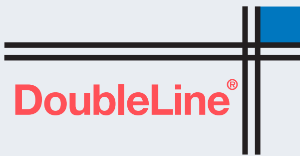

DoubleLine Fixed Income Outlook

Chris Stegemann | March 19, 2025

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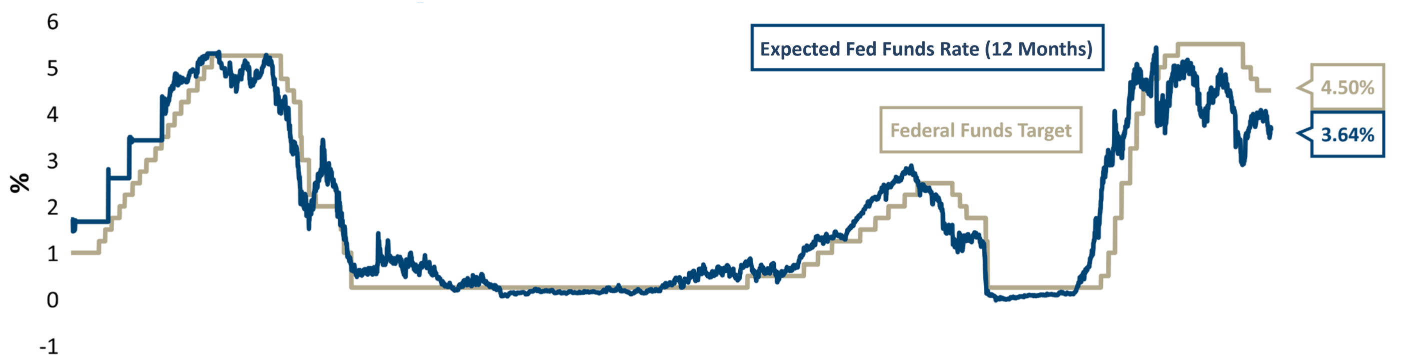
Current Backdrop

2025 has been marked by U.S. tariff news, geopolitical tensions and market volatility. Recent comments by Treasury Secretary Scott Bessent and President Donald Trump seem to confirm that the "Trump put" of his first presidential term is no longer in place. Investor confidence has clearly been shaken by this revelation and the uncertainty of the administration's on-again/off-again tariff policy. Thus, 2025 so far has represented a stark reversal from many of the trends we saw last year. Nevertheless, one could argue the market needed a correction with stocks at all-time highs and credit spreads in many areas of fixed income at post-Global Financial Crisis (GFC) tights entering the year.

In 2024, risk assets generally outperformed consensus expectations amid stronger-than-expected growth. While many global central banks embarked on policy normalization, resilient growth and sticky inflation led markets to pare back expectations for additional monetary policy easing. Despite high interest rates and a modest rise in unemployment, U.S. real gross domestic product (GDP) increased at an annual rate of 2.8% in 2024, according to the advanced estimate from the U.S. Bureau of Economic Analysis, while inflation eased to 2.9% by year-end.[1] Throughout 2024, several traditional economic indicators continued to signal economic contraction, however, strong consumer spending and a robust services sector powered the economy forward. The U.S. Treasury yield curve steepened during 2024, with the two-year note falling 1 basis point (bp) and 10- and 30-year Treasury yields rising 69 bps and 75 bps, respectively. The Federal Reserve first lowered the target federal funds rate (FFR) by 50 bps in September, followed by sequential cuts of 25 bps in the final two meetings of the year but decided to maintain the target FFR at 4.25% to 4.50% at its first two meetings of 2025. Market expectations for Fed cuts have been on a rollercoaster ride, with the number of cuts expected in 2025 having risen from the start of the year. *(Figure 1)* Despite a recent rally, long-end Treasury rates remain well above where they were at the start of the Fed's cutting cycle.

Fed Funds and 12-Month Expectations (Based on Fed Funds Futures) | As of March 19, 2025



Hike/Cuts Expected in 12 Months

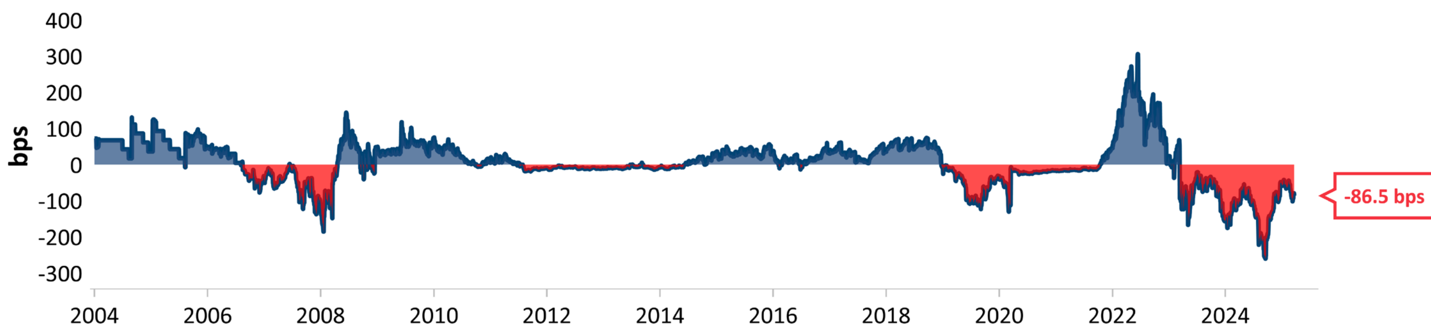
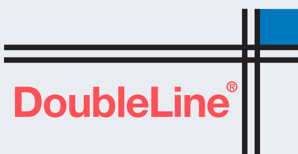


Figure 1
Source: DoubleLine, Federal Reserve, CME Group, Macrobond



DoubleLine Fixed Income Outlook

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After Donald Trump's November victory, initial market reaction included stocks reaching all-time highs, the U.S. dollar strengthening, Treasury yields rising and credit spreads tightening (see: DoubleLine's Initial Thoughts on the Economic Impact of U.S. Election). However, these trends have reversed in 2025, with stocks losing all post-election gains, the dollar weakening, Treasury yields falling and credit spreads widening. Risk-off sentiment has led to bond outperformance versus equities, with the Bloomberg US Aggregate Bond Index (the "Agg") up 2.31% versus a negative 4.26% return for the S&P 500 Index.[2] *(Figure 2)* Moving forward, all eyes will be on President Trump's policy implementation and the potential ramifications of the methods used to deliver on it.

YTD 2025 Fixed Income Index Performance | As of March 18, 2025

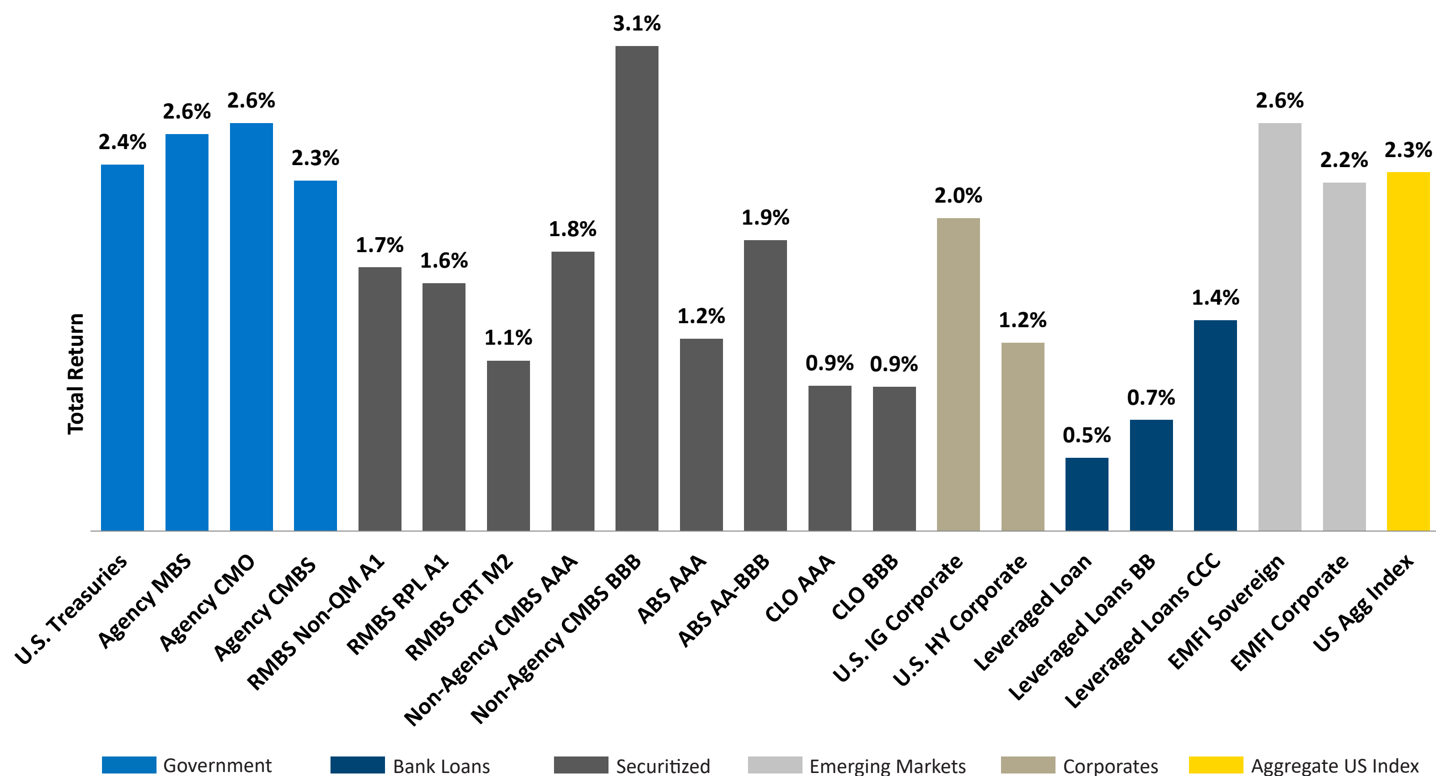
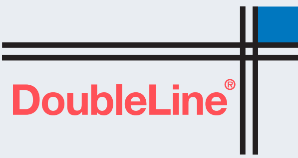


Figure 2
Source: DoubleLine, Bloomberg, BofA Global Research
Mortgage-Backed Securities (MBS), Collateralized Mortgage Obligation (CMO), Commercial MBS (CMBS), Residential MBS (RMBS), Non-Qualified Mortgage (Non-QM), Re-Performing Loan (RPL), Credit Risk Transfer (CRT), Asset-Backed Securities (ABS), Collateralized Loan Obligation (CLO), Investment Grade (IG), High Yield (HY), Emerging Markets Fixed Income (EMFI). Indices used in this figure can be found under disclosures. You cannot invest directly in an index.



DoubleLine Fixed Income Outlook

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Income in Fixed Income

Less than four years ago, there was $18.3 trillion of bonds that had a negative yield profile. Today, that number is zero. Four years ago, the Agg had a yield of 1.19%. Today, it yields 4.70%.[3] On Jan. 11, 2022, DoubleLine CEO-CIO Jeffrey Gundlach stated on his annual "Just Markets" webcast, "Equities are cheap relative to bonds. It's not that stocks are cheap using traditional metrics [such as the price-to-earnings ratio], it is because bonds are so expensive with the highest negative interest rates in the history of the data series." Time proved Mr. Gundlach correct as the Agg experienced its worst calendar year return on record, falling 13.0% in 2022.

