A New Era for Fixed Income Funds and Defined Contribution Plans

Phil Gioia, CFA® & Daniel Long, QPFC, AIF® | September 2023

Driven in large part by the historic repricing experienced across the fixed income market in 2022 …

Fixed Income Performance | As of December 31, 2022

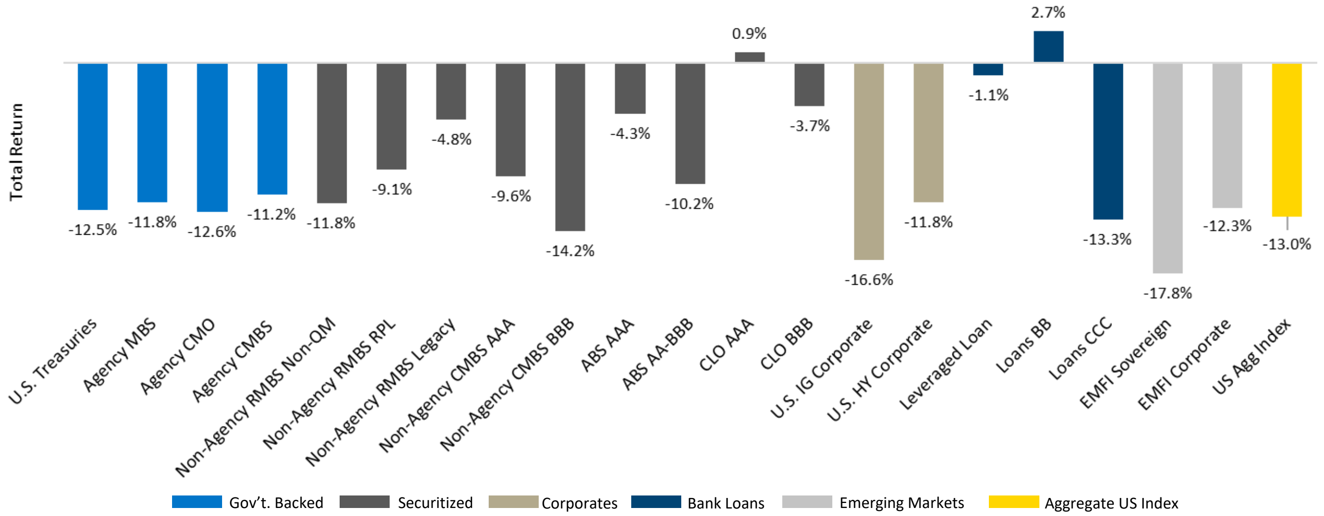

Figure 1
Source: DoubleLine, Bloomberg, Citi. For a complete list of indexes used in this chart, please see the end of this document.

… investors now have the ability for income generation using a variety of fixed-income funds.

Fixed Income Index Yields | As of August 31, 2023

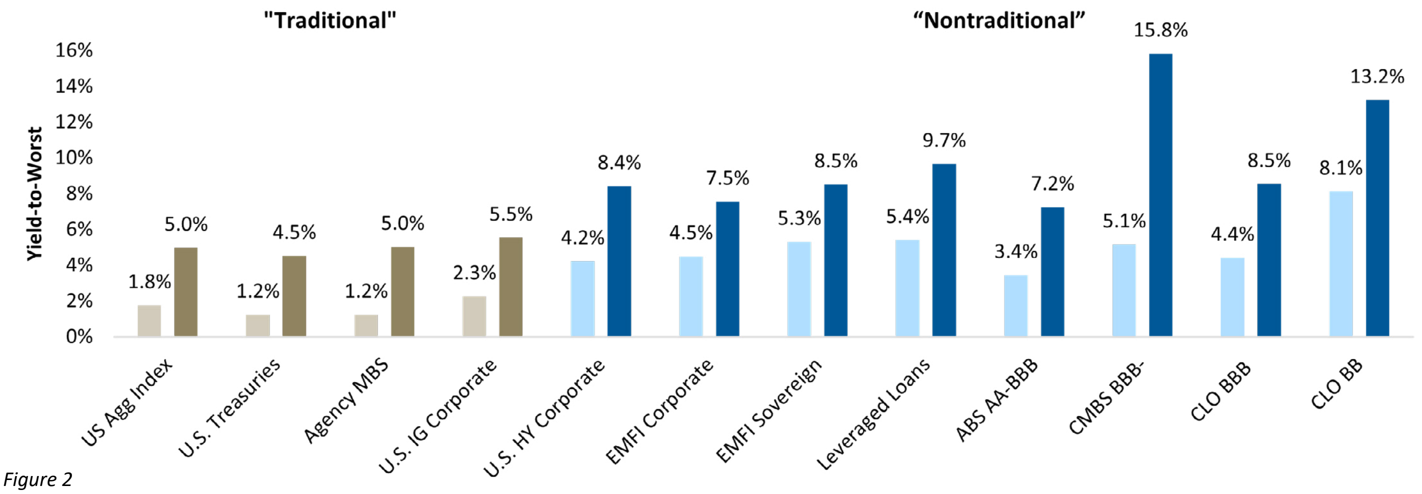

Figure 2
Lighter bars represent December 31, 2021. Darker bars represent August 31, 2023. Source: DoubleLine, Bloomberg. For a complete list of indexes used in this chart, please see the end of this document.
Past performance cannot predict future results.

