Webcast Recap

A Tale of Two Sinks

This webcast originally aired on March 31, 2020

About this Webcast Recap

On March 31, 2020, Chief Executive Officer Jeffrey Gundlach held a webcast titled, “A Tale of Two Sinks.”

This recap is not intended to represent a complete transcript of the webcast. It is not intended as a 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.doubleline.com by clicking on the **“Webcasts”** tab under **“Latest Webcast”**. You can use the **“Jump To”** feature to navigate to each slide.

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World GDP Forecast by Year

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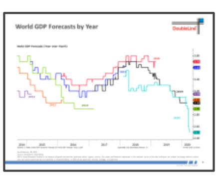

- Economic disruptions and quarantines around the world are leading to lower world gross domestic product (GDP) forecasts. As of February 28, 2020, world GDP was forecasted to increase 2.50% year-over-year (YoY) for 2020, down from 3.20% in 2019.
  - Mr. Gundlach believes this estimate will continue to be revised downward.
- Economic data only recently began to capture the toll of economic disruption.
  - March readings of Eurozone services purchasing managers' index (PMI) fell off a cliff, printing at 28.4 from 52.6 at the end of February.

Trade Balance by Country

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- The U.S. and China have starkly opposite trade balances, with the import-heavy U.S. economy at negative $600 billion and China’s export-based economy at positive $400 billion.
  - Supply chain disruptions during the COVID-19 outbreak exposed the weaknesses of an interconnected global economy. Mr. Gundlach believes one theme post-COVID-19 will be de-globalization, particularly for the U.S.
    - Manufacturing will likely move back to the U.S.; for example, domestic pharmaceutical production could reemerge in the wake of the COVID-19 crisis.
- Congress was able to pass a record $2.2 trillion stimulus bill to aid the U.S. economy. The Treasury and Federal Reserve, the “Two Sinks,” are both working hard to mitigate the collateral damage of the COVID-19 crisis.

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U.S. – 35 Million Low Quality Jobs at Risk

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- Mr. Gundlach believes there are 35 million low paying jobs at risk due to the effects of the COVID-19 pandemic. The job areas expected to be hardest hit include amusements, gambling, restaurants, and employment services.
- The labor market is paramount to the future economic outlook. Initial jobless claims of 3,307,000 as of March 26, 2020, are at an unprecedented level. This is the worst unemployment claim print of all time. Initial jobless claims are widely expected to double at the next release on April 2, 2020.

U.S. – Racing Towards a Recession

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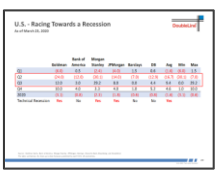

- Major investment banks are forecasting negative year-over-year (YoY) economic growth in 2020.
- All are expecting a huge divot in second quarter gross domestic product (GDP) and then a miraculous snapback in the third quarter.
  - Mr. Gundlach believes the full-year 2020 GDP estimates are highly optimistic and GDP will likely print below negative 3.1%, which is the minimum estimate across the major investment banks.

Fed's Balance Sheet, Total Reserves, and Repos

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- The Fed has pledged infinite quantitative easing (QE) to combat economic weakness stemming from the COVID-19 crisis.
  - The Fed is talking about increasing its balance sheet to $7 trillion. Mr. Gundlach believes that the Fed's balance sheet could increase to $10 trillion when you consider the potential for a $2 trillion infrastructure project.
- Based upon the current growth trajectory of the Fed's balance sheet, Mr. Gundlach believes we are on a similar path as Japan. The Bank of Japan (BoJ) expanded its balance sheet from 30% of GDP in 2011, up to 105% of GDP as of February 29, 2020.
  - If the Fed increases its balance sheet to $10 trillion, that it would equal approximately 50% of GDP.
- Japan is a cautionary tale. The country experienced approximately 1% real GDP growth YoY over the past 10 years, even as the BoJ simultaneously increased its balance sheet to record levels.
  - If the U.S. wants to avoid Japan's fate, Mr. Gundlach believes it will take a long-term, monumental restructuring of the U.S. economy, with manufacturing leading the way.