While painful, the 2022 experience gave way to a fixed-income yield environment that had not been seen since the 2000s. By year-end 2022, DoubleLine believed the pain had given way to significant opportunity (see: The Case for Public Credit in Today's Environment (October 2022)). While credit spreads have tightened since, we maintain the same sentiment today, as current all-in yields remain at levels similar to the past two years. *(Figure 3)*

Yields Remain at Levels Similar to the Past Two Years | As of March 17, 2025

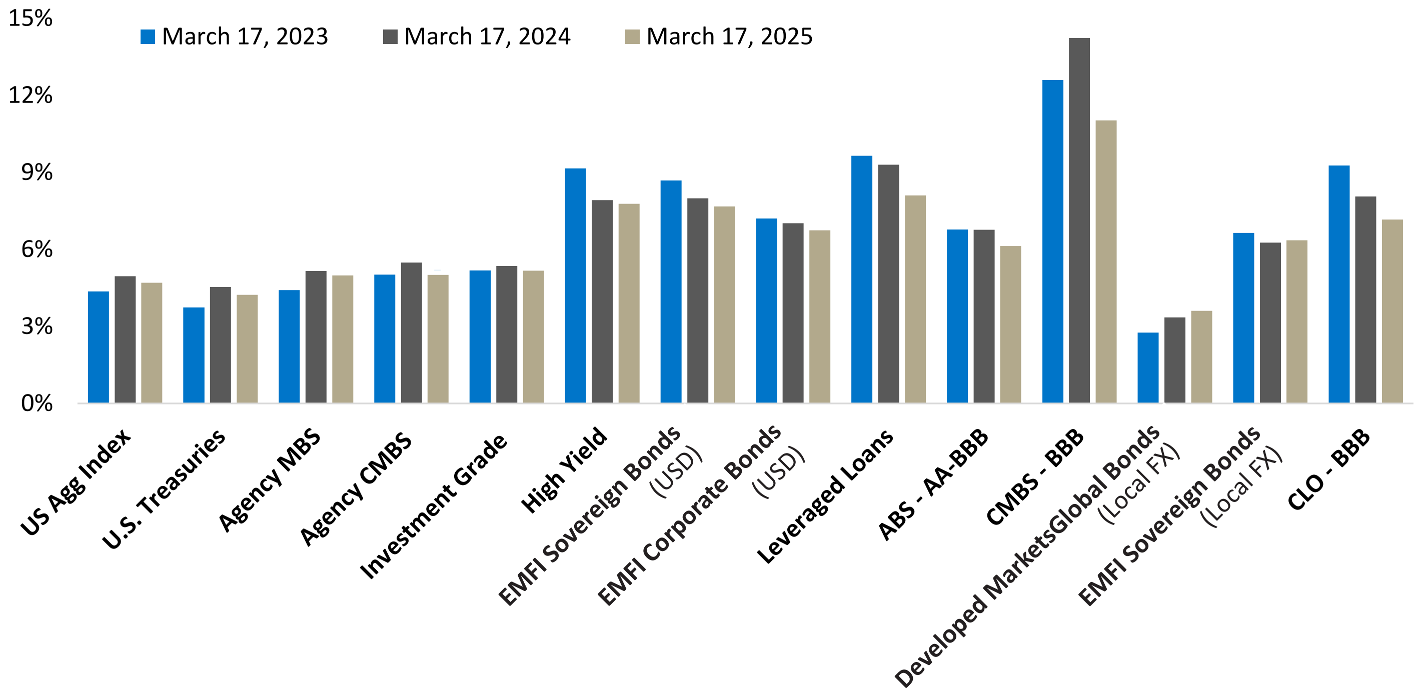


Figure 3
Source: DoubleLine, Bloomberg, Morningstar, BofA Global Research, J.P. Morgan
Mortgage-Backed Securities (MBS), Commercial MBS (CMBS), Emerging Markets Fixed Income (EMFI), Asset-Backed Securities (ABS), Collateralized Loan Obligation (CLO). Indices used in this figure can be found under disclosures. You cannot invest directly in an index.

Outlook

Higher for Longer?

A common sentiment from investors last year was “When the Fed cuts, rates will fall.” At DoubleLine, we thought the “direction of rates” question warranted a follow-up, “What part of the Treasury curve?” The implication that yields would fall across the curve following the initiation of a Fed rate cutting cycle does historically carry merit. The two-year yield tends to lead the FFR and therefore falls often prior to rate cuts. The 10-year yield has also fallen most of the time following an initial Fed rate cut. *(Figure 4)*

U.S. 10-Year Yield Response to Initial Fed Rate Cut: 1989-2025 | As of March 18, 2025

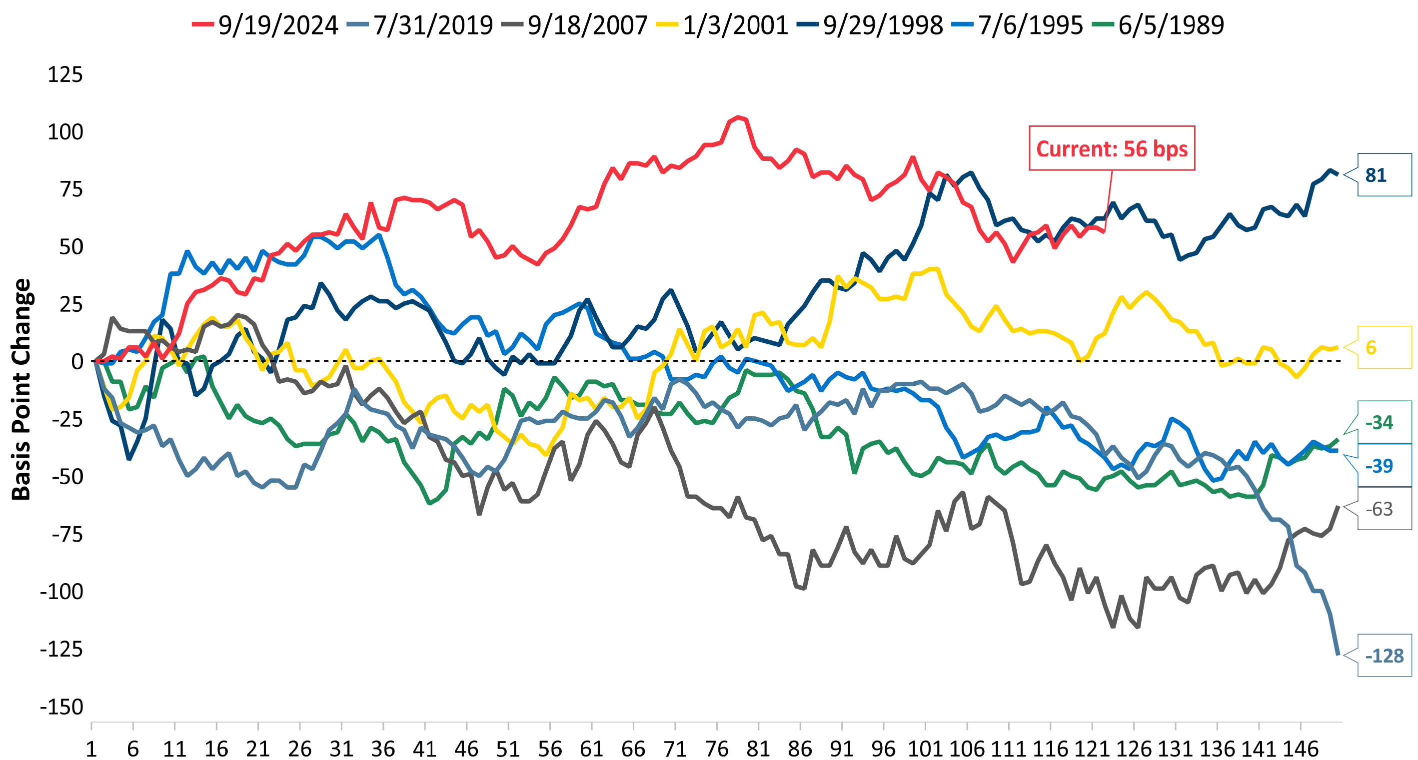
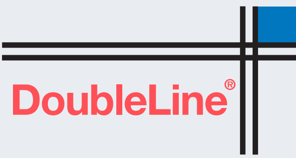


Figure 4
Source: DoubleLine, U.S. Treasury, Macrobond

However, we were of the belief that “This time might be different,” a phrase in the finance world often proved fallacious. Nevertheless, since the first Fed cut on Sept. 18, the long end of the curve has risen. The question facing investors moving forward is: Will it last? Absent a recession, we believe the answer is yes. DoubleLine’s base case is that a combination of stubborn inflation, heightened rate volatility amid policy uncertainty and an expanding deficit coupled with rising interest expense puts a floor under the long end of the Treasury yield curve in the near to medium term. Given our views, we are taking a patient approach on extending portfolio duration meaningfully. Additionally, our intermediate-duration portfolios’ government allocations are positioned with a curve steepener, with an overweight to the front end and an underweight to the long end of the Treasury curve (see: U.S. Treasuries, page 8).



DoubleLine Fixed Income Outlook

March 19, 2025

All-In Yields Remain Attractive

In contrast to the low-yield environment to which investors grew accustomed from 2012 to 2021, today's yields across fixed income remain above their 10-year averages. *(Figure 5)*

Fixed Income Index Yields | As of March 14, 2025

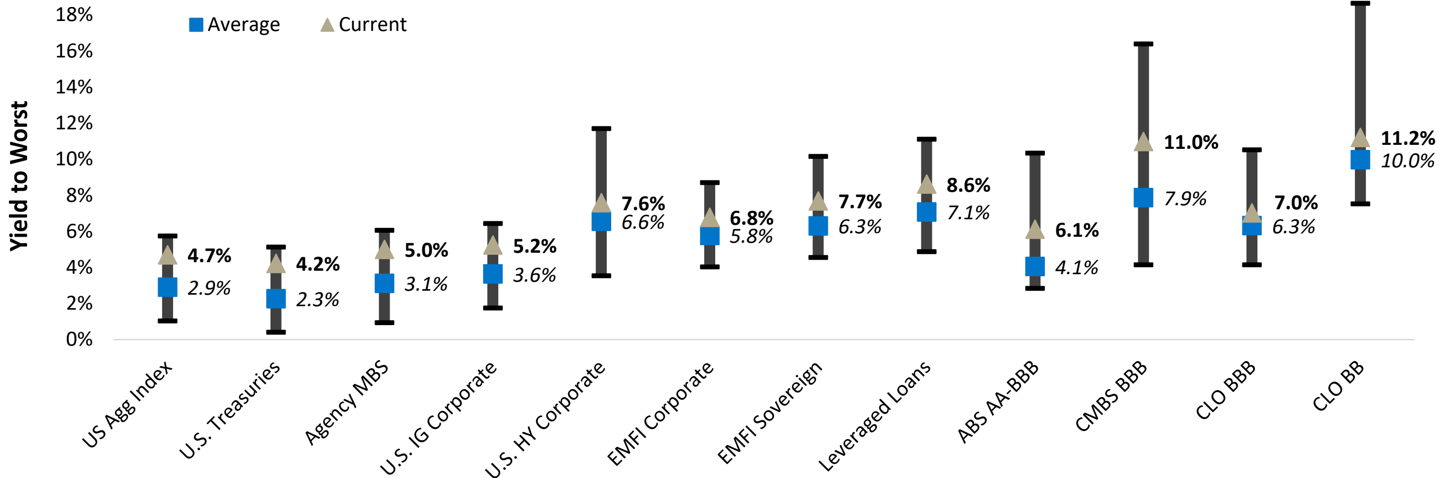


Figure 5
Source: DoubleLine, Bloomberg, BofA Global Research, J.P. Morgan, Credit Suisse
Gray bars represent the range from March 14, 2015, through March 14, 2025.
Mortgage-Backed Securities (MBS), Investment Grade (IG), High Yield (HY), Emerging Markets Fixed Income (EMFI), Asset-Backed Securities (ABS), Commercial MBS (CMBS), Collateralized Loan Obligation (CLO). Indices used in this figure can be found under disclosures. You cannot invest directly in an index.

