



Where Are We in This Economic Cycle?

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March 2019



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As the U.S. approaches the 10th year since the start of this economic expansion, the economy is showing signs of entering the later innings of the business cycle. As measured by industrial production, capacity utilization and durable goods, real economic activity in the U.S. remains expansionary. The labor market is strong with unemployment near 50-year lows and wage growth at cycle highs. However, housing, auto manufacturing and select business sentiment and consumer confidence surveys have hit some soft patches. The closely followed 3-month 10y U.S. Treasury (UST) spread has recently inverted, an early warning signal that recession could be on the horizon. (Figure 1) Overseas, the economic data have been decelerating for almost a year, particularly in Europe and China.

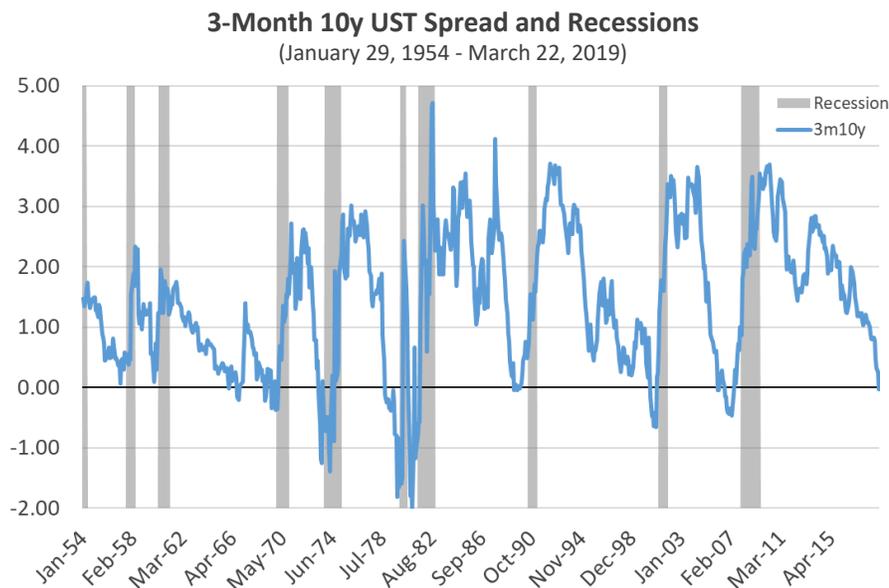


Figure 1.
Source: DoubleLine, Bloomberg

The Federal Reserve (Fed) has tightened monetary policy through a combination of rate hikes and balance sheet reduction. The European Central Bank has also tightened monetary policy on the margin by ending its monthly asset purchase program at the end of 2018. As we highlighted in our Q4 2018 Economic Update, “It does not seem like a coincidence that global risk assets started to feel the pressure in early 2018 when central banks in aggregate started to taper asset purchases. As central banks continue to move away from easing policies, global risk assets may have a hard time moving higher. The increased market volatility could undermine consumer and businesses sentiment in a negative feedback loop that ultimately feeds through to the real economy.”

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Central banks have taken note. The Fed has paused its rate-hiking regime and announced a cessation to balance sheet reduction, aka quantitative tightening, over the coming quarters. (Figure 2) Other central banks have made a dovish pivot by pushing out hike expectations and lowering respective growth and inflation outlooks. Global risk assets have responded positively to the dovish pivot for now. How the economic data respond may tell us if the Fed's pivot came in time or was too little, too late.

Global central banks can find comfort in the fact that, on the surface, inflation remains muted as measured by a number of metrics. The current inflation environment appears relatively benign over a near-term time horizon. However, some signs indicate inflation may move higher over the medium term. Labor markets remain tight with low unemployment and a limited available pool of labor. Wage growth is at cycle highs, and surveys indicate that employers are likely to raise wages further. According to Paycor, 19 U.S. states are expected to increase their minimum wage in 2019.¹ This may support core inflation over the coming quarters. On a longer-term basis, many of the persistent deflationary forces (e.g., globalization, shrinking labor share in the economy, wealth inequality) seem to be under political attack. Could the deeply engrained deflationary mindset we have witnessed over the last two decades be coming to an end?

**The Pivot and Pause: Number of 25bps Hikes in 2019
Based on Fed Fund Futures and Fed "Dots"**

(January 31, 2017 - March 25, 2019)



Figure 2.

Source: DoubleLine, Bloomberg

Positioning of the Multi-Asset Growth Fund

The global macroeconomic and financial indicators we monitor indicate the expansion will continue for at least the next couple of quarters. As a result, our Strategic Asset Allocation framework warrants a neutral equity allocation in the Multi-Asset Growth Fund (DMLIX/DMLAX). Being cognizant of the relatively full valuations in both equities and corporate credit, we continue to look for risks to the potential downside. As stated earlier in this commentary, we appear to be in the late innings of this economic cycle and will monitor the economic data for any signs of approaching recession. Treasuries may find near-term support from risk-off flows and continued declines in growth expectations; however, the fundamental backdrop for government bonds is poor with a rapidly expanding federal budget deficit. Higher interest rates combined with rising leverage in the corporate sector creates significant risk in the asset class. Our view is that the dollar will weaken over the medium term, driven by growing twin budget and current account deficits. A weaker dollar should benefit emerging market equities and non-dollar denominated assets, two areas which we have overweighted. While inflation is muted there are signs that inflation could start trending higher over a longer horizon. That said, we will need to see further evidence of trend-shift in inflation to start underweighting duration and add inflation hedges such as commodity-related securities to the portfolio. ■

¹ www.paycor.com "Minimum Wage by State and 2019 Increases"; <https://www.paycor.com/resource-center/minimum-wage-by-state-and-2018-increases>

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

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.

