DoubleLine Total Return Bond Fund Webcast Recap

Originally Aired March 8, 2022

About this Webcast Recap

On March 8, 2022, Chief Executive Officer Jeffrey Gundlach and Portfolio Manager Andrew Hsu held a webcast titled "Convoy," 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 March 31, 2022	**1 Month**	**3 Months**	**Year-to-Date**	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Since Inception (4-6-10 to 3-31-22)**	**Gross Expense Ratio**
I-share (DBLTX)	-2.77%	-4.83%	-4.83%	-3.14%	1.01%	1.90%	2.76%	4.66%	0.50%
N-share (DLTNX)	-2.80%	-4.89%	-4.89%	-3.38%	0.76%	1.64%	2.52%	4.41%	0.75%
Bloomberg US Agg Index	-2.78%	-5.93%	-5.93%	-4.15%	1.69%	2.14%	2.24%	2.97%	
				Annualized					
Quarter-End Returns March 31, 2022	**1 Month**	**1Q2022**	**Year-to-Date**	**1 Year**	**3 Years**	**5 Years**	**10 years**	**Since Inception (4-6-10 to 3-31-22)**	
I-share (DBLTX)	-2.77%	-4.83%	-4.83%	-3.14%	1.01%	1.90%	2.76%	4.66%	
N-share (DLTNX)	-2.80%	-4.89%	-4.89%	-3.38%	0.76%	1.64%	2.52%	4.41%	
Bloomberg US Agg Index	-2.78%	-5.93%	-5.93%	-4.15%	1.69%	2.14%	2.24%	2.97%	

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

- As of Feb. 28, the real federal funds rate (FFR) was negative 739 basis points (bps) due to elevated inflation as measured by the Consumer Price Index (CPI).[1]
- Historically, the Federal Reserve has increased the FFR in line with wage growth.
  - As of Dec. 31, wage growth was approximately 4.5% year-over-year (YoY), as measured by the Employment Cost Index, while the FFR was slightly above 0%. Jeffrey Gundlach believes this is one indication that the Fed has fallen behind the curve.
- As of Feb. 28, there were 2.1 million fewer people employed relative to the pre-pandemic peak, and labor force participation remained below its pre-pandemic peak.[2]
  - However, jobs are "plentiful" based on Conference Board Consumer Confidence Index survey data as of February.

Markets

- The U.S. Dollar Index (DXY) spot price has increased since the start of the year.
  - The DXY has historically been highly correlated to the change in the slope of the U.S. yield curve.[3] When the yield curve flattens, the DXY has historically increased.
    - Mr. Gundlach's long-term view is for the dollar to decline based on fundamentals, including the widening twin deficits (fiscal debt and trade balance).
- A recent trend reversal has been the Nasdaq 100 Index underperforming the S&P 500 Index.
- Since 2011, the S&P 500 has strongly outperformed the Bloomberg US Aggregate Bond Index ("the Agg") and Bloomberg Commodity Index (BCOM).
  - Mr. Gundlach believes this is due, in part, to the Fed keeping short-term interest rates near zero and growing its balance sheet.
- More recently, the S&P 500 has declined while the BCOM has broken out to the upside.

Inflation

- Home prices have increased 18.8% YoY. However, the shelter component of the core CPI calculation, which is approximately one-third of the index, has only increased 4.4% YoY.[4]
  - Given the rise in home prices, Mr. Gundlach believes it is likely that the shelter component of inflation will continue to trend higher.
- U.S. import and export prices remain elevated, which suggests potentially higher inflation than the reported CPI, as import and export prices paid do not use hedonic adjustments.
- Various measures of wage inflation show that U.S. wages are broadly up between 4.0% and 6.7% YoY.
  - Wages across all age cohorts have started to rise after remaining relatively stagnant over the last five years.
  - Workers ages 16 to 24 saw wage increases for much of the past 18 months as employers tried to hire entry-level workers.
    - Mr. Gundlach believes the Atlanta Fed Wage Growth Tracker is important to watch to see if the wage acceleration seen in the younger cohort will bleed through to more-seasoned workers.[5]
- Historically, the 30-year mortgage rate has been higher than YoY wage growth. However, that relationship has inverted since the onset of the pandemic, as mortgage rates declined and wages increased.
  - This is one reason why Mr. Gundlach believes the housing market has been doing quite well.
  - Another reason for the strength in housing is the low supply of homes available for sale. As of Jan. 31, the U.S. existing-home supply was 1.6 months, an all-time low.
    - These factors have contributed to home prices broadly rising over 30% in the last two years.[6]
- Global inflation has continued to surprise to the upside throughout the year.
  - Over the past 10 years, there has been at least one region of the world that surprised to the downside for inflation expectations. However, all regions of the world are currently surprising to the upside.

Interest Rates

- Short-dated U.S. Treasury yields have moved substantially higher this year as market participants have adjusted expectations for FFR hikes.
- Over the last monetary cycle, the two-year Treasury yield has guided the Fed and FFR in tightening and easing monetary conditions.
  - As of March 7, the two-year yield was approximately 130 bps higher than the upper bound of the FFR, signaling the market's expectations of increases to the FFR.

Fixed Income

- As of March 8, the trailing 12-month total returns for corporate bonds rated investment grade (IG) were negative, largely driven by the sector's long duration. The total returns for high yield (HY) corporate bonds were slightly positive, with lower-rated credit outperforming as bonds rated CCC outperformed bonds rated BB.
  - After a relatively benign credit spread environment in 2021, U.S. IG and HY corporate bond spreads have widened to start 2022 in conjunction with higher U.S. Treasury rates.
    - Despite spreads widening, the default rate for HY bonds and leveraged loans remained at historically low levels at the end of January, as many corporations were able to reduce their interest expense by refinancing debt at lower rates.
- Agency mortgage-backed securities (MBS) have also experienced spread widening ahead of the Fed likely tightening monetary policy this year.