Above-average yields can help to not only increase income and returns but also better protect on the downside if interest rates were to rise or credit spreads were to widen in a risk-off environment. *(Figure 6)*

Bloomberg US Aggregate Bond Yield | As of March 14, 2025

10-Year Treasury Yield Change (bps)	Agg Index Yield (%)	12-Month Return
100	5.70	-1.4%
75	5.45	0.1%
50	5.20	1.6%
25	4.95	3.2%
0	4.70	4.7%
-25	4.45	6.2%
-50	4.20	7.8%
-75	3.95	9.3%
-100	3.70	10.8%

Figure 6
Source: DoubleLine, Bloomberg
You cannot invest directly in an index.

While yields remain attractive, spreads are generally tight. Areas of securitized sectors, however, remain wide of their 10-year averages, with mortgage-backed securities (MBS) and commercial MBS (CMBS) exhibiting the largest percentile differentials. *(Figure 7)*

	US Agg Index	Agency MBS	U.S. IG Corp.	U.S. 1-3 Year Corp.	CMBS AAA	RMBS AAA	CLO AAA	U.S. HY Corp.	EMFI Corp.	EMFI Sov.	Bank Loans	ABS AA-BBB	CMBS BBB	CLO BBB
Current	35	137	92	60	102	135	131	321	254	331	415	199	670	312
Average	*46*	*107*	*120*	*68*	*101*	*131*	*142*	*413*	*337*	*381*	*461*	*253*	*550*	*405*
YTD Change	1	2	13	8	10	15	19	34	13	6	17	5	-47	11
Percentile Rank	10	**79**	18	46	**56**	**61**	50	20	5	21	34	30	**71**	14

Figure 7
Source: DoubleLine, Bloomberg, J.P. Morgan, Wells Fargo. Data from March 14, 2015, through March 14, 2025. Red numbers indicate YTD spread widening. Investment Grade (IG); Residential MBS (RMBS); Collateralized Loan Obligation (CLO); High Yield (HY); Emerging Markets Fixed Income (EMFI); Asset-Backed Securities (ABS); Year-to-Date (YTD). Indices for this figure can be found under disclosures. You cannot invest directly in an index.

Today's corporate and securitized credit markets offer attractive yields for investors, ranging from over 5% for investment grade (IG) bonds to yields in the high single and low double digits for below-IG securities. *(Figures 8 and 9)*

Additionally, investors looking to potentially provide a high-single-digit total return and generate 6% to 7% in current income might want to consider a strictly multi-sector credit approach. Given relatively tight credit spreads, creating a well-diversified credit portfolio, while not overreaching for yield in low-quality credits, could provide investors an opportunity to generate returns slightly below the long-term return of U.S. equities while likely providing a smoother ride with less volatility and lower drawdowns.

IG Fixed-Income Yields | As of March 19, 2025

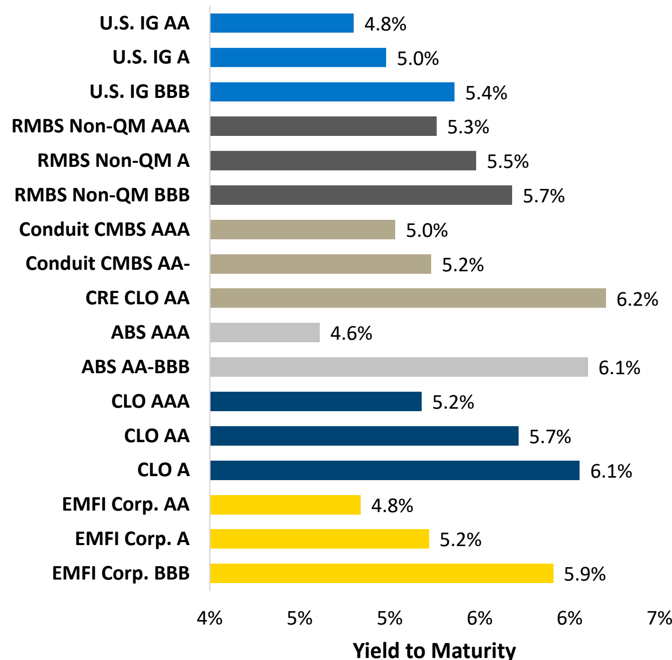


Figure 8
Source: DoubleLine, Bloomberg, BofA Global Research, J.P. Morgan
Residential MBS (RMBS), Non-Qualified Mortgage (Non-QM), Commercial Real Estate (CRE), Collateralized Loan Obligation (CLO), Asset-Backed Securities (ABS), Emerging Markets Fixed Income (EMFI).
Indices used in this figure can be found under disclosures.
You cannot invest directly in an index.

Below-IG Fixed-Income Yields | As of March 19, 2025

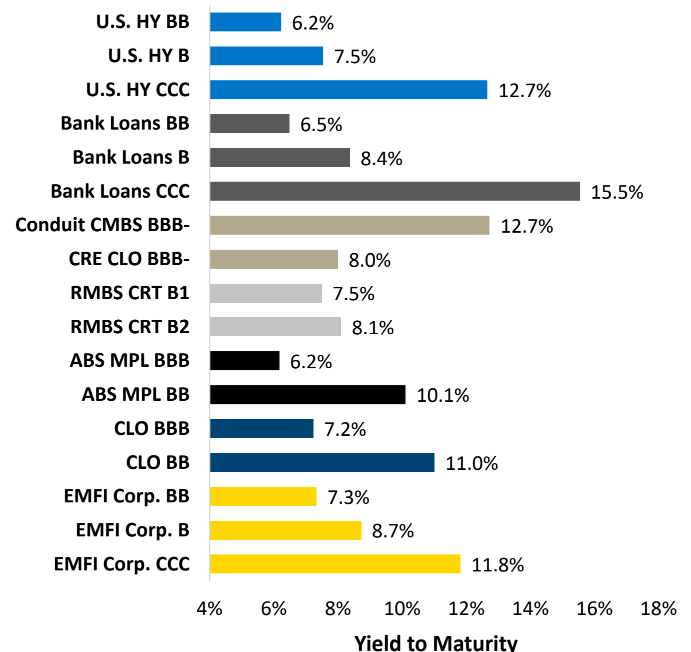


Figure 9
Source: DoubleLine, Bloomberg, BofA Global Research, J.P. Morgan
High Yield (HY), Commercial Real Estate (CRE), Collateralized Loan Obligation (CLO), Residential MBS (RMBS), Credit Risk Transfer (CRT), Asset-Backed Securities (ABS), Multi-Purpose Loan (MPL), Emerging Markets Fixed Income (EMFI).
Indices used in this figure can be found under disclosures.
You cannot invest directly in an index.

DoubleLine views YTM as a characteristic of a portfolio of holdings often used, along with other risk measures such as duration and spread, to determine the relative attractiveness of an investment. Please see Important Information Regarding This Material at the end of this presentation.

2025 Sector Outlooks – Thoughts From the DoubleLine Investment Team

U.S. Treasuries

All Eyes on Me?

The U.S. Treasury yield curve steepened during 2024, with the two-year yield falling 1 bp, and the 10- and 30-year yields rising 69 bps and 75 bps, respectively. *(Figure 10)* This steepening in the curve between the two- and 10-year yields (2s10s), brought a close to the longest yield curve inversion in the post-World War II era at 112 weeks.

The long end of the Treasury curve is still above levels prior to the Fed's first rate cut on Sept. 18 despite a rather strong rally since mid-January. We continue to believe the fiscal outlook remains challenged, and the government's need for increased issuance to fund ongoing fiscal deficits will continue to put pressure on interest rates, particularly at the long end of the Treasury curve. While growth concerns amid new policy implementation could make it possible for long-end rates to move lower if risk-off sentiment persists, we believe the structural justifications remain intact for a regime shift to a higher-for-longer dynamic. *(Figure 11)*

The Federal Open Market Committee (FOMC) kept interest rates unchanged at its March 19 meeting. The FOMC's March update of its Summary of Economic Projections shows median economic growth expectations for 2025 were moved lower from 2.1% to 1.7%. Fed officials also marked up their outlook for inflation, with their preferred measure of price increases, the Personal Consumption Expenditures Price Index, expected to end the year at 2.7% versus a 2.5% pace anticipated in December. FOMC members' median projection is for two 25-bp cuts in 2025, which is in line with market expectations as of March 19. While Fed Chair Jerome H. Powell said at his March post-meeting press conference that the Fed was getting "closer and closer" to price stability, he acknowledged that tariffs could lengthen the process, "I do think with the arrival of the tariff inflation, further progress may be delayed."[4]

Looking ahead, investors will closely monitor the Fed's ability to pull off the balancing act of a policy rate that is restrictive enough to ease inflation further toward its 2% goal while also not too restrictive to hamper employment. Both the Fed and investors will be evaluating the pass-through impact of the Trump administration's policies on growth and inflation. At DoubleLine, we will continue to closely monitor the impact of tariffs on inflation. Additionally, as policy unfolds, we will assess whether corporate tax cuts and deregulation are enough to support robust growth when balanced against trade and immigration policies.

DoubleLine has generally remained shorter duration relative to pertinent benchmarks. When expressing our yield curve view, we tend to favor the front end and belly while maintaining an underweight to the long bond, resulting in a steepening bias overall. The team maintains that Treasuries are especially useful in the context of diversified fixed-income portfolios as an offset to risks presented by credit-sensitive sectors.

U.S. Real Yields | As of March 19, 2025

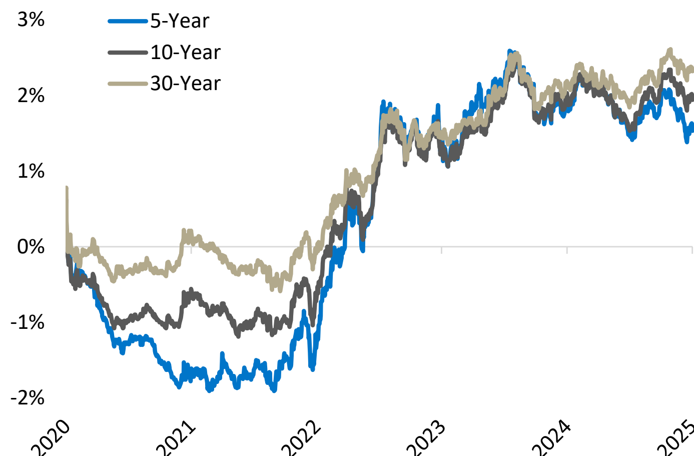


Figure 10
Source: DoubleLine, Bloomberg

U.S. 10-Year Treasury Pre- and Post-COVID-19 Trend
As of March 19, 2025

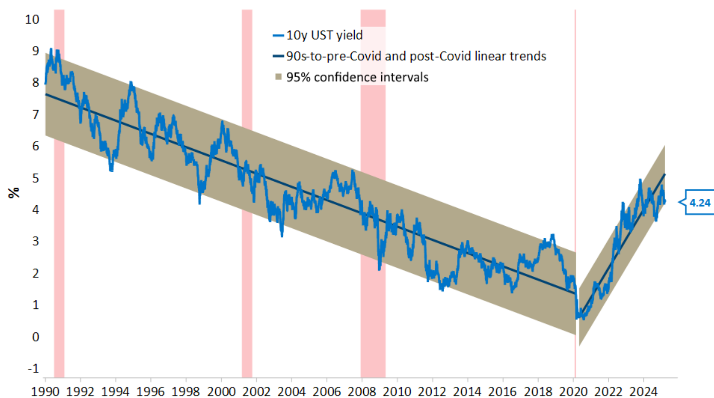


Figure 11
Source: DoubleLine, U.S. Treasury, Macrobond
Red-shaded areas indicate recessionary periods.

