Parametric

Preferred Securities Market Insight | August 2026

Preferred Coupons Stay Healthy as Back Ends Slim Down

Key takeaways

» **The trend toward lower back ends.** New-issue preferred coupons remain attractive by historical standards, but reset spreads have moved meaningfully tighter. Investors can still recieve healthy current income, but issuers are increasingly reducing the back end, which makes extension value less attractive if securities aren't called.

» **Macro volatility weighed on preferreds as yields moved higher.** July was a more difficult month for fixed income as renewed tensions around the Strait of Hormuz pushed oil prices higher, causing bond yields to rise and markets to discount otherwise benign inflation data. The 10-year Treasury closed the month at 4.74%, up roughly 30 basis points (bps), while the 30-year moved above 5.25%, its highest level since 2007, creating a headwind for fixed-rate preferred securities.

» **Bank earnings remained a fundamental bright spot.** Second-quarter results were uniformly strong. All six major banks beat estimates, led by JPMorgan's record $21.2 billion quarterly profit, and regional banks reported similarly clean credit trends. Results were supported by resilient net interest income, strong capital markets activity and low provisioning for credit losses, though a good chunk of the capital markets' upside came from large, one-off deals that may be tough to repeat.

» **We remain constructive on preferred securities.** We continue to prefer $1,000-par institutional preferreds given stronger structures, better technicals and more attractive relative value. That said, the continued sell-off in $25-par retail securities has created more interesting valuations and selective opportunities.

New-issue market and technicals

New-issue activity continued in July, but conditions became more challenging as the month progressed. The combination of the Federal Open Markets Committee meeting, renewed escalation around Iran, higher long-end Treasury yields and weak secondary performance from recent new issues kept issuance largely on the sidelines during the final week of the month.

Average new-issue coupons are approximately 7.6% in $25-par preferreds and 6.5% in $1,000-par preferreds, attractive by post-financial-crisis standards. At the same time, average fixed-to-floating back-end spreads have compressed to roughly 2.5% and even lower for higher-quality credits, near the tightest levels of the past decade. July's deals bore this out.

Figure 1: Back-end spreads, as of July 31, 2026

ISSUER	PAR	COUPON	RESET SPREAD	RECENT PRICE	YIELD
M&T Bank (MTB)	$25	6.625% (fixed)	n/a (fixed, no reset)	$24.79	6.69%
Bank of NY (BNY)	$1,000	6.15%	5yr CMT + 1.868%	99.25	6.32% YTC
Citizens Financial (CFG)	$1,000	6.75%	5yr CMT + 2.379%	99.25	6.92% YTC
Goldman Sachs (GS)	$1,000	6.5%	5yr CMT + 2.175%	99.30	6.67% YTC

Source: Bloomberg, company reports, as of 7/31/2026. All four deals priced July 16 through 20, 2026, perpetual, non-call-5. Pricing as of July 31, 2026. For illustrative purposes only and does not constitute an offer or a recommendation to buy or sell any particular security.

It feels as if preferreds have discovered GLP-1s. Current coupons in the 6% to 7% range screen well historically, but several recent $1,000-par bank deals carried reset spreads at or only modestly above 2%, thinner than at almost any point in the post-2013 period. The income today is compelling, but extension value is less attractive if these securities aren't called and eventually reset at these lower back-end spreads. Security selection matters more in this environment. We continue to prefer structures where coupon, call schedule, reset spread and issuer fundamentals all line up.

Secondary performance reflected the more difficult late-month backdrop, with the four recent new issues in figure 1 all trading below par into month-end. By contrast, the broader $25-par secondary market recovered roughly 1% on the final week as the 10-year eased slightly off its recent high, while $1,000-par securities stayed under more pressure. Fund flows softened at the margin, with preferred ETFs seeing roughly $49 million in outflows in the week ending July 31, though longer-term demand remains constructive, with about $1.75 billion in inflows over the past 30 weeks and $3.24 billion over the past 52 weeks.

Supply technicals remain a net positive for the asset class. Combined preferred issuance is down 31% year-over-year (YoY), and net issuance in the $1,000-par institutional market is negative by roughly $5 billion, a supportive technical, as redemptions are outpacing new supply in the segment most exposed to rate volatility.

