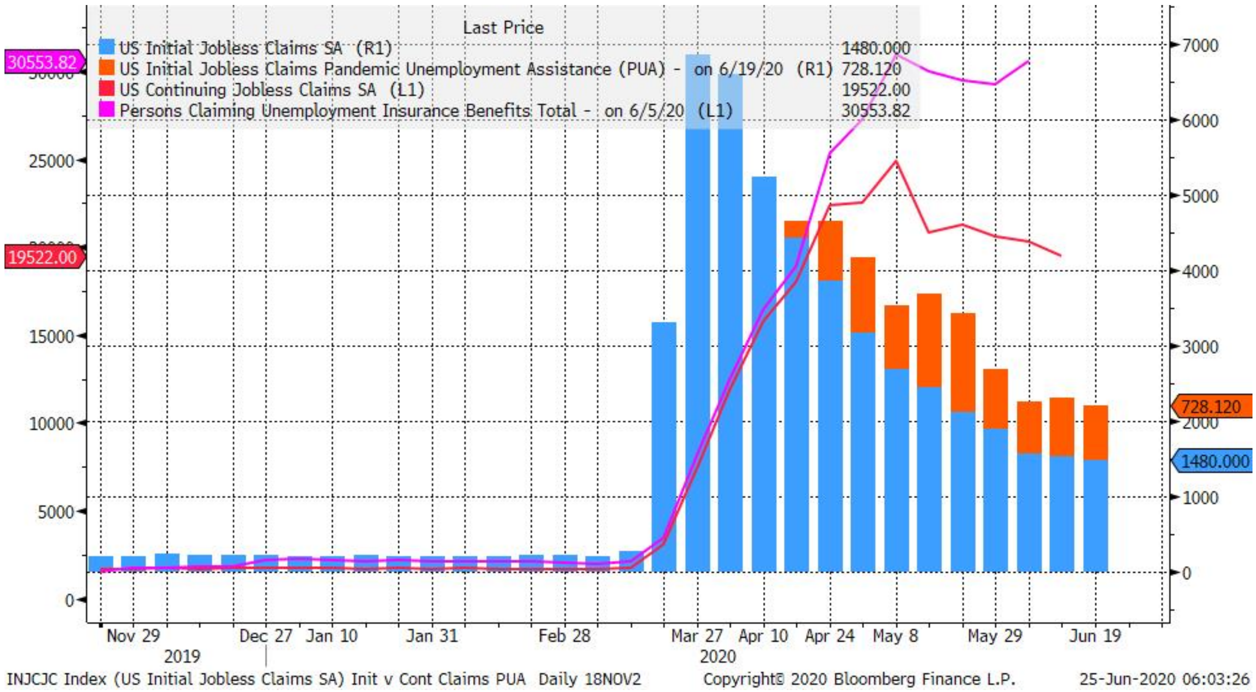
June 2020 Commentary – Prepared for AMG

Overview

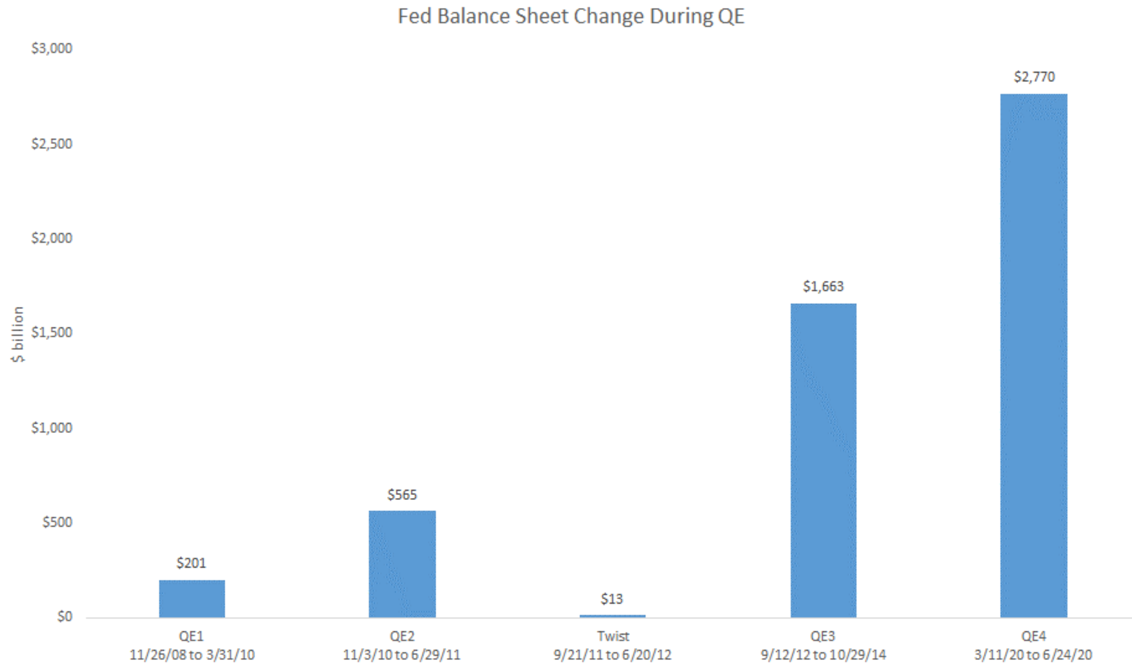
Risk assets rallied broadly in the second quarter as global economies began to reopen amid the COVID-19 pandemic. Throughout the quarter, global central banks and governments implemented unprecedented fiscal and monetary stimulus in an attempt to counter the economic damage of the pandemic. U.S. equities, as measured by the S&P 500 Index, finished the quarter up 20.5%, which is the largest quarterly percentage gain since the fourth quarter of 1998. The broad equity rally recovered much of the S&P 500's decline of 19.6% in the first quarter, which was the worst quarterly performance since the fourth quarter of 2008, leaving the index down 3.1% year-to-date (YTD). Rising hopes of a vaccine and some upbeat economic data prints added to the optimism in Q2. In particular, U.S. retail sales increased 17.7% month-over-month (MoM) in May, the best monthly advance on record, bringing the year-over-year (YoY) change to -6.1% (compared to -19.9% YoY in April) as the pandemic lockdown eased across the country. Despite the rally, COVID-19 continued to give investors pause following a resurgence since mid-June in cases in parts of the U.S. As of June 30, there were more than 10 million confirmed global COVID-19 cases; the U.S. had more than 2.6 million cases and 127,000 confirmed deaths, representing nearly 25% of the confirmed global deaths. [1]