Agency Mortgage-Backed Securities

Bank on It

The headwinds that plagued Agency MBS in 2023 somewhat abated in 2024, although spread tightening remained subdued with elevated interest-rate volatility and weaker bank demand. For the remainder of 2025, our base case is that deregulation, a potentially slowing economy and a declining interest-rate environment should support bank demand for Agency MBS. Although banks added roughly $30 billion in 2024, we expect demand to potentially double this year. *(Figure 12)* Further, with an expected tempered Fed approach to cutting interest rates, Agency MBS are likely to benefit from reduced interest-rate volatility and a clearer economic and political picture.

Historical Bank Holdings | As of Dec. 31, 2024

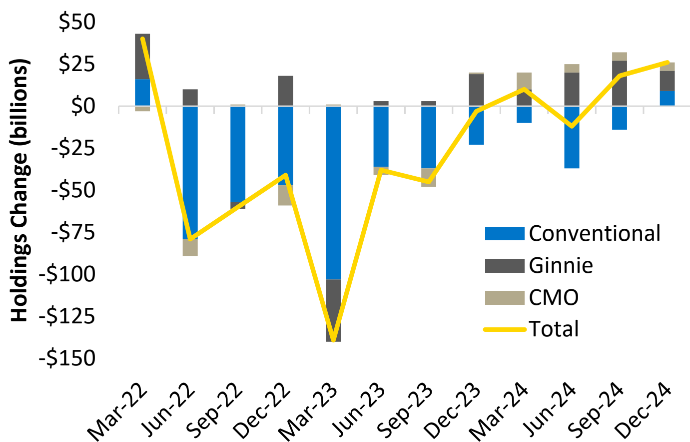


Figure 12
Source: DoubleLine, SNL, BofA Global Research
Ginnie Mae (Ginnie)

Apart from banks, we see the potential for money managers and other relative value buyers to continue to allocate to Agency MBS given current valuations and current-coupon spreads being above their post-Global Financial Crisis (GFC) era average. *(Figure 13)* In a year when most spread products tightened considerably, Agency MBS remained one of the few areas of fixed income that traded cheap relative to history. Given this, we expect Agency MBS to deliver excess returns versus Treasuries and IG corporate bonds in 2025, although the path might be bumpy in the near term as uncertainty surrounding Trump administration policy implementation might initially drive volatility. But that dynamic could stabilize as policy become clearer, creating opportunities across pass-throughs and collateralized mortgage obligations (CMOs).

Agency MBS Current-Coupon Spreads | As of Feb. 28, 2025

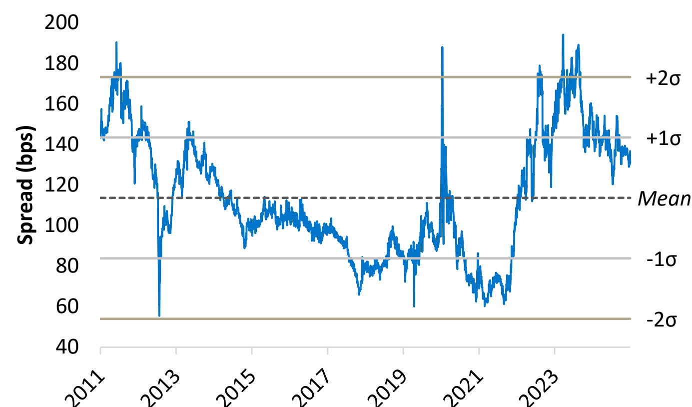


Figure 13
Source: DoubleLine, Bloomberg
Standard deviation (σ)

Looking at the technical picture, we expect 2025 supply to be in line with 2024 levels, with slightly over $1 trillion gross and slightly north of $200 billion net. Higher mortgage rates are expected to suppress refinancing (refi) activity and overall issuance. Regulatory changes, including government-sponsored enterprise reform and increased capital requirements, might constrain origination volume. We view the restrained-supply outlook as a net positive, particularly given our expectations of improving demand from banks, overseas investors and money managers.

In general, we believe there are several opportunities across the coupon stack for attractive risk-adjusted returns. Lower coupons could offer better total returns if interest rates rally, but valuations remain more attractive in higher coupons, which might provide better excess returns across various rate scenarios due to better carry. We also see attractive 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.

While our views are largely positive, potential risks are policy uncertainty, both from the Trump administration and subsequent Fed policy; higher-than-expected interest rates and rate volatility; and technicals impacted by potential supply-demand imbalances should bank demand not materialize.

U.S. Investment Grade Corporates

Better, on the Margins

Performance of IG corporates was driven in 2024 by volatile interest rates, with the 10-year Treasury yield ranging from 3.62% to 4.70%. For the year, the Bloomberg US Corporate Bond Index returned 2.1%. Spreads tightened 19 bps on the year, slightly wider than the multidecade tights hit in November, reflective of robust corporate fundamentals and increased investor demand for the asset class's noteworthy all-in yields. 2024 returns were primarily driven by a 5.8% cumulative return in the third quarter before being tempered into year-end.

The close of 2024 was marked by the reelection of Donald Trump and his pro-growth, pro-dollar protectionist policy agenda. Given the IG sector's longer duration, the volatility-impacted moves higher in Treasury yields weighed on corporate bond returns. We anticipate continued rate volatility in 2025 as President Trump's policy agenda crystallizes but overall expect the yield curve to steepen, which should be supportive of IG corporates.

We believe the asset class is attractive on a historical basis as yields are at 5.21%. *(Figure 14)* Given the index's yield-to-duration ratio of 0.78, the sector is well insulated to withstand a potential rise in interest rates. As of March 18, IG corporates were yielding 150 bps above their 10-year average.

U.S. IG Corporate Bond Yields | As of March 18, 2025

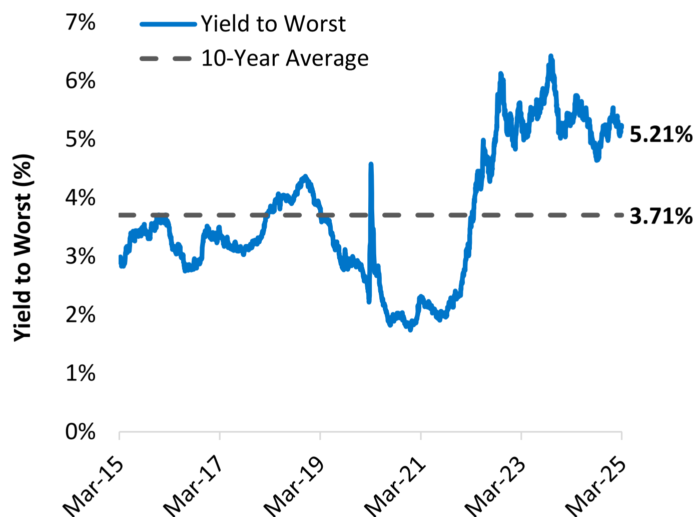


Figure 14
Source: DoubleLine, Bloomberg
Dashed line represents average yield.

On the technical front, IG experienced a tailwind from a fund inflow of $376 billion in 2024. Corporate earnings remained strong throughout the year, a trend that is expected to continue in 2025. Notably, EBITDA margins reached an all-time high in the third quarter of 30.6%, marking the 14th quarter of growth out of the last 15.[5] *(Figure 15)* Also of note, the share of the Bloomberg corporate bond index rated BBB declined in 2024 to 45.9%, down 3.4 points over the last five years, resulting in an index with historically high credit quality.

U.S. IG Corporate EBITDA Margins | As of Dec. 31, 2024

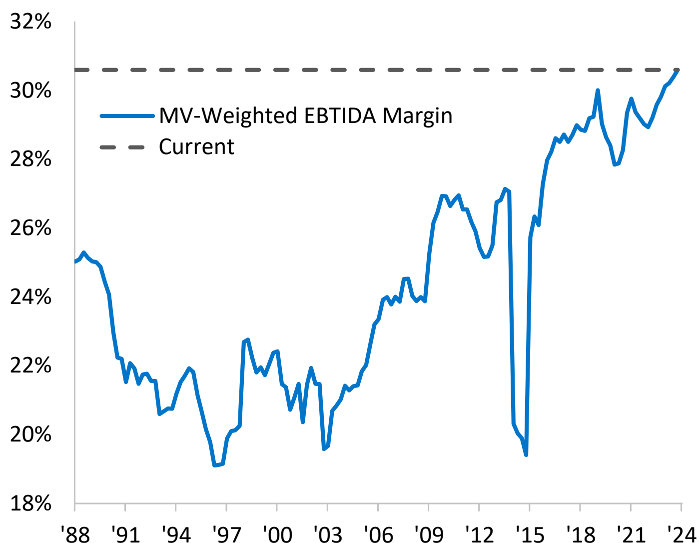


Figure 15
Source: DoubleLine, Bloomberg
Market Value (MV)

In general, DoubleLine believes there are several opportunities across IG subsectors for attractive risk-adjusted returns. The team is positioning portfolios by favoring credits that are better suited to withstand margin pressures as well as targeting credits that have positively sloped spread curves. We prefer midstream companies that are highly cash-flow generative and backed by durable, long-lived assets as well as aircraft lessors due to long-term supply-demand imbalance and improving balance sheets. We are avoiding food and beverage companies with declining sales and margins, high merger-and-acquisition risk and secular risk from GLP-1 diet drug uptake.

U.S. High Yield Corporates

The Show Goes On

High yield (HY) corporates posted strong returns in 2024, boosted by a combination of improving EBITDA, surprising economic strength and significant investor demand. For the year, the Bloomberg US Corporate High Yield Index returned 8.2%, as 2024 returns were primarily driven by spread compression and high carry. HY spreads tightened materially into the November election, which reflected optimism surrounding candidate Trump's pro-growth policies such as corporate tax cuts. HY spreads closed the year at 287 bps, meaningfully below 2023's close of 323 bps. Spreads hit a 2024 low of 253 bps on Nov. 12, just days after Election Day. As of March 18, the Bloomberg HY index was yielding 7.6%, 91 bps above its 10-year average.

Moving forward, the focus for 2025 will be on President Trump's policy agenda. Issuance is expected to be even higher than 2024, despite it being a banner year for corporate issuance, with $340 billion gross and $160 billion net supply.[6] Meanwhile, the base case is that tight spreads will persist in 2025.

On the technical front, HY experienced a tailwind from an inflow of $16 billion in 2024.[7] Looking at fundamentals, HY metrics drifted toward long-term averages over 2024. For example, net leverage declined 0.05x to 3.84x, on top of the long-term average of 3.86x, and interest coverage declined 0.33x to 4.08x, just a hair over the average of 4.06x. Meanwhile, EBITDA growth was slightly positive on the year, and the ratio of total debt to enterprise value moved slightly lower.

We believe assets will continue to flow into HY given attractive all-in yields, low default rates and elevated valuations of U.S. equities. *(Figures 16 and 17)* After bottoming in November, we expect HY defaults will continue to increase toward their long-term average of 3.2% in 2025 amid increased debt issuance and high interest rates, which we expect to weigh on fundamentals. With this in mind, active managers should have an advantage in 2025 relative to index-tracking products. The DoubleLine team is looking to take advantage of resilient consumer spending and prefers companies that are focused on multiyear balance-sheet repair. For example, we are constructive on cruise lines, as consumer travel demand has been buoyed by savings. We are avoiding cyclically exposed companies, such as metals and mining, due to broader concerns surrounding economic growth and weakening fundamentals.