Figure 2: Combined preferred issuance, as of July 31, 2026

MARKET	2026 YTD ISSUANCE	2025 YTD ISSUANCE	YOY	2026 YTD REDEMPTIONS	NET ISSUANCE
$25-par	$4.589 Bn (21)	$6.255 Bn (26)	-27%	$2.884 Bn (33)	+$1.705 Bn
$1,000-par (ex-AT1)	$14.430 Bn (13)	$21.351 Bn (13)	-32%	$19.387 Bn (17)	-$4.957 Bn
Combined	$19.019 Bn	$27.606 Bn	-31%	$22.271 Bn	-$3.252 Bn

Source: Bloomberg, as of 7/31/2026. For illustrative purposes only and does not constitute an offer or a recommendation to buy or sell any particular security.

Near-term redemptions should provide further technical support: roughly $3.15 billion in $1,000-par preferreds are scheduled to be called in August, including issues from Goldman Sachs, Citigroup and Energy Transfer, all originally priced with wider reset spreads than current new-issue levels.

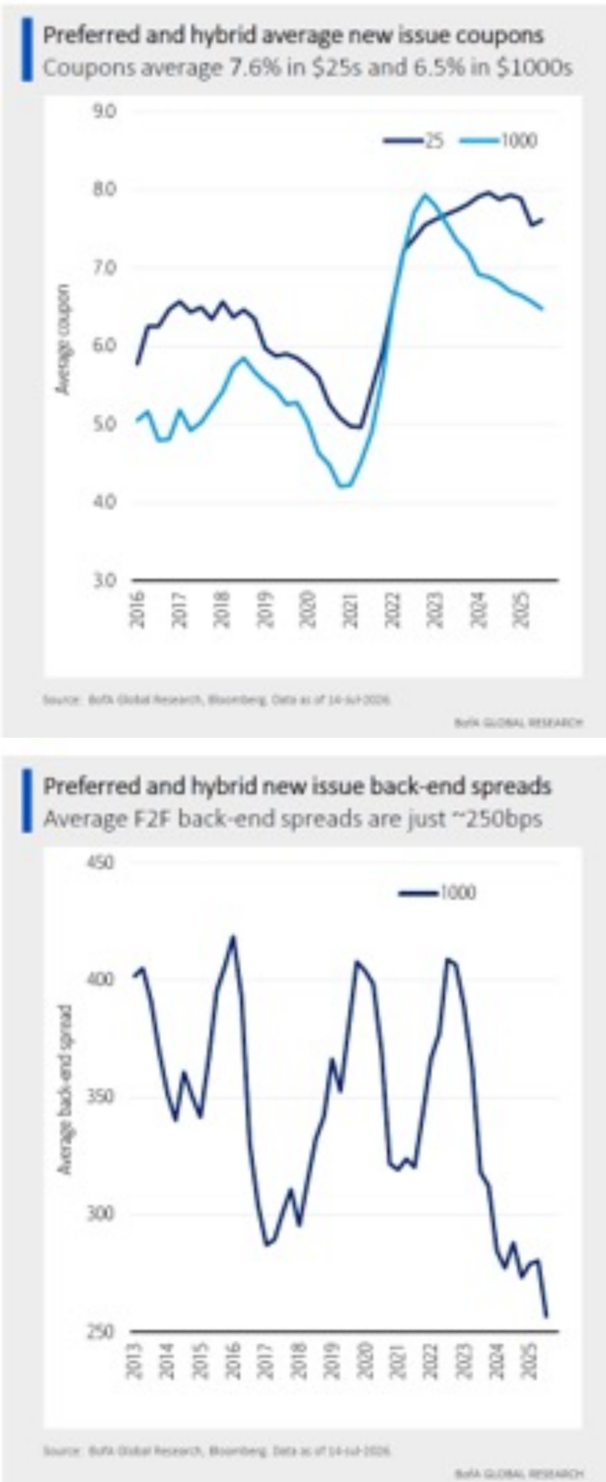
Figure 3: Near-term redemptions, as of July 31, 2026

ISSUER	AMOUNT	ISSUED	CALLED	RATE
Goldman Sachs	$750 M	7/21/2021	8/10/2026	3.65%, 5-yr CMT + 2.915%
Citigroup	$1,500 M	4/18/2016	8/15/2026	6.25%, 3-mo SOFR + 4.779%
Energy Transfer	$900 M	6/1/2021	8/17/2026	6.5%, 5-yr CMT + 5.694%
Total	**$3,150 M**	-	-	-

Source: Bloomberg, as of 07/31/2026. For illustrative purposes only and does not constitute an offer or a recommendation to buy or sell any particular security.

