DoubleLine Fixed Income Briefing

First Quarter 2024 | March 31, 2024

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March 31, 2024

First Quarter Review

Returns

The first quarter of 2024 continued a trend that lasted for much of 2023 as lower-rated credit and floating-rate sectors outperformed traditional sectors, driven primarily by high interest income and lower interest-rate sensitivity, with large return dispersion across subsectors. *(Figure 1)*

Yields

Yields across the securitized products market remain attractive, driven by wider than average spreads and pricing of front-end U.S. Treasury tenors that currently exhibit higher yields given the inverted Treasury yield curve. *(Figure 2)*

1Q2024 Fixed Income Index Performance | As of March 31, 2024

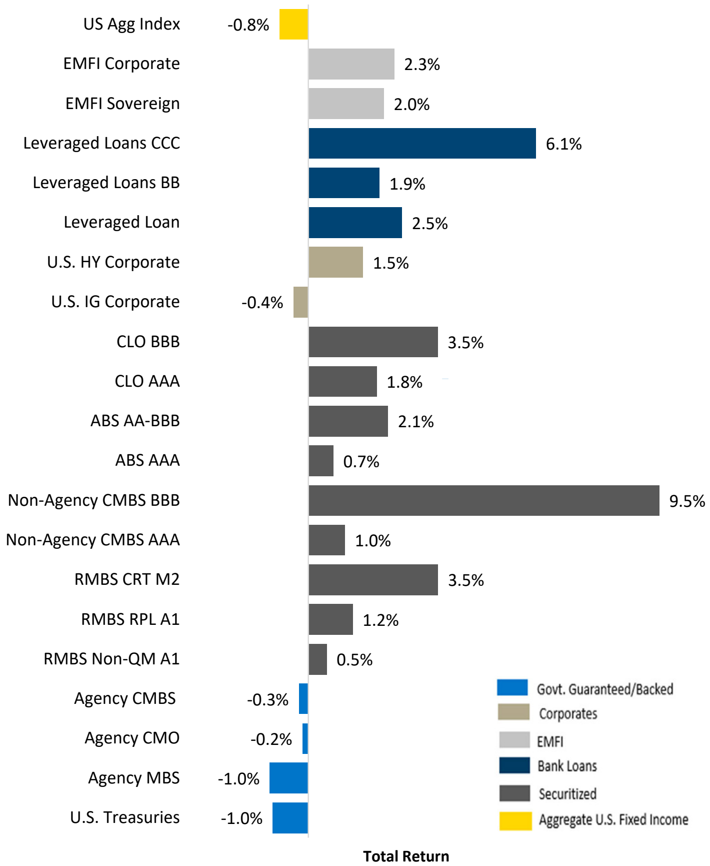

Figure 1
Source: DoubleLine, Bloomberg, BofA Global Research, J.P. Morgan, Credit Suisse. Non-Qualified Mortgage (Non-QM), Re-Performing Loan (RPL), Credit Risk Transfer (CRT), Emerging Markets Fixed Income (EMFI). Indices used in this figure can be found under disclosures.

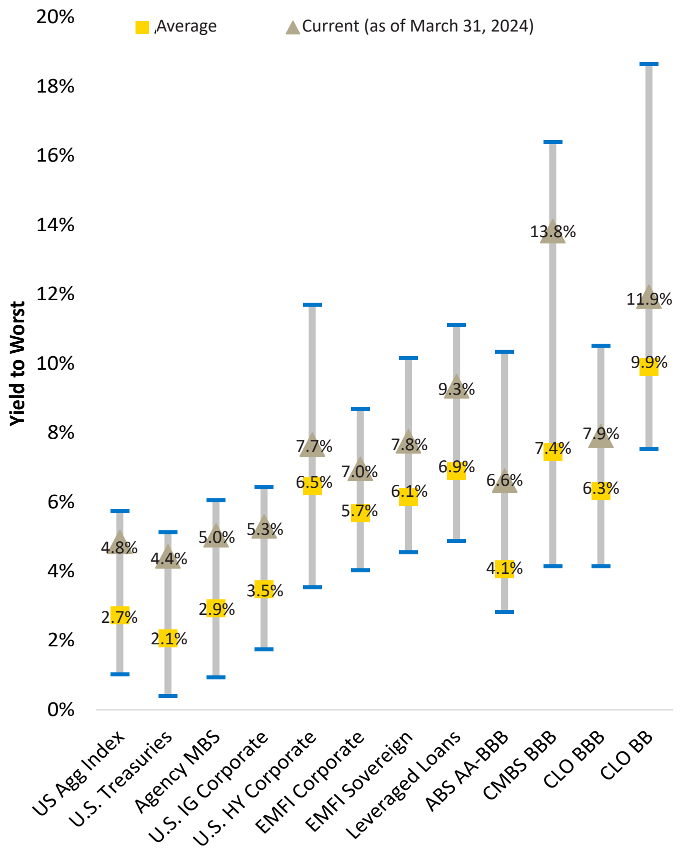

Figure 2
Source: DoubleLine, Bloomberg, BofA Global Research, J.P. Morgan, Credit Suisse. Gray bars represent the range from March 31, 2014 through March 31, 2024.Indices used in this figure can be found under disclosures.

Spreads

Spreads for many securitized subsectors remain wide of their 10-year averages, with Agency mortgage-backed securities (MBS) and lower-rated commercial MBS (CMBS) exhibiting the largest degrees of relative cheapness. *(Figure 3)*

	US Agg Index	Agency MBS	U.S. IG Corp.	U.S. 1-3 Yr Corp.	CMBS AAA	RMBS AAA	CLO AAA	U.S. HY Corp.	EMFI Corp.	EMFI Sov.	Bank Loans	ABS AA-BBB	CMBS BBB	CLO BBB
March 31, 2024	**39**	**139**	**89**	**56**	**109**	**130**	**144**	**299**	**276**	**342**	**524**	**227**	**900**	**383**
10-Year Average	*47*	*105*	*123*	*69*	*100*	*131*	*146*	*424*	*343*	*376*	*502*	*253*	*488*	*418*
YTD Change	-3	0	-9	-11	-38	-20	-10	-24	-36	-42	-22	-54	-222	-27
Percentile Rank	18	85	7	34	68	56	46	5	4	35	66	51	85	40

Figure 3
Source: DoubleLine, Bloomberg, Wells Fargo
Data from March 31, 2014 through March 31, 2024. Indices used in this figure can be found under disclosures. Year-to-Date (YTD); Emerging Markets Fixed Income (EMFI). You cannot invest directly in an index.

Summary of DoubleLine Fixed Income Views By Sector

Sector	Fundamentals	Investment Focus
Treasuries	• Persistent inflation figures have led to the repricing of expectations for future Fed rate cuts. • Short end yields are susceptible to the Fed's signaling of the timing and speed of policy normalization. • Long end yields are sensitive to an uncertain growth outlook and supply/demand dynamics.	• Constructive on Treasuries in intermediate-term portfolios, favoring the short-end and belly of the Treasury yield curve with a steepening bias, as short-end rates could fall faster than long-end rates. • Shorter-tenor Treasuries in short-term portfolios, which may generate significant carry as the Treasury yield curve inversion persists.
Agency MBS	• Spreads remain wide by historic standards given the technical backdrop and elevated rate volatility. • The most likely path forward for the Federal Reserve is rate cuts and a tapering of QT, which should lead to higher net interest margins for banks, incentivizing a move out of cash and into Agency MBS.	• Belly of the coupon pass-through stack that generally offers wider spreads relative to low coupons and exhibits better convexity profiles than current-coupon originations. • Discount dollar-priced collateralized mortgage obligations (CMOs) with yields in the midsingle digits that offer strong total return potential.
U.S. Investment Grade Corporates	• Corporate balance sheets remain in a strong position despite slight margin compression, as cost inflation has outpaced revenue inflation. • Investment grade (IG) corporate spreads are tight by historical standards generally due to strong investor demand with yields in the mid-5% range. • A projected steeper Treasury curve could further stimulate demand for high-quality assets with excess yield, such as IG corporates.	• Favoring pharma that is highly cash-flow generative where merger and acquisition (M&A) activity has already occurred, de-risking the likelihood of credit quality deterioration. • Favoring tech that has a disciplined capital-allocation policy is positioned to benefit from AI trends. • Avoiding credit card companies due to deteriorating consumer credit quality/performance, business model risk from heightened fee regulation, and M&A risk.
U.S. High Yield Corporates	• Balance sheets for high yield (HY) corporate issuers are generally strong amidst a stable earnings backdrop. • HY corporate leverage remains comfortably below the long-term average, and interest coverage is above its long-term average. • Borrowers are using the strong new issue market to refinance near-dated debt.	• Favoring hospitals, cruise lines, energy, insurance broker sectors. • Avoiding legacy media, metal and mining, cable and telecom, and CCC-rated bonds.