Following a strong 2023, bank loans were once again among the

U.S. HY Corporate Bond Yields | As of March 18, 2025

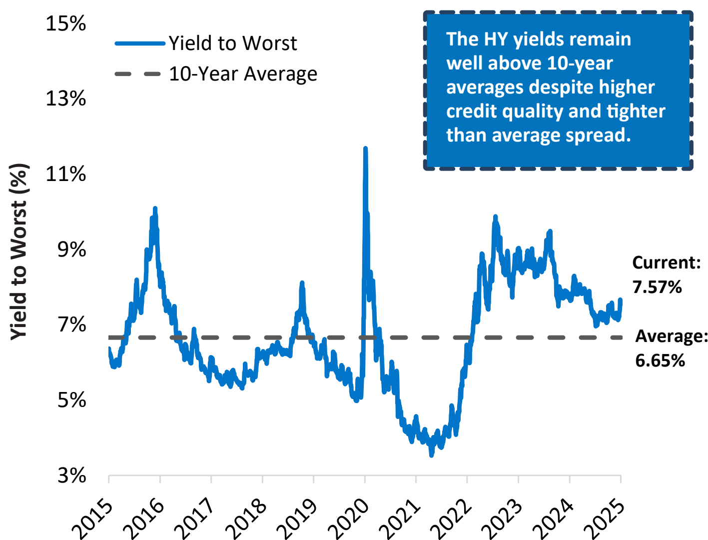


Figure 16
Source: DoubleLine, Bloomberg
Dashed line represents average yield.

U.S. HY Corporate Default Rates | As of Feb. 28, 2025

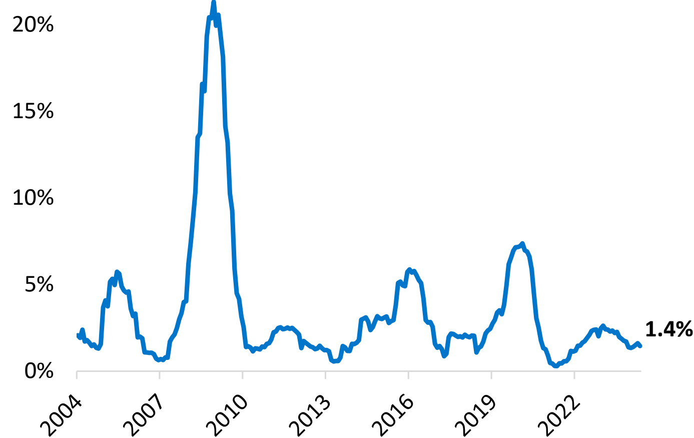


Figure 17
Source: DoubleLine, BofA Global Research

U.S. Bank Loans

Attractive Income, but Proceed With Caution

best-performing fixed-income asset classes in 2024. As measured by the Morningstar LSTA US Leveraged Loan TR USD Index, bank loans returned 9.1%, driven mainly by elevated interest income, while prices were broadly stable.

The year experienced an active primary market, with record gross issuance as companies refinanced near-dated maturities. *(Figure 18)* There was also a significant number of repricing transactions that reduced spreads on existing loans. Looking to the remainder of 2025, the stage is set for heightened primary market activity as merger-and-acquisition deals could benefit from a deregulatory push from the Trump administration. At the same time, a large portion of the bank loan market is trading at or above par, suggesting a continuation of repricing transactions. As a result of refinancings completed in 2024, near-term loan maturities have been significantly reduced, declining by 84% in 2025 and 75% in 2026. Taken together, less than 4% of the market is due to mature over the next two calendar years.

Demand for bank loans remained robust in 2024, with record CLO issuance and strong retail inflow. Retail bank loan fund flows tallied a positive $8.6 billion in 2024 versus negative $14.4 billion in 2023.[8] Investors were drawn to an attractive level of income and encouraged by a reduction in the number of future rate cuts priced into the market. Private credit continued to take out syndicated loan borrowers, with both volume and deal count increasing year-over-year (YoY) to $26 billion across 41 deals.[9]

Turning to fundamentals, leverage moved incrementally higher in 2024 to 4.7x from 4.5x, and interest coverage ratios declined slightly to 3.1x, the lowest mark since the GFC.[10] Loan defaults increased in 2024, but DoubleLine expects this to reverse in 2025 due to resilient economic growth and lower base rates from the Fed's interest rate cuts. *(Figure 19)* DoubleLine favors health-care providers benefiting from enhanced procedure volumes and normalizing labor inflation. We are avoiding overleveraged building products companies tied to a housing market that is grappling with elevated mortgage rates.

Regarding valuations, in general, price levels are somewhat unfavorable, as most loans are trading above par with little to no call protection. As of February 2025, bank loan spread levels ranked in the 37th percentile compared to the Morningstar index's 10-year history. The asset class still offers a compelling yield relative to other areas of fixed income.

Gross Issuance | As of Dec. 31, 2024

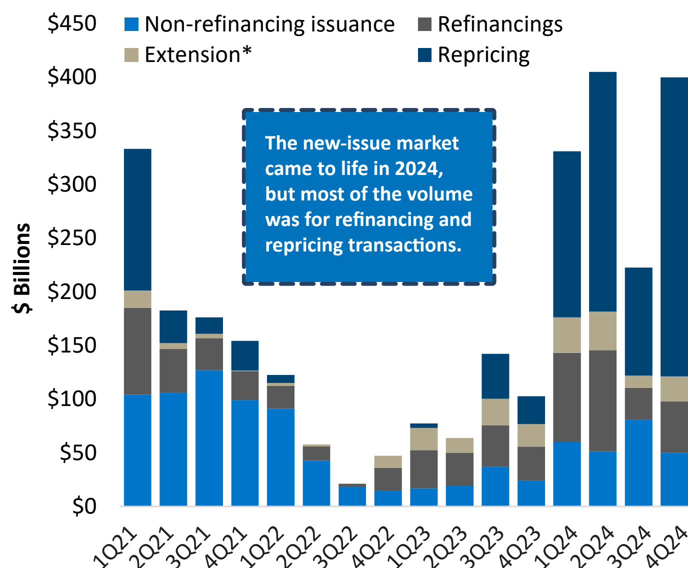


Figure 18
Source: Pitchbook

Loan Defaults | As of Feb. 28, 2025

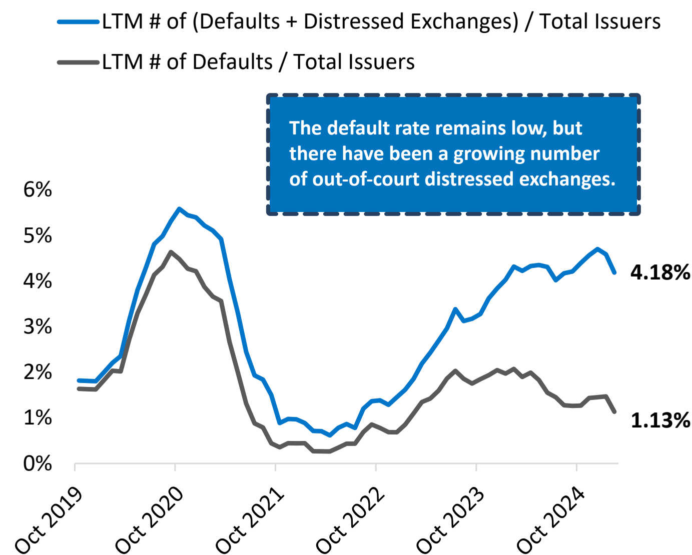


Figure 19
Source: Pitchbook
Lagging 12 Months (LTM)

Non-Agency Residential Mortgage-Backed Securities

Resilient Fundamentals Amid Potential Regional Slowdowns

The non-Agency residential MBS (RMBS) market entered 2025 with a mix of opportunities and challenges. While moderately attractive spreads and high all-in yields provide intriguing entry points, investors must navigate headwinds such as elevated interest rates, regional housing disparities and credit-specific risks. Strategic allocation to subsectors offering stability, alongside careful monitoring of delinquency and regulatory developments, will be crucial for optimizing returns.

Residential credit performance was robust in 2024, driven by higher home prices, low defaults and strong demand for non-Agency RMBS new issuance. We expect performance to largely remain resilient in 2025 as home prices continue to be supported by strong demand from increased household formation and low housing supply driven by the lock-in effect, with approximately 75% of existing homeowners having mortgage rates of 4% or lower.[11] *(Figure 20)* That said, we expect home price appreciation to moderate from 2024 levels, driven by elevated mortgage rates and increased inventory, particularly in Florida and Texas. We expect the Northeast and Midwest markets to be more resilient, with inventory levels 20% to 30% below pre-pandemic figures.[12]

Underlying fundamentals are on mostly solid footing, with low delinquency rates driven by tighter lending standards and record levels of homeowner equity. *(Figure 21)* While delinquencies might increase should unemployment rise, we expect that would impact recent-vintage cohorts more than seasoned borrowers with substantial equity. Further, having tested the efficiency of servicing toolkits during the pandemic, we expect modification, as opposed to default, will continue to be the favored resolution process for borrowers facing financial hardship.

We anticipate a modest increase in 2025 issuance and believe this will be readily absorbed by the market. As such, we expect technicals will remain positive for residential mortgage credit this year.

Absent a significant change in economic conditions, we believe the market landscape will continue to be supportive of residential credit performance. In general, we believe there are opportunities for strong total return potential across the non-Agency RMBS capital structure, as many subsectors look attractive from a relative value perspective compared to similarly rated corporate bonds. Risks to our forecast include regional weakness, affordability challenges, natural disasters and climate risk, and broader macroeconomic volatility.

Home Prices Amid Tight Supply | As of Jan. 31, 2025

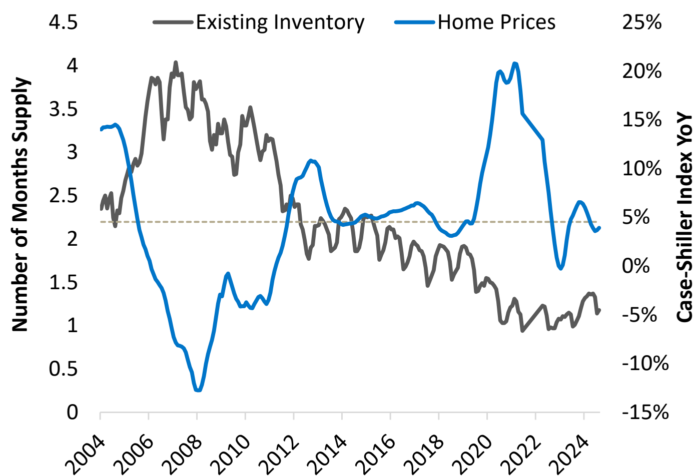


Figure 20
Source: DoubleLine, National Association of Realtors, S&P CoreLogic Case-Shiller U.S. National Home Price SA Index
Dashed line represents the average number of months supply.

Deliquencies and Lending Standards | As of Dec. 31, 2024

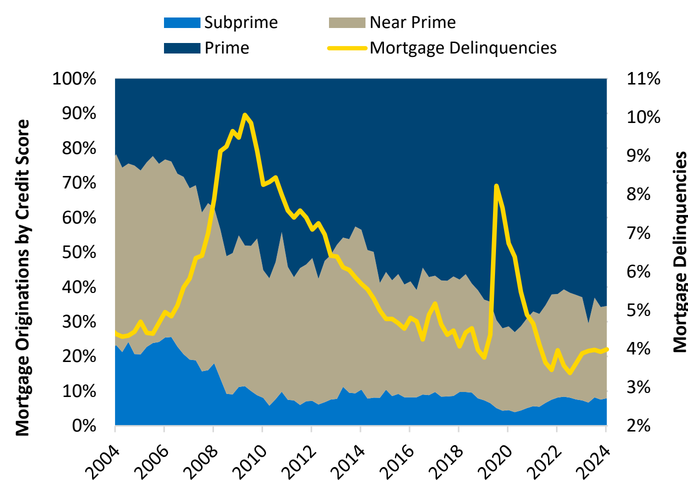


Figure 21
Source: DoubleLtine, New York Federal Bank of Reserve
FICO credit scores: 659 and below = subprime; 660-759 = near prime; 760 and above = prime

Non-Agency Commercial Mortgage-Backed Securities

Calmer Seas on the Horizon

While the struggles of commercial real estate (CRE) remained in the spotlight for much of 2024, we again caution against painting the CRE market with broad strokes and believe most CRE property-level fundamentals outside of the office submarket are poised to be on stable footing this year (see: Capitalizing on the Comeback). We believe the non-Agency CMBS market will offer attractive investment opportunities but may require careful navigation of property-specific challenges, maturity risks and macroeconomic uncertainties. We advocate for a focus on high-quality, newly issued bonds and property types with resilient fundamentals for the best risk-adjusted returns.

