2017 Market Outlook: "Just Markets" Webcast Recap

Originally aired on January 10, 2017

About this Webcast Recap

On January 10, 2017, Jeffrey Gundlach, CEO of DoubleLine Capital, gave a 2017 Market Outlook presentation titled "Just Markets."

This recap is not intended to represent a complete transcript of the webcast. It is not intended as solicitation to buy or sell securities or provide investment advice. If you are interested in hearing more of Mr. Gundlach's views, please listen to the full version of this webcast by clicking here. You can also learn more about future webcasts by viewing the 2017 webcast schedule at www.doubleline.com under "Events."

Views and opinions expressed herein are those of the individual portfolio manager and do not necessarily reflect the views of DoubleLine Capital LP, its affiliates, or employees.

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Political Uncertainty

- Political uncertainty is incredibly high. People think they know what President-Elect Trump will do, but it's not all that certain that it will be passed in totality with Republicans controlling both houses.
- Mr. Gundlach will be watching very carefully to what's happening with legislation once President Trump takes office.

Oil

- Mr. Gundlach correctly predicted that oil would rise in 2016. He expects oil will fluctuate between mid $40s and maybe high $50s this year.

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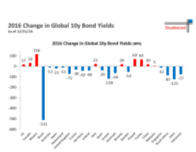

US Treasury Yields in 2016

- UST 10YR Yields rose 15 basis points in 2015 and 17 basis points in 2016. He expects 2017 to be the third year of rising bond yields.

US Dollar (USD)

- The USD has been a main focus of 2017 with many top asset management firms being bullish. Strangely enough the USD is actually down so far in 2017.

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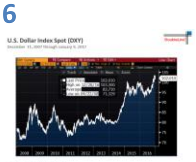

- DoubleLine became bullish on the USD in 2011 and stayed bullish all the way until the day the Fed hiked rates in December of 2015. The USD tends to move in long lasting trends, and were about eight years from 2009.
- Mr. Gundlach is not a big USD bull or bear. He disagrees with the consensus view that the USD is the best investment idea for 2017.

India Equities

- Mr. Gundlach continues to be long-term bullish on Indian equities.

US Equities

- DoubleLine does not share the consensus viewpoint that you should be all US in your equity portfolio.
- Mr. Gundlach believes now is a good time to peel off a little bit of your US equity holdings and diversify your equity holdings outside the US.

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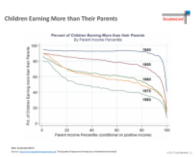

Trump

- Mr. Gundlach correctly predicted that Donald Trump would win the election before the primaries.
- The deterioration of children earning more than their parents, standards of living and dispersion of wealth are some of the reasons why Mr. Gundlach believed Trump would win the election.

Debt to GDP

- Total Federal Debt to GDP is roughly 105%.

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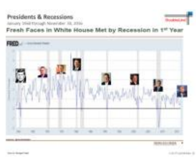

Fresh Faces in White House

- Presidents are often greeted with a recession when they enter office during their first year of administration. Looking back, it happened to Kennedy, Johnson, Carter, Reagan, Bush I, Bush II and Obama.
- The historical patterns would say a recession this year, but that does not seem very likely with positive leading indicators, high CEO confidence and the 12 month moving average of unemployment not indicating a recession.

US Conference Board Leading Economic Indicator

- The US Conference Board Leading Economic Indicator year-over-year (YoY) is positive 0.7 as of 11/30/2016 and does not show a sign of recession.
- This indicator can give false positives when it hits zero, but in the last couple of decades we have not gotten a recession without it going negative.

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CEO Confidence

- The CEO Confidence Index, which measures CEO confidence in the economy one year from now, is at its highest levels since 2014.
- Mr. Gundlach believes this level being high does not offer a lot of reassurance and points out that in 2017, right before the market tanked, it was not far from the levels we see today.

