Parametric

Preferred Securities Market Insight | November 2026

Rates Rally, $25-Par Preferreds Lag

Key takeaways

- Treasuries staged a meaningful rally. The 10-year yield declined 36 basis points (bps) to 4.93% in October after reaching 5.3% early in the month. The move reflected a flight to quality as artificial intelligence (AI) trade weakened, even as growth and inflation data stayed firm.
- The Federal Reserve is tightening without urgency. Following September's 25-bps hike, the Federal Open Markets Committee (FOMC) held its target range between 3.75% and 4%. Two members dissented in favor of another hike, leaving the December meeting very much in play.
- $25-par preferreds failed to participate. The $25-par index declined 1.88% in October, while $1,000-par investment-grade (IG) preferreds gained 0.99%. Tax-loss selling, persistent ETF outflows and weaker risk appetite offset the benefit of lower Treasury yields.
- Credit fundamentals remain supportive. Third-quarter bank earnings were broadly strong, with healthy profitability and credit quality. Some large banks nevertheless reported lower CET1 ratios as unrealized bond losses, asset growth and capital distributions weighed on capital.

Macro overview: A rates rally amid crosscurrents

October reversed part of September's sharp Treasury sell-off. After the 10-year yield approached 5.3% early in the month, risk aversion around technology and AI-related financing supported a flight to Treasurys. The two-year yield fell 30 bps to 4.59%, the 10-year fell 36 bps to 4.93% and the 30-year fell 32 bps to 5.31%. But the rally in risk-free rates didn't signal an all-clear for credit. IG spreads widened 10 bps to 89 bps, and high-yield spreads widened 32 bps to 345 bps as investors reassessed valuations and financing demands in the AI complex.

Economic releases offered conflicting signals. September payroll growth slowed to 29,000, with the unemployment rate rising to 4.2%, while third-quarter GDP grew at a 3.4% annualized pace and consumer spending rose 3.8%. Inflation remained above target: September headline personal consumption expenditures (PCE) rose 3.6% year over year (YoY), and core PCE rose 3.1%. Higher energy costs added another potential source of inflation pressure. In short, softer hiring hasn't yet translated into a broadly weak economy.

At its October meeting, the FOMC left policy unchanged after raising rates in September. The committee upgraded its characterization of activity from "solid" to "strong," and the decision passed 10 to two, with both dissenters preferring a 25-bps increase. Chair Warsh offered little forward guidance, but the message remains consistent with our view of the Fed leaning toward further tightening without urgency. Markets entered November with meaningful expectations for a December hike.

Despite the substantial Treasury rally, listed preferreds continued to lag. The gap between $25-par and institutional preferred returns suggests that much of the listed-market weakness was technical rather than a broad deterioration in issuer credit. Some seasoned $25-par securities are down 10% to 15% in price year to date, prompting advisers to realize losses ahead of year-end. Preferred-focused ETFs also experienced roughly $500 million in October net outflows.[1] We continue to favor $1,000-par institutional structures, but discounted $25-par issues are becoming more compelling selectively as starting yields improve.

Bank earnings: Strong operations, some capital pressure

Third-quarter results from the 20 largest US banks were better than expected: All 20 met or exceeded earnings estimates. Median core earnings per share increased 17% YoY, and core revenues rose 9.2%. Commercial lending, higher net-interest margins and fee income supported results. Equity-trading revenues advanced 43% YoY, while investment-banking revenues increased 8.4%; fixed income, currencies and commodities trading were the notable weak spots. Credit trends remained reassuring, with a median nonperforming-assets ratio of 0.77% and net charge-offs of 0.34%.[2]

Strong earnings didn't prevent some CET1 declines. JPMorgan's standardized CET1 ratio declined from 14.2% to 13.9%, Bank of America's from 11.2% to 10.9% and Wells Fargo's from 10.3% to 10%. Accumulated other comprehensive income losses on securities were part of the story, but so were higher risk-weighted assets, loan growth and distributions to shareholders; the contribution differed

DISPLAY 1

Preferred market performance, as of October 30, 2026

INDEX	PREFERRED SECURITIES INDEX	OCTOBER	2026 YTD
POP1	Fixed Rate Preferred Securities	-0.72%	-4.98%
POP4	$25-Par Core Plus Fixed Rate	-1.88%	-7.48%
CIPS	$1,000-Par IG Institutional	+0.99%	+0.45%
HIPS	$1,000-Par HY Institutional	+0.64%	+2.29%
CDLR	USD Contingent Capital	+0.26%	+1.20%

Source: ICE BofA, ICE Index, 10/30/2026. Total returns in US dollars. For illustrative purposes only. It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**

[1] Source: Morgan Stanley as of 10/30/2026.

[2] Source: Morningstar as of 10/30/2026.

by institution. That distinction matters for preferred holders: Accounting losses on securities aren't the same as credit losses, and investors should evaluate bank capital positions against issuer-specific regulatory requirements.

In Europe, French banks weakened as investors focused on French sovereign debt and fiscal uncertainty. Reported direct French government-bond holdings appear manageable relative to the major banks' balance sheets, and operating results have remained broadly resilient. We're monitoring potential indirect effects through funding costs and sentiment but don't currently see this as a broader bank-capital impairment story.

Issuance, redemptions and technicals

The institutional new-issue market reopened following earnings, with Bank of New York Mellon issuing $1.25 billion at 7.125%, U.S. Bancorp $1 billion at 7.2% and Bank of America $2 billion at 7.2%. Redemptions continued in legacy securities carrying high reset spreads, including announced calls of PNC's $525 million Series S and M&T's $500 million Series F. Through October, combined domestic preferred net issuance was negative approximately $5 billion, providing a potential technical offset to weaker ETF demand.[3] These new issues also underscore the importance of assessing preferred valuations by call probability, reset spread and extension value, not simply the headline coupon.

Looking forward: Midterms, oil, the Fed and tax losses

November begins with several crosscurrents. The US midterm elections on November 3 may reduce one source of near-term uncertainty, but geopolitical developments remain a risk. Markets are watching whether US–Iran hostilities intensify after the elections, particularly given the implications for oil and diesel prices, inflation and long-term yields. The December FOMC meeting is the next major policy event. Strong growth and persistent inflation could support another hike, while softer labor data and further risk-asset weakness argue for a measured approach.

For preferred investors, year-end technicals may be just as important as the Fed. Advisers still have opportunities to review tax-loss harvesting in selected $25-par preferreds and related solutions that have experienced double-digit price declines, subject to individual tax circumstances and applicable wash-sale considerations. Selling pressure could persist for several more weeks, but it may also create attractive entry points. If Treasury yields stabilize, credit fundamentals remain healthy and tax-related supply begins to ease, we see a potentially better setup for discounted listed preferreds into year-end. We maintain a preference for institutional $1,000-par securities, while becoming more constructive on selected high-quality $25-par issues at current prices.

[3] Source: Morningstar as of 10/30/2026.

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