The ISM Manufacturing Index's June figure came in better than expected at 52.6, beating consensus expectations of 49.8. The June figure signifies the first expansionary manufacturing reading since the start of the U.S. economic recession in March, as identified by the National Bureau of Economic Research. The Conference Board Consumer Confidence Index also rebounded in June, hitting 98.1, but remained below its pre-COVID-19 level of 132.6 in February. The June reading came in better than consensus expectations of 91.5 and 12 points higher than May's reading, marking the biggest monthly gain since 2011. Personal income dropped less than anticipated in May at negative 4.2% MoM, versus a negative 6% forecast, and remained a positive 7% YoY as of May 31, the most recent print. Personal disposable income was up 8.8% YoY, driven by a 67.5% YoY increase in transfer payments and 68.6% YoY increase in government social benefits.

Coming into the last month of the quarter, initial jobless claims were trending lower than the highs marked in March and April. In June, this trend continued but to a lesser degree than prior months. For the week ended June 27, initial jobless claims were at 1,427,000, down 55,000 from the prior week. Continuing jobless claims remained elevated at 19,290,000 for the week ended June 20. With continuing jobless claims under the Pandemic Unemployment Assistance (PUA) program at nearly 13 million, 31.5 million people were claiming unemployment insurance benefits in all programs as of June 13. *(Figure 1)*



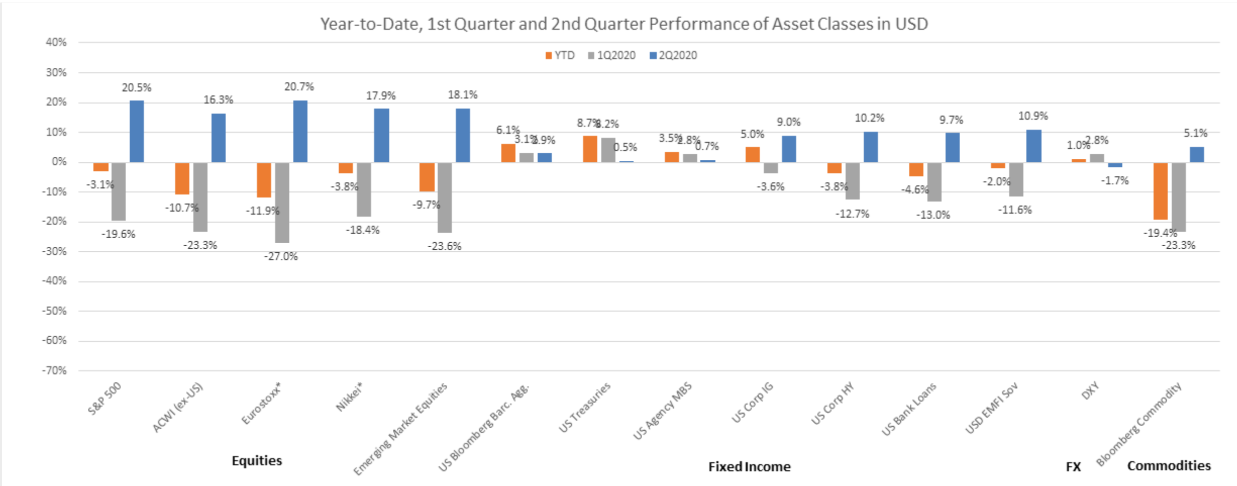
Markets digested additional monetary policy when the Federal Reserve introduced its $2.3 trillion "big bazooka" on April 9. This added support from the Fed included the Main Street Lending Program (MSLP), Municipal Liquidity Facility (MLF), Paycheck Protection Program (PPP) and increases to the size of the Term Asset-Backed Securities Loan Facility (TALF), Primary Market Corporate Credit Facility (PMCCF) and Secondary Market Corporate Credit Facility (SMCCF). The PMCCF began operations June 29 while the SMCCF began purchasing eligible exchange-traded funds (ETFs) May 12 and corporate bonds June 16. As of July 1, none of the PMCCF had been utilized while only a fraction of the overall lending capacity of the SMCCF had been utilized, amounting to $7.1 billion. The TALF began taking subscriptions June 17, but much like the SMCCF, its overall subscription amount looks to be a fraction of overall capacity. Despite minimal appetite for various lending facilities thus far, the Fed's balance sheet continued to expand during the second quarter in the form of asset purchases regarded as a fourth round of quantitative easing (QE4). Since the Fed first announced its various tools for monetary stimulus in March, its balance sheet has grown by $2.77 trillion, larger than all previous QE programs combined.



Monetary policy moves taken by other developed market (DM) countries were largely in line with the Fed's, with the European Central Bank (ECB), Bank of Japan (BoJ) and Peoples Bank of China all implementing accommodative measures to help buoy financial markets through the global pandemic. COVID-19 case counts, however, grew at differing rates around the globe. While Europe and parts of Asia saw infection rates fall in the second quarter, the U.S. and emerging market (EM) countries such as Brazil, India, Peru, Chile and Mexico continued to grapple with rising case counts. While EM assets broadly rallied in the quarter amid the risk-on sentiment, DoubleLine remains concerned about the COVID-19 impact on EM countries, which have less ability to provide fiscal and monetary support than DM countries in response to the pandemic. EM countries also have weaker healthcare infrastructure and social safety nets, and they are more prone to civil unrest. EM countries are very sensitive to global activity, and given the large shock that has occurred, they will likely be among the last to recover economically. Given the lack of domestic policy space for their fiscal authorities to address the economic turmoil, many EM countries have turned to external sources of support, such as the International Monetary Fund (IMF) and G20 nations. However, the global nature of the pandemic and the very large need it has created will likely limit the potential for timely and sufficient external support.