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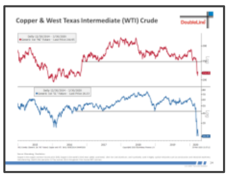

Copper & West Texas Intermediate (WTI) Crude

- As of March 30, 2020, the price of oil as measured by the WTI prompt-month futures contract, was $20.33, down significantly YTD and taking out the 2016 low of $26.
- Mr. Gundlach describes a “double whammy” for oil, as Saudi Arabia and Russia announced their plans for increased production amid a demand shock driven by the COVID-19 crisis.
  - The confluence of these two factors has the potential to devastate the U.S. energy industry.
- The price of copper, as measured by the copper prompt-month futures contract, was down to $2.1695 on March 30, 2020.
  - Given the length of time it took copper to rebound in the wake of the 2015/2016 energy crisis, Mr. Gundlach does not think it is plausible for copper to rebound by the third quarter of 2020 even as many investment banks predict a sharp rebound in third quarter economic activity.

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Gold & Gold Miners

- Gold has gone to new highs in every currency except the U.S. Dollar (USD).
- At current levels, Mr. Gundlach is neutral on gold.
- Even with a surge in the price of gold, the gold miners, as measured by the VanEck Vectors Gold Miners ETF (GDX), failed to cross above its 2016 levels.
- Looking at the S&P 500 Price Index divided by Gold’s Spot Price per Ounce, the S&P 500 is down over 50% since 1999.
  - Mr. Gundlach believes this is a way to look at the S&P 500’s return in terms of real money, viewing gold as a currency.

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S&P 500 Index Now Versus 1929, 2000, and 2007, and Versus NASDAQ in 2000

- Overlaying the charts for the S&P 500 Index during the COVID-19 crisis versus 1929, 2000, and 2007, the current crash resembles most closely that of 1929 at the start of the Great Depression.
  - Similar to the market’s initial bounce in late 1929 and early 1930, Mr. Gundlach believes that the S&P 500 will eventually take out its March low.
- Overlaying the charts for the S&P 500 Index during the COVID-19 crisis versus the NASDAQ Composite Index in 2000, and the Nikkei 225 Index in 1989, the current crash resembles the NASDAQ’s 2000 crash almost identically.

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Global Bank Stocks

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- The impact of negative interest rates in Europe and Japan is exemplified by the performance of each country's bank stocks.
  - The Bank of Japan (BOJ) employed a sub 1% interest rate policy beginning in 1995, which eventually lead to the BOJ adopting negative interest rates in 2016. Since 1995, Japanese bank stocks are down over 85% as measured by the Tokyo Stock Exchange TOPIX Banks Index.
  - From 1995 to the Global Financial Crisis, European banks and United States (U.S.) banks significantly outperformed Japanese banks.
    - In an attempt to stimulate the Eurozone economy post Global Financial Crisis, the European Central Bank (ECB) introduced negative interest rates in 2014.
    - Since the Global Financial Crisis, the EURO STOXX Banks Price EUR Index has significantly underperformed United States (U.S.) banks as measured by the KBW Bank Index.
- Even amidst the recent steepening in the U.S. yield curve, U.S. bank stocks plunged due to market turmoil and illiquidity.
  - This could be an indication that the U.S. banking sector has likely peaked in the short-to-intermediate term.

Quarterly Buybacks on the S&P 500

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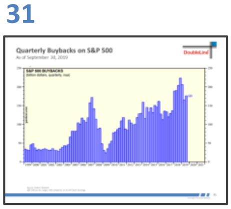

- Starting at the end of 2010, there was a significant move higher in quarterly stock buybacks. This leads to higher stock prices, with the caveat of companies issuing more debt to buy back their stock.
  - Companies that are highly levered, as a result of buying back large amounts of their shares via increased bond issuance, could likely face ratings downgrades on their debt.
- Over the past 10 years, major U.S. airlines bought back $45.5 billion of their own stock while their balance sheets increased, draining liquidity the airlines desperately need today.
  - The proposed $58 billion bailout of the major U.S. airlines seems wrong to Mr. Gundlach in light of this buyback binge.