Sector	Fundamentals	Investment Focus
U.S. Bank Loans	• The maturity wall remains elevated by historical standards, but companies have been proactively tapping the primary market to refinance debt and extend maturities. • Interest coverage broadly deteriorated in 2023 as rates rose, but with short rates peaking, coverage is unlikely to worsen notably from current levels. Earnings growth has slowed but remains positive. • Although the Fed is likely to cut rates, loans offer attractive return potential given high-single-digit yields. Active security selection remains paramount.	• Favoring healthcare providers benefiting from enhanced procedure volumes and normalizing labor inflation. • Favoring borrowers in the leisure and gaming sectors with resilient consumer demand and a focus on deleveraging. • Avoiding over-leveraged software, cable, and telecommunication credits. Avoiding broadcasting credits that are vulnerable to shifts in consumer viewing habits.
Non-Agency MBS	• Home prices remain supported by strong demand (household formation) and low housing supply (lock-in effect). • Historically low affordability remains a headwind for housing activity.	• New-issue non-qualified (non-QM) mortgages. • New-issue single-family rentals. • Moderately seasoned credit risk transfer (CRT) deals that have deleveraged.
Non-Agency CMBS	• Industrial and multifamily properties remain healthy with stable cash flows. • Office space remains challenged post-pandemic.	• Seasoned conduit and CRE CLOs with high multifamily exposure. • Nonoffice property types. • Industrial single asset, single borrower with strong cash flows and sponsorships.
ABS	• Industrial and hard-asset collateral continue to display strength. • The consumer sector remains healthy, but delinquencies are picking up for subprime borrowers.	• Prime/near-prime consumer deals backed by short-term loans. • Hard-asset securitizations with strong liquidity profiles (ex data infrastructure).
CLO	• Stability remains amid increased borrowing costs to the underlying bank loans. • Bank loan downgrades outpace upgrades. • Defaults in leveraged loans remain muted.	• Deals exiting reinvestment period. • Discount dollar-priced new-issue CLOs.
Emerging Markets Fixed Income	• Emerging markets (EM) credit fundamentals remain resilient. In general, EM IG and HY corporates tend to have better credit metrics than those of their US and European peers. • We expect higher GDP growth for EM to continue versus developed markets (DM). • EM central banks moved earlier and more aggressively than DM central banks in raising rates in response to inflationary pressures. Disinflation has allowed EM central banks to embark on easing, which should bode well for EM growth outlook.	• Favoring Latin American corporate credits in the seven-year-or-shorter maturity range whose prices can potentially benefit from spread compression and/or falling Treasury rates. • Strategic sectors – banking, utilities, oil & gas, mining. • Avoiding countries facing elevated geopolitical risks.

Sector Outlooks – Thoughts From the DoubleLine Investment Team

U.S. Treasuries

Higher for Longer

Treasury yields rose across the curve in the first quarter as market participants adjusted expectations for the pace of Fed rate cuts in 2024. The repricing of market expectations on the rate-cutting path was driven by more cautious rhetoric from Fed Chair Jerome H. Powell and other Federal Open Market Committee (FOMC) members during the quarter. Their comments came in response to more resilient economic data and slightly hotter-than-expected inflation. The Consumer Price Index rose 0.4% month-over-month (MoM) in February, above expectations for a 0.3% MoM rise, bringing the year-over-year (YoY) measure to 3.2%. The Core Personal Consumption Expenditures Price Index, the Fed's preferred inflation gauge, rose 0.3% MoM in February, in line with expectations, and 2.8% YoY, above the central bank's target. Treasury yields ended the quarter broadly higher as the two-year and 10-year yields rose 37 basis points (bps) 32 bps, respectively.

On March 20, the FOMC announced it was maintaining the target federal funds rate (FFR) at a range of 5.25% to 5.50%. The March Summary of Economic Projections, which is updated quarterly by the FOMC, reflected a more resilient U.S. economy than participants forecast in December. Despite the upward revisions, the median participant still expected three cuts this year. Market expectations, which began the year pricing in nearly six cuts to the FFR in 2024, converged over the quarter with the FOMC's projections for the FFR to end 2024 in a range of 4.50% to 4.75%. There is no consensus yet, however, for when a cutting cycle could begin, with market participants pricing in roughly a 50% chance of a cut of 25 bps at the June meeting.[1]

The DoubleLine team expects front-end yields to remain susceptible to the Fed's signaling of the timing and speed of normalizing monetary policy from restrictive levels. We believe the Fed will cut this year, which will support shorter-duration yields. The long end remains susceptible to growth and inflation outlooks, and the repricing of term premium due to fiscal risks and Treasury supply-demand dynamics. We continue to favor a curve steepening bias, as short-end rates could fall faster than long-end rates under a policy-normalization scenario. Overall, the team maintains that Treasuries are especially useful in the context of diversified fixed fixed-income portfolios as an offset to the risks presented by credit-sensitive sectors.

U.S. Treasury Curve | As of March 31, 2024

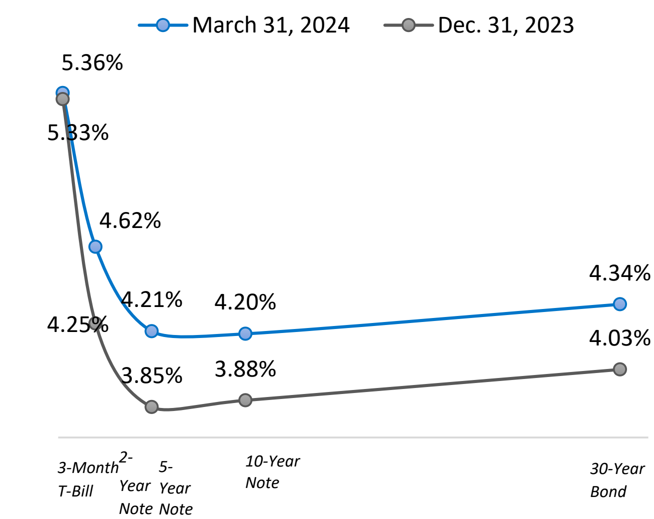

Figure 4
Source: DoubleLine, Bloomberg

Market Implied Fed Funds Rate | As of March 31, 2024

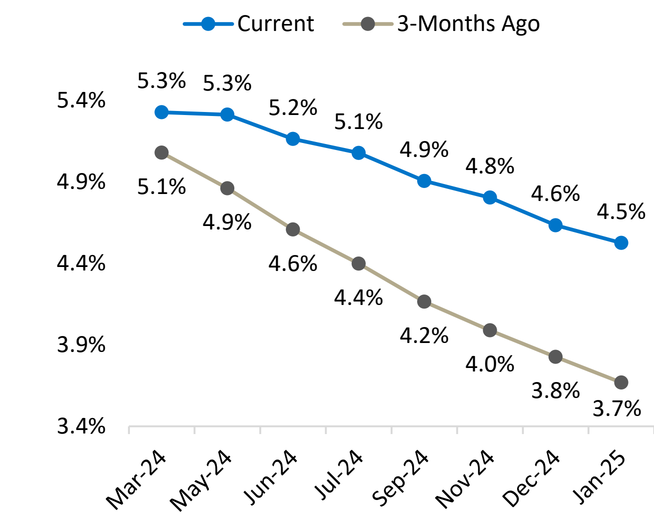

Figure 5
Source: DoubleLine, Bloomberg

Agency Mortgage-Backed Securities

More Clarity Around the Path for the Fed and Timing of QT

Agency MBS returned negative 1.04% in the first quarter, slightly underperforming Treasuries, which returned negative 0.96%.[2] Current-coupon spreads ended the quarter at 139 bps, approximately unchanged from year-end. However, they were 21 bps tighter than their intra-quarter wide of 160 bps in mid-February. *(Figure 6)*

At the March 20 FOMC meeting, Chair Powell commented on the committee's outlook on QT, noting, "While we did not make any decisions today on this, the general sense of the committee is that it will be appropriate to slow the pace of runoff fairly soon."[3] With the FOMC giving investors moderately more confidence that the most likely path forward for the Fed is rate cuts and a tapering of QT, demand for Agency MBS from banks and money managers should remain strong, as lower rates and an environment of lower rate volatility should be supportive of Agency MBS spreads.

We remain of the view that Agency MBS are attractive on a historical and relative value basis and expect excess returns versus Treasuries. In general, we believe there are several opportunities across the coupon stack for attractive risk-adjusted returns as lower dollar prices and slower expected prepayments have contributed to improved convexity. *(Figure 7)* Coupons trading slightly below par offer advantageous carry without sacrificing too much convexity while lower-coupon bonds provide optimal optionality to increasing prepayments in the future. There are also opportunities in Agency CMOs, as it's possible to source lower-dollar-priced securities with positive convexity that can be broadly used to help manage duration. We also see attractive relative value in Agency CMBS, as spreads have been supported by strong technicals, and the sector does not face the same Fed balance-sheet runoff issue that the single-family market does. (See: Agency MBS Update)

Agency MBS Current-Coupon Spreads | As of March 31, 2024

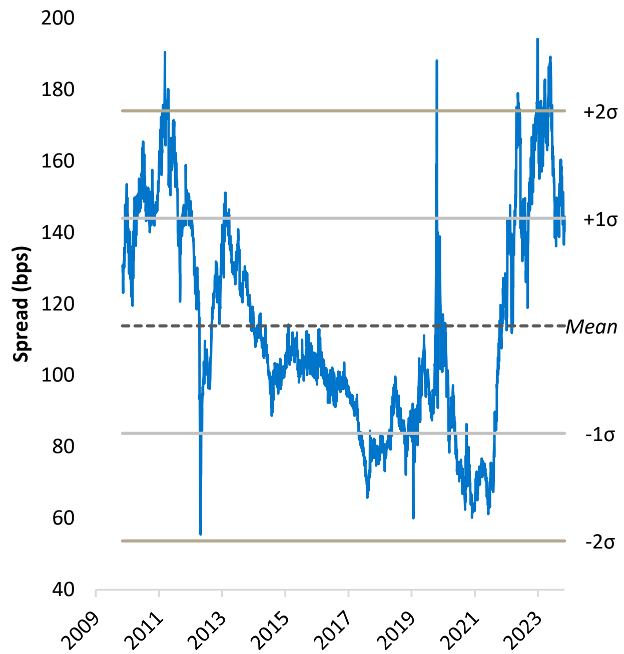

Figure 6
Source: DoubleLine, Bloomberg. Standard Deviation (σ)