Geopolitical tensions continued to escalate, particularly between China and the U.S., as highlighted by China asserting more authority over Hong Kong. On May 28, China's National People's Congress (NPC) approved a draft proposal for new national security legislation for Hong Kong. Despite strong attempts by G10 leaders to dissuade China, the NPC enacted the law June 30, bypassing Hong Kong's elected legislative council. This legislation effectively gave China greater political control over Hong Kong. As a result, the Trump administration re-evaluated its policies toward the territory, and in late May, the administration decertified Hong Kong for not being sufficiently autonomous from China. The U.S. began additional steps to remove elements of the special treatment that Hong Kong has enjoyed for decades.

On June 29, Secretary of State Michael Pompeo ended U.S.-controlled defense exports to Hong Kong, and the Commerce Department suspended preferential treatment and export license exceptions for Hong Kong.



Given the rebound in performance across a range of asset classes through the first half of 2020, markets seem to be pricing-in a V-shaped recovery from the negative 5.0% quarter-over-quarter (QoQ) annualized drop in first quarter U.S. GDP. However, a rebound in economic output to pre-COVID-19 levels in the near term might be an overly optimistic view. With economic reopenings in the U.S. challenged by a resurgence of infections concentrated in Southern and Western states and continuing jobless claims remaining at high levels, this recovery could take longer than many expect. Continued U.S.-China tensions and the U.S. presidential election will also be factors that investors must weigh throughout the second half of the year.

U.S. Government Securities

Calm prevailed again in the U.S. Treasury market in June. Market function showed continued incremental improvement while realized and implied volatility stayed near the lows marked in May. Yields across the curve were virtually unchanged in June. The Bloomberg Barclays US Treasury Index returned 0.49% for the month and 0.86% for the second quarter. Yield rose briefly early in the month as the 10-year Treasury yield jumped from 65 basis points (bps) at the end of May to as high as 96 bps June 5 while optimism surrounding the ongoing reopening swelled. But the rise reversed just as quickly with news of an increase in COVID-19 cases. The 10-year yield fell back to 65 bps June 11 and ended the month at 66 bps.

The Federal Reserve contributed to the placid market conditions at its June meeting. The Federal Open Market Committee (FOMC) released a "dot plot" showing an expectation that the Federal Funds Rate would remain at its current zero-25 bps level through at least the end of 2022. The committee also announced the Fed would continue to buy Treasury and mortgage-backed assets "at least at the current pace" in coming months, both to support market function and, importantly, to contribute to more-accommodative financial conditions by putting downward pressure on yields. The announcement implied the Fed would continue to buy Treasuries at a pace of roughly $4.5 billion per day. Contrary to some expectations, the committee did not offer any encouragement to those expecting the Fed to adopt some form of "yield curve control," or targeting or capping of intermediate-maturity Treasury yields at a specific level. Overall, the committee emphasized its commitment to acting as needed to support the economy through the current economic malaise.

Inflation expectations continued to ratchet higher in June. The breakeven inflation rate on five-year Treasury inflation-protected securities (TIPS), after reaching a low of just 18 bps in March, climbed to 53 bps at the end of March, 71 bps at the end of April, 84 bps at the end of May and 117 bps at the end of June. While still low by historical standards, current market expectations are compatible with most economists' projections. The Bloomberg Barclays US TIPS Index returned 0.67% in June and 2.22% for the quarter, beating the return on conventional Treasuries over both periods.

We expect June's market conditions to continue into July, with yields out to five years solidly anchored by Fed policy and longer rates likely well behaved but at risk of rising modestly.

U.S. Treasury Yield Curve

	05/29	06/30	change
3 month	0.12%	0.13%	+1 bp
2 year	0.16%	0.15%	-1 bp
5 year	0.30%	0.29%	-1 bp
10 year	0.65%	0.66%	+1bp
30 year	1.41%	1.41%	unch

Agency Mortgage-Backed Securities

Conventional prepayment speeds picked up in June with 30-year Fannie Mae prepays increasing to 30.8 Constant Prepayment Rate (CPR) and 30-year Freddie Mac prepays increasing to 32.0. The increase in aggregate conventional speeds was primarily driven by an increase in day count, brokers speeding up their processing time, and higher seasonal turnover.

30-year Ginnie Mae II speeds saw a sharp increase from 27.0 to 37.2 CPR over the month. The large increase was driven by a broad mix of banks and non-banks buying out D90+ loans this month. Most of the prepay increase across cohorts can be attributed to the buyouts; 2018 vintage saw the largest buyout CPRs and higher coupons had higher buyout CPRs compared to lower coupons.

In June, gross issuance of Agency MBS continued to be very high at $253 billion while net issuance decreased to $3 billion. The sharp increase in buyout CPRs resulted in GNMA issuance declining -$23 billion, contributing to the decreased June net issuance. The Federal Reserve has slowed the pace of Agency MBS purchases, and the $100 billion gross purchases in June brought the total gross QE4 Agency MBS purchases to $788 billion. Paydowns on the Federal Reserve's MBS portfolio increased from $56 billion in May to $69 billion in June, so daily purchases are expected to increase during the July-Aug cycle.

Aggregate 30-day delinquent rates decreased from 5.7% to 5.6% for 30 year Freddie loans and decreased from 6.1% to 5.8% for 30 year Fannie loans. Across vintages, the 2018 vintage (which has the highest LTV and lowest Fico on average) continued to have the highest delinquencies. Higher coupons also had a higher share of delinquent loans vs lower coupons. Overall delinquencies have plateaued in line with the trend in forbearance rates. If the economy does not reopen as planned and if stimulus benefits are not extended, a second rise in delinquencies is expected.

