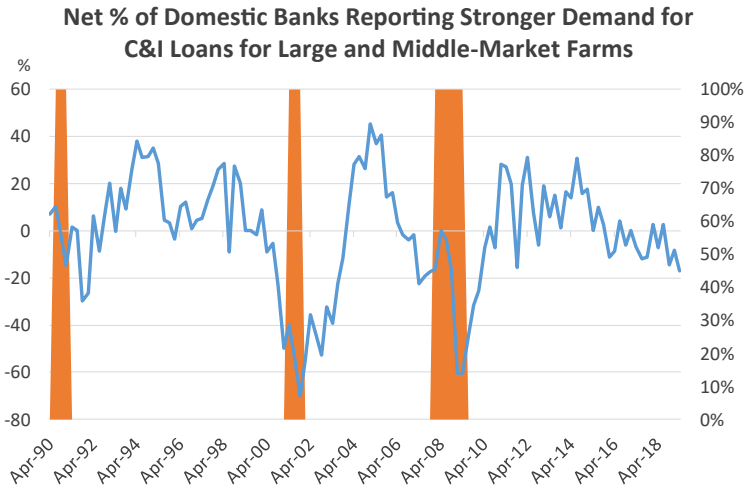

Figure 7
Source: Bloomberg, DoubleLine
Orange shaded areas represent recessionary periods

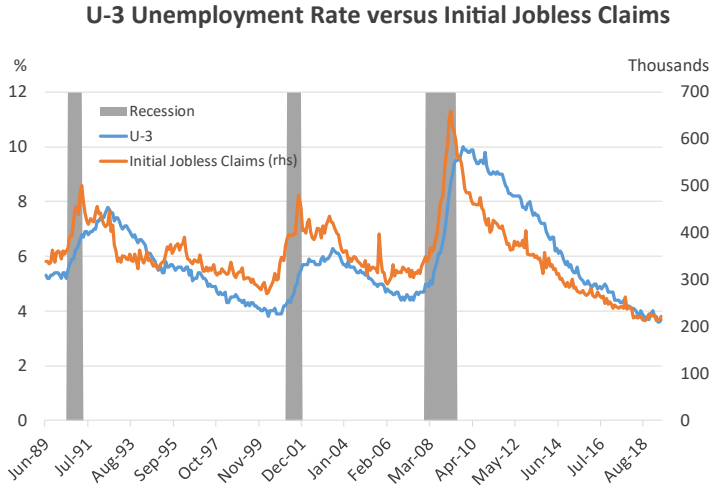

Figure 8
Source: Bloomberg, DoubleLine.

The data abroad look worse, particularly in Germany where the manufacturing data are at recessionary levels (Figure 9). Global trade and global manufacturing, as measured by the J.P. Morgan Global Manufacturing PMI, have retreated exposing regions that have more externally oriented economies (Figure 10).