Agency MBS Index Convexity and Price | As of March 31, 2024

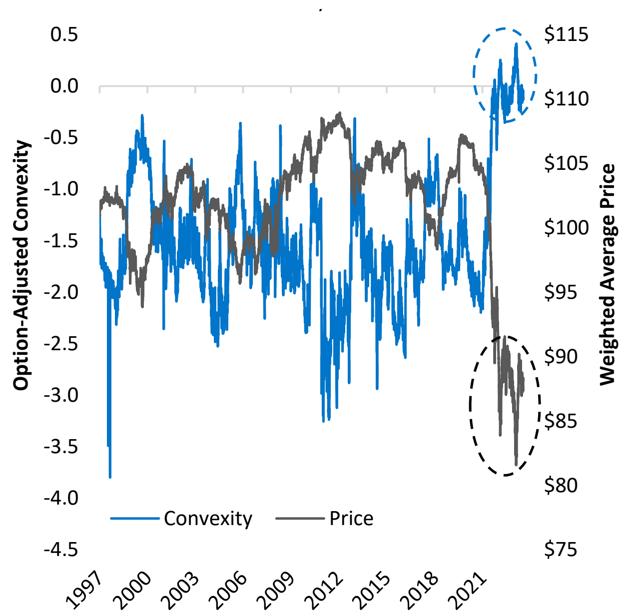

Figure 7
Source: DoubleLine, Bloomberg US MBS Index

U.S. Investment Grade Corporates

Stable Fundamentals and Positive Technicals

In a continuation of a trend from the fourth quarter of 2023, IG corporate spreads tightened on the back of robust investor demand with spreads ending the first quarter at their tightest level in over two years. *(Figure 8)* However, IG corporates experienced negative returns in the quarter, driven by higher Treasury yields. The Bloomberg US Corporate Index returned negative 0.40% in the period, outperforming Treasuries and the Bloomberg US Aggregate Bond Index.

On the technical front, first quarter IG gross issuance reached a record $530 billion, and the sector experienced a tailwind from fund inflows.[4] Flows are being driven by yield buyers of all types, including retail, overseas investors, insurance and pensions. Corporate earnings remained stable in the fourth quarter, with modest declines in revenue and earnings before interest, taxes and amortization (EBITDA) on a YoY basis. Notably, EBITDA margins stabilized in the fourth quarter after several quarters of contraction. However, excluding the commodity sectors, revenue and EBITDA grew YoY, and EBITDA margins stabilized after several quarters of contraction, per J.P. Morgan. Interest expense grew rapidly YoY, and, therefore, interest coverage continued to decline, though coverage remained above pre-COVID-19 levels. The first quarter marked two straight years of rating upgrades exceeding downgrades on a quarterly basis. The quarter also experienced $213 billion in net dollar upgrades, the highest level since the second quarter of 2023. Further, the ratio of upgrades to downgrades was strong at 3.8x, up more than double YoY and quarter-over-quarter.

Given the current level of spreads and stronger-than-expected economic data, the market appears to be confident that the Fed will successfully manufacture an economic soft landing. While concerns over economic growth have given way to emerging concerns over consumer balance sheets, the team will look to offset any potential uncertainty in credit conditions by managing portfolio exposure to favor credits that are better suited to withstand margin pressures and have positively sloped spread curves.

IG corporates should benefit from easing monetary policy as a projected steeper Treasury curve could continue to stimulate demand for high-quality assets with excess yield. In general, DoubleLine believes there are several opportunities across sectors for attractive risk-adjusted returns as the yield per unit of duration for IG corporates remains attractive given higher all-in yields. *(Figure 9)* We prefer pharmaceutical companies that are highly cash-flow generative and where M&A activity has already occurred, reducing the likelihood of credit-quality deterioration. We are avoiding food and beverage companies with eroding fundamentals (declining sales and margins), high M&A risk and secular risk from GLP-1 diet-drug uptake.

IG Corporate Bond Spreads | As of March 31, 2024

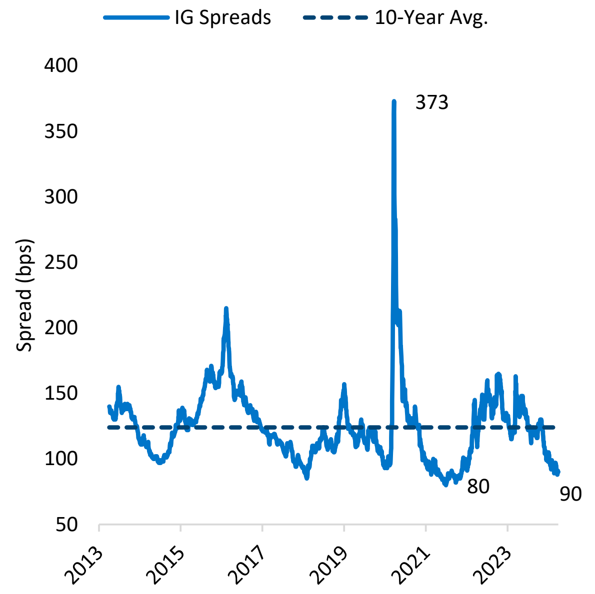

Figure 8
Source: DoubleLine, Bloomberg

IG Corp. Yield per Unit of Duration | As of March 31, 2024

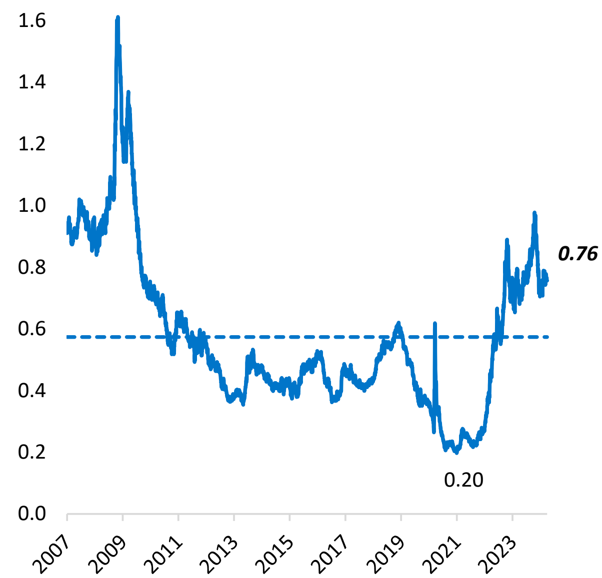

Figure 9
Source: DoubleLine, Bloomberg US MBS Index

U.S. High Yield Corporates

The Rich Get Richer

HY corporates posted positive returns in the first quarter, following the sector's strong returns in 2023, driven by a combination of tighter spreads and high carry. Spreads ended the quarter at 299 bps based on the Bloomberg US Corporate High Yield Index, well below their 10-year average and indicating tight valuations. *(Figure 10)*

As market conditions improved in the quarter, issuers aggressively tapped the new-issue HY market to refinance debt and extend maturities. In 2023, secured bond volume represented over half of total volume for the first time post-Global Financial Crisis.[5] *(Figure 11)* With the strong market backdrop, issuers were more comfortable raising unsecured debt in the first quarter, and total unsecured issuance was slightly higher than secured issuance.

Looking at fourth quarter earnings in aggregate, HY corporates largely delivered earnings beats and generally positive guidance. Compared to the prior year, both revenue and EBITDA showed modest growth, per J.P. Morgan. Interest coverage fell moderately to 5.0x but remained well above the long-term average of 4.5x. Investor flows were a technical headwind for the sector in 2023, with outflows of $7.9 billion, but this reversed in the first quarter as money flowed into the asset class.

With spreads tight, DoubleLine is using market strength to further improve the quality of the portfolio. We aim to manage exposure to cyclical sectors while seeking to take advantage of resilient consumer spending with a preference for companies that are focused on multi-year balance-sheet repair. For example, the team is constructive on cruise lines, as consumer travel demand has been buoyed by excess savings. We are avoiding cyclically exposed companies, such as metals and mining, due to broader concerns surrounding economic growth and weakening fundamentals.

