

*The views expressed in these posts are those of the authors and are current only through the date stated. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness.*

[HIGH YIELD](#) | [NAVIGATING THE CURVE](#) | [OUTLOOK](#)

## 2024 Outlook: High Yield Bonds

By: Stephen C. Concannon, CFA | & Will Reardon | December 6, 2023

### Higher Volatility in 2024 May Present Attractive Entry Points for High Yield Bonds

#### KEY POINTS

1. As global central banks near the end of a historical cycle of tightening monetary policy, we believe a moderate recession is a more probable outcome in 2024.
2. Increasing dispersion in valuations across rating segments, sectors and individual issuers will continue to provide opportunity and the ability to capture attractive entry points.
3. We have maintained our cautious positioning and continue to prefer defensive sectors that trade wide of historical norms, such as health care, given the sector's historically defensive characteristics.

#### What We Are Seeing

The high yield market continues to benefit from a historically attractive yield that compensates investors for a "higher quality" market based on credit quality and a record level of secured issuance. However, our outlook remains somewhat cautious as we approach 2024. As global central banks near the end of a historical cycle of tightening monetary policy, we believe a moderate recession is a more probable outcome in 2024, as the Federal Reserve (Fed) maintains a higher for longer stance and patiently observes the effects of tighter financial conditions rippling through the broader economy.

In high yield, average corporate fundamentals are starting from a place of relative strength. However, we have witnessed notable softening in 2023, as revenue and EBITDA (earnings before interest, taxes, depreciation and amortization) growth have fallen, resulting in higher leverage and lower interest coverage levels. We expect these metrics to remain under pressure, as slowing growth is further reflected in corporate earnings. Elevated idiosyncratic risk is contributing to greater dispersion in valuations, increasing measures of distress and an escalation in default activity. Dispersion and distress will likely increase further, as the volume of maturing bonds present a need for refinancing. While refinancing at current market yields presents only moderate challenges for the BB-rated cohort, it presents a far greater challenge for the typical CCC-rated bond, where the average coupon is 7.45% and the average yield-to-worst is 14.54%.<sup>1</sup>

Primary issuance increased marginally in 2023, with a clear focus on refinancing and a preference toward the issuance of secured bonds. We expect this activity to accelerate in 2024, as companies address maturing capital structures and utilize all tools at their disposal to achieve the lowest possible cost of capital.

#### What We Are Watching

Increasing dispersion in valuations across rating segments, sectors and individual issuers will continue to provide opportunity and the ability to capture attractive entry points. We believe prudent credit selection will be rewarded and enable investors to avoid value traps in the upcoming year.

Wider peak spreads appear inevitable given heightened levels of uncertainty due to an upcoming U.S. election year, continued potential for a U.S. government shutdown, geopolitical conflict and the impact of tightening financial conditions on the health of high yield issuers. An unexpected pick-up in inflation resulting in upward pressure on yields presents an additional risk.

#### What We Are Doing

We have maintained our cautious positioning and continue to prefer defensive sectors that trade wide of historical norms, such as health care, given the sector's historically defensive characteristics and average spread that ranks in the widest quartile relative to the trailing 10-year period. We are underweight most cyclical sectors given where we are in the economic cycle coupled with generally uncompelling valuations.

Despite the beta-led compression we've witnessed throughout most of 2023, we expect the inevitable return of volatility where prudent credit selection will be rewarded and the ramifications of reaching for riskier yield will be punitive.

As always, we are mindful that the higher volatility will present attractive entry points and we stand ready to add risk in a disciplined manner when opportunities arise.

<sup>1</sup> ICE BofA. As of November 20, 2023.

---

**Risk Considerations:** Investments in income securities may be affected by changes in the creditworthiness of the issuer and are subject to the risk of non-payment of principal and interest. The value of income securities also may decline because of real or perceived concerns about the issuer's ability to make principal and interest payments. An imbalance in supply and demand in the income market may result in valuation uncertainties and greater volatility, less liquidity, widening credit spreads and a lack of price transparency in the market. As interest rates rise, the value of certain income investments is likely to decline. Investments rated below investment grade (typically referred to as "junk") are generally subject to greater price volatility and illiquidity than higher rated investments.