In June, the Bloomberg Barclays US MBS Index total return was -0.09% with an excess return, measured relative to maturity-matched Treasuries, of -0.03%. The duration of the Bloomberg Barclays US MBS Index contracted from 2.15 to 2.07 over the month.

Non-Agency Residential Mortgage-Backed Securities

Non-Agency residential mortgage-backed securities (RMBS) delivered positive returns in June, rebounding strongly from the volatility experienced in March. Credit spreads tightened notably in the second quarter, resulting from an increase in economic activity. Mortgage forbearance during the quarter peaked in May at approximately 9.5% for private-label mortgages and finished the quarter at 9.3%.[1] Notably, nearly half of all loans in forbearance remained current on their mortgage payment. Employment also began to increase, with May and June marking an increase of 5.4 million jobs from the 19.5 million jobs lost in April.[2]

During the quarter, the new-issue market did not experience a new deal for almost the first three weeks of April. Despite the closure of the new-issue market, June 2020 was the strongest June for new issuance since 2018. Second quarter issuance totaled $11.7 billion.[3] Most of that volume originated from non-qualified mortgage (non-QM), jumbo prime and single-family rental. Cumulative issuance year-to-date (YTD) is on par with the prior two years.

The most-recent reading of home prices (for the month of April) showed an increase of 4.0% year-over-year (YoY), increasing 10 basis points (bps) from the prior month and reaching its highest level since December 2018.[4] Existing home sales in May decreased 9.7% from the prior month.[5] Sales are down 26% YoY as sales completed in May reflected contract signings in March and April – during the strictest period of the lockdown. Notably, median single-family home prices experienced an increase of 2.4% YoY while median condominiums and co-op prices experienced a decrease of 1.6% from a year ago.

The 30-year mortgage rate finished the quarter at 3.13%, down 37 bps from the prior quarter and reaching an all-time low since the start of the data series in 1971.[6] The fall in mortgage rates indicates that mortgage originators are able to work through their current capacity of mortgage applications as demand for housing increases.

[1]Black Knight
[2]ADP National Employment Report
[3]Bloomberg
[4]S&P CoreLogic Case-Shiller 20-City Home Price Composite
[5]National Association of Realtors Existing Home Sale Index
[6]Freddie Mac Primary Mortgage Market Survey

Commercial Mortgage-Backed Securities

New-issue private-label commercial mortgage-backed securities (CMBS) continued to see ongoing issuance in June, with three conduit deals totaling $2.08 billion and two commercial real estate (CRE) collateralized loan obligations (CLOs) totaling $1.23 billion. Q2 issuance totaled $33.4 billion, a 30% decrease year-over-year (YoY), impacted by COVID-19 fallout. As in May, all June deals consisted of loans that were largely originated pre-COVID-19 but experienced delayed marketing due to the pandemic. Given the lack of new-issue conduit paper, new-issue transactions marked significant demand in Q2 given positive supply/demand technicals despite concerns over CRE fundamentals. While the outstanding private-label CMBS universe increased slightly by 0.01% to $581.7 billion in June, it decreased by 0.05% throughout Q2, finishing approximately 10.2% above the same period in 2019.

CRE price growth began to feel the effects of COVID-19 in June, with the RCA U.S. All-Property Commercial Property Price Index (CPPI) posting a 19 basis points (bps) increase, slowing to 5.0% YoY growth. Office price growth fared the worst, posting a 43 bps negative return. Despite the impact of COVID-19, industrial price growth continued to trend positive, posting a 0.2% return. CRE transaction volume decreased 79% YoY to $10 billion, the lowest level marked since February 2011. Delinquencies among loans backing CMBS soared in June, while transfers into special servicing jumped for a third consecutive month. The percentage of securitized mortgages at least 30 days past due, defaulted or in foreclosure leaped 317 bps to 10.3%, according to Trepp, the highest percentage since 2012.

Secondary market cash spreads were one directional in June and Q2 as technicals largely trumped fundamentals. AAA last cash flows (LCFs) decreased 28 bps for the month and 75 bps for the quarter to S+110. BBB-s decreased 206 bps for the month and 315 bps for the quarter to S+735. The inclusion of legacy conduit AAA paper in the Term Asset-Backed Securities Loan Facility

(TALF) program helped shore up spreads at the top of the capital stack in the quarter and ultimately caused spreads for lower-rated bonds to tighten as well. While spread-tightening was evident across the capital structure, there continued to be significant tiering across transactions. As observed in Q2, conduit BBB- paper became highly tiered and difficult to source as investors drove prices materially higher for high-quality deals, while lower-quality deals also benefited from a move up in prices as lower dollar-priced bonds provided an opportunity for investors looking to hedge to their short CMBX BBB- positions. The CMBX market also moved tighter for June and Q2, with all 2012-2018 AAA reference indices moving tighter by 5 bps for the month and 30 bps for the quarter, while the 2012-2018 BBB- reference indices moved tighter by 170 bps for the month and 143 bps for the quarter. The CMBX BBB- market is also tiered by vintage and credit, with the 2012-2014 indices moving wider for the quarter, while the 2015-2018 indices moved tighter as investors continued to have concerns over lodging and retail exposure in the 2012-2014 indices.

Asset-Backed Securities

The performance of asset-backed securities (ABS) was strong in June, marking the third consecutive month of positive total returns in the wake of the March sell-off. The most-liquid segments of ABS, as measured by the Bloomberg Barclays US ABS Index, returned 1.07% during June and 3.54% for the second quarter.

Esoteric ABS sectors, which are better represented by the ICE Bank of America (BofA) U.S. Fixed-Rate Miscellaneous Asset-Backed Securities (ABS) Index, returned 2.44% during June and 6.51% for the second quarter. The June rally in ABS was largely driven by the sector's tendency to follow investment grade (IG) corporate bond spreads, which have experienced a sizable rally due to the Federal Reserve's support via the Secondary Market Corporate Credit Facility (SMCCF).