There are a variety of readily available bond fund options well suited for risk-managed income generation in defined contribution (DC) plans.

The past decade of low yields has put plan sponsors, participants and retirees on the hunt to generate or, at times, manufacture income. While annuities and other guaranteed retirement-income solutions continue to get their fair share of attention in DC plans, a shift is taking place toward liquid investments and more capital-markets-based types of solutions.

While DC plans and participants have historically had access to a variety of fixed income options, unfortunately, these solutions until recently have failed to generate adequate income to meet the needs of retirees and have been used as a tool to manage volatility. With demographic shifts continuing toward retirement and the distribution phase, plan sponsors have been pushed to help retirees by manufacturing income through guaranteed income solutions.

While these guaranteed solutions have the potential to provide income, they can be difficult to implement and for plan participants to understand. This situation, combined with a significant rise in yields and discounted dollar prices, is leading plan sponsors and investment consultants to reevaluate opportunities within liquid fixed-income markets. (*Figure 3*) Yields across the credit spectrum can now provide retirees with a viable alternative to locked-up, guaranteed retirement income solutions.

The Current Fixed Income Opportunity Set | As of August 31, 2023

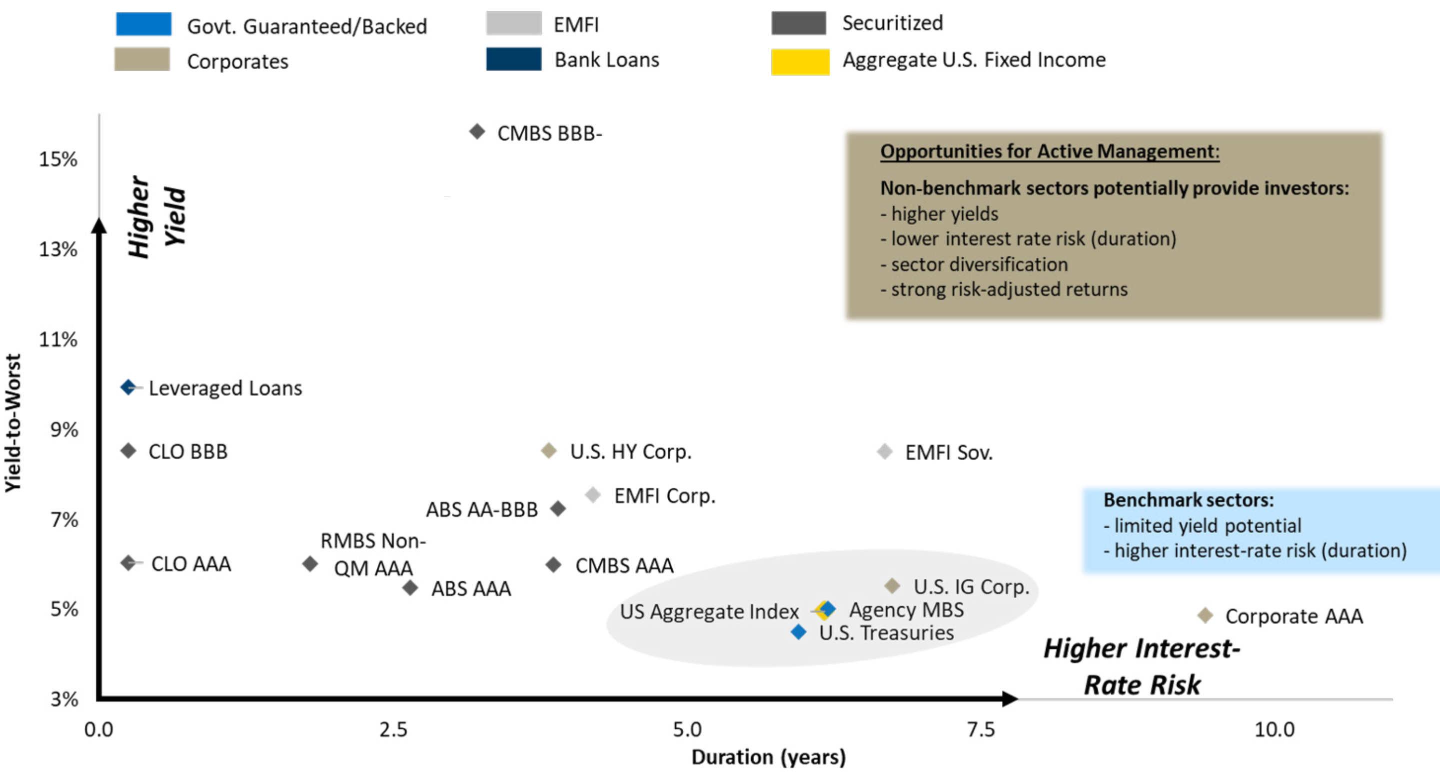

Figure 3
Source: DoubleLine, Bloomberg
For a complete list of indexes used in this chart, please see the end of this document.