Core Inflation - The change in costs of goods and services, but does not include those from the food and energy sectors. This measure of inflation excludes these items because their prices are much more volatile. It is most often calculated using the consumer price index (CPI).

Dot Plot - The method that the U.S. Federal Reserve (Fed) uses to convey its benchmark Federal Funds interest rate outlook at certain Federal Open Market Committee (FOMC) meetings. FOMC members place dots on the dot plot denoting their projections for future interest rates in subsequent years and in the longer run.

Inflation - Inflation is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time. Often expressed as a percentage, inflation indicates a decrease in the purchasing power of a nation's currency. As prices rise, they start to impact the general cost of living for the common public and the appropriate monetary authority of the country, like the central bank, then takes the necessary measures

to keep inflation within permissible limits and keep the economy running smoothly. Inflation is measured in a variety of ways depending upon the types of goods and services considered, and is the opposite of deflation which indicates a general decline occurring in prices for goods and services when the inflation rate falls below 0 percent.

MSCI World Index - A market-capitalization-weighted index designed to provide a broad measure of stock performance throughout the world, including both developed and emerging markets.

Bloomberg Barclays Global Aggregate Index - Index that provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities.

Paycor - Founded in 1990, Paycor, Inc. offers cloud-based human resource (HR), payroll, and timekeeping software solutions for small-and mid-sized businesses in the United States. It serves entrepreneurs, bankers or brokers, and human resource, payroll, and finance professionals.

An investment cannot be made directly in an index.

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DoubleLine Multi-Asset Growth Fund Performance

Month-End Returns February 28, 2019	Annualized						Gross Expense Ratio
	Feb	Year-to-Date	1-Year	3-Year	5-Year	Since Inception (12-20-10 to 2-28-19)	
I-share (DMLIX)	1.00%	6.72%	-1.30%	7.89%	4.16%	3.81%	1.29%
A-share (DMLAX No Load) ¹	1.01%	6.75%	-1.55%	7.57%	3.89%	3.53%	1.54%
A-share (DMLAX With Load) ¹	-3.28%	2.22%	-5.73%	6.03%	2.99%	2.98%	
S&P 500 [®]	3.21%	11.48%	4.68%	15.28%	10.67%	12.64%	
Blended Benchmark Hedged ²	1.65%	6.90%	1.29%	8.76%	5.24%	6.26%	
Blended Benchmark Unhedged ²	1.37%	6.80%	-0.48%	8.53%	4.19%	5.51%	

Quarter-End Returns December 31, 2018	Annualized					
	4Q18	Year-to-Date	1-Year	3-Year	5-Year	Since Inception (12-20-10 to 12-31-19)
I-share (DMLIX)	-9.75%	-8.57%	-8.57%	4.45%	2.73%	3.04%
A-share (DMLAX No Load) ¹	-9.85%	-8.84%	-8.84%	4.13%	2.46%	2.76%
A-share (DMLAX With Load) ¹	-13.68%	-12.71%	-12.71%	2.63%	1.58%	2.21%
S&P 500 [®]	-13.52%	-4.38%	-4.38%	9.26%	8.49%	11.40%
Blended Benchmark Hedged ²	-7.07%	-4.86%	-4.86%	5.27%	4.09%	5.51%
Blended Benchmark Unhedged ²	-7.27%	-6.00%	-6.00%	5.17%	3.12%	4.77%

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 current to the most recent month-end may be obtained by calling (213) 633-8200 or by visiting www.doublelinefunds.com.

¹ The Fund imposes a deferred sales charge of 0.75% on purchases of \$1 million or more of Class A shares redeemed within 18 months of purchase. Performance data shown for the Class A With load reflects a maximum sales charge of 4.25%. Performance data shown for the Class A No Load does not reflect the deduction of the sales load or fee. If reflected, returns would have been reduced. Performance data does not reflect the deferred sales charge. If it had, returns would have been reduced.

² The Blended Benchmark for the Multi-Asset Growth Fund consists of 60% MSCI World Index/40% Bloomberg Barclays Global Aggregate Index (USD Hedged or Unhedged).

While the Fund is no-load, management fees and other expenses still apply. Please refer to the prospectus for further details.

The performance information shown assumes the reinvestment of all dividends and distributions.

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Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in ABS and MBS include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Investments in real estate securities may involve greater risk and volatility including greater exposure to economic downturns and changes in real estate values, rents, property taxes, interest rates, tax and other laws. A REIT's share price may decline because of adverse developments affecting the real estate industry. The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for investments in emerging markets. The Fund may use leverage which may cause the effect of an increase or decrease in the value of the portfolio securities to be magnified and the Fund to be more volatile than if leverage was not used. Derivatives involve special risks including correlation, counterparty, liquidity, operational, accounting and tax risks. These risks, in certain cases, may be greater than the risks presented by more traditional investments. Investing in ETFs involve additional risks such as the market price of the shares may trade at a discount to its net asset value ("NAV"), an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact a Funds ability to sell its shares. Investments in floating rate securities include additional risks that investors should be aware of such as credit risk, interest rate risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments.

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