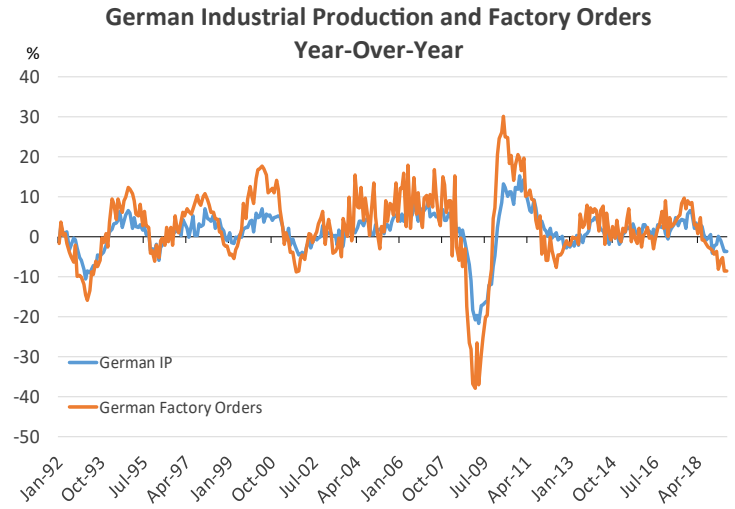

Figure 9
Source: Bank of America Merrill Lynch, S&P LCD, DoubleLine

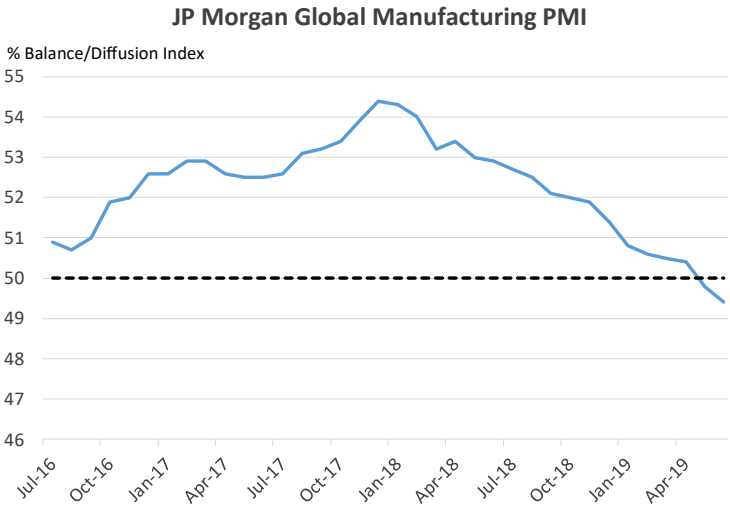

Figure 10
Source: Bank of America Merrill Lynch, S&P LCD, DoubleLine

As we highlighted in our last Economic Update[1], central banks can err on the side of caution as long as inflation remains muted. Long-term inflation expectations have declined further with both market based and survey-based inflation measures under pressure in a number of developed economies. The late-stage cyclical factors do not appear to be translating into higher realized inflation or higher inflation expectations. For now, central banks can add liquidity without worrying about upside inflation pressures. The dovish central banks posture is a near term positive for risk assets.

1 https://doublelinefunds.com/wp-content/uploads/MAG_EconomicUpdate-1Q19_Fund.pdf

Outlook (cont'd)

Will central banks be able to meet the market expectations?
With nearly 100 bps of cuts priced in over the next 12 months, central banks face a high hurdle if they are to satisfy market expectations. If the Fed fails to meet the market expectations, risk assets may come under pressure. The global economic backdrop would have to improve to support risk assets under this scenario.

Most importantly, will the "preemptive" dovish pivot be enough to sustain the economic expansion?

Government Bonds
Cyclical factors may continue to drive government bond yields over the near to medium term. The combination of decelerating global growth, benign inflation environment and dovish central banks should anchor yields, at least at the front-end of the curve. However, such structural factors as growing budget deficits and declining external demand could be headwinds at the long end of the yield curve. This may cause the yield curve to continue to steepen (Figure 11).

Credit
Accommodative central bank policy should continue to support credit. We remain neutral on credit in the aggregate. As we have highlighted in the past, we prefer securitized credit relative to corporate credit over a longer investment horizon. We remain concerned that the rapid growth of the corporate credit market coupled with deteriorating fundamentals will cause problems for the asset class during the next economic downturn.

U.S. Dollar
We maintain our bearish dollar view and believe the dollar has room to head lower as the Fed shifts to easing monetary policy. An important indicator for the dollar, gold has broken higher out of a six-year consolidation range, perhaps a signal that investors are losing confidence in the greenback (Figure 12). If global economic growth can improve relative to the U.S., international currencies should rally versus the dollar. The combination of easy monetary policy from developed market central banks and the potential for a weaker dollar should support emerging market currencies. We believe emerging market local currency debt could perform well in the current environment.

Equities
As highlighted in our last quarterly letter, the backdrop for global equities remains supportive given the ongoing economic expansion and dovish central bank policies. U.S. equities have outperformed emerging markets year-to-date but easy Fed policy and a weaker dollar should lead to emerging-market outperformance, an asset class we are overweight (Figure 13).