HY Corporate Bond Spreads | As of March 31, 2024

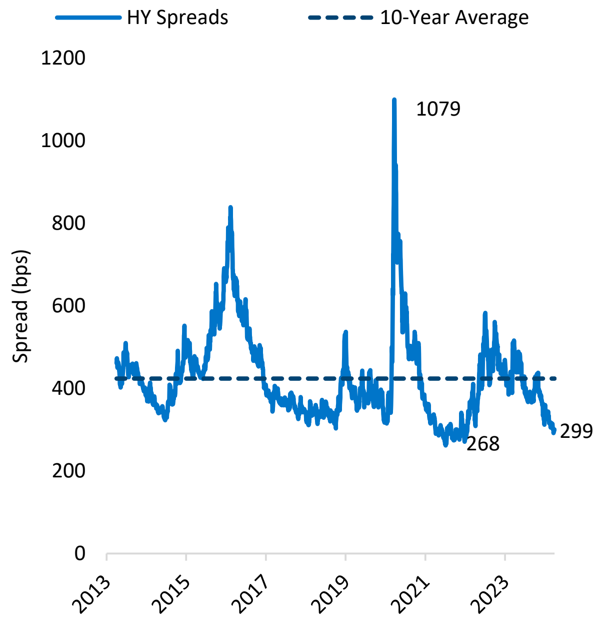

Figure 10
Source: DoubleLine, Bloomberg

Secured HY Bond Issuance Volume | As of March 31, 2024

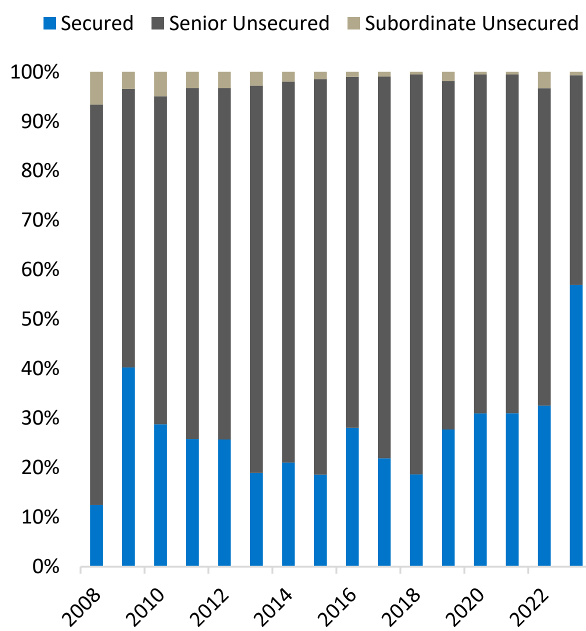

Figure 11
Source: DoubleLine, Bloomberg

U.S. Bank Loans

Higher for How Much Longer?

Leveraged loans continued their strong streak of performance in the first quarter as the Morningstar LSTA US Leveraged Loan TR Index returned 2.46%, buoyed by high interest income from floating-rate coupons and discount margin compression. Strong demand from CLOs also boosted loan prices, as CLO issuance started off 2024 at a record pace.

The maturity wall remains elevated by historical standards, but companies have been proactively using the strong new-issue market to refinance debt and extend maturities, which should ease pressure on the near-term default rate. *(Figure 12)* The robust primary market also enabled broadly syndicated loans to take back some share from private debt, which is typically a higher cost of capital for borrowers.

Sustained high policy rates have pressured companies that have not been able to grow earnings enough to offset these higher rates. However, many overleveraged companies have negotiated out-of-court exchanges that have allowed them to raise liquidity, push out maturities and capture discount in loans trading below par.

Looking at fundamentals, earnings growth has slowed, and interest coverage has deteriorated in response to higher base rates. However, coverage metrics are unlikely to deteriorate notably from current levels given that short rates have likely peaked.

Despite the rally that has left many loans trading near par, the bank loan market still offers attractive yields relative to other areas of fixed income. Performing credits with reasonable loan-to-value ratios trade at high single-digit yields. The relative value looks even more enticing as expectations soften for aggressive rate cuts.

DoubleLine favors companies in the leisure and gaming sectors that benefit from resilient consumer demand and a continued focus on deleveraging. We are avoiding overleveraged credits that face a challenging refinancing environment, including telecom issuers that have significant capital expenditure requirements in the face of consumer preferences shifting away from legacy cable and wirelines.

Leveraged Loan Maturity Wall | As of March 31, 2024

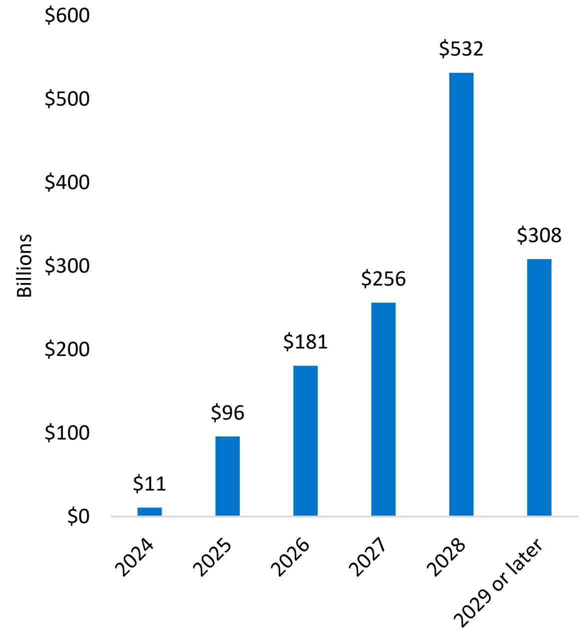

Figure 12
Source: DoubleLine, LCD, Pitchbook

Leveraged Loan Default Rate | As of December 31, 2023

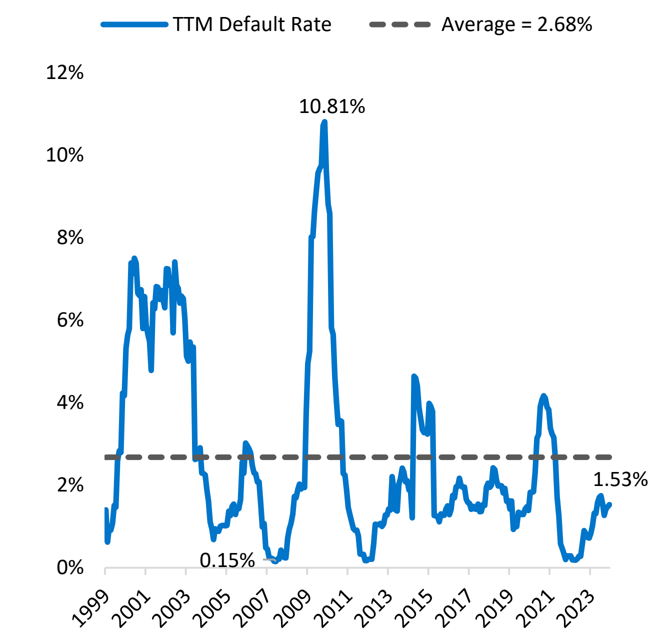

Figure 13
Source: DoubleLine, LCD. Trailing 12-Month (TTM)

Non-Agency Residential Mortgage-Backed Securities

Residential Credit Performance Supported by Housing Market Resilience

Residential credit performance was positive in the quarter, driven by higher home prices, low defaults and strong demand for non-Agency residential MBS (RMBS) new issuance. Underlying fundamentals remained resilient as home prices continued to be supported by low housing supply driven by the lock-in effect, with approximately 75% of existing homeowners having mortgage rates of 4% or lower.[6] Mortgage rates ended the quarter at 6.93%, roughly 1% below last October's highs, but 48 bps higher YoY.[7]

The national delinquency rate dropped to 3.34% in February, the lowest level since October and down 11 bps YoY.[8] Although delinquencies might increase should unemployment rise, we expect that to impact recent-vintage cohorts more than seasoned borrowers with substantial equity. We also expect lending standards to remain tight, which should help limit non-Agency loss rates. *(Figure 14)*

National home prices continued to climb to start the year and were up approximately 6% YoY through January.[9] Limited supply helped push home prices higher, as the existing inventory of single-family homes continued to fall and remained at historic lows. *(Figure 15)* Overall, the supply-and-demand picture remains supportive of home price appreciation (HPA), with a range of outcomes that we believe are more skewed toward rising home prices. That said, HPA will likely be muted relative to last year due to affordability constraints. Given current mortgage rates and home prices, the average monthly principal and interest payment on a median-priced home is $2,325, representing 34.4% of median household income and effectively double the payment required in March 2021.[10]

Non-Agency RMBS gross issuance was $26 billion in the quarter, up nearly 25% YoY.[11] We expect YoY increases in issuance this year will be readily absorbed by the market and believe overall technicals remain supportive of residential credit spread tightening.

Absent a significant change in economic conditions, we believe the market landscape remains supportive of residential credit performance. Although most sectors have experienced spread compression from year-end, we believe many parts of the non-Agency RMBS market look attractive from a relative value perspective, with opportunities for strong total return potential across the capital structure.

