Parametric

Preferred Securities Market Insight | October 2026

# Rate Volatility Creates Opportunity

## Key takeaways

- Rapid rate sell-offs dragged on preferred returns. The 10-year Treasury rose more than 50 basis points (bps) in September and is now over 100 bps higher year to date. The Federal Reserve (Fed) hiked 25 bps, lifted the target range to 3.75% to 4.00% and signaled that additional hikes remain possible.

- This was primarily a rates and term-premium shock, not a credit event. Higher discount rates pressured preferreds, not deteriorating issuer fundamentals. The market demanded more compensation for policy uncertainty, deficits, Treasury supply, oil risk and long-duration exposure.

- $1,000-par preferreds continued to outperform $25-par preferreds. The $25-par index declined 4.22% in September and is down 5.70% year to date. $1,000-par investment-grade (IG) preferreds declined 2.18% and are down only 0.54% year to date, while $1,000-par high-yield (HY) preferreds and Contingent Convertible bonds (CoCos) remain positive year to date.

- Preferreds could use an October surprise. Lower oil prices could ease inflation anxiety, reduce term premium and help Treasury yields retrace. The key issue is the market transmission from lower oil to lower yields.

- Supply technicals remain supportive despite weak price action. New preferred issuance slowed while rates climbed, while redemptions continued in legacy $1,000-par structures with high back-end reset spreads. Year-to-date net issuance remains negative by roughly $7.6 billion across the preferred market, including nearly $8 billion of negative net issuance in $1,000-par domestic perpetual preferreds.

## Macro overview: rapid rate sell-offs drag on returns

September was a difficult month for fixed income with Treasury yields repricing sharply higher. The 10-year Treasury rose over 50 bps during the month and is now higher by more than 100 bps year to date. The sell-off lifted both the 10-year Treasury and the long bond to their highest closing levels since 2007 and 2002, respectively. The two-, 10- and 30-year Treasurys rose 55 bps to 4.89%, 53 bps to 5.28% and 39 bps to 5.63%, respectively.

The Fed was the catalyst. The Federal Open Market Committee (FOMC) raised rates by 25 bps, and the updated dot plot signaled one additional hike in 2026. Economic data gave the Fed cover to move, with payrolls rising 162,000 versus a 55,000 consensus, retail sales increasing 1.2% and second-quarter GDP revised higher to 2.2%. A softer month-end core Personal Consumption Expenditure (PCE) Price Index print helped reduce October hike odds but didn't reverse the rate pricing.

This rate move also fits into a broader term-premium story. U.S. gross national debt exceeding $40 trillion in August intensified investor concerns about Treasury supply, deficits and the clearing level required for long-duration bonds. Oil prices increasingly influence rates. Our 10-year framework showed the one-month rolling correlation between West Texas Intermediate (WTI) and the 10-year Treasury at 0.96 versus a historical norm closer to 0.25.

Preferreds don't need a full Fed easing cycle to perform better. We believe they need the rapid sell-off rate to stabilize. A credible catalyst that lowers oil prices could reduce inflation anxiety, lower term premium and allow Treasury yields to retrace part of September's move.

## Preferred market performance

Preferred indexes sold off sharply in September as higher yields pressured fixed-rate and long-duration securities. The hierarchy remained intact: $25-par retail preferreds underperformed again, while $1,000-par institutional preferreds and CoCos held up better.

The sell-off has created better entry points. We still prefer $1,000-par institutional preferreds and CoCos given stronger institutional sponsorship, better technicals and less exposure to retail-driven selling pressure. However, the $25-par market is becoming more interesting on a selective basis, particularly with many on-the-run securities down 10% to 15% year to date.

## How we value preferred securities

Coupon or current yield are only starting points for valuing preferreds. We value preferred securities through a broader framework that includes current income, yield-to-worst, spread, rate sensitivity, call probability, reset spread and extension value.

The most important distinction is that many preferreds aren't simple perpetual bonds. A fixed-to-reset preferred has two lives: the fixed-rate period before the call date and the reset period, when the coupon adjusts based on a reference rate plus a contractual spread, often referred to as the back end.

