

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.

[MUNICIPAL BONDS](#) | [NAVIGATING THE CURVE](#)

## High Times for High Yield Munis

By: Bill Delahunty, CFA | July 18, 2024

### KEY POINTS

1. High yield municipal bonds are positioned to benefit from the favorable fundamental and technical backdrop that buoyed performance over 2023 and the first half of 2024.
2. Yields remain attractive on a relative and historic basis, with the yield on the Bloomberg High Yield Municipal Bond Index currently at 5.43%.
3. Current and historical trends suggest that investors may want to consider adding high yield municipal bonds to their portfolios as a core allocation.

**Boston** - Through the first half of 2024, the Municipal High Yield Index returned 4.14%, outperforming the main Municipal Index by 454 basis points and making the sector among the best performers within fixed income.<sup>1</sup> While impressive, the sector's outperformance is not unusual and remains in keeping with longer term trends. Looking ahead to 2024's second half, we foresee continued space for optimism toward high yield munis.

### High yield municipals outperformed over longer term

Index	YTD	1 Year	3 Year	5 Year	10 Year	15 Year	20 Year
Bloomberg Muni Index	-0.40%	3.21%	-0.88%	1.16%	2.39%	3.52%	3.67%
Bloomberg HY Muni Index	4.14%	8.90%	0.12%	3.00%	4.66%	6.39%	5.17%

Source: Bloomberg. As of 6/30/2024. Data provided for informational purposes only. It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**

### Fundamentals staying strong

In 2024, fundamentals for municipal credit have followed on from 2023's strong showing, with improved metrics for credit quality supported by a healthy macro backdrop.

**Credit upgrades/downgrades** - In 2023, Moody's upgraded 3.6x more credits than they downgraded, which was the highest full-year ratio since 2007.<sup>2</sup> The positive trends have continued in 2024, as the rating agencies have upgraded 2x more credits than they have downgraded.

**Defaults** - Municipal defaults have now declined for three years in a row, from 89 unique defaults in 2020 to just 53 unique defaults in 2023. Through the first six months of 2024, defaults have declined further, to just 25 unique defaults compared to 28 the prior year.<sup>3</sup>

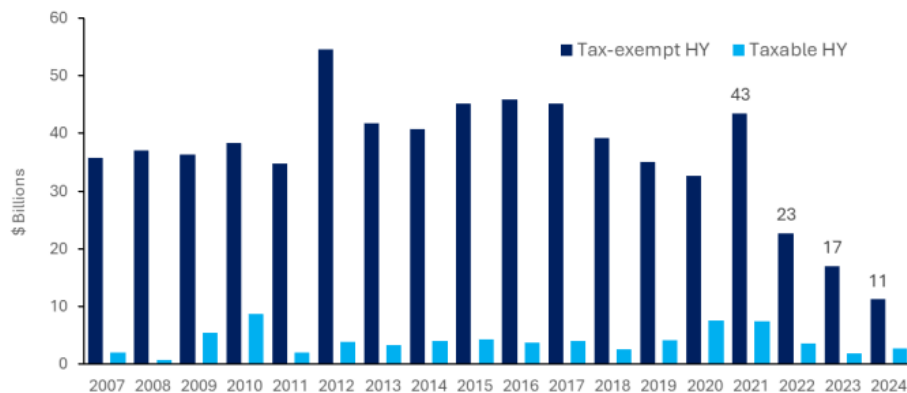
**Economic backdrop** - The strong state of muni credit, combined with the resilient economy has led to credit spreads tightening throughout 2024. If a soft landing in the economy were to occur, credit spreads could continue tightening in the second half of the year.

### Technicals remain robust

A tighter supply of high yield muni issuance combined with strong inflows into high yield muni funds (\$7.4 billion)<sup>4</sup> has resulted in a positive technical tailwind for the HY muni market over the first half of 2024.

In the January to June period, the broad muni primary market bond issuance hit a record for the first half of any year. Issuance totaled \$236 billion in the period, an increase of 37% on the prior year. In contrast, high yield muni issuance totaled just \$11 billion, a continuation of the declining issuance trend for the sector over recent years. At these levels, full-year 2024 looks set to come in at roughly one half the average for the past 17 years of \$42 billion.