Delinquencies and Lending Standards | As of December 31, 2023

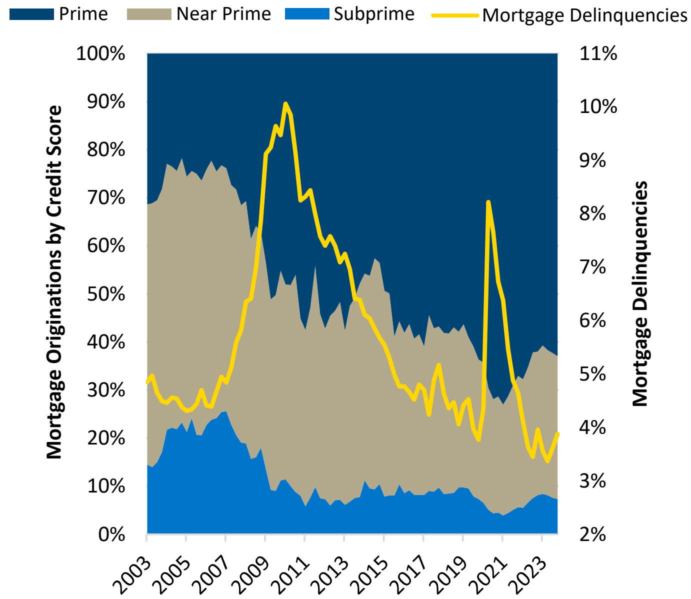

Figure 14
Source: DoubleLine, New York Federal Reserve Bank

Supply vs. Prices | As of January 31, 2024

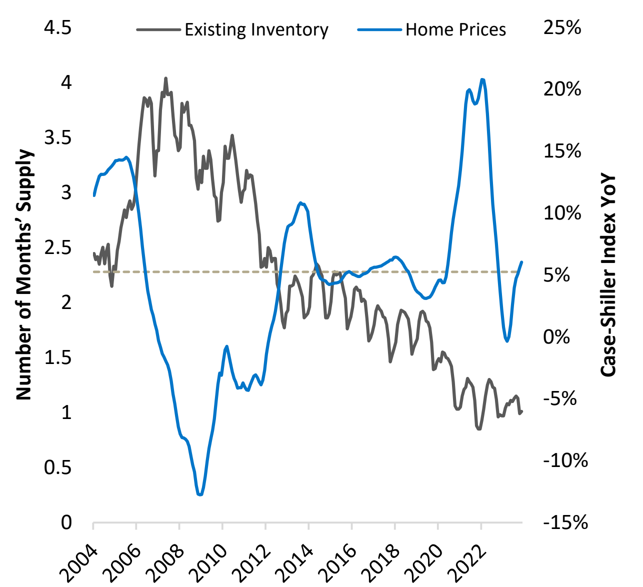

Figure 15
Source: DoubleLine, National Association of Realtors
Dashed line represents the average number of months' supply.

Non-Agency Commercial Mortgage-Backed Securities

Underlying Data Paints a Different Picture than Headlines Suggest

Despite headlines highlighting risks to CRE fundamentals, the non-Agency CMBS market marked positive performance in the first quarter as non-Agency CMBS rated AAA and BBB returned 1.0% and 9.5%, respectively.[12] Strong performance down the capital structure can be attributed to improved investor sentiment and contributed to non-Agency CMBS rated BBB spreads tightening 222 bps from year-end. Issuance also rebounded in the quarter, as private-label CMBS volume was $19.3 billion, over 2.5x the amount during first quarter 2023 and consistent with a pickup in investor demand amid a more-favorable interest-rate outlook.[13]

While headlines of CRE loans defaulting at maturity remained prevalent, we caution against painting the CRE market with broad strokes. For example, approximately 80% of conduit loans scheduled to mature last year paid off on time. *(Figure 16)* Parsing through the underlying data, much of the deterioration in payoff rates was in the office sector while other property types continued to largely pay off without issue and do not indicate a cause for concern for systemic weakness. (See: Commercial Real Estate Update)

Commercial property price declines continued to moderate in February as the RCA U.S. All-Property Commercial Property Price Index (CPPI) fell 4.0% YoY, the slowest rate of decline since the end of 2022. *(Figure 17)* The office sector again led the annual declines, falling 15.2%. Transaction volume remained muted, as overall volume was down 60% YoY in February.[14] The expectations of a potential bottoming in CRE prices and a more-dovish Fed might lead to an uptick in transaction volume going forward. This should give the market a better feel for valuations, forming a feedback loop that begets additional transactions and, subsequently, greater clarity on valuations.

A higher interest-rate environment will likely continue to generate headwinds for CRE borrowers; however, we do not believe that it will hinder all borrowers' ability to refinance. We expect lenders and servicers will continue to employ modifications and extensions – practices that should result in higher recoveries than near-term foreclosures and liquidations. Borrowers with cash-flowing assets are likely to receive extensions, as are those that have experienced price appreciation in their underlying assets and are willing to put more equity in. To the extent new risks arise, we expect issues to remain largely idiosyncratic and isolated to individual assets in certain troubled sectors. Property types that we anticipate investors will continue to favor include industrial, higher-quality multifamily, trophy office, resort hotel, necessity-based retail and certain segments of lodging.

Conduit Payoff History by Original Maturity Year
As of December 31, 2023

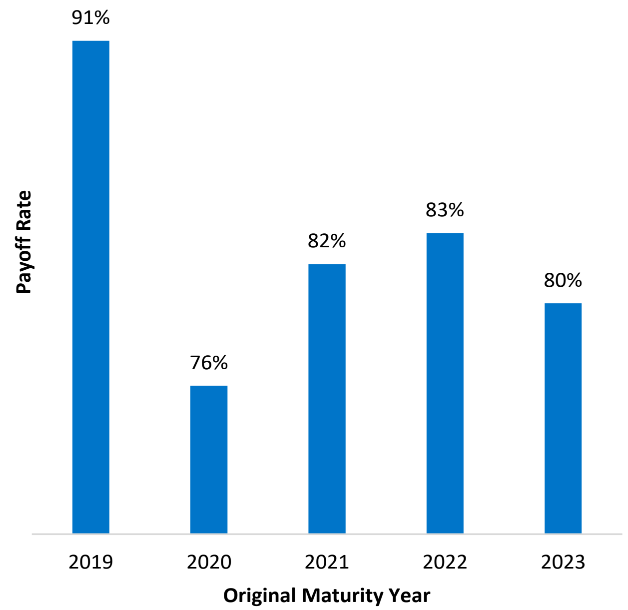

Figure 16
Source: DoubleLine, BofA Global Research. Payoff rate includes all prepays.

CRE Property Prices | As of February 29, 2024

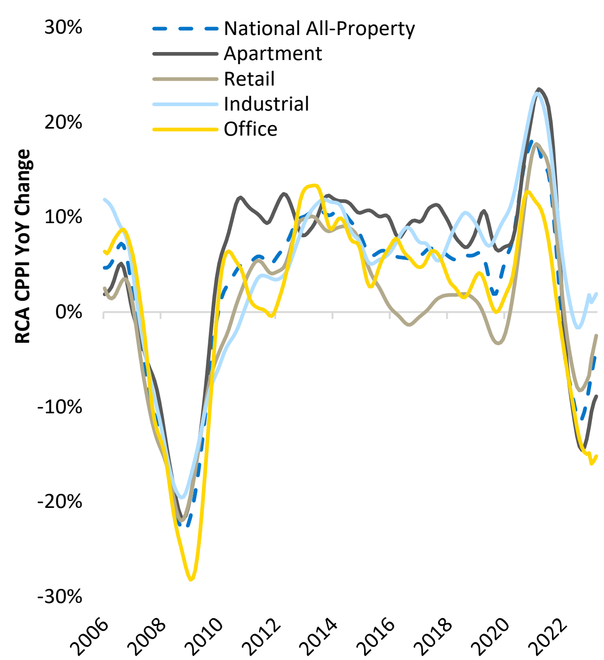

Figure 17
Source: DoubleLine, RCA

Asset-Backed Securities

Robust Demand Amid Record Issuance

Returns for asset-backed securities (ABS) were positive in the first quarter as spreads tightened and credit curves flattened.[15] Demand remained robust across the capital structure and subsectors amid a record issuance, with $96 billion of new issuance in the quarter, up 40% YoY.[16] Strong investor demand continued to reflect investor preference for generally shorter-duration and higher-yielding securities, as well as attractive relative value compared to corporate bonds.

Amid broad macroeconomic optimism and a tight labor market, the consumer backdrop generally remains healthy. Real wage growth has risen as inflation has declined, and lending standards have been tightening for over a year. However, given the overall elevated levels of inflation and interest rates, there has been a continued increase in consumer delinquencies, a trend we expect will continue in the near term. *(Figure 18)*

That said, should inflation continue to ease, the labor market remain supportive, and lending standards stay tight, we believe consumer ABS broadly offers attractive relative value with the potential for strong performance across various scenarios. (See: An Update on the U.S. Consumer) Relative return potential remains particularly compelling, as many consumer ABS are priced off the front end of the Treasury yield curve, which offers higher yields compared to other Treasury tenors and equates to attractive yield per unit of duration compared to other parts of fixed income. *(Figure 19)*

Within hard-asset ABS sectors, stronger-than-expected economic growth was a tailwind for issuance and performance. Like consumer ABS, we believe there are opportunities for attractive risk-adjusted returns. In general, esoteric parts of ABS offer an attractive spread pickup relative to corporate bonds; should economic growth continue to exceed expectations, we believe there is the potential for greater spread tightening relative to more-traditional fixed-income sectors. We expect continued growth in infrastructure-related ABS sectors, such as digital network ABS like data centers and fiber networks that support products and services central to daily life. These assets typically exhibit a longer weighted average life relative to consumer ABS and benefit from steady streams of contractual and transparent cash flows. (See: Investing in Infrastructure Debt) The aircraft sector continues to mark improving metrics relative to a 2020 trough. Given the robust structure, senior portions of legacy aircraft ABS can potentially provide attractive total return opportunities, as these deals continue to accrete to par.

