DoubleLine Shiller Enhanced CAPE®

Frequently Asked Questions | September 30, 2026

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Jeffrey Sherman, DoubleLine's Deputy Chief Investment Officer, is a thought leader, portfolio manager and public speaker in the industry. Mr. Sherman is a member of DoubleLine's Fixed Income and Global Asset Allocation committees, and he serves as lead portfolio manager for the firm's multi-sector and derivative-based strategies. In his role, Mr. Sherman guides the investment teams in developing top-down macro views and collaborative asset allocation processes throughout a market cycle. Additionally, he is a member of DoubleLine's Executive Management Committee. In 2018, Money Management Executive named Mr. Sherman as one of "10 Fund Managers to Watch" in its yearly special report. Prior to joining DoubleLine in 2009, Mr. Sherman was a Senior Vice President at TCW, where he worked as a portfolio manager and quantitative analyst focused on fixed income and real-asset portfolios. Prior to that, he was a statistics and mathematics instructor at the University of the Pacific and Florida State University. Mr. Sherman taught Quantitative Methods for Level I candidates in the USC/CFALA CFA® Review Program for many years. He holds a B.S. in Applied Mathematics from the University of the Pacific and an M.S. in Financial Engineering from Claremont Graduate University. Mr. Sherman is a CFA® charterholder.

QUESTION 1:

DoubleLine has partnered with Professor Robert Shiller to create an equity offering. What is the motivation for the strategy?

The DoubleLine Shiller Enhanced CAPE® Strategy combines two value-oriented return sources. The primary equity exposure comes from the Barclays Shiller CAPE® U.S. Sector Total Return Index, which systematically invests in relatively inexpensive U.S. large-cap sectors. DoubleLine pairs that exposure with an actively managed fixed income collateral portfolio that seeks to earn a return above cash. The result is a capital-efficient "double value" structure: equity exposure through swaps, backed by a bond portfolio managed using DoubleLine's disciplined fixed income investment process.

QUESTION 2:

How did DoubleLine come to partner with Professor Robert Shiller?

The partnership grew from a shared investment philosophy centered on valuation and long-term return potential. Professor Shiller's research on cyclically adjusted earnings and market mispricings aligned closely with DoubleLine's own relative-value approach to fixed income sector allocation. Barclays and Professor Shiller translated that research into the CAPE® Index, and DoubleLine saw an opportunity to combine that equity framework with its fixed income expertise.

QUESTION 3:

How is the CAPE® Index constructed and what does the CAPE® Ratio seek to accomplish?

The CAPE® Ratio uses 10 years of inflation-adjusted earnings to reduce the effect of short-term business-cycle fluctuations. For sector selection, the methodology uses a Relative CAPE® Ratio, which compares each sector's current CAPE® Ratio with its own long-term history. The five relatively cheapest S&P 500 sectors are identified, the sector with the weakest 12-month momentum is removed to help avoid potential value traps, and the remaining four sectors are equally weighted. The process is repeated monthly.

QUESTION 4:

Can you elaborate on the Relative CAPE® Ratio used by the strategy?

Absolute valuation levels can differ structurally across sectors, so the strategy compares each sector with its own history. The Relative CAPE® Ratio is calculated by dividing a sector's current CAPE® Ratio by its 20-year rolling average. This helps place sectors with different growth rates and accounting characteristics on a more comparable basis and allows the methodology to identify sectors that are inexpensive relative to their own historical valuation ranges.

QUESTION 5:

When I invest in this strategy, what am I getting and is there any leverage involved?

Each $1 invested seeks to obtain approximately $1 of exposure to the CAPE® Index through swaps while also investing the cash collateral in a DoubleLine-managed fixed income portfolio. No money is borrowed to increase net asset value exposure, so the portfolio does not use financial leverage in the traditional sense. It does, however, have implicit economic leverage because it maintains both equity exposure through derivatives and fixed income exposure through the collateral portfolio.[1]

QUESTION 6:

Why has the DoubleLine Shiller Enhanced CAPE® Strategy underperformed the S&P 500 recently?

The recent market has been unusually concentrated in a small number of mega-cap technology companies, creating a difficult environment for a valuation-oriented strategy. Over the past five years, the tech sector's weight in the S&P 500 rose from 28% to 40%, and the sector generated roughly half of the index's three-year return through September 2026. The CAPE® Index has not allocated to technology since March 2023, so it had limited participation in the primary driver of benchmark returns. This helps explain much of the recent performance gap. The strategy is intentionally different from a capitalization-weighted index: it allocates to relatively inexpensive sectors rather than increasing exposure simply because a sector has appreciated and become a larger part of the market. In our view, the resulting tracking error is consistent with the strategy's valuation discipline and does not, by itself, indicate that the investment process has broken down.

QUESTION 7:

Why does today's concentration in the S&P 500 matter for CAPE® investors?

The S&P 500 owns hundreds of companies, but a much smaller group now drives a disproportionate share of its returns and risk. Through September 2026, 10 stocks represented about 29% of the index and accounted for 67% of the year-to-date returns. Concentration is also evident at the sector level, with technology representing about 40% of the index and generating 77% of the year-to-date return. The 10 largest companies contributed more than half of S&P 500 volatility at the end of 2025.[2] That matters because concentration changes the experience of diversification: when a few mega-cap stocks lead by a wide margin, portfolios that are underweight those names can lag the benchmark even when the broader market is performing reasonably well. The CAPE® Index is designed to diversify toward relatively inexpensive sectors rather than mirror that concentration.