Figure 11
Source: Bloomberg, DoubleLine

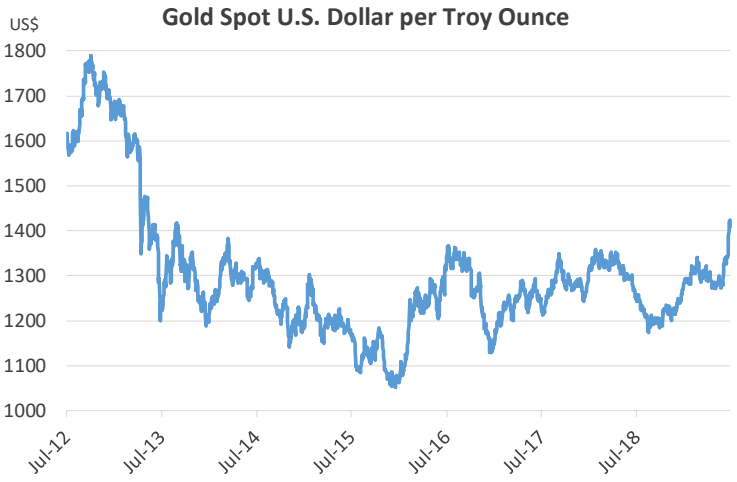

Figure 12
Source: Bloomberg, U.S. Treasury, DoubleLine

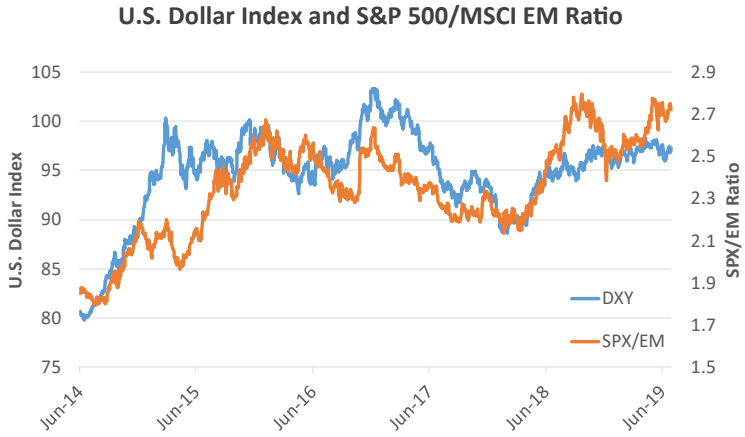

Figure 13
Source: Bloomberg, U.S. Treasury, DoubleLine

Outlook (cont'd)

While the global economic backdrop appears to be on a shaky footing, central banks stand ready to act preemptively to stave off a recession. The market is now pricing in multiple interest rate cuts by both the Fed and ECB. Quantitative easing (QE) is now back in discussions as well. Risk assets have responded as evident in equities sitting near all-time highs and tight credit spreads. At the same time, government bond yields are at very low levels. The current environment is set up rather well for carry trades. Emerging market local currency debt is a sector we think can perform well, especially if the dollar declines from here. A major market risk is the potential failure of the Fed and other central banks to meet the market's very dovish expectations. In that case, risk assets would need an improving economic picture to offset the disappointment over accommodation. Central banks will likely continue to drive financial markets in the second half of the year. Only time will tell if the preemptive policy of easing suffices to support the waning economic activity. Good luck trading. ■

Definitions of Select Terms

% Balance/Diffusion Index - This index transformation is primarily used to summarize answers to qualitative, multiple choice questions from business or consumer surveys (i.e. questions such as, What are your hiring intentions over the next 3 months? Or, how do you expect prices to move over the next 12 months?, etc.).

Basis Point - A basis point (bps) equals 0.01%.

Bloomberg Barclays Global Bond Index - A flagship measure ofglobal investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed -rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays U.S. Aggregate Bond Index - An index that 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.

Copper - COMEX Copper Front Month Futures Contract.

Diffusion Index - Used in technical analysis, a diffusion index measures the number of stocks that have advanced in price or are showing positive momentum. It is useful for determining the underlying strength of the stock market overall, as lots of stocks advancing shows a strong market, while few(er) stocks advancing shows a weaker market.

Emerging Markets is represented by the MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Eurostoxx 50 Index - A stock index of Eurozone stocks designed by STOXX, an index provider owned by Deutsche Borse Group and SIX group, with the goal of providing a blue-chip representation of Supersector leaders in the Eurozone.

Institute for Supply Management (ISM) Purchasing Managers Index (PMI) - An indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

JPY - Japanese Yen

Morgan Stanley Capital International All Country World Index (MSCI ACWI) - A market-capitalization-weighted index designed to provide a broad measure of stock performance throughout the world, including both developed and emerging markets.

Morgan Stanley Capital International Emerging Markets (MSCI EM) - An index that covers 23 Emerging Market countries and is designed to capture the large and mid-cap representation across those countries.

Nikkei 225 Index - A price-weighted index comprised of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange. The Nikkei is equivalent to the Dow Jones Industrial Average Index in the U.S.

S&P 500 Index - A market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. The index is widely regarded as the best single gauge of large-cap U.S. equities.

Spread - The difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument. The spread can be measured between debt instruments of differing maturities, credit ratings and risk.

JP Morgan Global Manufacturing PMI - The Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of a diffusionindex that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting.

U-3 Unemployment Rate - The most commonly reported rate of unemployment in the United States and represents the number of people actively seeking a job.

U.S. Corp HY - The Bloomberg Barclays U.S. Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

U.S. Dollar Index (DXY) - A weighted geometric mean of the United States dollar's value relative to a basket of 6 major foreign currencies, including the Euro, Japanese yen, Pound sterling, Canadian dollar, Swedish krona and Swiss franc.

