Is Cash Trash? DoubleLine Has Some Thoughts

By John Coumarianos, 11/13/23

Ken Shinoda
Portfolio Manager,
DoubleLine

Investors starved for yield since the great financial crisis can now have it merely by holding cash reserves. At least for now (as of November 8), the U.S. three-month Treasury Bill was yielding 5.4%, up from 0.50% at the end of 2021 and 4.4% at the end of last year. But they may not have it for long, with Los Angeles bond house DoubleLine casting doubt on the “T-Bill-and-chill” strategy.

Questioning ‘T-Bill and Chill’

Firm founder Jeffrey Gundlach has said in recent interviews that a recession, which he’s forecasting during 2024, could cause the Federal Reserve to drop rates enough to make the strategy of holding cash reserves or rolling three-month bills less attractive than locking up money in two-year or three-year instruments.

Gundlach posted on the platform X on November 3 that in discussing “T-bill and chill,” he did not recommend the strategy. Rather, he said he favored “mid-to-high quality 2-3 years credit (yields of 7-8%) combined with intermediate-to-long term Treasuries.”

ETF Trends caught up with DoubleLine’s Ken Shinoda, who confirmed the firm’s views, saying “the market seems to be agreeing with us either that the Fed sometime next year cuts either because it’s reached its goal or because there’s some type of recession or they just don’t need to be so restrictive.”

Shinoda continued, “Investors [may wind up saying]‘Oh I should have bought some of those 2-3 year bonds,’ [which are]the cheapest we’ve seen on an absolute yield basis in over a decade.”

Shinoda co-manages the firm’s flagship DoubleLine Total Return Bond Fund (DBLTX) with Gundlach and Andrew Hsu. He also manages DoubleLine’s more

credit-aggressive DoubleLine Income Fund (DBLIX) with Hsu and Morris Chen, and the DoubleLine Mortgage ETF (DMBS) with Gundlach. (More on the ETF and mortgages later.)

Indeed, bonds have had a blistering run since November 1's Fed meeting, with the yield on the U.S. 10-year Treasury retreating to 4.5% from 4.9%. For the five trading days since, and including, last Wednesday, the iShares 20+ Year Treasury Bond ETF (TLT), which many investors use to track the performance of the long end of the U.S. Treasury yield curve, has rallied more than 5.6%.

DoubleLine's Gundlach on Curve Considerations

Another way in which the market potentially is agreeing with DoubleLine's views is the de-inversion of the yield curve, which Gundlach has mentioned in recent webcasts and interviews.

An inverted yield curve (longer rates less than shorter rates) famously has forecast every recession since 1950. But, as Gundlach has emphasized, the recessions have come typically after an inverted curve begins to de-invert and rectify itself.

A look at the longer-term difference in yields between the U.S. 10-year and two-year Treasuries confirms Gundlach's observations regarding inversion, de-inversion, and recession.

The most recent inversion began in early July 2022, and appears to have reached its most extreme points (two-year yielding more than 10-year) this past March and June.

Fund Options – Something for Everyone

Shinoda mentioned the DoubleLine Low Duration Bond Fund (DBLSX) as an example of a diversified fund with solid yield that won't be as sensitive to falling rates as a T-bill.

The fund's SEC 30-day yield is 5.54%, according to the firm's website on November 8. It has 23.4% of its assets in government bonds, 16.4% in CLOs (securitizations of bank loans), 13.8% in nonagency

commercial mortgage-backed securities (CMBS), and another 13% in nonagency residential mortgage-backed securities (RMBS).

The rest is in investment-grade corporates, emerging market bonds, and other asset-backed securities including agency CMBS and RMBS.