Unsecured Personal Loan DQs | As of March 31, 2024

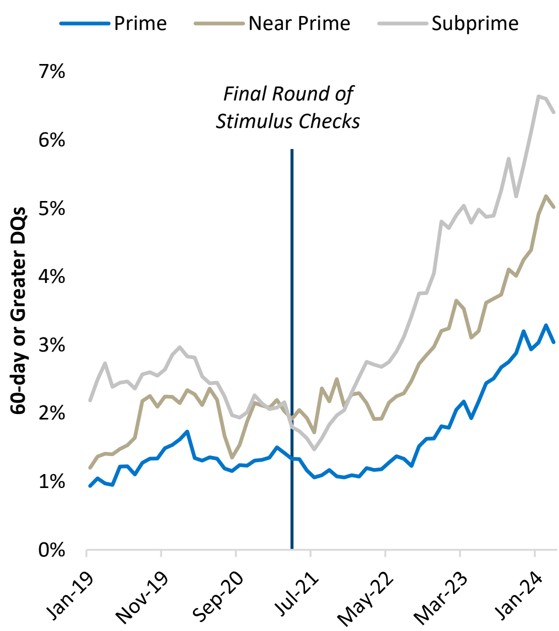

Figure 18
Source: DoubleLine, Intex. Delinquencies (DQs)

ABS vs. Corporate Bond Spreads | As of March 31, 2024

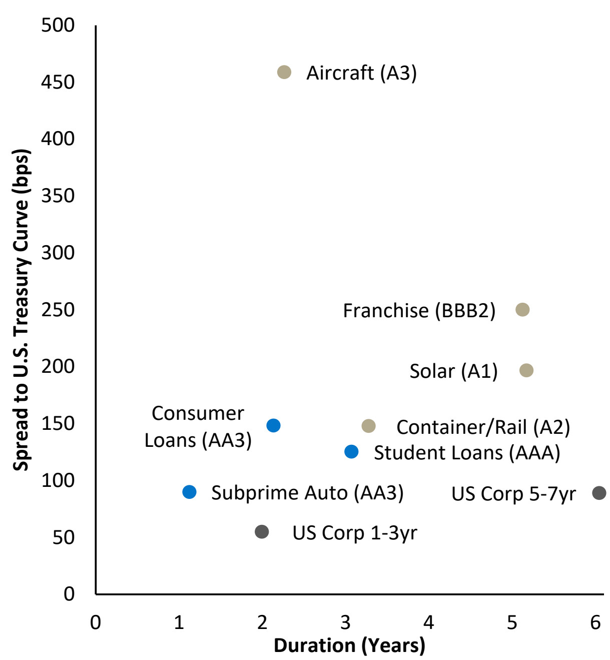

Figure 19
Source: DoubleLine, Bloomberg, ICE BofA Indexes

Collateralized Loan Obligations

Attractive All-In Yields in a "Higher-for-Longer" Environment

CLOs continued their momentum from last year and were one of the top-performing fixed-income asset classes in the first quarter, driven by high interest income from floating-rate coupons and spread compression. CLOs rated AAA and BBB returned 1.8% and 3.5%, respectively.[17] Spreads tightened as the discount margin for CLOs rated AAA ended the quarter at 144 bps, 9 bps tighter than year-end. CLOs rated BBB tightened 28 bps to 383 bps.

A hot start to 2024 for the U.S. leveraged loan market and increased risk appetite resulted in strong investor demand for floating-rate assets. This has contributed to some of the most attractive new-issue credit spreads for borrowers over the last several years, and led to increased refinancing and repricing activity in the quarter. U.S. CLO issuance for the quarter was approximately $83 billion, including $48 billion of new issuance, and $35 billion of refinancings and resets.[18]

Despite continued heavy supply, resilient pricing has pushed more CLO debt tranches to trade above par. *(Figure 20)* While forward-looking returns might not appear as attractive relative to a few months ago, we believe CLOs can continue to generate positive returns as higher short-term rates relative to prior cycles support high all-in yields across the capital structure. Although spreads have tightened, CLOs remain a compelling alternative relative to similarly rated corporate bonds, particularly in an environment where growth surprises to the upside and interest rates remain elevated, as CLOs have provided better downside protection during periods of rising rates. *(Figure 21)*

Fundamentals for U.S. leveraged loan issuers generally remain healthy. Default rates have trended lower since year-end, with the trailing 12-month default rate at 1.14% in March relative to 1.53% as of Dec. 31.[19] Earnings have generally come in better than expected, and technical factors remain supportive. While we expect a potentially weaker macro environment as the year progresses and loan defaults to increase, we remain constructive on performance, as CLOs remain a unique asset class as a scalable floating-rate investment opportunity in a higher-for-longer interest-rate scenario.

CLO Prices Across the Capital Structure | As of March 31, 2024

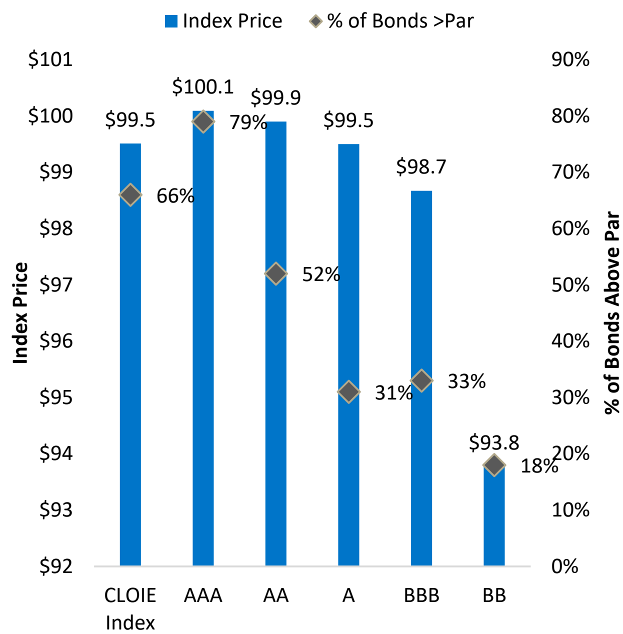

Figure 20
Source: DoubleLine, J.P. Morgan
J.P. Morgan Collateralized Loan Obligation Index (CLOIE)

CLO vs. IG Corp. Bond Drawdown | As of March 31, 2024

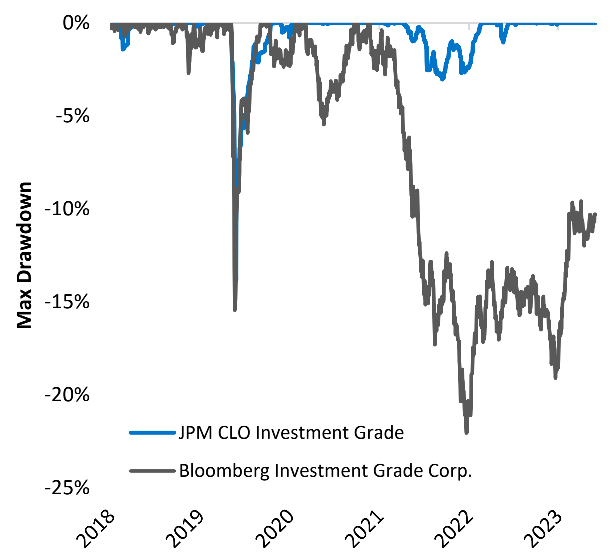

Figure 21
Source: DoubleLine, Bloomberg

Emerging Markets Fixed Income

Returns Continue to Cut Through Geopolitical Noise

EM sovereign and corporate bonds posted positive returns in the first quarter, as tracked respectively by the J.P. Morgan EMBI Global Diversified (EMBI GD) and J.P. Morgan CEMBI Broad Diversified (CEMBI BD). The CEMBI BD slightly outperformed the EMBI GD, returning 2.32% versus 2.04%. The credit spread for the EMBI GD tightened 27 bps in March and 42 bps in the quarter. The credit spread for the CEMBI BD tightened 8 bps and 36 bps. For the quarter, EM HY sovereigns outperformed EM IG sovereigns by 569 bps while EM HY corporates outperformed EM IG corporates by 318 bps. EM HY outperformance was mainly driven by risk-on sentiment leading to lower-rated, frontier market credits rallying strongly, and EM HY bonds generally having shorter duration than their IG counterparts in an environment when rates rose. While EM spreads are inside their 10-year average, all-in yields remain attractive.

Monetary policy and inflation differentiation between EM and DM has become an increasingly relevant theme. EM central banks moved earlier and more aggressively in raising rates in response to inflationary pressures. Disinflation has allowed EM central banks to embark on easing, which should bode well for the EM growth outlook.

EM corporate issuance has picked up in 2024. EM corporates priced $110 billion in external bonds during the quarter, representing a 47% YoY increase.[20] 2024 total EM corporate issuance is expected to be $244 billion, similar to issuance in 2023. The bulk of the new issuance has been used to refinance outstanding debt. We further note there has been significant crossover interest in the asset class, particularly through participation in primary market IG new issues. This has been driven in part by overall relative value in EM credits versus the tighter spreads of DM credits. Lastly, it is worthwhile mentioning that the EM asset class shrunk by $200 billion in 2023 and is expected to drop an additional $200 billion this year on the back of continued negative net financings (net of amortizations, tenders, principal and coupon payments). Year-to-date, the EM bond flows have experienced negative outflow of approximately $10 billion.[21] In sum, we expect a continued supportive technical backdrop to be driven by the expected net negative financing and crossover interest despite the lack of inflow into the asset class.