With IG corporate bond spreads starting the month at just 173 basis points (bps), many ABS sectors had room to tighten on a relative basis. The consumer, franchise and container subsectors tightened by 50 bps to 75 bps in June while aircraft and subprime auto tightened by 100 bps to 200 bps. Primary market activity was another tailwind for the ABS sector, as 30 different transactions priced during the month in a testament to the market's demand for both consumer and commercial ABS.

Gross ABS issuance in the second quarter was roughly $36 billion, bringing the 2020 year-to-date (YTD) total to approximately $87 billion.

Investment Grade Credit

U.S. investment grade (IG) credit continued to rally in June, with some volatility midmonth as COVID-19 cases increased and reopening plans slowed. U.S. IG credit spreads as measured by the Bloomberg Barclays US Credit Index tightened by 22 basis points (bps) to 142 bps for the month, outperforming duration-matched U.S. Treasuries by 176 bps. For the quarter, U.S. IG credit spreads tightened by 113 bps, outperforming duration-matched U.S. Treasuries by 771 bps.

The total return for the month was 1.83%, bringing the quarter-to-date (QTD) total return to 8.22%.

The best-performing sectors for the month on a total return basis were retail real estate investment trusts (REITS), healthcare REITS, finance companies, gaming and airlines. They are all sectors that have been hit disproportionately hard by the COVID-19 pandemic. The worst-performing sectors were environmental, leisure, supranationals, foreign agency and consumer cyclical services. For the quarter, energy-related sectors led the way, with independent energy, refining, oil field services and midstream followed by gaming as the top performers. The worst-performing sectors for the quarter were supranationals, airlines, leisure, foreign agency and consumer cyclical services.

At the ratings level, BBBs notably outperformed for the month, posting a total return of 2.45%, as well as the quarter, posting a total return of 11.24%. Those returns compare to 1.60% and 7.04% for single-As and 1.09% and 5.01% for double-As in the respective periods.

Across the curve, long duration credit outperformed for the month, posting a total return of 2.54%, as well as the quarter, posting a total return of 11.08%. Those returns compare to 1.42% and 6.67% for intermediate duration credit and 0.56% and 3.28% for short duration credit in the respective periods. The outperformance in long duration credit was primarily due to the rally in the long end of the U.S. Treasuries market.

Dollar-denominated IG new issuance recorded $185.4 billion of gross issuance and $92.6 billion of net issuance in June, down compared to the prior three months. For the quarter, gross issuance was $834.4 billion and net issuance was $611.1 billion. Year-to-date (YTD), gross new issuance now stands at $1,375.7 billion, only 6.3% below the full-year record set in 2017.

IG funds' inflows strengthened for a third straight month, marking $45.8 billion in June. Trailing-three-month inflows were $125.8 billion, pushing YTD inflows back into positive territory at $21 billion.

Collateralized Loan Obligations

New-issue supply of U.S. collateralized loan obligations (CLOs) increased in June, with $7.85 billion pricing across 20 transactions. Since the start of the year, $35 billion has priced via 79 CLOs, a year-over-year (YoY) decline of 45% by volume and deal count. Despite no refinancing (refi), reset or reissue activity in the second quarter, refi/reset/reissue volume remains roughly 33% higher than this time last year, with $25.5 billion priced year-to-date (YTD).

In the secondary market, the monthly supply of CLO bids wanted in competition (BWIC) increased nearly 50% month-over-month (MoM) from $4 billion in May to $5.9 billion in June. June's monthly BWIC volume marked the second-highest level on record. YTD, CLO trading volumes are twice that of 2019 levels, which were also a record at the time.

CLO fundamentals were mixed in June while managers actively traded their portfolios in anticipation of the upcoming July payment cycle. Loan fundamentals continued to deteriorate as the trailing 12-month U.S. loan default rate rose to 3.2% in June and rating downgrades continued. Aside from loan-level rating actions, further review of many of the CLO tranches placed on negative watch due to COVID-19-induced volatility has resulted in downgrades by rating agencies, with a large portion of CLO mezzanine tranches remaining on negative watch.

CLO market-based metrics, such as net asset value (NAV) and market value overcollateralization (MVOC), continued to improve alongside the S&P/LSTA Leveraged Loan Price Index, which rose 0.90% in June. Despite an 8.5% rally in loan prices over 2Q20, the market value of CLO collateral still does not cover tranches rated BB, on average.

CLO spreads were generally tighter across the ratings stack, with BB spreads tightening the most MoM on a percentage basis. The J.P. Morgan CLO Total Return Level Index rose 0.94% in June, contributing to a total return for 2Q20 of 7.34%. However, the YTD return remains in the red at -1.15%.

Final amendments to Section 13 of the Bank Holding Company Act, also known as the Volcker Rule, were approved June 25 to allow U.S. banks to own CLOs comprising up to 5% bond buckets. While the revision is expected to go into effect on Oct. 1, CLOs without existing language would likely require an amendment for the rule to apply. The response from market participants has been mixed. While bond buckets represent an additional avenue to source collateral and might marginally improve a CLO's position in distressed/bankruptcy dealings, they also have lower recovery values on a historical basis, which some view as credit negative.

Bank Loans

The bank loan market rose 1.14% in June, bringing the total return for the second quarter to 9.70% – the highest quarterly return since 2009. Bank loans moved higher as risk markets recovered from the pronounced COVID-19 sell-off in March. The weighted average bid price of the S&P/LSTA Leveraged Loan Index ended the quarter at 89.88, up from 89.08 at the start of June and 82.85 at the start of the quarter. Names priced below 80 now account for just 8% of the index, down from 57% at the low point of the market March 23. Bank loans are down 4.61% year-to-date (YTD).

In June, investors continued to reach for yield as they sought to keep pace with the recovery, and riskier names trading at deep discounts to par outperformed the market generally. For the month, loans rated BB were up 0.24%, significantly lagging the 1.19% return of loans rated B and the 4.26% return of loans rated CCC. Q2 showed a similar trend with higher returns across lower-rated names.