Fed rate policies remain a central factor, with stability in interest rates needed to drive transaction activity and a continued recovery in property values. Reduced property valuations and increased debt service costs are likely to continue to push delinquencies higher this year, although the issues should largely be concentrated in maturing loans, floating-rate loans and loans secured with lower-quality office collateral.

However, we expect lenders and servicers will continue to employ modifications and extensions – practices expected to result in higher recoveries than near-term foreclosures and liquidations. Borrowers with cash-flowing assets that are willing to put more equity in are likely to receive extensions. The resolution of loans secured by less competitive commodity office properties is likely to play out over several years.

Our base case is that CRE lending will increase as property prices reach a bottom, transaction activity will improve, and underwriting standards will gradually loosen, which should give investors a better feel for valuations. *(Figure 22)*

As the CRE market enters a cycle of normalization, opportunities have emerged for nonbank lenders to step in and strategically grow market share at attractive entry points. Non-Agency CMBS increased its share of the lending market in 2024 as banks pulled back, a dynamic that should be largely sustained in 2025. We expect non-Agency CMBS issuance to increase further, driven by optimism about the economy and the bottoming of CRE prices. *(Figure 23)*

We expect non-Agency CMBS spreads to narrow further in early 2025 and the credit curve to flatten. However, spread dispersion will likely remain high, reflecting the ongoing bifurcation between good quality and distressed assets. While we remain constructive on the non-Agency CMBS market this year, challenges related to legacy loans, refi risks and credit quality are likely to persist.

Lending and Transactions | As of Jan. 31, 2025

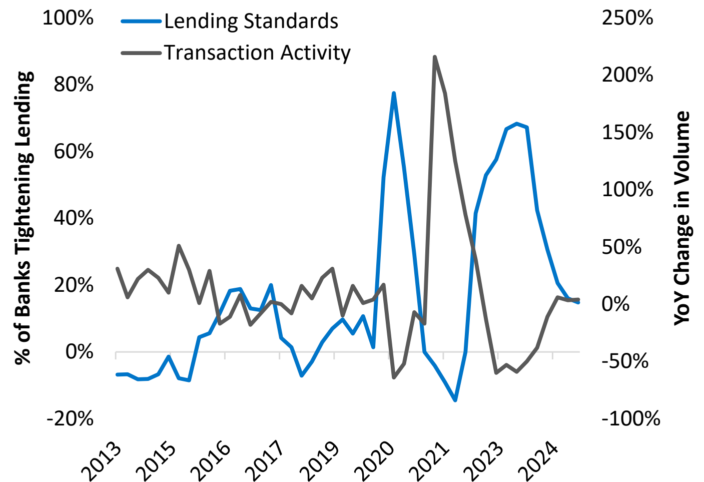


Figure 22
Source: DoubleLine, Real Capital Analytics

Private-Label CMBS Annual Issuance | As of Dec. 31, 2024

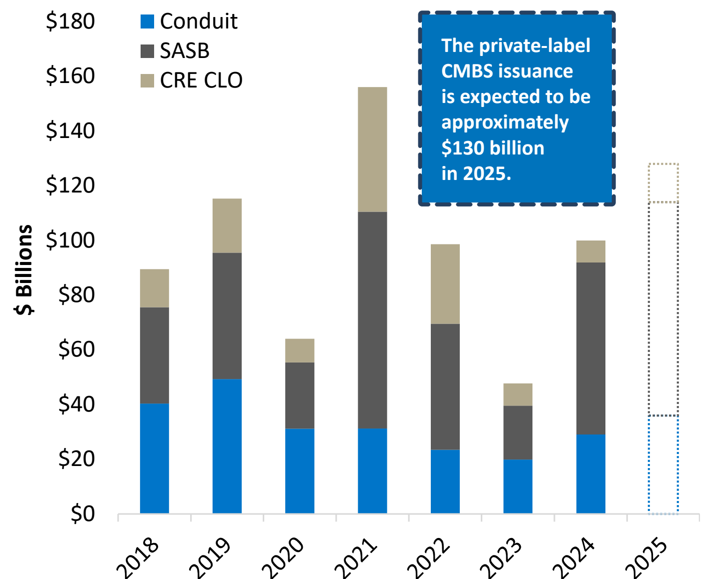


Figure 23
Source: DoubleLine, BofA Global Research
Private-label CMBS expected issuance based on average forecasts of Morgan Stanley, J.P. Morgan and BofA Global Research.
Single Asset, Single Borrower (SASB)

Asset-Backed Securities

Balancing Act: High-Income Strength vs. Low-Income Stress

The asset-backed securities (ABS) market in 2024 was marked by record issuance levels and robust performance despite significant supply. Looking ahead, we believe the ABS market is poised to maintain its momentum, driven by stable issuance, robust demand and attractive investment opportunities in traditional and emerging subsectors. While challenges persist, such as rising delinquencies and macroeconomic uncertainties, the combination of strong consumer fundamentals, supportive regulatory trends and evolving product innovations underscores the market's resilience. We advise investors to balance risk and reward, leveraging opportunities across short-duration consumer ABS and longer-duration esoteric ABS for optimal returns.

Underlying consumer fundamentals are generally strong, although we expect more bifurcated outcomes this year. On the plus side, labor income growth and revisions to the household savings rate point to a strong consumer base, with discretionary spending remaining robust through 2024 and expected to continue in 2025. However, discretionary spending has grown increasingly concentrated among higher-income households, while lower-income households have faced greater stress. Looking ahead, real wage growth is expected to remain positive, and the labor market is to remain strong, which should support overall consumer spending.

A trend to watch will be delinquencies, particularly in auto ABS. Prime delinquencies are at decade-plus highs, while subprime delinquencies have surpassed 2008 levels.[13] Although prime delinquencies for 2023 vintages remain elevated, they have not translated into significant increases in defaults or losses (see: An Update on the U.S. Consumer).

Despite strong performance across ABS subsectors in 2024, we see opportunities in a variety of securitizations in 2025. *(Figure 24)* We believe short-duration consumer ABS at the top of the capital structure will continue to offer relative value compared to corporate bonds. In addition, data center ABS should present compelling opportunities for longer-duration exposure. *(Figure 25)* The subsector continues to benefit from the digital transformation and increasing demand for cloud storage and AI infrastructure (see: Securitizing the Digital Present & Future).

Risks to our outlook include potential federal policy changes, such as tariffs and immigration restrictions, which could result in slower economic growth and higher inflation, pressuring consumer spending. An unexpected rise in unemployment could exacerbate delinquencies and force spreads wider, particularly in consumer ABS.

ABS Performance Since Initial Fed Cut | As of Feb. 28, 2025

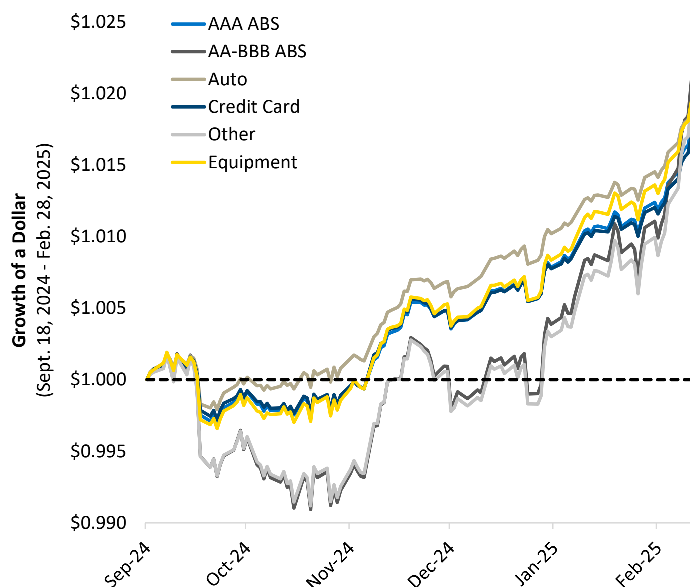


Figure 24
Source: DoubleLine, BofA Indices

Data Center ABS Potential Market Size | As of Aug. 31, 2024

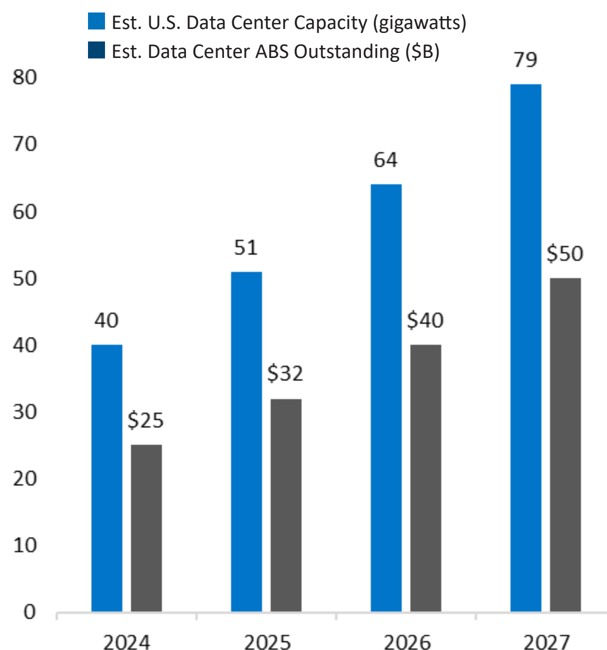


Figure 25
Source: DoubleLine, Morgan Stanley, Intext

Collateralized Loan Obligations

Float On

Collateralized loan obligations (CLOs) were one of the best-performing fixed-income asset classes in 2024, driven by high interest income from floating-rate coupons and spread compression from a generally resilient U.S. economy. We expect the U.S. CLO market to continue its momentum in 2025, driven by robust issuance and steady demand as CLOs remain a scalable floating-rate investment opportunity in a higher-for-longer interest-rate environment. That said, there might be bouts of volatility in the near term as the market digests the impact of broader macroeconomic concerns and government policy.

2024 marked a record-breaking year for CLO issuance and refinancing, with gross issuance exceeding $184 billion and refi/reset activity reaching $240 billion.[14] *(Figure 26)* For 2025, forecasts are for another strong year, with north of $200 billion in gross issuance and approximately $100 billion in net issuance. We believe this issuance will be met with strong demand for floating-rate assets and expanding CLO exchange-traded funds, which garnered $13 billion in inflows in 2024.[15]

Balance sheets for most U.S. leveraged loan issuers entered 2025 in a generally healthy position. Loan default rates peaked at 5.6% in 2024 but are expected to decline to 2.3% in 2025, and downgrades have largely been concentrated in lower-rated loans.[16] Despite interest rate cuts potentially impacting CLO debt total returns, the start of the Fed's cutting cycle should benefit leveraged loan fundamentals and, in turn, CLO fundamentals.

In 2024, we favored senior-rated CLOs for relative value and price stability, and CLOs rated BB for carry and convexity. Currently, we believe investment opportunities lie in selective AAA and mezzanine tranches. Given elevated short-term rates, CLOs maintain relatively high all-in yields across the capital structure. *(Figure 27)*

Regulatory adjustments for the banking industry, including Basel III finalization, could reduce risk-weighted asset requirements for CLOs rated AAA, encouraging more institutional investment. However, uncertainties around economic policy, tariffs and the pace of interest rate cuts could affect spreads and issuance. Despite some risks, we believe the CLO market remains resilient with strong historical performance and largely favorable macroeconomic conditions.