DoubleLine believes EM fixed income offers investors a diversification strategy, as EM companies and countries are unique in regard to their business cycles, revenue generators, natural resources, monetary and fiscal policies, and political cycles. We believe the asset class will continue to migrate up the credit-quality curve. As such, we expect EM corporates and EM sovereigns to remain resilient, although we do expect some weakening in credit metrics this year.

The DoubleLine EM team is overweight Latin America relative to benchmarks. The team believes the region offers attractive return-per-unit-of-risk opportunities with less geopolitical risk than other EM regions.. We believe the remainder of 2024 is when active management will have an opportunity to identify market dislocations, participate in the new-issue market and differentiate among credits through bottom-up fundamental analysis. DoubleLine believes that higher-quality, high-yield names with short to medium maturities provide attractive return-per-unit-of-risk profiles at this juncture. Absent a global recession and/or a credit event, DoubleLine believes EM fixed income could deliver high-single to low-double-digit returns in 2024 and would advocate for adding more meaningfully to the asset class if credit spreads were to widen in a risk-off environment.

Emerging Markets Fixed Income Yields | As of March 31, 2024

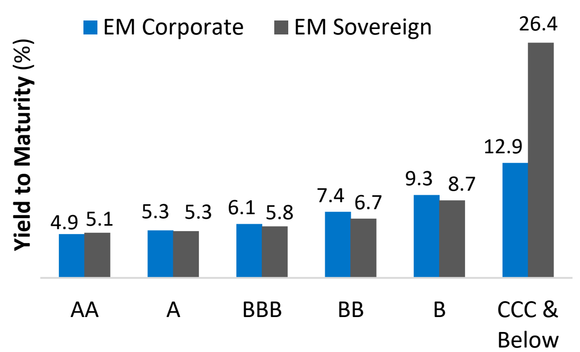

Figure 22
Source: DoubleLine, J.P. Morgan, Bloomberg

EM Credit Fundamentals Remain Robust vs. IG Developed Markets | As of December 31, 2023

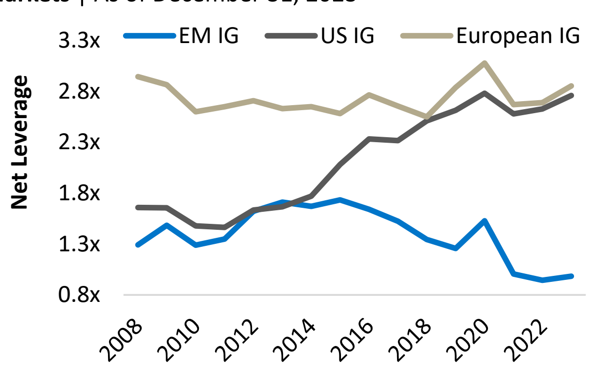

Figure 23
Source: DoubleLine, J.P. Morgan, Bloomberg

Endnotes

1 Bloomberg World Interest Rate Probability function, as of March 29, 2024.
2 Bloomberg US MBS and Bloomberg US Treasury indices
3 FOMC Press Conference, March 20, 2024
4 J.P. Morgan
5 Source: Bank of America
6 J.P. Morgan Research
7 MBS U.S. 30-Year Contract Rate
8 April 2024 ICE Mortgage Monitor Report
9 S&P CoreLogic Case-Shiller U.S. National Home Price SA Index
10 Freddie Mac PMMS
11 Morgan Stanley Research
12 ICE BofA CMBS indices
13 J.P. Morgan Research
14 Real Capital Analytics
15 ICE BofA indices
16 Morgan Stanley Research
17 J.P. Morgan indices
18 J.P. Morgan Research
19 Pitchbook LCD
20 Source: J.P. Morgan
21 Source: J.P. Morgan

Index Definitions and Terms

Indices used in Figure 1:
U.S. Treasuries: Bloomberg US Treasury Index; **Agency MBS:** Bloomberg US MBS Index; **Agency CMO:** ICE BofA U.S. Agency CMO Index; **Agency CMBS:** Bloomberg US Agency CMBS Index; **RMBS:** Citi Research; **Non-Agency CMBS:** Bloomberg US Non-Agency CMBS Index; **ABS AAA:** Bloomberg US ABS Index; **ABS AA-BBB:** ICE BofA U.S. Fixed-Rate Miscellaneous ABS Index; **CLOs:** J.P. Morgan CLO Index; **U.S. IG Corporate:** Bloomberg US Corporate Index; **U.S. HY Corporate:** Bloomberg US Corporate HY Index; **Leveraged Loans:** Credit Suisse Liquid Leveraged Loan Index; **EMFI Sovereign:** J.P. Morgan EMBI Global Diversified; **EMFI Corporate:** J.P. Morgan CEMBI Broad Diversified; **US Agg Index:** Bloomberg US Aggregate Bond Index

Indices used in Figure 2:
Agency MBS: Bloomberg US MBS Index; **Agency CMO:** ICE BofA U.S. Agency CMO Index; **CLOs:** J.P. Morgan CLO Index; **RMBS Non-QM:** Wells Fargo Research; **Conduit CMBS:** ICE BofA U.S. Fixed-Rate CMBS Index; **ABS AA-BBB:** ICE BofA U.S. Fixed-Rate Miscellaneous ABS Index; **RMBS CRT:** BofA Global Research; **CRE CLO BBB-:** BofA Global Research; **ABS MPL BB-:** ACHV 2023-4CP

Indices used in Figure 3:
US Agg Index: Bloomberg US Aggregate Bond Index; Agency MBS: 30-Year FNCL Par Coupon Index; **IG Corporate:** Bloomberg US Corporate Index; **U.S. 1-3 Yr Corp.:** Bloomberg US Corporate Index; **CMBS:** Bloomberg US Non-Agency CMBS Index; **RMBS (Non-QM) AAA:** Wells Fargo; **CLOs:** J.P. Morgan; **HY Corporate:** Bloomberg US Corporate High Yield Index; **EMFI Corp.:** J.P. Morgan CEMBI Broad Diversified; **EMFI Sov.:** J.P. Morgan EMBI Global Diversified; **Bank Loans:** Credit Suisse Liquid Leveraged Loan Index; **ABS AA-BBB:** ICE BofA U.S. Fixed-Rate Miscellaneous ABS Index

Agency – Mortgage securities whose principal and interest are guaranteed by a U.S. government agency such as Fannie Mae (FNMA) or Freddie Mac (FHLMC).

Asset-Backed Securities (ABS) – Investment securities, such as bond or notes, that are collateralized by a pool of assets, such as loans, leases, credit card debt, royalties or receivables.

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 Agency Commercial Mortgage-Backed Securities (CMBS) Index – This index measures the U.S. market of Agency conduit and fusion CMBS deals.

Bloomberg US Agency Mortgage-Backed Securities (MBS) Index – This index tracks Agency mortgage-backed pass-through securities guaranteed by government-sponsored enterprises (GSEs).

Bloomberg US Aggregate Bond Index – This index (the "Agg") represents securities that are SEC registered, taxable and U.S. 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 indices that are calculated and reported on a regular basis.

Bloomberg US Asset-Backed Securities (ABS) Index – This index is the ABS component of the Bloomberg US Aggregate Bond Index, a flagship measure of the U.S. investment grade, fixed-rate bond market. The ABS index has three subsectors: credit and credit cards, autos and utility.

Bloomberg US Corporate High Yield (HY) Index – This index measures the U.S. dollar-denominated, HY, fixed-rate corporate bond market. Securities are classified as HY if the respective middle ratings of Moody's, Fitch and S&P are Ba1, BB+ or BB+ or below. The Bloomberg US HY Long Bond Index, including bonds with maturities of 10 years or greater, and the Bloomberg US HY Intermediate Bond Index, including bonds with maturities of 1 to 9.999 years, are subindices of the Bloomberg US Corporate HY Bond Index.

Bloomberg US Corporate Index – This index measures the investment grade, fixed-rate taxable corporate bond market. It includes U.S. dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg US Mortgage-Backed Securities (MBS) Index – This index measures the performance of investment grade, fixed-rate, mortgage-backed, pass-through securities of the government-sponsored enterprises (GSEs): Federal Home Loan Mortgage Corp. (Freddie Mac), Federal National Mortgage Association (Fannie Mae) and Government National Mortgage Association (Ginnie Mae).

Bloomberg US Non-Agency Commercial Mortgage-Backed Securities (CMBS) Index – This index measures the market of non-Agency conduit and fusion CMBS deals with a minimum current deal size of $300 million.

Bloomberg US Treasury Index – This index measures U.S. dollar-denominated, fixed-rate nominal debt issued by the U.S. Treasury with a remaining maturity of one year or more. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index.

Bloomberg World Interest Rate Probability (WIRP) Function – Statistical function developed by Bloomberg that uses fed funds futures and options to assess the probability of future Federal Open Market Committee (FOMC) decisions. It seeks to calculate the chances of a rate hike at each of the FOMC meetings using futures trading data.