Stephen C. Concannon,  
CFA  
Co-Head of High Yield  
Portfolio Manager



Will Reardon  
Institutional Portfolio  
Manager  
High Yield

"Despite the beta-led compression we've witnessed throughout most of 2023, we expect the inevitable return of volatility where prudent credit selection will be rewarded and the ramifications of reaching for riskier yield will be punitive."

# Marketing Communication

To report a website vulnerability, please go to [Responsible Disclosure](#).

Eaton Vance is part of Morgan Stanley Investment Management, the asset management division of Morgan Stanley.

This site (<https://global.eatonvance.com>) is operated by Eaton Vance Management (International) Limited ("We"). We are a limited company, registered in England and Wales under company number 4228294 and have our registered office at 125 Old Broad Street, London, EC2N 1AR. Our VAT number is 762717416. Eaton Vance Management (International) Limited is authorised and regulated by the Financial Conduct Authority ("FCA") and is entered on the FCA's register with register number 208634.

Eaton Vance Management (Registration No. 1121368) and Parametric Portfolio Associates LLC (Registration No. 1217626) are the registered trade marks of The Eaton Vance Group.

Information on this website does not constitute an offer to sell, or a solicitation of an offer to purchase, securities in any jurisdiction to any person to whom it is not lawful to make such an offer. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. The information on this webpage is not intended for U.S. residents. To visit our U.S. website please click [here](#). Information on this website does not constitute an offer to sell, or a solicitation of an offer to purchase, securities in any jurisdiction to any person to whom it is not lawful to make such an offer. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. The information on this webpage is not intended for U.S. residents. To visit our U.S. website please click [here](#).

The views expressed are those of the authors and are current only through the date stated. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness.

In the EU this website is operated by MSIM Fund Management (Ireland) Limited (MSIM FMIL). The business of Eaton Vance Global Advisors Limited was transferred to MSIM FMIL on 1 October 2021. MSIM FMIL has been appointed as management company of the Eaton Vance International (Ireland) Funds plc and is responsible for the distribution of the funds together with the distribution of Eaton Vance strategies and strategies of Eaton Vance affiliates. For any queries in respect of the products and strategies referred to on this website, please contact MSIM FMIL at 7-11 Sir John Rogerson's Quay, Dublin 2, D02 VC42, Ireland. MSIM FMIL is regulated by the Central Bank of Ireland with Company Number: 616661.

Outside of the US and EU, this material is issued by Eaton Vance Management (International) Limited ("EVM") 125 Old Broad Street, London, EC2N 1AR, UK, and is which is authorised and regulated in the United Kingdom by the Financial Conduct Authority.

This material is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

This material does not constitute an offer to sell or the solicitation of an offer to buy any services referred to expressly or impliedly in the material in the People's Republic of China (excluding Hong Kong, Macau and Taiwan, the "PRC") to any person to whom it is unlawful to make the offer or solicitation in the PRC.

The material may not be provided, sold, distributed or delivered, or provided or sold or distributed or delivered to any person for forwarding or resale or redelivery, in any such case directly or indirectly, in the People's Republic of China (the PRC, excluding Hong Kong, Macau and Taiwan) in contravention of any applicable laws.

EVM is registered as a Discretionary Investment Manager in South Korea pursuant to Article 18 of Financial Investment Services and Capital Markets Act of South Korea.

Morgan Stanley Investment Management (Australia) Pty Limited ACN 122 040 037, AFSL No. 314182 arranges for Eaton Vance Management International Limited to provide financial services to Australian wholesale clients. This publication is disseminated in Australia by Morgan Stanley Investment Management (Australia) Pty Limited ACN: 122040037, AFSL No. 314182, which accepts responsibility for its content. This publication, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

*We are actively incorporating accessibility practices, such as those outlined in the Web Content Accessibility Guidelines, into our go-forward website design and content development to make information more accessible and user-friendly. In addition, we are developing a multi-year accessibility strategy and content guidelines that further support the use of assistive and adaptive tools. Our ultimate goal is to meet federal guidelines and policies or provide equivalent accommodations and service support for all customers.*