U.S. CLO Issuance | As of Dec. 31, 2024

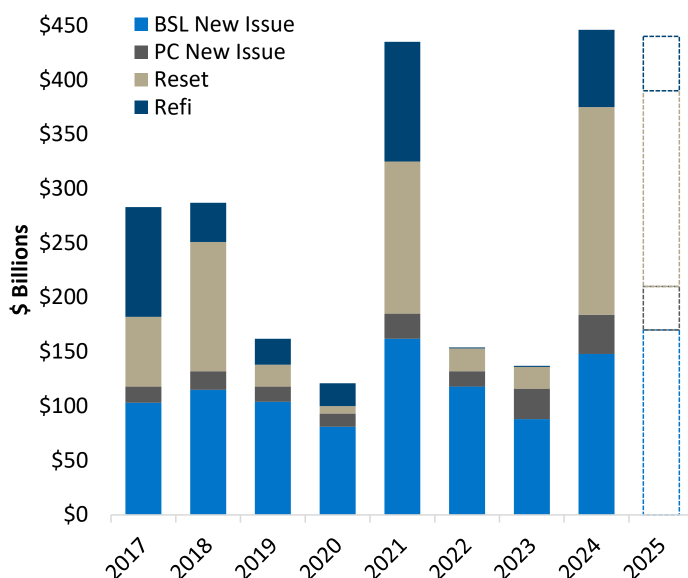


Figure 26
Source: DoubleLine, Citi Research
Broadly Syndicated Loan (BSL); Private Credit (PC)

U.S. CLO Yields | As of March 18, 2025

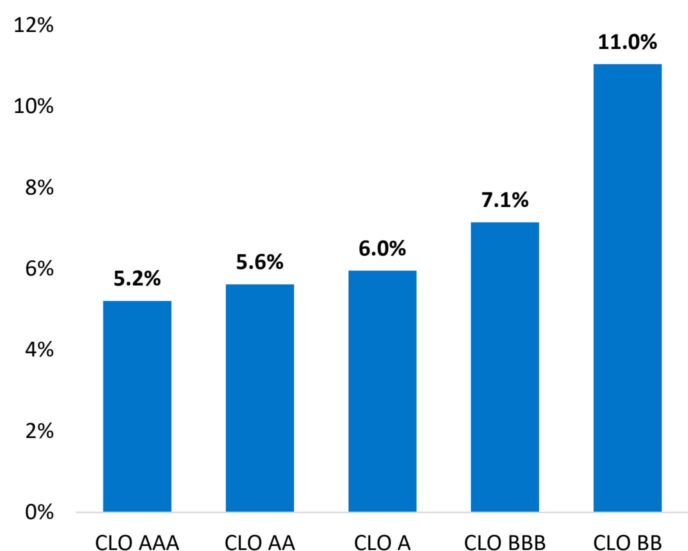


Figure 27
Source: DoubleLine, J.P. Morgan

Emerging Markets Fixed Income

Strong Fundamentals vs. Tariff Volatility

Despite negative returns in the fourth quarter, emerging markets (EM) sovereign and corporate bonds posted strong positive returns in 2024. EM corporate bonds (CEMBI BD) outperformed EM sovereign bonds (EMBI GD), returning 7.6% versus 6.5%, respectively.[17] The credit spreads for the EMBI GD and CEMBI BD tightened 59 bps and 71 bps, respectively. EM corporate bonds' outperformance was mainly driven by their shorter duration in a period when Treasury rates ended the 12-month period higher.

Emerging markets continue to boast a strong fundamental backdrop. The combination of better-than-expected growth, stabilizing inflation, improving account balances and generally low debt and default levels will likely contribute to a continuation of positive rating migrations this year. *(Figure 28)* While new tariffs could be imposed and merit active monitoring from our investment team, U.S. trade restrictions are not new, and emerging markets adapted well to changing trade dynamics from tariffs in the past.

Fundamentals: More Upgrades Than Downgrades Since 1Q23
As of Sept. 30, 2024

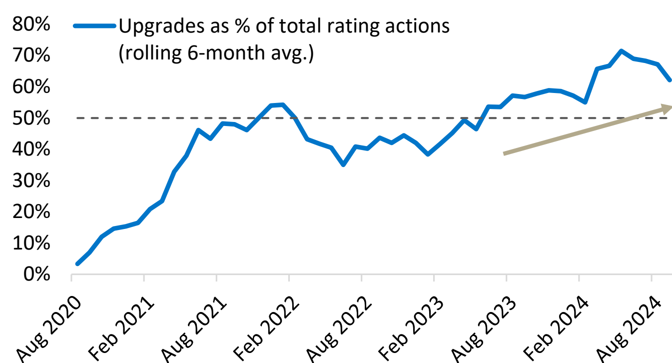


Figure 28
Source: DoubleLine, J.P. Morgan

The EM corporate HY default rate finished 2024 at 1.3%, significantly lower than an 8.7% default rate in 2023, which was largely driven by China and Russia.[18] Overall, credit fundamentals for EM corporates remain resilient. EM IG and HY corporates have net leverage ratios significantly lower than that of U.S. and European corporates, with only a slight weakening from a solid base in the last three years. This weakening has stemmed from inflationary pressures and higher funding costs. Similarly, interest coverage for EM IG and HY corporates continued to be strong, with ratios comparable to that of developed market (DM) corporates.

Supported by positive sentiment, EM corporate issuance increased significantly in 2024 to $400 billion, up 62% YoY.[19] However, net financing remained negative at negative $73 billion in 2024.[20] *(Figure 29)* DoubleLine believes negative net financing and a potential rotation back into the asset class provide a potential tailwind to the asset class in 2025.

Technicals: Negative Net Financing a Tailwind for EMFI?
As of Dec. 31, 2024

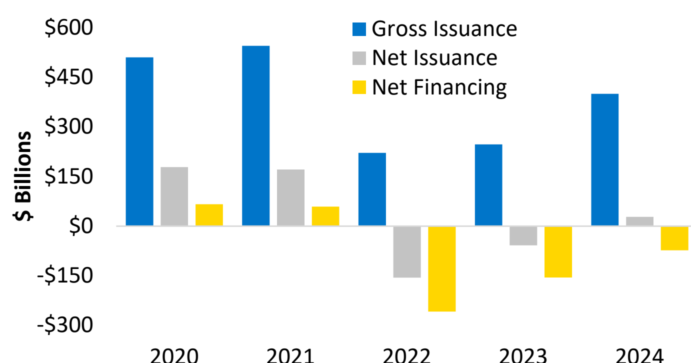


Figure 29
Source: DoubleLine, J.P. Morgan

The DoubleLine EM team believes EM fixed income could be poised in 2025 for another year of returns in the mid- to high single digits. While credit spreads are generally tight by historical standards, we believe those levels are justified given the positive fundamental and technical backdrop.

We remain overweight Latin America relative to benchmarks, as the region offers credits with attractive return-per-unit-of-risk profiles, less geopolitical risk and many companies that generate revenue in hard currency. The DoubleLine EM team also finds that higher-quality HY names (BB rated) with short to medium maturities provide attractive return-per-unit-of-risk profiles at this juncture.

In overall portfolio allocation, DoubleLine continues to believe EM fixed income offers investors diversification benefits when paired with U.S. investments, as EM companies and countries have unique business cycles, revenue generators, natural resources, monetary and fiscal policies, and political cycles. We believe the asset class is likely to continue to migrate up the credit quality curve.

We believe the current environment 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.

Global Developed Sovereign

A Focus on Stable Political Structures

In 2024, global fixed-income markets experienced significant volatility due to elections in over 60 countries. Incumbent leaders were challenged by high inflation and a polarized electorate. Geopolitical risks remained in focus – the Israel-Hamas and Russia-Ukraine wars continued, while President Trump's election capped off a volatile year. Market participants anticipated policy changes that would bolster U.S. exceptionalism, leading to increases in the U.S. dollar and yields. Although DM sovereign bonds generated positive returns in the third quarter, this performance was outweighed by negative returns in the fourth quarter, driven by a stronger dollar and rising core interest rates.

In early 2025, DM sovereign volatility persisted due to trade and domestic policy uncertainty under the Trump administration. The economic effects of tariffs, immigration and deregulation will vary based on the timing and specifics of each policy. Potentially elevated external risks could keep inflation risk and exchange-rate volatility high, limiting additional monetary easing by central banks globally. In the U.S., the fiscal risk premium could stay high as fiscal consolidation could be slower than expected due to nondiscretionary spending and the need for congressional approval for fiscal and tax measures.

As we get clearer details of President Trump's policies, we expect a more favorable environment for global sovereign bonds. The twin deficits in the U.S. indicate a potential depreciation of the dollar in the medium term. *(Figure 30)* Divergent monetary and economic cycles present diverse opportunities in non-U.S. government bonds across both currency exchange and rates. DoubleLine favors longer-duration European government bonds due to pressure on the European growth model. Expected monetary tightening by the Bank of Japan should favor yen appreciation. Idiosyncratic opportunities, like Canada's election cycle, could shift business sentiment and attract foreign investment.

The remainder of 2025 might bring continued volatility, but it could also highlight the benefits of active management. We expect attractive opportunities in DM sovereign bonds, requiring a selective approach to achieve prudent returns relative to risk. Our investment focus is on local economies with stable political structures, improving economic fundamentals, high real yields and decent growth prospects. We largely avoid areas with current or potentially escalatory geopolitical tensions.

Twin Deficit and U.S. Dollar | As of Sept. 30, 2024

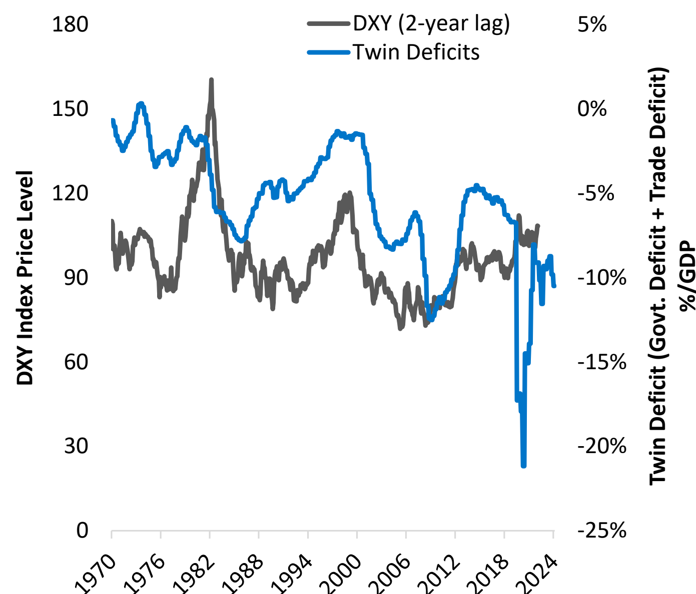


Figure 30
Source: DoubleLine, J.P. Morgan
U.S. Dollar Index (DXY)