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Dollar vs. Twin Deficits (2-year Lead)

- The twin deficit, which is the current account deficit plus the fiscal deficit, is highly correlated to moves in the USD, typically with a lag.
- The U.S. budget deficit has been expanding and the trade imbalance continues to grow as the trade deficit has expanded since President Trump's inauguration.
  - This is one of the reasons Mr. Gundlach believes the USD will weaken in the short-to-medium term.
- The Fed recently opened a dollar swap program with emerging market countries, flooding the market with USD to provide liquidity.
  - Mr. Gundlach believes increased supply of USD could be met with weaker demand; historically during large deficit growth periods the USD tends to weaken.

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Copper / Gold vs. U.S. Treasury (UST) 10-year yield

- One of the leading indicators Mr. Gundlach watches for the future direction of the 10-year UST yield is the Copper / Gold ratio.
  - As of March 30, 2020, the Copper / Gold ratio implies the 10-year UST yield should be right where it is, at roughly 0.71%.
    - If the price of Gold were to drop, this ratio would move higher which would potentially support a steeper yield curve.

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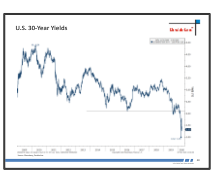

U.S. 30-Year Treasury Yields

- The 30-year UST yield bottomed on March 9, 2020, at 100 bps, a level Mr. Gundlach believes will not be breached, although the yield did reach 71 bps intraday.
  - Due in part to UST oversupply fears and a lack of demand, there has been a reversal of the 30-year UST yield.
  - The Fed could implement a negative interest policy, but given that the U.S. is the largest banking system in the world, negative rates would be harmful to the financial system and thus negative rate policies in the U.S. remain unlikely.

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Credit YTD Performance

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- Mr. Gundlach believes the Fed theoretically chose winners and losers while rolling out asset purchasing programs supporting UST, Agency mortgage-backed securities, Agency commercial mortgage-backed securities, U.S. corporate bonds, and asset-backed securities.
  - The assets being supported by the Fed have broadly outperformed those the Fed has not backed, either explicitly or implicitly.
- Lower-rated debt has generally underperformed higher-rated debt across the fixed income universe, as there has yet to be asset purchase programs providing support for lower-rated assets.

BB-BBB Corporate Spread Differential

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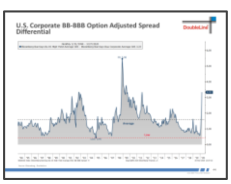

- Mr. Gundlach stated one of his highest conviction ideas in his “Just Markets” webcast on January 7, 2020, was to “stay away from BB (U.S.) corporates and instead buy BBB-rated U.S. corporate bonds.”
  - At the end of 2019, the 50 bps spread differential between the two cohorts was near its lowest level of the past 25 years.
  - As of March 27, 2020, the spread between BB-rated and BBB-rated U.S. corporate bonds has widened dramatically to 333 bps.

Largest Mortgage Real Estate Investment Trusts (REITs) Performance (YTD)

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- Some of the largest mortgage REITs are down approximately 29-79% through March 30, 2020, as they have been forced to delever:
  - AGNC Investment Corporation, an Agency mortgage REIT, is down 29.42%.
  - New Residential Investment Corporation, a non-Agency mortgage REIT, is down 61.42%.
  - MFA Financial Incorporated, another residential mortgage REIT, is down 79.67%.
- The result of the forced liquidations is a dramatic supply-demand imbalance in the market, increasing pricing uncertainty.

Below Investment Grade - A term indicating that a security is rated below investment grade. These securities are seen as having higher default risk or other adverse credit events, but typically pay higher yields than better quality bonds in order to make them attractive. They are less likely to pay back 100 cents on the dollar.

Bloomberg Barclays Global Aggregate ex USD Index - A measure of investment grade debt from 24 local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Bonds issued in USD are excluded.

Bloomberg Barclays Global Aggregate Negative Yielding Debt Index - A broad based index representing global intermediate-term investment grade bonds with negative yields.

Bloomberg Barclays US Aggregate Bond Index - This index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US 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. It is not possible to invest in an index.