The default rate moved steadily higher throughout the quarter, increasing from 2.02% at the end of March to 3.70% at the end of June on an issuer-count basis. Rating agency downgrades and market trading levels suggest that the default rate will continue to move higher as companies confront now-unsustainable capital structures. However, the rate of downgrades slowed significantly in May and June after a record-setting pace in March and April.

The primary market showed signs of life in June as recovering prices opened a window for issuers to raise capital in the bank loan market. There was $25.7 billion of new-loan volume in June, which was greater than the total from March through May. The pace of new issuance in the second quarter was still down significantly from last year in part because many companies have opted to raise capital in the high yield (HY) market. On the demand front, collateralized loan obligations (CLOs) printed nearly $8 billion of new deals in June, with volume continuing to recover from moribund levels. On the retail side, S&P Capital IQ Leveraged Commentary and Data (LCD) estimates that $926 million left the asset class in June after outflows of $1.8 billion in May and $3.4 billion in April.

We remain somewhat cautious on the asset class in the near-term given significant weakness in the economy, but bank loans remain at relatively cheap levels, and we are more constructive on the longer-term outlook. The move lower in LIBOR has hurt the relative value of loans compared to other asset classes, but the market still offers return potential given its discounted spread-to-maturity ratio of L+578 and the U.S. dollar price below 90.

High Yield

High yield (HY) returns were more modest in June than the prior two months, with the Bloomberg Barclays US High Yield Corporate Index returning 0.98% to cap off a strong 10.18% rise for the second quarter. Index yield declined 14 basis points (bps) for the month, and it fell 257 bps for the quarter to 6.87% after widening 425 bps in 1Q. Spreads also tightened materially to 626 bps, a drop of 12 bps for the month and 254 bps for the quarter, representing a significant rebound after widening 543 bps in 1Q. Investors marked COVID-19 reopenings and then the pandemic's resurgence amid a market backdrop of surging inflows and issuance.

By rating, CCCs outperformed markedly in June, increasing 2.35% (+9.10% in 2Q). BBs followed, though well behind, rising 1.03% (+11.54% in 2Q), and Bs lagged with a gain of 0.25% (+8.64% in 2Q). The three best-performing sectors in June were Oil Field Services (+4.56%), Finance Companies (+4.15%) and Independent Energy (+3.24%). The worst sectors were primarily impacted by COVID-19, led by Restaurants (-1.27%), Healthcare (-1.08%) and Leisure (-1.08%).

The par-weighted 12-month default rate ended 2Q at a 10-year high of 6.19%, up 113 bps from May and an increase of 356 bps from 2.63% at the end of 2019. The Energy sector continued to account for a substantial portion of defaults, representing 32% of the par-weighted total over the last 12 months for a sector rate of 18.63%. For reference, the current default rate compares to a 25-year average of 2.90%.

Downgrades continued to far outweigh upgrades, both within HY and between investment grade (IG) and HY. In June, the U.S. HY market registered $68.4 billion of downgrades compared to just $16.9 billion of upgrades for a trailing 12-month upgrade-to-downgrade ratio of 0.4x. Year-to-date (YTD), downgrades have totaled $497.4 billion compared to $100.7 billion of upgrades. Recall, the upgrade-to-downgrade ratio ended 2019 at 0.8x, 2018 at 1.3x and 2017 at 1.4x. As for fallen angel volume, June was more muted than recent months, totaling $2.1 billion, which brings the YTD mark to $191.4 billion, already exceeding the prior full-year record total of $150.2 billion in 2009.

Primary activity set new records in June. For the month, HY priced $61.5 billion of deals to surpass the prior record of $55.5 billion in September 2013. Issuance for 2Q was also a record, totaling $145.5 billion, which exceeded the prior quarterly record of $121.2 billion set in 2Q 2014. YTD, issuance is up 55% to $218.4 billion while net issuance of refinancings is up a remarkable 102% to $94.2 billion. Recall, primary activity increased 52% (a 28% increase in net issuance of refinancings) in 2019. Although, that increase came against a 2018 whose full-year activity was the lightest since 2009 (2018's volume of $187 billion was a 43% decline compared to 2017's).

HY funds took in $9.7 billion in June, the fourth-largest inflow month on record, which followed May, the largest inflow month on record ($20.5 billion), and April, the second largest ($17.1 billion). These inflows more than made up for the $11.7 billion outflow in March, which was the third-largest monthly outflow on record. YTD inflows stand at $31.9 billion, compared to an inflow of $18.8 billion in full-year 2019 and an outflow of $46.9 billion in full-year 2018.

Commodities

In the second quarter of 2020, the broad commodity market rallied by 10.43% as measured by the S&P GSCI and 5.04% by the Bloomberg Commodity (BCOM) Index. June continued the positive momentum of May with broad market returns of +5.08% (S&P GSCI) and +2.27% (BCOM). In June, the best-performing sectors were energy (+8.92%) and industrial metals (+7.24%) while the worst was livestock (-7.44%). The energy sector (+18.54%) bounced back in Q2, with the best performers, unleaded gasoline (+80.36%) and Brent crude (+38.13%), up strikingly. Precious metals (+13.26%) appreciated as dollar weakness and global financial uncertainty drove gold (+12.03%) and silver (+29.12%) higher in the quarter. Industrial metals rallied 11.41% in Q2, with the economic bellwether copper increasing a solid 21.02%. The agriculture sector was soft in the quarter, declining 4.35% as the major grains (wheat (-14.54%), Kansas wheat (-13.65%), corn (-2.88%) and soybeans (-2.65%)) all declined.

Emerging Markets Fixed Income

Emerging markets (EM) sovereign and corporate external bonds posted positive performances in June and in the second quarter of 2020, rebounding from negative performances in the first quarter. The positive performance of external EM debt was driven by significant credit spread tightening.