DoubleLine Total Return Bond Fund

- As of Feb. 28, the DoubleLine Total Return Bond Fund (the "Fund") had an average price of $99.40 relative to the Agg's $100.85.
  - The Fund's portfolio management team has actively managed duration positioning. As of Feb. 28, the Fund's duration was 4.82 years relative to the Agg's 6.59 years.
  - As rates have risen to start the year, the Fund's duration has increased. However, unlike last year, the investment team has largely utilized Agency MBS and Agency commercial MBS (CMBS) rather than long-dated U.S. Treasuries to extend duration.
    - DoubleLine believes it is likely that interest rate volatility will continue, and by positioning the Fund with a lower duration relative to its benchmark, the team attempts to dampen overall volatility for its investors.
- Due in part to duration management, Fund performance during the rising rate periods has been strong relative to the Agg and its components.[7]
- Roughly half of the Fund's exposure remains in government-backed assets such as Agency MBS, Agency CMBS and U.S. Treasuries, and roughly half in a diversified pool of securitized credit, including non-Agency residential MBS (RMBS), non-Agency CMBS, asset-backed securities (ABS) and collateralized loan obligations (CLOs).
- 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 higher credit enhancement relative to the delinquency rate of their underlying assets.
  - Another factor to consider is average dollar price, which equates to additional potential protection. For example, the Fund's legacy RMBS positions were purchased at an average price of $75, which means there is an additional 25 points of potential protection relative to a par-priced security.

Structured Products

- Many mortgage borrowers that entered forbearance during the pandemic have either paid off or moved into a performing status, ultimately lowering the probability for widespread defaults and delinquencies.
  - Rising home prices have likely aided in positive forbearance outcomes, giving optionality for borrowers having financial difficulty to sell their homes.
- Should CPI continue to remain elevated, Andrew Hsu believes it will ultimately put upward pressure on mortgage rates, which will likely slow new origination and lead to a further decline in prepayment speeds.
- Transitions into 30-day-plus delinquencies have declined across consumer loan types.
  - Comparing the first 18 months from issuance, loans originated post-COVID-19 outperformed loans originated pre-COVID-19, likely as a result of government stimulus throughout the pandemic.
    - Given that most fiscal stimulus programs have expired, the investment team will be closely monitoring delinquencies going forward. DoubleLine's view is that there will likely be a small reversion toward the mean, as delinquencies might increase, particularly within the subprime borrower and low-income cohorts. However, we expect many consumers will remain current on their debt obligations given the overall strength of household balance sheets.
- Prices for commercial real estate (CRE) assets have significantly rallied YoY.
  - In 2021, the investment team reduced exposure to parts of the CRE market more acutely impacted by COVID-19, such as hotel and retail, and increased exposure to property types that have historically been more stable during times of market volatility, including multifamily and industrial.
    - That move has been beneficial, as YoY property prices for industrial and multifamily have increased the most relative to other CRE property types.

Citations

1 The real FFR is the effective FFR minus the headline CPI year-over-year.

2 U.S. employees on nonfarm payrolls.

3 Measured by the spread between the yield on the two- and 10-year Treasuries.

4 S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index.

5 Seasoned workers are ages 25-54 and 55-plus, as followed by the Atlanta Fed Wage Growth Tracker.

6 S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index.

7 U.S. Treasuries, U.S. Agency MBS, U.S. IG corporate bonds.

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 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 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.

Conference Board Consumer Confidence Index (CCI) – This index (published the last Tuesday of every month) measures U.S. consumers' optimism in the economy based on their saving and spending activity.

Consumer Price Index (CPI) – This index, compiled by the U.S. Bureau of Labor Statistics, 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.

Employment Cost Index (ECI) – Survey of employer payrolls conducted by the U.S. Bureau of Labor Statistics that measures the change in total employee compensation each quarter. It is used by a wide variety of stakeholders – economists, investors, employers – to track the state of the economy or set pay scales for their employees.

Federal Funds Rate – Target interest rate, set by the Federal Reserve at its Federal Open Market Committee (FOMC) meetings, at which commercial banks borrow and lend their excess reserves to each other overnight. The Fed sets a target federal funds rate eight times a year, based on prevailing economic conditions.

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 high yield (HY) or "junk bonds." The higher the bond rating the more likely the bond will return 100 cents on the U.S. dollar.

Legacy RMBS – Name for private-label, aka non-Agency, residential mortgage-backed securities (RMBS) issued before the shift to stricter post-Global Financial Crisis (guidelines). RMBS issued post-GFC are referred to as "RMBS 2.0."

Nasdaq 100 Index – This index comprises the 100 largest U.S. and non-U.S. nonfinancial securities based on market capitalization listed on the Nasdaq stock exchange. The index reflects companies across major industry groups including computer hardware and software, telecommunications, biotechnology and retail/wholesale trade.

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.

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.

Wage Growth Tracker – Measure of the nominal wage growth of individuals published by the Federal Reserve Bank of Atlanta. It is constructed using microdata from the Current Population Survey and is the median percent change in the hourly wage of individuals observed 12 months apart.

You cannot invest directly in an index.

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Mutual fund investing involves risk; Principal loss is possible. Investments in debt securities typically decrease when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in Asset-Backed and Mortgage-Backed securities include additional risks that investors should be aware of including credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Investments in lower rated and non-rated securities present a great risk of loss to principal and interest than higher rated securities. The Total Return Bond Fund intends to invest more than 50% of its net assets in mortgage-backed securities of any maturity or type. The Fund therefore potentially is more likely to react to any volatility or changes in the mortgage-backed securities marketplace.

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

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