Figure 4 illustrates the same new-issue dynamic discussed above: Average coupons remain historically attractive across both $25-par and $1,000-par structures, while average fixed-to-floating back-end spreads have compressed to some of the tightest levels of the past decade.

Figure 4: Back-end spreads, as of July 31, 2026



Source: Bank of America, as of 07/31/2026. For illustrative purposes only. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

Positioning

We remain constructive on preferred securities into year-end. We continue to prefer $1,000-par institutional structures for their stronger covenants, superior technicals (negative net issuance) and better relative value compared with $25-par retail preferreds. That said, the extended sell-off in $25-par securities has pushed valuations to levels we find increasingly interesting, and we'd look to add selectively into further weakness. With carry likely to be the dominant driver of fixed income returns in a range-bound rate environment, we believe preferred securities are well positioned to outperform.

ABOUT

Parametric Portfolio Associates LLC ("Parametric"), headquartered in Seattle, is registered as an investment advisor with the US Securities and Exchange Commission under the Investment Advisers Act of 1940. Parametric is a leading global asset management firm, providing investment strategies and customized exposure management directly to institutional investors and indirectly to individual investors through financial intermediaries. Parametric offers a variety of rules-based investment strategies, including alpha-seeking equity, fixed income, alternative and options strategies. Parametric also offers implementation services, including customized equity, traditional overlay and centralized portfolio management. Parametric is part of Morgan Stanley Investment Management, the asset management division of Morgan Stanley, and offers these capabilities through offices located in Seattle, Boston, Minneapolis, New York and Westport, Connecticut.

DISCLOSURES

This material may not be forwarded or reproduced, in whole or in part, without the written consent of Parametric. Parametric and its affiliates are not responsible for its use by other parties.

This information is intended for informational purposes and details investment strategies and opportunities identified by Parametric. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors. Past performance is not indicative of future results. Investing entails risk, and there can be no assurance that Parametric will achieve profits or avoid incurring losses. Preferred securities are subject to interest rate risk. They generally decrease in value if rates rise and increase in value if rates fall. Parametric and Morgan Stanley do not provide legal, tax or accounting advice or services. Clients should consult with their own tax or legal advisor prior to entering into any transaction or strategy described herein. Additional information is available on request.

Charts, graphs and other visual presentations and text information were derived from internal, proprietary or service vendor technology sources or may have been extracted from other firm databases. As a result, the tabulation of certain reports may not precisely match other published data. Data may have originated from various sources, including, but not limited to, Bloomberg, MSCI/Barra, FactSet or other systems and programs. Parametric makes no representation or endorsement concerning the accuracy or propriety of information received from any third party.

Source of all data: Bloomberg, 07/31/2026. Bloomberg is a trademark and service mark of Bloomberg Finance LP ("Bloomberg"). "Barclays" is a trademark and service mark of Barclays Bank Plc, used under license. Bloomberg Finance LP and its affiliates (collectively "Bloomberg") or Bloomberg's licensors own all proprietary rights in the Bloomberg Barclays indexes. Neither Bloomberg nor Barclays Bank Plc or its affiliates (collectively "Barclays") guarantees the timeliness, accuracy or completeness of any data or information related to the Bloomberg Barclays indexes. This strategy is not sponsored or endorsed by Bloomberg or Barclays, and each makes no representations regarding the content of this material.

References to specific securities and their issuers are for illustrative purposes only and are not intended to be and should not be interpreted as a recommendation to purchase or sell such securities. Any specific securities mentioned are not representative of all securities purchased, sold or recommended for advisory clients. Actual portfolio holdings vary for each client, and there is no guarantee that a particular client's account will hold any or all of the securities identified. It should not be assumed that any of the securities or recommendations made in the future will be profitable or will equal the performance of the listed securities.

Parametric is located at 800 Fifth Avenue, Suite 2800, Seattle, WA 98104. For more information regarding Parametric and its investment strategies, or to request a copy of the firm's Form ADV or a list of composites, contact us at 206 694 5500 or visit www.parametricportfolio.com.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. INDEX PERFORMANCE IS SHOWN FOR ILLUSTRATIVE PURPOSES ONLY AND NOT MEANT TO DEPICT THE PERFORMANCE OF A SPECIFIC INVESTMENT.

RO 5827383 SKU 42513 07/31/2027 26Q30210