The J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified credit spread tightened by 152 basis points (bps) over the quarter after widening by 336 bps in the first quarter. The U.S. Treasury yield curve steepened, with two-year Treasury yields lower by 10 bps and 10-year Treasury yields lower by 1 bp. In June, the credit spread tightened by 41 bps while two-year Treasury yields were lower by 1 bp and 10-year Treasury yields essentially flat.

Performance across all regions was positive in both the sovereign index and corporate index for the quarter, as measured by the J.P. Morgan EMBI Global Diversified and J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI) Global Diversified indices. Africa was the best-performing region in both the sovereign and corporate indices. The positive return in Asia was the least relative to the other regions in both indices.

The sovereign index outperformed the corporate index over the period. Outperformance was in part driven by the lower allocation to Asia and higher allocation to Africa in the sovereign index relative to the corporate index. The high yield (HY) subindex outperformed the investment grade (IG) subindex in both the sovereign and corporate indices. The higher allocation to HY credits in the sovereign index versus the corporate index also contributed to the relative outperformance.

Risk appetite for the second half of 2020 will largely be driven by the effectiveness of measures to contain the COVID-19 outbreak and reopen economies. The pandemic will continue to impact the global growth trajectory and influence fiscal and monetary policy responses from developed markets (DM) and EM central banks and governments. Other risk-appetite factors include escalating U.S.-China tensions, rising social unrest and the U.S. presidential election in November.

International Sovereign

Global government bonds, as measured by the FTSE World Government Bond Index (WGBI), posted positive returns in June and the second quarter of 2020. Positive performance was driven by foreign currency appreciation against the U.S. dollar.

The dollar, as measured by the U.S. Dollar Index (DXY), weakened against most of its G-10 peers over the period. The Federal Reserve kept rates unchanged at near zero, extended asset purchases to corporate bonds and expanded programs to support Main Street lending. Congress passed a $484 billion economic rescue package in April as weekly jobless claims continued to rise. The U.S. Treasury curve moderately steepened over the quarter.

The euro gained against the dollar amid improved risk sentiment as European countries took steps to reopen their economies. After approving a 540 billion euro emergency financial package, European leaders continued to negotiate a long-term 750 billion euro recovery proposal amid opposition from some northern countries to aspects of the plan. Meanwhile, the European Central Bank (ECB) boosted its bond-buying stimulus package. A ruling from the German Constitutional Court that challenged the legality of previous policy action taken under the ECB's quantitative easing program was put to rest by the German Parliament's approval of the program.

The Japanese yen depreciated versus the dollar. Japan unleashed significant fiscal stimulus in response to the pandemic, with successive spending packages totaling about 234 trillion yen, more than 40% of GDP. The Bank of Japan (BoJ) expanded its monetary stimulus program by boosting asset purchases and reiterating its commitment to buy an unlimited amount of government bonds to keep borrowing costs low.

Emerging markets (EM) currencies generally rebounded versus the dollar. EM countries benefitted from improved risk sentiment as some countries began to ease lockdown measures, commodity prices recovered, and capital flows stabilized. However, many of these countries are still being challenged by rising COVID-19 cases. Investors remain concerned that many EM countries lack the fiscal and monetary space to offset the economic impact of the pandemic.

Infrastructure

Infrastructure assets continued to rally in June, generating returns of roughly 1.6%, outperforming the Bloomberg Barclays US Aggregate Index return of 0.63% but underperforming the Bloomberg Barclays US Corporate Index return of 1.83%. For the second quarter as a whole, infrastructure assets returned 8.7%, bringing them back into positive territory year-to-date (YTD).

In June, price gains in the infrastructure debt space were broadly led by unsecured corporate exposures in the industrial and utility sectors. However, another standout was renewable-energy debt in securitized form. Solar and other renewable-energy asset-backed securities (ABS) gained more than 2% during June as defaults for these products have remained relatively low even amid the COVID-19 economic disruptions.

New issuance for the month and the quarter was generally skewed more toward corporate issues than structured product issues as low borrowing rates and the Federal Reserve's corporate bond backstop helped a wide range of companies come to market.

U.S. Equities page 10

June capped off the best quarter for the S&P 500 Index since 1998. During the month, the index returned 1.99%, bringing its total return for the second quarter to 20.54%. Year-to-date (YTD) through June 30, the S&P 500 lost 3.09% and was 7.77% below its all-time high in February.

The strength of the U.S. equity markets marked in April and May continued in early June. Equities seemed to benefit from both optimism about the rapid reopening of the economy in many states and nearly $3 trillion in liquidity provided the markets since early March by the Federal Reserve. By the second week of June, the YTD return for the S&P 500 had turned positive. However, with the number of confirmed COVID-19 cases rising in populous states such as California, Texas and Florida, confidence in a V-shaped recovery seemed to fade. Despite declining late in the month, the index managed to stay in positive territory.

The outperformance by large-cap growth stocks continued in June, with the Russell 1000® Growth Index gaining 4.35% while the Russell 1000® Value Index lost 0.66%. Similarly, the Russell 1000® Growth returned 27.84% for the full quarter, far outpacing the 14.29% return of the Russell 1000® Value. Remarkably, the technology and communications-heavy Nasdaq Composite and Nasdaq 100 indices closed June above their pre-COVID-19 February highs.

At the end of June, consensus estimates were predicting S&P 500 earnings would fall 23% in 2020. Consensus estimates expect the earnings trough in the second quarter, with the index's companies marking an estimated year-over-year (YoY) earnings-per-share (EPS) decline in excess of 40%.

Global Equities

Driven by the hopes of a V-shaped economic recovery and the massive monetary and fiscal stimulus, global equities continued to rally in June, posting one of the best quarters in decades. The Morgan Stanley Capital International All Country World Index (MSCI ACWI) rose 3.24% in June and 19.41% for the second quarter. In June, U.S. equities slightly outperformed, with the S&P 500 Index up 1.99% and the Dow Jones Industrial Average up 1.82%. The S&P 500 rose 20.54% and the Dow 18.51% in the second quarter. The Nasdaq Composite and the Russell 2000® indices outperformed and rose 6.07% and 3.53% respectively in June. The Nasdaq gained 30.95% for the quarter, the Russell 2000® 25.42%.