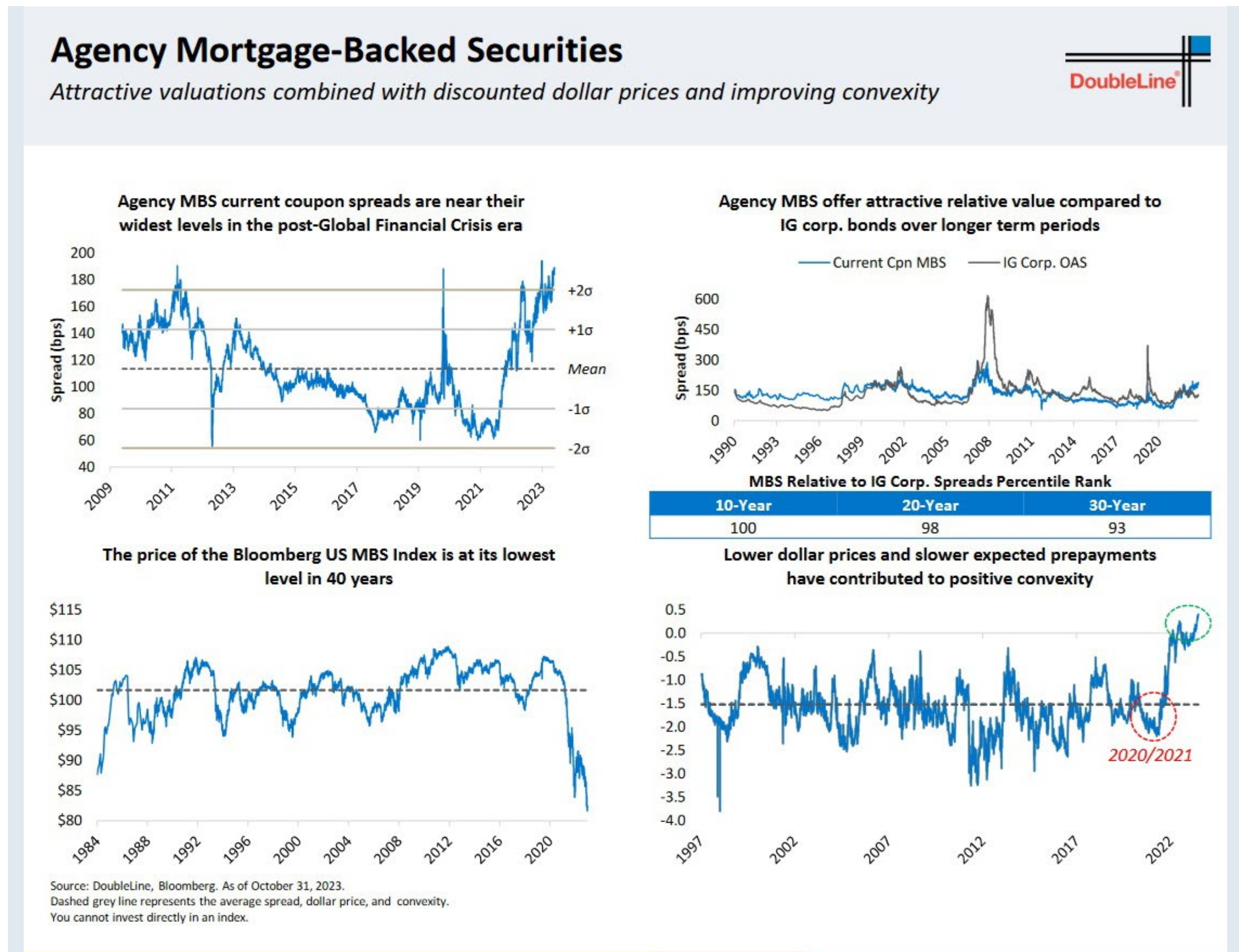
"There's some risk" to these securities compared to U.S. Treasuries, Shinoda noted, though he thinks "the risk is limited."

There are also tax issues since interest from U.S. Treasuries is tax-free at the state level.

Shinoda also understands the attractiveness of the "T-bill and chill" strategy. "I'm doing it; we're all doing it – [holding some money in cash reserves]. But to the extent you have some [extra]liquidity, it's a pretty good time [to allocate to somewhat longer-term bonds with some extra credit risk], and it probably won't get better than this."

For those who don't want to take credit risk, "even 2-year Treasuries [are attractive]" to Shinoda. He didn't mention products that compete with DoubleLine, but a possibility for investors who are averse to credit risk would be the iShares 1-3 Year Treasury Bond ETF (SHY).

"There's something for everyone," he said, though he prefers a diversified approach.



10-Year	20-Year	30-Year
100	98	93

Source: DoubleLine, Bloomberg. As of October 31, 2023.
Dashed grey line represents the average spread, dollar price, and convexity.
You cannot invest directly in an index.

Highlighting Mortgages

One reason for preferring that approach is that agency mortgage spreads are near their historic widest points. Shinoda puts that down to the Federal Reserve ending quantitative easing and struggling banks having exited the market as buyers.

“The bulk of the index is comprised of loans made in 2020-2021 at 3%-4% and packaged into 2%-3% coupon bonds. Those things have gotten crushed, getting down to around 73 cents on the dollar [at their worst],” said Shinoda.

An extra risk that mortgage-backed bonds typically carry is prepayment risk – the problem of borrowers refinancing their loans for lower rates. But that risk is minimal now with interest rates and mortgage rates having shot up since the start of 2022. “Rates could fall hundreds of basis points and much of the mortgage universe has zero refinance incentive,” said Shinoda.

Mortgage spreads can stay wide, he allowed, but mortgage-backed bonds typically hold up relatively well when stocks and corporate bonds are struggling. And DoubleLine views credit problems or a sluggish economy as the greater current threat to bonds than interest rate risk stemming from a strong economy.