2025 GDP Forecasts | As of March 20, 2025

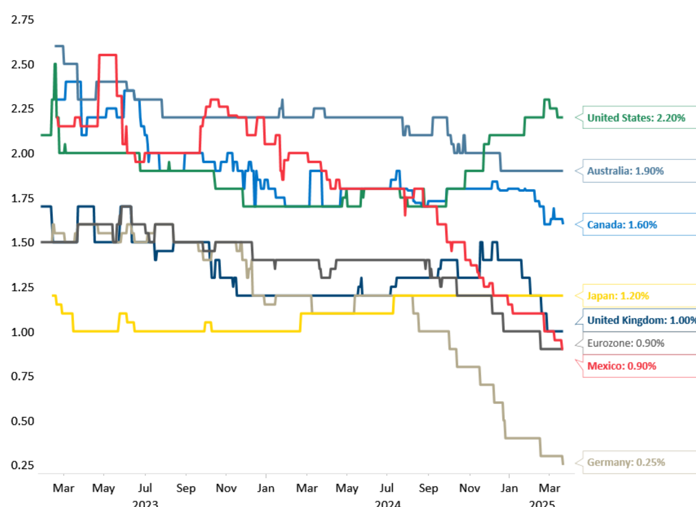


Figure 31
Source: DoubleLine, Bloomberg, Macrobond

Endnotes

[1] Consumer Price Index year-over-year as of December 31, 2024
[2] As of March 18, 2025
[3] As of March 17, 2025
[4] www.federalreserve.gov/mediacenter/files/FOMCpresconf20250319.pdf
[5] Barclays
[6] Bank of America
[7] J.P. Morgan
[8] Pitchbook
[9] Pitchbook
[10] Pitchbook
[11] Citi Research
[12] Morgan Stanley Research
[13] Morgan Stanley
[14] Citi Research
[15] BofA Global Research
[16] LCD Research
[17] EM sovereigns = J.P. Morgan EM Bond Index Global Diversified; EM corporates = J.P. Morgan Corporate EM Bond Index Broad Diversified
[18] J.P. Morgan
[19] J.P. Morgan
[20] J.P. Morgan

Index Definitions and Terms

Indices used in Figure 2:
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 CMBS Index; **RMBS:** BofA Global Research; **Non-Agency CMBS:** Bloomberg US Non-Agency Investment Grade CMBS Index; **ABS AAA:** Bloomberg US ABS AAA Index; **ABS AA-BBB:** ICE BofA AA-BBB U.S. Fixed-Rate Miscellaneous ABS Index; **CLOs:** Palmer Square CLO Total Return Index; **U.S. IG Corporate:** Bloomberg US Corporate Index; **U.S. HY Corporate:** Bloomberg US Corporate High Yield Index; **Leveraged Loans:** Morningstar LSTA US Leveraged Loan TR USD Index; **EMFI Sovereign:** J.P. Morgan EMBI Global Diversified; **EMFI Corporate:** J.P. Morgan CEMBI Broad Diversified; **U.S. Aggregate:** Bloomberg US Aggregate Bond Index

Indices used in Figure 3:
US Agg Index: Bloomberg US Aggregate Bond Index; **U.S. Treasuries:** Bloomberg US Treasury Index; **Agency MBS:** Bloomberg US MBS Index; **Agency CMBS:** Bloomberg US CMBS Index; **Investment Grade:** Bloomberg US Corporate Index; **High Yield:** Bloomberg US Corporate High Yield Index; **EMFI Sovereign Bonds (USD):** J.P. Morgan EMBI Global Diversified; **EMFI Corporate Bonds (USD):** J.P Morgan CEMBI Broad Diversified; **Leveraged Loans:** Morningstar LSTA US Leveraged Loan TR USD Index; **ABS AA-BBB:** ICE BofA AA-BBB U.S. Fixed-Rate Miscellaneous ABS Index; **CMBS – BBB:** Bloomberg US Non-Agency Investment Grade CMBS Index; **Developed Markets Global Bonds (Local FX):** FTSE World Government Bond Index; **EMFI Sovereign Bonds (Local FX):** J.P. Morgan Government Bond Index Emerging Markets Global Diversified; **CLO – BBB:** Palmer Square CLO Total Return Index

Indices used in Figure 5:
US Agg Index: Bloomberg US Aggregate Bond Index; **U.S. Treasuries:** Bloomberg US Treasury Index; **Agency MBS:** Bloomberg US MBS Index; **U.S. IG Corporate:** Bloomberg US Corporate Index; **U.S. HY Corporate:** Bloomberg US Corporate High Yield Index; **EMFI Corporate:** J.P Morgan CEMBI Broad Diversified; **EMFI Sovereign:** J.P. Morgan EMBI Global Diversified; **Leveraged Loans:** Morningstar LSTA US Leveraged Loan TR USD Index; **ABS AA-BBB:** ICE BofA AA-BBB U.S. Fixed-Rate Miscellaneous ABS Index; **CMBS – BBB:** Bloomberg US Non-Agency Investment Grade CMBS Index; **CLOs:** Palmer Square CLO Total Return Index

Indices used in Figure 7:
US Agg Index: Bloomberg US Aggregate Bond Index; **Agency MBS:** Bloomberg US MBS Index; **U.S. IG Corp.:** Bloomberg US Corporate Index; **U.S. 1-3 Year Corp.:** Bloomberg US Corporate 1-3 Year Index; **CMBS AAA:** Bloomberg US CMBS Index; **RMBS AAA:** BofA Global Research; **CLO AAA:** Palmer Square CLO Total Return Index; **U.S. HY Corp.:** Bloomberg US Corporate High Yield Index; **EMFI Corp.:** J.P Morgan CEMBI Broad Diversified; **EMFI Sov.:** J.P. Morgan EMBI Global Diversified; **Bank Loans:** Morningstar LSTA US Leveraged Loan TR USD Index; **ABS AA-BBB:** ICE BofA AA-BBB U.S. Fixed-Rate Miscellaneous ABS Index; **CMBS BBB:** Bloomberg US Non-Agency Investment Grade CMBS Index; **CLO BBB:** Palmer Square CLO Total Return Index

Indices used in Figure 8:
U.S. IG: Bloomberg US Corporate Bond Index; **RMBS:** Citi Research; **Conduit:** Bloomberg US Non-Agency CMBS Index; **CRE CLO AA:** BofA Global Research; **ABS AAA:** Bloomberg US ABS AAA Index; **ABS AA-BBB:** ICE BofA AA-BBB U.S. Fixed-Rate Miscellaneous ABS Index; **CLOs:** J.P. Morgan CLO Index; **EMFI Corp.:** J.P. Morgan CEMBI Broad Diversified

Indices used in Figure 9:
U.S. HY: Bloomberg US Corporate High Yield Index; **Bank Loans:** Credit Suisse Liquid Leveraged Loan Index; **Conduit CMBS:** Bloomberg US Non-Agency CMBS Index; **CRE CLO:** BofA Global Research; **RMBS CRT:** BofA Global Research; **ABS MPL BB:** ACHV ABS Trust 2023-4CP; **ABS MPL BBB:** Affirm Asset Securitization Trust 2023-B; **CLO:** J.P. Morgan CLO Index; **EMFI Corp:** J.P. Morgan CEMBI Broad Diversified

Agency – Refers to mortgage-backed securities (MBS) 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.

Basel III – Reform measures to be adopted by the international banking sector in 2025 that are intended to improve regulation, supervision and risk management.

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 US Asset-Backed Securities (ABS) AAA Index – This index tracks the AAA-rated 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.

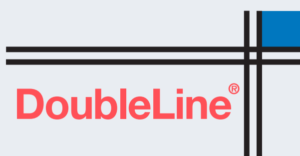
Bloomberg US Commercial Mortgage-Backed Securities (CMBS) Index – This index measures the market of conduit and fusion CMBS deals with a minimum current deal size of $300 million.

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 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 Corporate 1-3 Year Index – This index measures the investment grade, fixed-rate taxable corporate bond market with bond maturities of one to three years. 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 Non-Agency Investment Grade Commercial Mortgage-Backed Securities (CMBS) Index – This index measures the non-Agency investment grade component of the Bloomberg US CMBS Index market of 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) – 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.

Broadly Syndicated Loan (BSL) – Any loan to an obligor issued as part of a loan facility with an original loan size (including any first and second lien loans in the facility) greater than $250 million.

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. CMBS loans are known for their relaxed credit requirements but are only available for income-generating properties, and cannot typically be used as land or construction loans. On the secondary market, conduit loans are divided into tranches based on risk, return and loan maturity. Riskier loans with longer terms and higher interest rates will likely be sold to higher-risk investors, like hedge funds, while lower-risk investors, such as pension funds, are more likely to go with lower-risk tranches.

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.

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.

Duration – A commonly used measure of the potential volatility of the price of debt securities in response to a change in interest rates prior to maturity. Securities with longer duration generally have more volatile prices than securities of comparable quality with shorter duration.

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.

Enterprise Value (EV) – Measure of a company's total value, often used as a more-comprehensive alternative to equity market capitalization. EV includes in its calculation the market capitalization of a company, short- and long-term debt as well as any cash on the company's balance sheet. EV is a popular metric used to value a company for a potential takeover.

Fed Funds Futures – Financial contracts that represent the market opinion of where the daily official federal funds rate will be at the time of the contract expiry. The futures contracts are traded on the Chicago Mercantile Exchange and are cash settled on the last business day of every month. Fed funds futures can be traded every month as far out as 36 months.

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.

Fed Funds Futures – Financial contracts that represent the market opinion of where the daily official federal funds rate will be at the time of the contract expiry. The futures contracts are traded on the Chicago Mercantile Exchange and are cash settled on the last business day of every month. Fed funds futures can be traded every month as far out as 36 months.

FTSE World Government Bond Index (FTSE WGBI) – This broad index measures the performance of fixed-rate, local currency, investment grade sovereign bonds. It is a widely used benchmark comprising sovereign debt from more than 20 countries that is denominated in a variety of currencies.

Ginnie Mae (GNMA) – The Government National Mortgage Association (Ginnie Mae) is a federal government corporation that guarantees the timely payment of principal and interest on mortgage-backed securities (MBS) issued by approved lenders. Ginnie Mae's guarantee allows mortgage lenders to obtain a better price for MBS in the capital markets.

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 AA-BBB 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.

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.

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.

J.P. Morgan Government Bond Index Emerging Markets Global Diversified (GBI-EM GD) – This custom-weighted index tracks local currency bonds issued by emerging markets governments, excluding China and India, and has a broader roster of countries than the base GBI-EM, which limits inclusion to countries that are readily accessible and where no impediments exist for foreign investors.

Morningstar LSTA US Leveraged Loan TR USD Index – 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 mortgage or bundle of mortgages bought from the banks that issued them. Investors in MBS receive periodic payments similar to bond coupon payments.

Non-Agency Commercial Mortgage-Backed Securities (CMBS) – Debt-based securities (similar to bonds), backed by the interest paid on loans for commercial properties. "Non-Agency" refers to CMBS not issued by the government-sponsored enterprises.

Non-Agency Residential Mortgage-Backed Securities (RMBS) – Debt-based securities (similar to bonds), backed by the interest paid on loans for residences. The interest on loans such as mortgages, home-equity loans and subprime mortgages is considered to be something with a comparatively low rate of default and a comparatively high rate of interest, since there is a high demand for the ownership of a personal or family residence. "Non-Agency" refers to RMBS not issued by the government-sponsored enterprises.

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.

Palmer Square CLO Total Return Index – This index tracks on a total return basis the Palmer Square CLO (collateralized loan obligation) Senior Debt Index, which comprises CLOs issued after Jan. 1, 2009, and meet certain inclusion criteria.

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.

Personal Consumption Expenditures (PCE) Price Index – This index, published by the U.S. Bureau of Economic Analysis, measures price changes in consumer goods and services exchanged in the U.S. economy to reveal underlying inflation trends.

Price-to-Earnings (P/E) Ratio – This ratio for valuing a company measures current share price relative to earnings per share (EPS). The P/E ratio is also sometimes known as the "price multiple" or the "earnings multiple." A high P/E ratio could mean that a company's stock is overvalued, or investors are expecting high growth rates in the future.

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.

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.

2s10s – Shorthand term used in tracking the spread between the two-year U.S. Treasury note (2s) and the 10-year Treasury bond (10s). The inversion of the yields, when the two-year is higher than the 10-year, is seen by some economists as an indicator of impending recession, which has historically happened after the yields de-invert.

S&P CoreLogic Case-Shiller U.S. National Home Price SA (Seasonally Adjusted) Index – This index tracks the value of single-family housing within the United States and is a composite of single-family price indexes 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. It can function as 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.

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.

Yield to Duration (YTD) – The yield of a bond if you were to buy and hold it until the time at which the price of the bond can be repaid by its internal cash flows.

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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