BPS - A common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1% and is used to denote the percentage change in a financial instrument.

Copper-Gold Ratio - The quotient of the price per pound of copper divided by the price per troy ounce of gold. The ratio's absolute level is irrelevant. What matters is its direction – and whether the yield on the 10-year Treasury moved in the same direction or diverged.

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

Credit Quality - Determined from the highest available credit rating from any Nationally Recognized Statistical Rating Agency (NRSRO", generally S&P, Moody's, or Fitch). DoubleLine chooses to display credit ratings using S&P's rating convention, although the rating itself might be sourced from another NRSRO. The firm evaluates a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade. In limited situations when the rating agency has not issued a formal rating, the rating agency will classify the security as nonrated.

Dow Jones Industrial Average - A price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

Dow Jones Transportation Average - A 20-stock, price-weighted index that represents the stock performance of large, well-known U.S. companies within the transportation industry.

Duration - Duration is a 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.

Drawdown - Is a peak-to-trough decline during a specific period for an investment, trading account, or fund.

EURO STOXX 50 - Europe’s leading blue-chip index for the Eurozone, provides a blue-chip representation of leaders in the region.

Investment Grade - A level of credit rating for stocks regarded as carrying a minimal risk to investors. Ratings are based on corporate bond model. The higher the rating the more likely the bond will pay back par/100 cents on the dollar.

Purchase Managers Index (PMI) - An index of the prevailing direction of economic trends in the manufacturing and service sectors. You cannot invest directly in an index.

Spread - The difference between two prices, rates or yields.

U.S. Dollar Spot Index (DXY) - Indicates the general international value of the US dollar by averaging the exchange rates between the USD and major world currencies.

Upgrade-to-downgrade Ratio – A ratio between bond upgrades (when a rating agency raises a bond’s rating) and bond downgrades (when a rating agency lowers a bond’s rating).

Yield Curve - A curve on a graph in which the yield of fixed-interest securities is plotted against the length of time they have to run to maturity.

It is not possible to invest in an index.

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DoubleLine®

SPDR Miners (GDX)
As of December 31, 2019

VanEck Vectors® Gold Miners ETF (GDX®) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the NYSE Arca Gold Miners Index (GDMNTR), which is intended to track the overall performance of companies involved in the gold mining industry.

Quarter End as of 12/31/19	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	10 YR	LIFE 05/16/06
GDX (NAV)	9.15	10.00	40.15	40.15	12.65	10.41	-3.80	-1.57
GDX (Share Price)	8.82	10.33	39.73	39.73	12.57	10.43	-3.83	-1.58
GDMNTR (Index)	9.36	10.14	40.89	40.89	13.00	10.84	-3.35	-1.11
Performance Differential (NAV - Index)	-0.21	-0.14	-0.74	-0.74	-0.35	-0.43	-0.45	-0.46

*Returns less than one year are not annualized.

Fees and Expenses*

Management Fee	0.50%
Other Expenses	0.02%
Gross Expense Ratio	0.52%
Fee Waivers and Expense Reimbursement	--
Net Expense Ratio	0.52%

*Expenses for GDX are capped contractually at 0.53% until May 1, 2020. Cap excludes acquired fund fees and expenses, interest expense, trading expenses, taxes and extraordinary expenses.

An investment in the Fund may be subject to risks which include, among others, investing in gold and silver mining companies, Canadian issuers, foreign securities, foreign currency, depositary receipts, small- and medium-capitalization companies, equity securities, market, operational, index tracking, authorized participant concentration, no guarantee of active trading market, trading issues, passive management risk, fund shares trading, premium/discount risk and liquidity of fund shares, non-diversified and concentration risks, all of which may adversely affect the Fund. Foreign investments are subject to risks, which include changes in economic and political conditions, foreign currency fluctuations, changes in foreign regulations, and changes in currency exchange rates which may negatively impact the Fund's return. Small- and medium-capitalization companies may be subject to elevated risks. The Fund's assets may be concentrated in a particular sector and may be subject to more risk than investments in a diverse group of sectors.

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