E|V|M Eaton Vance Management

Timely insights from portfolio managers and industry experts on key financial, economic and political issues.

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Floating-Rate Loans

2020 Mid-Year Outlook: Floating-Rate Loans

Picture of

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Boston - We expect loan prices to keep rising, with starts and stops along the way.

"How we manage credit on a day-to-day basis, in a case-by-case basis, credit by credit, very much remains the same."

For the second half of 2020, we do expect loan prices to continue to rise. We do think they will continue to grind higher, but not necessarily in a linear fashion. There will be starts and stops along the way.

Now, the true economic impacts of the COVID pandemic will play out over the next several months. And we do expect the default rate to rise — perhaps mid to upper single digital defaults for the remainder of 2020, and a low single digit default rate for 2021. That feels about right.

Now, the aggregate default rate during the global financial crisis over a three-year period was 15.2%. So we do think we'll come in a bit under that. But the market is pricing in the default rate of almost two times that that was realized during the global financial crisis. So we do think loans are cheap. We think there's value in the market.

Now, we're an experienced management team. We managed through the dot.com bust, 9/11, global financial crisis and the oil and gas turmoil of 2015 and 2016. How we got to this point in the economic cycle — with a pandemic — is very different from past episodes. However, how we manage credit on a day-to-day basis, in a case-by-case basis, credit by credit, very much remains the same.

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