DoubleLine’s Mortgage ETFs

Besides DoubleLine’s traditional mutual funds, including the Total Return fund with 75% of its assets in mortgages (agency and nonagency), the firm has two recently-issued ETFs dedicated to mortgages.

The DoubleLine Commercial Real Estate ETF (DCMB) is the riskier of the two from a credit standpoint, with nearly 79% of its assets in nonagency CMBS and almost all the rest in agency CMBS. Still, around 97% of the fund’s assets are rated AAA, and its interest rate risk is relatively low, with a duration of 0.94 years.

By contrast, DoubleLine’s DMBS has nearly 82% of its assets in agency RMBS and almost all of the rest in nonagency RMBS. This fund’s duration is longer than its sibling’s, at 5.7 years.

Cash may look great right now, but investors have to decide if holding copious amounts of it is skating to where the puck is instead of skating to where it will be.

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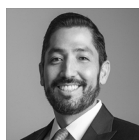


Ken Shinoda, CFA
Portfolio Manager, Non-Agency RMBS

Mr. Shinoda joined DoubleLine at inception in 2009. He is Chairman of the Structured Products Committee and oversees the non-Agency RMBS team specializing in investing in non-Agency mortgage-backed securities, residential whole loans and other mortgage-related opportunities. Mr. Shinoda is co-Portfolio Manager on the Total Return, Opportunistic Income, Income, Opportunistic MBS and Strategic MBS strategies. He is also lead Portfolio Manager overseeing the Mortgage Opportunities private funds. Mr. Shinoda is also a permanent member of the Fixed Income Asset Allocation Committee, as well as, participating in the Global Asset Allocation Committee. In addition, he hosts DoubleLine's "Channel 11 News" (Twitter @DLineChannel11, dline11@doubleline.com), a webcast series that provides market insights and commentary with peers and industry experts. Prior to DoubleLine, Mr. Shinoda was Vice President at TCW where he worked in portfolio management and trading. He holds a B.S. in Business Administration from the University of Southern California and is a CFA® charterholder.

A Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contain this and other important information about the investment company, and may be obtained by calling (877) 354-6311 / (877) DLINE11, or visiting www.DoubleLine.com. Read them carefully before investing.

Mutual fund investing involves risk. Principal loss is possible.

DoubleLine Low Duration Bond Fund (DBLSX)

Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for investments in emerging markets. The Fund may use leverage which may cause the effect of an increase or decrease in the value of the portfolio securities to be magnified and the Fund to be more volatile than if leverage was not used. Derivatives involve special risks including correlation, counterparty, liquidity, operational, accounting and tax risks. These risks, in certain cases, may be greater than the risks presented by more traditional investments. Investing in ETFs involve additional risks such as the market price of the shares may trade at a discount to its net asset value ("NAV"), an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact a Funds ability to sell its shares.

DoubleLine Low Duration Bond Fund Quarterly Returns (%)
September 30, 2011 through September 30, 2023

	3Q 2023	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception (9-30-2011)
DBLSX (I Share)	1.31	3.92	5.00	0.92	1.74	1.86	2.02
DLSNX (N Share)	1.35	3.84	4.85	0.67	1.51	1.61	1.78
ICE BofA 1-3 Year U.S. Treasury Index	0.74	1.72	2.47	-0.84	1.06	0.81	0.75
Bloomberg US Aggregate 1-3 Year Index	0.74	1.89	2.80	-0.73	1.16	1.01	1.01

Gross Expense Ratio: 0.67%

DoubleLine Total Return Bond Fund (DBLTX)

Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in ABS and MBS include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund may use leverage which may cause the effect of an increase or decrease in the value of the portfolio securities to be magnified and the Fund to be more volatile than if leverage was not used. Derivatives involve special risks including correlation, counterparty, liquidity, operational, accounting and tax risks. These risks, in certain cases, may be greater than the risks presented by more traditional investments.

DoubleLine Total Return Bond Fund Quarterly Returns (%)
April 6, 2010 through September 30, 2023

	3Q 2023	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception (4-6-2010)
DBLTX (I Share)	-3.43	-1.03	-1.14	-4.49	-0.56	1.17	3.40
DLTNX (N Share)	-3.61	-1.33	-1.50	-4.77	-0.81	0.91	3.14
Bloomberg US Aggregate Bond Index	-3.23	-1.21	0.64	-5.21	0.10	1.13	1.95

Gross Expense Ratio 0.49%

DoubleLine Income Fund (DBLIX)

Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in ABS and MBS include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund may use leverage which may cause the effect of an increase or decrease in the value of the portfolio securities to be magnified and the Fund to be more volatile than if leverage was not used. Derivatives involve special risks including correlation, counterparty, liquidity, operational, accounting and tax risks. These risks, in certain cases, may be greater than the risks presented by more traditional investments. Diversification does not assure a profit, nor does it protect against a loss in a declining market.