In Europe, equities performed well in June but underperformed the broader market for the quarter. The Euro Stoxx 50 Index rose 6.48% in June and 17.78% for the quarter. Core European equities had mixed results with the DAX of German blue chips returning 6.25% and the French CAC 40 5.48% in June. For the quarter, the DAX was up 23.90%, the CAC 40 13.48%. On the periphery, Italian stocks as measured by the FTSE Milano Indice di Borsa (FTSE MIB) rose 6.82% and Spain's IBEX was up 2.77% in June. For the quarter, the FTSE MIB was up 15.03%, the IBEX 8.03%. U.K. equities as measured by the FTSE 100 rose 1.66% in June and 9.57% for the quarter.

Asian equities outperformed in June and performed in line with the broad market during the second quarter. Japanese equities, as measured by the Nikkei, were up 1.99% in June and 17.97% for the quarter. As measured by the Shanghai Stock Exchange Composite Index, Chinese equities rose 5.63% in June and 9.79% in the quarter. Hong Kong's Hang Seng Index was up 7.38% for the month but only 5.07% for the quarter. South Korea's KOSPI was up 3.89%, Taiwan's TAIEX 6.78% in June. The KOSPI was up 20.51% for the quarter, the TAIEX 20.39%.

Emerging market (EM) equities also outperformed the broad market in June, with the MSCI EM Index returning 7.36% in June and 18.14% in the quarter. Indian equities, as measured by MSCI India, were up 6.65% for the month and 20.41% for the quarter. Brazil's Ibovespa was up 8.76% while Chilean equities, as measured by MSCI Chile, rose 6.13% in June. For the quarter, the Ibovespa was up 30.18% while the Chile proxy was up 16.6%. Russian equities, as measured by MSCI Russia, declined 1.93% in June but were still up 18.89% for the quarter.

Important Information Regarding This Report

This report was prepared as a private communication and was not intended for public circulation. Clients or prospects may authorize distribution to their consultants or other agents.

Issue selection processes and tools illustrated throughout this presentation are samples and may be modified periodically. Such charts are not the only tools used by the investment teams, are extremely sophisticated, may not always produce the intended results and are not intended for use by non-professionals.

DoubleLine has no obligation to provide revised assessments in the event of changed circumstances. While we have gathered this information from sources believed to be reliable, DoubleLine cannot guarantee the accuracy of the information provided. Securities discussed are not recommendations and are presented as examples of issue selection or portfolio management processes. They have been picked for comparison or illustration purposes only. No security presented within is either offered for sale or purchase. DoubleLine reserves the right to change its investment perspective and outlook without notice as market conditions dictate or as additional information becomes available. This material may include statements that constitute “forward-looking statements” under the U.S. securities laws. Forward-looking statements include, among other things, projections, estimates, and information about possible or future results related to a client’s account, or market or regulatory developments.

Important Information Regarding Risk Factors

Investment strategies may not achieve the desired results due to implementation lag, other timing factors, portfolio management decision-making, economic or market conditions or other unanticipated factors. The views and forecasts expressed in this material are as of the date indicated, are subject to change without notice, may not come to pass and do not represent a recommendation or offer of any particular security, strategy, or investment. All investments involve risks. Please request a copy of DoubleLine’s Form ADV Part 2A to review the material risks involved in DoubleLine’s strategies. Past performance is no guarantee of future results.

Important Information Regarding DoubleLine

In preparing the client reports (and in managing the portfolios), DoubleLine and its vendors price separate account portfolio securities using various sources, including independent pricing services and fair value processes such as benchmarking.

To receive a complimentary copy of DoubleLine Capital’s current Form ADV (which contains important additional disclosure information, including risk disclosures), a copy of the DoubleLine’s proxy voting policies and procedures, or to obtain additional information on DoubleLine’s proxy voting decisions, please contact DoubleLine’s Client Services.

Important Information Regarding DoubleLine’s Investment Style

DoubleLine seeks to maximize investment results consistent with our interpretation of client guidelines and investment mandate. While DoubleLine seeks to maximize returns for our clients consistent with guidelines, DoubleLine cannot guarantee that DoubleLine will outperform a client's specified benchmark or the market or that DoubleLine’s risk management techniques will successfully mitigate losses. Additionally, the nature of portfolio diversification implies that certain holdings and sectors in a client's portfolio may be rising in price while others are falling; or, that some issues and sectors are outperforming while others are underperforming. Such out or underperformance can be the result of many factors, such as but not limited to duration/interest rate exposure, yield curve exposure, bond sector exposure, or news or rumors specific to a single name.

DoubleLine is an active manager and will adjust the composition of client’s portfolios consistent with our investment team’s judgment concerning market conditions and any particular sector or security. The construction of DoubleLine portfolios may differ substantially from the construction of any of a variety of market indices. As such, a DoubleLine portfolio has the potential to underperform or outperform a bond market index. Since markets can remain inefficiently priced for long periods, DoubleLine's performance is properly assessed over a full multi-year market cycle.

Important Information Regarding Client Responsibilities

Clients are requested to carefully review all portfolio holdings and strategies, including by comparing the custodial statement to any statements received from DoubleLine. Clients should promptly inform DoubleLine of any potential or perceived policy or guideline inconsistencies. In particular, DoubleLine understands that guideline enabling language is subject to interpretation and DoubleLine strongly encourages clients to express any contrasting interpretation as soon as practical. Clients are also requested to notify DoubleLine of any updates to Client's organization, such as (but not limited to) adding affiliates (including broker dealer affiliates), issuing additional securities, name changes, mergers or other alterations to Client's legal structure.

DoubleLine Group is not a registered investment adviser with the Securities Exchange Commission (SEC).