U.S. Treasuries (UST) - Commonly used for references to the Treasury debt that the U.S. issues.

WTI - West Text Intermediate Crude Oil Front Month Futures Contract.

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

YTD - Year to Date

An investment cannot be made directly in an index.

DoubleLine® FUNDS

Fund Disclosure

The Funds' investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the Funds and may be obtained by calling (877) 354-6311/(877) DLINE11, or visiting www.doublelinefunds.com. Read carefully before investing.

Mutual fund investing involves risk; Loss of principal is possible.

Past performance does not guarantee future results. Index performance is not illustrative of Fund performance. One cannot invest directly in an index. Please call (213) 633-8200 or visit www.doublelinefunds.com.

Earnings growth is not representative of the Fund's future performance.

Opinions expressed are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

DoubleLine Funds are distributed by Quasar Distributors, LLC.

DoubleLine Disclosure

Important Information Regarding This Material

Issue selection processes and tools illustrated throughout this presentation are samples and may be modified periodically. Such tools are not the only tools used by the investment teams, are extremely sophisticated, may not always produce the intended results and are not intended for use by non-professionals.

DoubleLine has no obligation to provide revised assessments in the event of changed circumstances. While we have gathered this information from sources believed to be reliable, DoubleLine cannot guarantee the accuracy of the information provided. Securities discussed are not recommendations and are presented as examples of issue selection or portfolio management processes. They have been picked for comparison or illustration purposes only. No security presented within is either offered for sale or purchase. DoubleLine reserves the right to change its investment perspective and outlook without notice as market conditions dictate or as additional information becomes available. This material may include statements that constitute "forward-looking statements" under the U.S. securities laws. Forward-looking statements include, among other things, projections, estimates, and information about possible or future results related to a client's account, or market or regulatory developments.

Important Information Regarding Risk Factors

Investment strategies may not achieve the desired results due to implementation lag, other timing factors, portfolio management decision-making, economic or market conditions or other unanticipated factors. The views and forecasts expressed in this material are as of the date indicated, are subject to change without notice, may not come to pass and do not represent a recommendation or offer of any particular security, strategy, or investment. All investments involve risks. Please request a copy of DoubleLine's Form ADV Part 2A to review the material risks involved in DoubleLine's strategies. Past performance is no guarantee of future results.

Important Information Regarding DoubleLine

In preparing the client reports (and in managing the portfolios), DoubleLine and its vendors price separate account portfolio securities using various sources, including independent pricing services and fair value processes such as benchmarking.

To receive a copy of DoubleLine's current Form ADV (which contains important additional disclosure information, including risk disclosures), a copy of DoubleLine's proxy voting policies and procedures, or to obtain additional information on DoubleLine's proxy voting decisions, please contact DoubleLine's Client Services.

Important Information Regarding DoubleLine's Investment Style

DoubleLine seeks to maximize investment results consistent with our interpretation of client guidelines and investment mandate. While DoubleLine seeks to maximize returns for our clients consistent with guidelines, DoubleLine cannot guarantee that DoubleLine will outperform a client's specified benchmark or the market or that DoubleLine's risk management techniques will successfully mitigate losses. Additionally, the nature of portfolio diversification implies that certain holdings and sectors in a client's portfolio may be rising in price while others are falling; or, that some issues and sectors are outperforming while others are underperforming. Such out or underperformance can be the result of many factors, such as, but not limited to, duration/interest rate exposure, yield curve exposure, bond sector exposure, or news or rumors specific to a single name.

DoubleLine is an active manager and will adjust the composition of clients' portfolios consistent with our investment team's judgment concerning market conditions and any particular sector or security. The construction of DoubleLine portfolios may differ substantially from the construction of any of a variety of market indices. As such, a DoubleLine portfolio has the potential to underperform or outperform a bond market index. Since markets can remain inefficiently priced for long periods, DoubleLine's performance is properly assessed over a full multi-year market cycle.

Important Information Regarding Client Responsibilities

Clients are requested to carefully review all portfolio holdings and strategies, including by comparison of the custodial statement to any statements received from DoubleLine. Clients should promptly inform DoubleLine of any potential or perceived policy or guideline inconsistencies. In particular, DoubleLine understands that guideline enabling language is subject to interpretation and DoubleLine strongly encourages clients to express any contrasting interpretation as soon as practical. Clients are also requested to notify DoubleLine of any updates to client's information, such as, but not limited to, adding affiliates (including broker dealer affiliates), issuing additional securities, name changes, mergers or other alterations to Client's legal structure.

DoubleLine Group is not an investment adviser registered with the Securities and Exchange Commission (SEC).