Unemployment

- Unemployment rate is currently at 4.60, below its 12-month moving average of 4.89. An early indicator of recession when the unemployment crosses over its 12 month moving average.
- The more important indicator of recession is when the unemployment rate crosses over its 36 month moving average, which isn't close, but signals a recession.

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Commodity Prices (Slide 26)

- Commodities remain undervalued having put in a massive multi-decade double bottom.
- Mr. Gundlach recommends if you are 100% invested in financial assets it may be time to consider peeling off a piece and adding real assets like commodities.

Gold

- Mr. Gundlach has advocated a permanent position in gold since the 1990s. He is not very bullish on gold and even more so with the Trump victory, but he sees no reason to stop holding it as a diversifier in a portfolio.

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Different Measures of Core Inflation

- Inflation is clearly in an uptrend, other than Core PCE which could be argues is moving sideways.
  - Core CPI, 2.10%
  - Core PCE, 1.65%
  - Cleveland Fed Median CPI, 2.51%
  - Atlanta Fed Sticky Core CPI, 2.72%

US PriceStats CPI

- US PriceStats CPU YoY, a measure of transactions on internet sales, corroborates that inflation is in an uptrend.
- "The annual rate of inflation recorded by PriceStats punched through the 2% mark for the first time in two years on December 23rd and is accelerating rapidly."- State Street

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Wage Growth

- US Wage Growth, as measured by the Atlanta Fed, is running above 4%. This is another inflation measure that points to inflation.

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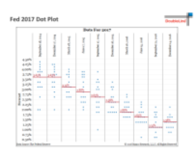

Fed 2017 Dot Plot

- The Fed has been systematically reducing their prediction of where the Fed Funds would be at by the end of 2017.
- Going back to September of 2014 and then every quarter the dots were dropping of where rates would be in 2017.

Barron's Roundtable Predictions in 2016

- Mr. Gundlach, in January of 2016 at the Barron's Roundtable, predicted that the Fed will not follow their dots in 2016. The second prediction he made, of course, was that Donald Trump would win the presidency.

Interest Rates

- Mr. Gundlach thinks the Fed will raise interest rates potentially two or three times in 2017, but probably not in March. It does not seem right to raise them on a new President so quickly, so look for a June hike.

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10-YR US Treasury Yield

- Mr. Gundlach believes the 10YR UST Yield will hit 3% in 2017 and that four or five years from now it will be at 6%.

If rates are rising, why should I own fixed income?

- At DoubleLine, we are excited for interest rates to rise. 3% to 6% on the 10YR UST Yield is not that bad because you are getting higher bond yield every year, and if you manage the portfolio properly the return on the portfolio may not be dissimilar from what you would have gotten if they stayed the same. In fact, it could actually lead to a higher total return if the portfolio is managed properly.

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Japanese Stocks

- Mr. Gundlach likes the Nikkei. He thinks Abenomics are supportive and that there is tremendous automatic buying of Japanese stocks from pension plans. He does not believe you want to buy the Nikkei in Yen, and suggests hedging the currency risk if you do choose to buy.

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Q&A

As interest rates rise and inflation rise, should P/E ratios also continue to rise?

- “Well, absolutely not. If interest rates are rising, then P/E ratios should be falling, all things being equal.”

Credit spreads, especially high-yield, seem to be very tight. What's your assessment of risk-reward of that?

- “Well, as I said, I think...you're right: corporate spreads are tight. Investment-grade corporate bonds have a massive duration on them. So, I think a lot of the flows into those categories are going to be challenged. The high-yield bonds will show interest rate risk in 2017. So, I wouldn't expect the same outcome for 2016.”

Definitions

Consumer Price Index (CPI) – Monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

Personal Consumption Expenditures (PCE) – A measure of price changes in consumer goods and services. Personal consumption expenditures consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, non-durables and services. It is essentially a measure of goods and services targeted toward individuals and consumed by individuals.

Bloomberg Barclays Capital U.S. Treasury 10 Year Index – The 10 year component of the U.S. Government index.

Nikkei 225 – The Nikkei-225 Stock average is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange.

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