That back end matters. A high coupon may look attractive today, but if the reset spread is too low, the security may offer less downside risk mitigation if it's not called. Conversely, older preferreds with high reset spreads may be more likely to be redeemed because they become expensive capital for the issuer. Each security needs to be evaluated based on its coupon, reset spread, issuer funding cost, capital treatment and price relative to par.

| INDEX | INDEX NAME | MTD | YTD | 1-YEAR |
|---|---|---|---|---|
| **POP1** | ICE BofA Fixed Rate Preferred Securities | -3.41% | -4.28% | -4.58% |
| **POP4** | ICE BofA Core Plus Fixed Rate Preferred ($25 Par) | -4.22% | -5.70% | -7.00% |
| **CIPS** | ICE BofA U.S. IG Institutional Capital Securities ($1,000 Par) | -2.18% | -0.54% | 0.77% |
| **HIPS** | ICE BofA U.S. HY Institutional Capital Securities ($1,000 Par) | -1.82% | 1.64% | 2.25% |
| **CDLR** | ICE USD Contingent Capital Index | -1.88% | 0.94% | 2.80% |

**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.

## Redemptions and technicals

New issuance slowed as rates moved higher, but redemptions remained active. PNC Financial called $525 million of its Series S $1,000-par preferred, which would have reset to Secured Overnight Financing Rate (SOFR) + 3.56%, and M&T Bank called $500 million of its Series F $1,000-par preferred, which would have reset to SOFR + 3.78%. These redemptions reinforce the value of high back-end spreads. Issuers remain willing to call legacy securities with expensive reset terms, even in a higher-rate environment. At the same time, year-to-date supply technicals remain supportive: combined preferred net issuance is down approximately $7.6 billion, including nearly $8 billion among $1,000-par domestic perpetual preferreds.[1]

## Looking forward: earnings, midterms and tax-loss harvesting

Looking forward, we see three key themes for preferred investors in October: bank earnings, midterm election uncertainty and year-end tax-loss harvesting.

Third-quarter bank earnings season begins in October and should provide an important fundamental check for preferred investors. Despite the recent pullback in bank stocks, we expect solid earnings from the large U.S. banks. Morgan Stanley Research notes that the median bank in its coverage underperformed the S&P 500® by roughly eight percentage points quarter to date, largely due to slower capital markets revenue growth, concerns around higher funding costs and a more hawkish Fed. However, fundamentals remain strong, and the group should become more attractive into late Q4 and 2027.

The earnings setup may not deliver a major near-term catalyst, but the medium-term supports remain intact. Large-cap banks remain broadly asset sensitive, loan growth should continue, capital deployment should improve when regulatory rules are finalized and capital markets pipelines remain healthy. The key point for investors is that rates and technicals have been the main driver of the recent preferred sell-off, not issuer fundamentals.

Midterm elections could sustain investors concerns on policy, fiscal and regulatory uncertainty. We don't expect preferred investors to trade directly around election outcomes, but midterms may delay risk-taking, mergers and acquisitions activity and capital deployment until investors have more visibility.

Finally, tax-loss harvesting could become a meaningful technical factor in the $25-par market in the fourth quarter. Many on-the-run $25-par preferreds are down meaningfully year to date, and advisors may look to realize losses before year end. That could create additional near-term pressure in the listed preferred market, even as valuations become more attractive.

In our view, preferreds don't need a full Fed pivot to perform better—they need the rapid rate sell-off to stabilize. If rates stop moving sharply higher, bank earnings remain resilient and tax-loss selling creates better entry points, preferreds should be well positioned into year-end. Carry is more attractive, valuations are better and issuer fundamentals remain solid. We continue to prefer $1,000-par institutional preferreds and CoCos, but the sell-off in $25-par securities is creating more interesting opportunities for selective investors.

[1] Morgan Stanley, as of 2026.

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RO 6037804 SKU 42513 10/31/2027

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