DoubleLine Income Fund Quarterly Returns (%)
September 3, 2019 through September 30, 2023

	3Q 2023	YTD	1 Yr.	3 Yr.	Since Inception (9-3-2019)
DBLIX (I Share)	1.86	3.75	2.19	-0.59	2.02
DBLNX (N Share)	1.79	3.53	1.92	-0.88	1.78
Bloomberg US Aggregate Bond Index	-3.23	-1.21	0.64	-5.21	1.01

Gross Expense Ratio: 0.84%; Net Expense Ratio:0.66%*
*The Adviser has contractually agreed to waive fees and reimburse expenses through August 1, 2024.

The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more than the original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting www.DoubleLine.com.

An ETF's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contain this and other important information about the investment company, and may be obtained by calling (855) 937-0772, or visiting www.DoubleLine.com. Read them carefully before investing.

Investing involves risk. Principal loss is possible.

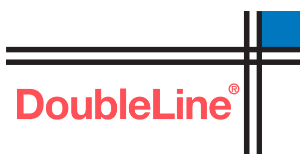
DoubleLine Commercial Real Estate ETF (DCMB) and DoubleLine Mortgage ETF (DMBS)

Equities may decline in value due to both real and perceived general market, economic and industry conditions. ETF investments involve additional risks such as the market price trading at a discount to its net asset value, an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact a fund's ability to sell its shares. Investments in debt securities change in value because of changes in interest rates. The value of an instrument with a longer duration (whether positive or negative) will be more sensitive to changes in interest rates than a similar instrument with a shorter duration. There is the risk that the Fund may be unable to sell a portfolio investment at a desirable time or at the value the Fund has placed on the investment. Illiquidity may be the result of, for example, low trading volume, lack of a market maker, or contractual or legal restrictions that limit or prevent the Fund from selling securities or closing derivative positions. There is risk that borrowers may default on their mortgage obligations or the guarantees underlying the mortgage-backed securities will default or otherwise fail and that, during periods of falling interest rates, mortgage-backed securities will be called or prepaid, which may result in the Fund having to reinvest proceeds in other investments at a lower interest rate. Derivatives involve special risks including correlation, counterparty, liquidity, operational, accounting and tax risks. These risks, in certain cases, may be greater than the risks presented by more traditional investments. The Fund is a "non-diversified" investment company and therefore may invest a greater percentage of its assets in the securities of a single issuer or a limited number of issuers than funds that are "diversified." Accordingly, the Fund is more susceptible to risks associated with a single economic political or regulatory occurrence than a diversified fund might be.

DoubleLine Commercial Real Estate ETF Quarterly Returns (%)
March 31, 2023 through September 30, 2023

	1 Month	3 Months	6 Months	Since Inception (3-31-2023)
Market Price	0.15	1.43	2.91	2.91
NAV	0.15	1.43	2.69	2.69
Bloomberg 1-3 Year US Aggregate Bond Index	-0.06	0.74	0.37	0.37

Gross Expense Ratio 0.39%



DoubleLine Mortgage ETF Quarterly Returns (%)
March 31, 2023 through September 30, 2023

	1 Month	3 Months	6 Months	Since Inception (3-31-2023)
Market Price	-2.98	-3.92	-4.55	-4.55
NAV	-2.83	-3.79	-4.67	-4.67
Bloomberg 1-3 Year US Aggregate Bond Index	-3.19	-4.05	-4.67	-4.67

Gross Expense Ratio 0.49%

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iShares 1-3 Year Treasury Bond ETF

The iShares 1-3 Year Treasury Bond ETF seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities between one and three years.

iShares 1-3 Year Treasury Bond ETF Quarterly Returns (%)
July 22, 2002 through September 30, 2023

	1 Year	5 Years	10 Years	Since Inception (7-22-2002)
Market Price	0.48	0.93	2.42	2.33
NAV	0.48	0.94	2.41	2.33
ICE US Treasury 1-3 Year Index	0.63	1.07	2.54	2.46

Management Fee: 0.15%; Gross Expenses: 0.15%

iShares 20+ Year Treasury Bond ETF

The iShares 20+ Year Treasury Bond ETF seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities greater than twenty years.

iShares 20+ Year Treasury Bond ETF Quarterly Returns (%)
July 22, 2002 through September 30, 2023

	1 Year	5 Years	10 Years	Since Inception (7-22-2002)
Market Price	-10.72	-3.39	0.58	3.73
NAV	-10.82	-3.40	0.57	3.72
ICE US Treasury 20+ Year Bond Index	0.63	1.07	2.54	2.46

Management Fee: 0.15%; Gross Expenses: 0.15%

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