Collateralized Loan Obligation (CLO) – Single security backed by a pool of debt.

Collateralized Mortgage Obligation (CMO) – Refers to a type of mortgage-backed security that contains a pool of mortgages bundled together and sold as an investment. Organized by maturity and level of risk, CMOs receive cash flows as borrowers repay the mortgages that act as collateral on these securities. In turn, CMOs distribute principal and interest payments to investors based on predetermined rules and agreements.

Commercial Mortgage-Backed Securities (CMBS) – Securitized loans made on commercial rather than residential properties.

Conduit Loans – Type of loans, also known as commercial mortgage-backed securities (CMBS) loans, that are commercial real estate loans pooled together with similar commercial mortgages and sold on the secondary market. On the secondary market, conduit loans are divided into tranches based on risk, return and loan maturity.

Core Personal Consumption Expenditures (PCE) Price Index – This index, published by the U.S. Bureau of Economic Analysis, measures prices paid by consumers for goods and services, excluding the volatility of food and energy prices, to gauge underlying inflation trends. It is the Federal Reserve's preferred index for tracking inflation.

Credit Quality – Determined from the highest available credit rating from any nationally recognized statistical rating organization (NRSRO, generally S&P, Moody's or Fitch). DoubleLine chooses to display credit ratings using S&P's rating convention, although the rating might be sourced from another NRSRO. The rating organization evaluates a bond issuer's financial strength, meaning its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from "AAA," the highest grade, to "D," the lowest grade. In situations where the rating organization has not issued a formal rating on a security, the security will be classified as "nonrated."

Credit Risk Transfer (CRT) – Pioneered by Freddie Mac in 2013, CRT programs structure mortgage credit risk into securities and (re)insurance offerings, transferring credit risk exposure from U.S taxpayers to private capital.

Credit Suisse Liquid Leveraged Loan Index (LELI) – This index is a subindex of the Credit Suisse Leveraged Loan Index, which, with over 1,664 fully funded term loan facilities as of December 2018, is designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market. LELI contains about 284 term loan facilities as of December 2018 and seeks to track the liquid segment of the loan market. LELI includes only large loan facilities, over $1 billion in face value, in order to sample loans that are actively traded in the secondary market.

Drawdown – Peak-to-trough decline during a specific period for an investment, trading account or fund. A drawdown is usually quoted as the percentage between the peak and the subsequent trough.

Duration – Measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) – Measure of a company's overall financial performance that is used as an alternative to net income in some circumstances.

Excess Return – Return achieved above and beyond the return of a proxy such as a benchmark index.

Federal Funds Rate (FFR) – 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.

Federal Open Market Committee (FOMC) – Branch of the Federal Reserve System that determines the direction of monetary policy specifically by directing open market operations. The FOMC comprises the seven board governors and five (out of 12) Federal Reserve Bank presidents.

Freddie Mac Primary Mortgage Market Survey (PMMS) – This weekly national survey tracks the most-popular 30- and 15-year fixed-rate mortgages, and 5-1 hybrid amortizing adjustable-rate mortgage products among a mix of lender types. The survey is compiled Monday through Wednesday and released (as average rates and points) on Thursday.

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.

ICE BofA U.S. Agency Collateralized Mortgage Obligation (CMO) Index – This index tracks the performance of U.S. dollar-denominated, fixed-rate Agency CMOs publicly issued in the U.S. domestic market. Qualifying securities must have at least one year remaining to final maturity, a fixed coupon schedule, an original deal size for the collateral group of at least $250 million and a current outstanding deal size for the collateral group that is greater than or equal to 10% of the original deal size.

ICE BofA U.S. Fixed-Rate Commercial Mortgage-Backed Securities (CMBS) Index – This index tracks the performance of U.S. dollar-denominated, investment grade (IG), fixed-rate commercial mortgage-backed securities (CMBS) publicly issued in the U.S. domestic market. Qualifying securities must have an IG rating (based on an average of Moody's, S&P and Fitch), a fixed coupon schedule, at least one year remaining to final maturity and at least one month to last expected cash flow.

ICE BofA U.S. Fixed-Rate Miscellaneous Asset-Backed Securities (ABS) Index – This index tracks the subset of the ICE BofA U.S. Fixed-Rate ABS Index rated AA to BBB and includes all ABS collateralized by anything other than auto loans, home equity loans, manufactured housing, credit card receivables and utility assets.

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.

J.P. Morgan Collateralized Loan Obligation Index (CLOIE) – This market value-weighted index comprises U.S. dollar-denominated collateralized loan obligations (CLOs).

J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI BD) – This index is a uniquely weighted version of the CEMBI, which is a market capitalization-weighted index consisting of U.S. dollar-denominated emerging markets corporate bonds. The CEMBI BD limits the weights of index countries with larger debt stocks by only including specified portions of those countries' eligible current face amounts of debt outstanding.

J.P. Morgan Emerging Markets Bond Index Global Diversified (EMBI GD) – This index is a uniquely weighted version of the EMBI. The EMBI tracks bonds from emerging markets (EM), and comprises sovereign debt and EM corporate bonds. The EMBI GD limits the weights of index countries with larger debt stocks by only including specified portions of those countries' eligible current face amounts of debt outstanding.

Last Cash Flow (LCF) – Last revenue stream paid to a bond over a given period.

Loan-to-Value (LTV) Ratio – Assessment of lending risk that financial institutions and other lenders examine before approving a mortgage. Typically, loan assessments with high LTV ratios are considered higher-risk loans. Therefore, if the mortgage is approved, the loan has a higher interest rate.

Morningstar LSTA US Leveraged Loan TR USD – This index (formerly the S&P/LSTA Leveraged Loan Index) tracks the market-weighted performance of institutional weighted loans based on market weightings, spreads and interest payments.

Mortgage-Backed Securities (MBS) – Investment similar to a bond that is made up of a bundle of home loans bought from the banks that issued them. Investors in MBS receive periodic payments similar to bond coupon payments.

Non-Qualified Mortgage (Non-QM) – Any home loan that doesn't comply with the Consumer Financial Protection Bureau's existing rules on qualified mortgages (QMs). Usually this type of alternative mortgage loan accommodates people who are not able to prove they are capable of making the mortgage payments. Just because it is a non-QM mortgage loan does not necessarily mean high risk or subprime mortgage risk, and in many cases these non-QM mortgage loans require a high FICO score but simply do not check all the boxes associated with a QM loan. Non-QM loans for mortgages are protected by the lender against any type of lawsuit should the borrower become unable to afford the loan.

Par – Short for "par value," par can refer to bonds, preferred stock, common stock or currencies, with different meanings depending on the context. Par most commonly refers to bonds, in which case, it means the face value, or value at which the bond will be redeemed at maturity.

Prime – Classification of borrowers, rates or holdings in the lending market that are considered to be of high quality. This classification often refers to loans made to high-quality "prime" borrowers that are offered "prime" or relatively low interest rates.

Quantitative Tightening (QT) – Reverse of quantitative easing (QE); a central bank that acquired financial assets under QE undertakes steps to reduce its balance sheet.

RCA U.S. All-Property Commercial Property Price Index (CPPI) – This index is a component of the suite of price indices that comprise the RCA CPPI.

Re-Performing Loan (RPL) – A mortgage that became delinquent because the borrower was behind on payments by at least 90 days, but it is "performing" again because the borrower has resumed making payments.

S&P CoreLogic Case-Shiller U.S. National Home Price SA Index – This index tracks on a seasonally adjusted (SA) basis the value of single-family housing within the United States and is a composite of single-family price indices for the nine Census Bureau divisions.

Spread – 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 or risk.

Standard Deviation – Measure of the variation or dispersion of a set of data from its mean or expected/budgeted value. A low standard deviation indicates that the data points tend to be very close to the mean, whereas a high standard deviation indicates that the data is spread out over a large range of values. A measure of an investment's volatility.

Subprime – Below-average credit classification of borrowers with a tarnished or limited credit history, and which are subject to higher than average interest rates. Subprime loans carry more credit risk and, as such, will carry higher interest rates.

Summary of Economic Projections (SEP) – Four times a year, the Federal Reserve releases a summary of Federal Open Market Committee (FOMC) participants' projections for gross domestic product (GDP) growth, the unemployment rate, inflation and the appropriate policy interest rate. The summary also provides information regarding policymakers' views on the uncertainty and risks attending the outlook. The projections provide information on the values that participants view as the most likely to prevail in the current year and the subsequent two years as well as over the longer run. The FOMC chair presents information about these projections in the press conference following the FOMC meeting for which they were prepared.

Tenor – Length of time remaining before a financial contract expires. It is sometimes used interchangeably with the term maturity, although the terms have distinct meanings. Tenor is used in relation to bank loans, insurance contracts and derivative products.

30-Year FNCL Par Coupon Index – This index tracks the par coupons paid on 30-year Fannie Mae mortgages.

Weighted Average Life (WAL) – Average number of years for which each U.S. dollar of unpaid principal on a loan, mortgage or bond remains outstanding.

Yield to Maturity (YTM) – The total return anticipated on a bond if the bond is held until it matures. Yield to maturity is considered a long-term bond yield but is expressed as an annual rate.

Yield to Worst (YTW) – The lowest yield of a bond that can be received short of default.

You cannot invest directly in an index.

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