### Decreasing issuance keeps high yield muni market tight

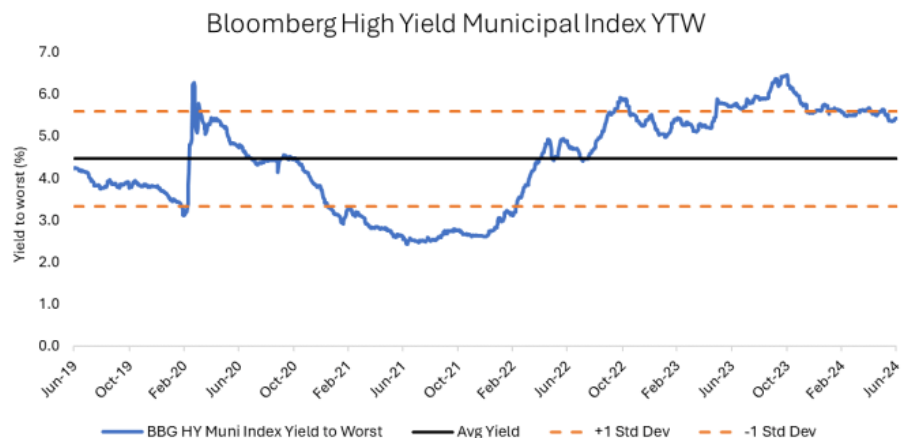


Source: J.P. Morgan. As of 6/30/2024. Past performance is no guarantee of future results.

### Yield appeal

Despite high yield munis' outperformance in recent years, yields remain attractive. The Bloomberg High Yield Municipal Bond Index currently yields 5.43%, up 231 basis points from 2022's start and 73 basis points above the average index yield of the past five years.<sup>5</sup> In addition, on a taxable equivalent basis for a top-rate earner paying a rate of 40.8% (37% plus 3.8% on net investible income), the Bloomberg High Yield Municipal Bond Index currently yields over 9.17%, making it one of the highest yielding sectors in fixed income.

### Yields remain highly attractive



**Bottom Line:** Strong credit fundamentals, positive technical factors (low issuance and strong fund inflows) and attractive yields make the outlook for high yield municipal bonds appear bright. The sector merits consideration, in our view, as a core fixed income allocation for investors seeking strong income and capital upside potential.

<sup>1</sup> Bloomberg. As of 6/30/2024.

<sup>2</sup> Moody's. As of 6/30/2024.

<sup>3</sup> Moody's. As of 6/30/2024.

<sup>4</sup> Refinitiv. As of 6/30/2024.

<sup>5</sup> Bloomberg. As of 6/30/2024.

Definitions:

**Bloomberg High Yield Municipal Bond Index** is an unmanaged index of non-Investment Grade Municipal bonds traded in the U.S.

**Bloomberg Municipal Bond Index** is an unmanaged index of municipal bonds traded in the U.S.

**Yield-To-Worst** is the lowest potential yield that can be received on a bond without the issuer actually defaulting. The yield to worst is calculated by making worst-case scenario assumptions on the issue by calculating the returns that would be received if provisions, including

prepayment, call or sinking fund, are used by the issuer.

**Past performance is no guarantee of future results.** The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment.

---

**Risk Considerations:** *Investments in high yield are those rated below investment grade (sometimes referred to as "junk") and are typically subject to greater price volatility and illiquidity than higher rated investments. An imbalance in supply and demand in the municipal market may result in valuation uncertainties and greater volatility, less liquidity, widening credit spreads and a lack of price transparency in the market. There generally is limited public information about municipal issuers. 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. As interest rates rise, the value of certain income investments is likely to decline. Investments involving higher risk do not necessarily mean higher return potential.*



Bill Delahunty, CFA  
Portfolio Manager  
Municipals

"Strong credit fundamentals, positive technical factors and attractive yields make the outlook for high yield municipal bonds appear bright."

# 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 ("EVMI") 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.

EVMI 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.*