Eaton Vance

Navigating the Wild Ride for Passive High Yield amid Macro Uncertainty

INSIGHT | FIXED INCOME HIGH YIELD | April 2025

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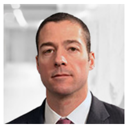

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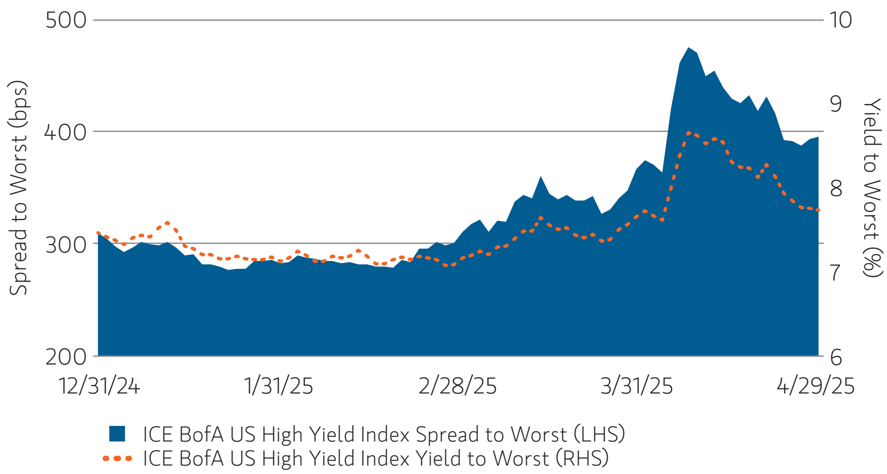
Amid ongoing macroeconomic uncertainty in the wake of U.S. President Trump's "Liberation Day" announcement of sweeping tariffs, the average spread in the high yield market has fluctuated wildly. By mid-April the average spread had jumped by approximately 200 basis points (bps) from post-global financial crisis (GFC) lows set in January, with 112 bps of widening between April 2-7. Meanwhile, the average yield increased to a mid-April peak of 8.65%, relative to a February trough of 7.08%.

DISPLAY 1

High Yield Market Yield and Spread



Source: ICE Indices, Bloomberg. **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.

What do erratic yields and spreads mean for investors?

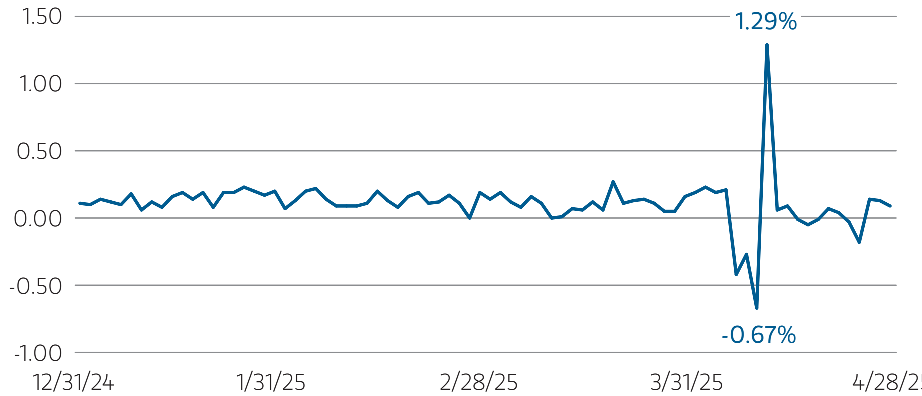
Demand from institutional investors remained relatively resilient during this period. While observable liquidity in lower-rated single-name risk was more challenging, liquidity more broadly was sufficient, particularly when trading in broad baskets of risk or portfolio trading. Ultimately, we have observed orderly price realization and willing providers of liquidity at the right level.

Amid the wild ride during the first two weeks of April, some paths were smoother than others. Passive high yield products were generally more volatile as retail outflows, particularly concentrated in passive investments such as high yield exchange traded funds (ETFs), accelerated in the second week of April to a record level. According to Lipper, one-week outflows from U.S. high yield retail funds totaled approximately $9.6 billion, including $5.7 billion from high yield ETFs.

Extreme flows in passive high yield ETFs caused aggressive swings in the differential between price and net asset value, with discounts of more than 0.6% on April 8 to premiums in the context of 1.3% on April 9, only to go back to less than 20 bps a day later.

DISPLAY 2

Average Passive High Yield ETF Premium/Discount



Source: Morningstar. **Past performance is no guarantee of future results.** The category performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment. Average passive high yield ETF premium/discount is derived from calculating the average daily discount or premium to NAV using the high yield ETFs contained in the high yield bond Morningstar category that are flagged as index funds.

While these aggressive premiums and discounts spell opportunity for market makers, they create excess volatility for the average retail investor.

Where do current high yield market levels leave us?

First, we are going to move thoughtfully, and we are not making any kneejerk reactions. Even as a great deal of uncertainty remains, we believe the ultimate backdrop of tariff policy will be far less draconian than feared in the depths of the first weeks of April.

BOTTOM LINE: In an environment with yields in their widest quartile and spreads in the context of their long-term median, we believe there is opportunity to generate historically attractive long-term returns. As the response to and impact of President Trump's policies continue to unfold, there is potential for additional opportunities in coming days and weeks. Nonetheless, it's impossible to time the bottom of a market or the peak in spreads. In our view, averaging into good quality investments at better prices is sensible.

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