Contact DoubleLine's fixed income experts to discuss current and potential DC plan investments.

Rather than reaching too far for yields or relying on guaranteed options that might not be available in plans, DC plans have access to a variety of readily available capital-markets-based options that can both enhance income generation and manage drawdown risk. DoubleLine can help DC plans and their consultants navigate this new fixed-income yield environment through a variety of income-centered strategies for Designated Investment Alternatives (DIAs), target-date fund glidepaths, managed accounts and more.

For more information, contact Retirement@DoubleLine.com. ■

Figure 1 list of indexes: ABS AAA: Bloomberg US ABS AAA Index; ABS AA-BBB: ICE BofA AA-BBB U.S. Fixed-Rate Miscellaneous ABS Index; Agency CMO: ICE BofA U.S. Agency CMO Index; Agency MBS: Bloomberg US MBS Index; Leveraged Loans: Credit Suisse Leveraged Loan Index; CLOs: Palmer Square CLO Total Return Index; CMBS: Bloomberg US Non-Agency Investment Grade CMBS Index; EMFI Corporate: J.P Morgan CEMBI Broad Diversified; EMFI Sovereign: J.P. Morgan EMBI Global Diversified; RMBS: Citi Research; U.S. Aggregate: Bloomberg US Aggregate Bond Index; U.S. HY Corporate: Bloomberg US Corporate High Yield Index; U.S. IG Corporate: Bloomberg US Corporate Bond Index; U.S. Treasuries: Bloomberg US Treasury Index

Figure 2 indexes are the same as those used for Figure 1 except for CMBS BBB: Bloomberg US CMBS 2.0 Index and CLO BB: J.P. Morgan CLO Index.

Figure 3 indexes are the same as those used for Figure 1 except for CMBS AAA and CMBS BBB: Bloomberg US CMBS 2.0 Index.

Bloomberg US Aggregate Bond Index – This index (the "Agg") 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) 2.0 Index – This index measures the market of conduit and fusion CMBS deals issued since the beginning of 2010 with a minimum current deal size of $250 million.

Bloomberg US Corporate Bond 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 High Yield (HY) Bond 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 subindexes of the Bloomberg US Corporate HY Bond Index.

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 Investment Grade Commercial Mortgage-Backed Securities (CMBS) Index – This index measures the market of non-Agency investment grade 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.

Credit Suisse Leveraged Loan Index – This index tracks the investable market of the U.S. dollar-denominated leveraged loan market. It consists of issues rated 5B or lower, meaning that the highest-rated issues in the index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded-term loans with a tenor of at least one year and are made by issuers based in developed countries.

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

ICE BofA U.S. Fixed-Rate Miscellaneous Asset-Backed Securities (ABS) Index – A subset of the ICE BofA U.S. Fixed-Rate ABS Index, including all ABS collateralized by anything other than auto loans, home equity loans, manufactured housing, credit card receivables and utility assets.

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.

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

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.

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.

RMBS 2.0 – Name for private-label, aka non-Agency, residential mortgage-backed securities (RMBS) created under revised guidelines after the Global Financial Crisis (GFC). Non-Agency RMBS dating to before this shift are known as "legacy" non-Agency RMBS.

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

You cannot invest directly in an index. Index performance does not reflect fund performance.

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September 2023

Phil Gioia, CFA®
Product Specialist

Mr. Gioia joined DoubleLine in 2018. He is a member of the Product Specialist Team. In this capacity, he is responsible for various aspects of DoubleLine product marketing, investment strategy updates, portfolio communications and competitive analysis, with a focus on DoubleLine's Structured Product strategies. Mr. Gioia is also responsible for producing market commentary and dedicated strategy content. As part of the Product Specialist Team, he attends the Fixed Income Asset Allocation, Macro Asset Allocation, and Structured Product meetings. Prior to DoubleLine, Mr. Gioia was an Investment Product Manager for Fidelity Investments. He holds a B.S. in Financial Management and Business Administration with a minor in Accounting from Salve Regina University and earned a certification for the Applied Data Science Program from Massachusetts Institute of Technology. Mr. Gioia is a CFA® charterholder and holds the FINRA Series 7 and 63 Licenses.

Daniel Long, QPFC, AIF®
Relationship Manager

Mr. Long joined DoubleLine in 2018 and responsible for client relationship management for the firm's retirement plan clients. His responsibilities have involved working with plan sponsors, consultants and service providers to successfully operate retirement plans for employees. Mr. Long has more than two decades of experience in the retirement plan industry. Prior to DoubleLine, he has held retirement solutions roles with Goldman Sachs, RSM McGladrey, Transamerica, Neuberger Berman, ADP and PaineWebber. Mr. Long has been a speaker at various industry conferences and currently serves on a local not-for-profit board with ASPPA. He holds a BS in Business Management from Cornell University and an MBA from Northwestern Kellogg Graduate School of Management. Mr. Long is a Qualified Plan Financial Consultant.

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