

Preferred Securities Market Insight | June 2026

A Tale of Two Preferred Markets

Key takeaways

- » May was a study in contradiction. Treasury yields moved higher, inflation and labor market data surprised to the upside, rate cuts were priced out and Federal Reserve commentary leaned hawkish. But equities rallied, credit spreads tightened and investor risk appetite improved.
- » Structure drove returns. The \$25 par retail preferred market posted negative returns in May, while \$1,000 par institutional preferreds generated positive returns. The divergence reinforces an important point: Preferreds aren't a homogeneous asset class.
- » Preferred market technicals remain unusually supportive. Banks have issued roughly \$10 billion of \$1,000 par preferreds this year and have called approximately \$15 billion. Preferred ETFs attracted more than \$600 million of inflows during May, creating a favorable supply-demand backdrop.
- » We remain constructive but selective. All-in yields remain attractive, bank fundamentals are solid and technicals continue to support the asset class. However, spreads have tightened, and the next phase of returns is likely to reward structure and security selection more than broad beta exposure.

Recap

May was largely defined by shifting expectations surrounding the Middle East conflict and its implications for inflation. Treasury yields moved sharply higher through the middle of the month as investors grappled with elevated oil prices and the prospect of a prolonged closure of the Strait of Hormuz. The 30-year Treasury briefly exceeded 5.2%, reaching its highest level since 2007. However, as hopes for a US-Iran agreement increased late in the month, oil prices declined sharply, equities rallied and credit spreads tightened. Investment-grade (IG) spreads finished the month near year-to-date tights despite the volatility in rates, underscoring the continued strength of credit fundamentals and investor demand for income-producing assets.

For preferred investors, May became a tug-of-war between rates and spreads. Treasury yields moved higher for much of the month, creating a headwind for duration-sensitive securities. At the same time, credit spreads tightened, and risk assets rallied. The result was a market where structure—rather than credit quality alone—became the primary driver of returns.

A blended index return for May describes an experience that few investors actually had. The \$25 par retail preferred market declined 0.92% during the month, while the broader fixed-rate preferred index declined 0.43%. By contrast, institutional preferreds generated positive returns, with the 1000 par IG (CIPS) index returning 0.53% and the 1000 par HY (HIPS) index returning 0.85%. CoCos and AT1 securities also finished the month in positive territory.

We often discuss preferreds as a single asset class. May demonstrated why that can be misleading. The same market environment produced gains in some preferred structures and losses in others. Duration, call features, reset mechanics and investor base mattered more than broad market direction.

The technical story remains the preferred market's differentiator

The most important story for preferred investors remains technicals. IG corporate issuance continues to run at a heavy pace—+25% year-over-year—driven largely by hyperscalers and AI-related capital expenditures. Preferreds tell a different story. Banks have issued roughly \$10 billion of \$1,000 par preferreds this year and have called

approximately \$15 billion, leaving the market with more than \$5 billion of negative net supply.

Most supply growth we've seen in 2026 has come from corporate hybrids and European AT1 securities rather than traditional bank preferreds. As a result, the investable universe of institutional bank preferreds continues to shrink despite an active primary market.

The primary driver of this trend remains the redemption of low coupon \$1,000 par securities issued during the COVID-19-era rate environment. During May, a large money-center bank announced the redemption of a \$2 billion fixed-to-reset preferred that otherwise would have reset at a spread of approximately 285 basis points over the five-year Treasury. Similar fixed-to-reset structures issued in 2020 and 2021 continue to be redeemed and refinanced as issuers optimize capital structures in a significantly higher rate environment.

At the same time, preferred ETFs attracted more than \$600 million of inflows in May. We suspect a portion of that demand reflects reinvestment activity from called securities. Investors continue receiving par back from redemptions, while the supply of traditional bank preferreds contracts. That combination creates a supportive technical backdrop that few sectors within fixed income currently enjoy.

The technical picture doesn't make preferreds immune to higher rates or wider spreads. However, negative net supply combined with healthy demand helps explain why the asset class has remained resilient despite a challenging rate environment.

Structure matters

The opposite dynamic has emerged within portions of the retail preferred market. Many fixed-for-life \$25 par preferreds issued during the low-rate environment of 2020 and 2021 carry coupons in the 4% area and continue to trade at substantial discounts to par.

Unlike fixed-to-reset structures, these securities offer issuers little economic incentive to redeem and refinance outstanding capital. Given our expectation of higher-for-longer interest rates, persistent fiscal deficits and structurally elevated Treasury yields, we don't believe many of these low-coupon fixed-for-life preferreds will likely return to par in the foreseeable future absent a significant decline in rates.

While this has created performance headwinds, it's also created opportunities. For taxable investors, many of these discounted securities may represent attractive tax-loss-harvesting candidates. In many cases, investors can realize losses and reinvest into securities with higher coupons, more favorable fixed-to-reset structures and materially higher yields without significantly altering portfolio risk characteristics.

The dispersion in returns also serves as a reminder that preferreds aren't a homogeneous asset class. Fixed-for-life retail preferreds, fixed-to-reset institutional preferreds, insurance hybrids, utility hybrids and European AT1s all responded differently to the same market environment. As a result, structure and security selection continue to matter as much as broad market direction.

Private credit: What the headlines get wrong

Last month we published [Private Credit and Preferreds: What the Headlines Get Wrong](#), examining the growing attention surrounding private credit and its implications for preferred investors.

Our conclusion remains unchanged: While investor scrutiny has increased, particularly around software exposure and certain business development company (BDC) structures, we continue to view private credit as a source of dispersion rather than systemic risk. The preferred market has limited direct exposure to private credit. Exposure primarily comes through banks and insurance companies that provide financing to or invest alongside private credit vehicles.

Bank and insurance company exposures remain manageable relative to overall balance sheets and are generally supported by strong collateral, conservative underwriting and structural protections. Borrower fundamentals matter, and dispersion is likely to increase, but we don't believe current conditions present a systemic threat to preferred investors.

In the credit markets, BDC and software concerns have abated as credits in those sectors have seen significant spread tightening. The iShares Expanded Tech-Software Sector ETF returned approximately 20% in May. We'll be watching June redemptions for private credit and BDCs to see if they mirror the outflows we saw in March.

Looking ahead

We enter June constructive on the asset class. All-in yields remain attractive relative to much of the fixed income market, bank fundamentals remain solid and technicals continue to provide support through negative net supply and healthy demand.

At current spread levels, income remains the dominant driver of return. The market has recovered meaningfully from earlier volatility, and spreads leave less room for valuation-driven gains. As a result, the next phase of returns is likely to depend more on security selection and income generation than broad spread compression.

Markets will focus closely on Kevin Warsh's first Federal Open Markets Committee meeting and press conference on June 17. We don't expect a change in policy rates, but investors will be watching for any shift in policy framing, balance sheet management or communication strategy under the new chair.

The more immediate risk may be geopolitical. Equity and credit markets appear to be discounting a successful outcome in Iran and an eventual reopening of the Strait of Hormuz. Any delay in negotiations or renewed escalation could lead to a sharp rise in oil prices, complicating the inflation outlook and creating pressure across both rates and risk assets.

Against that backdrop, we believe the case for preferreds remains intact. The asset class offers attractive income, exposure to generally well-capitalized issuers and a technical backdrop that remains unusual within credit markets. Investors don't need a heroic rate call to be compensated in preferreds today; they need healthy issuers, resilient income and the right structures for a market still shaped by policy uncertainty and geopolitical risk.

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