QUESTION 8:

Does the long-term evidence still support the CAPE® investment process despite recent underperformance?

We believe the long-term evidence remains supportive, while recognizing that no investment approach outperforms in every market environment. From September 2002 through September 2026, the Shiller Barclays CAPE® U.S. Sector Total Return Index generated a 12.39% annualized return versus 11.48% for the S&P 500, with slightly lower annualized volatility and a higher Sharpe ratio. The recent AI- and technology-led period has been a meaningful headwind because the strategy has had limited exposure to the sector driving much of the benchmark's return. That does not negate the rationale for evaluating CAPE® over a full market cycle. We also continue to believe valuation is relevant over longer horizons: historically, higher starting CAPE ratios have generally been associated with lower subsequent long-term returns. Valuation is not a short-term timing tool, but it can help identify relative opportunities across sectors and support a disciplined approach when market leadership becomes unusually concentrated.

[1] Market fluctuations likely will preclude full $1 for $1 exposure between the swaps and the fixed income portfolio.

[2] The D. E. Shaw Group, "The Concentration Game: Understanding Portfolio Effects of U.S. Equity Market Concentration," February 2026, https://www.deshaw.com/library/concentration-game

QUESTION 9:

What are the principal risks facing the strategy in today's market environment?

The largest source of risk remains exposure to the U.S. large-cap equity market, so the strategy can decline during broad equity selloffs, economic weakness, falling profits or valuation compression. CAPE® also has meaningful relative-performance risk. Because the strategy is intentionally different from a capitalization-weighted benchmark, it can underperform the S&P 500 when market leadership is concentrated in sectors the methodology identifies as relatively expensive, as has occurred during the recent technology-led market.

There is no assurance that this concentration will reverse quickly, and technology leadership could persist for an extended period. At the same time, highly concentrated benchmarks carry their own risk because a growing share of index return and volatility depends on a small group of companies continuing to meet elevated expectations. The strategy also is exposed to interest-rate, credit, liquidity, derivatives and other risks associated with its fixed income collateral portfolio.

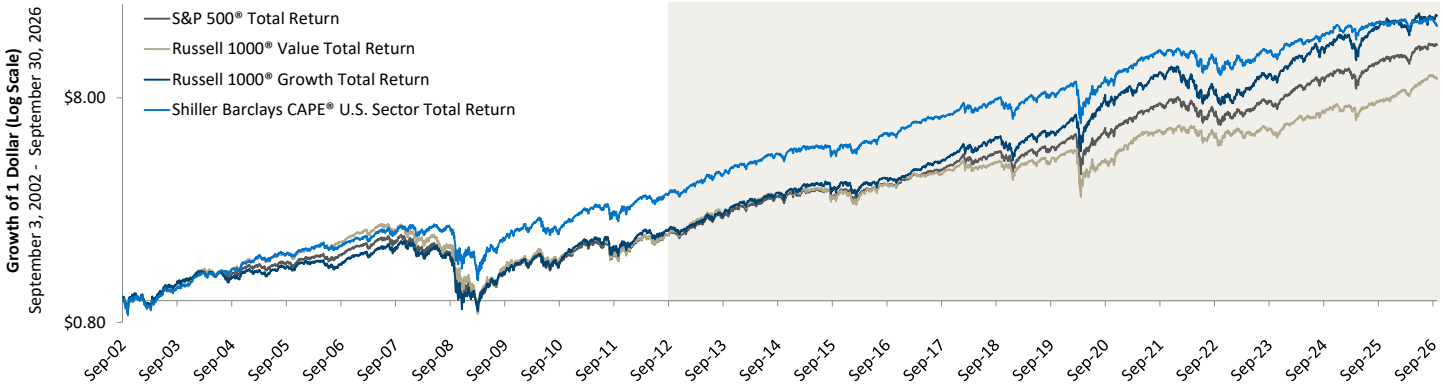
QUESTION 10:

If technology leadership could continue, why consider CAPE® today rather than wait for the market to broaden?

Because market turning points are difficult to time. The case for CAPE® does not require technology stocks to collapse or artificial intelligence to disappoint. Many of today's market leaders are fundamentally strong companies, and their leadership could persist. The investment question is whether current prices fully reflect the returns those companies ultimately will earn and whether investors want an increasing share of their equity exposure dependent on the same group of stocks. CAPE® offers a systematic way to maintain U.S. equity exposure while diversifying toward relatively inexpensive sectors. History also shows that transformative technologies can generate substantial economic benefits while investment and valuations temporarily run ahead of realized profits. A more favorable environment for CAPE® therefore does not require a market crash. A broadening of earnings growth and market participation toward less expensive sectors could be sufficient, and the strategy allows investors to maintain that diversification without having to predict exactly when leadership will change. ■

Traditional Equity Indices - Growth of a Dollar[3] | September 3, 2002 to September 30, 2026

	Shiller Barclays CAPE® U.S. Sector Total Return	S&P 500® Total Return	Russell 1000® Value Total Return	Russell 1000® Growth Total Return
Annualized Geometric Return	12.39%	11.48%	9.88%	12.88%
Annualized Standard Deviation	18.38%	18.78%	19.21%	19.85%
Annualized Sharpe Ratio	0.63	0.58	0.50	0.62
Maximum Drawdown	-43.54%	-55.25%	-60.11%	-51.31%



[3] Source: Barclays Capital, DoubleLine

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DoubleLine Shiller Enhanced CAPE®

Frequently Asked Questions

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