

Preferred Securities Market Insight | May 2026

## Rates Rally, Spreads Tighten and Preferreds Rebound

### Key takeaways

- » **Preferreds rebounded sharply.** The ICE BofA Fixed-Rate Preferred Securities Index returned 2.23% in April, recouping March's drawdown and bringing year-to-date (YTD) performance to 0.8%. \$25 par retail securities (+3.01%) outperformed \$1,000 par institutional preferreds (+1.33%), and contingent convertibles (CoCos) (+2.65%) participated in the rally.
- » **Rates and spreads both contributed.** The April rally was a mirror image of March. Treasury yields stabilized after the Iran-driven repricing, investment-grade (IG) spreads tightened nine basis points (bps) and high-yield (HY) spreads tightened 45 bps, providing a tailwind for hybrid capital across the rating spectrum.
- » **Bank earnings reassured.** 1Q26 results from money centers and regionals showed stable-to-expanding net interest income (NII), robust capital market revenues and benign credit. Management teams pushed back hard on private credit and consumer credit narratives, reinforcing the belief that exposures are manageable and losses contained.
- » **Technicals remain a tailwind.** Despite a pickup in institutional issuance post-earnings, banks have redeemed over \$10 billion more in preferreds than they've issued YTD as regulatory relief reduced capital husbanding. Preferred ETF inflows topped \$300 million in April.

## Market recap

April delivered a constructive backdrop for preferred securities, with the ICE BofA Fixed-Rate Preferred Securities Index rebounding 2.23% and bringing YTD returns back into positive territory at 0.8%. The rally was led by \$25 par retail securities, which returned 3.01% and outperformed the \$1,000 par institutional segment's 1.33% gain, essentially the inverse of March's pattern, when retail's longer effective duration and equity sensitivity made it the underperformer. CoCos and AT1 securities returned 2.65%, reflecting the broader risk-on tone in subordinated bank capital.

The drivers were straightforward. Equities rallied with the **S&P 500® rising 10.4%** for the month, its strongest monthly gain since November 2020, according to Dow Jones Market Data (as cited by MarketWatch). Treasury yields stabilized after the Iran-conflict repricing in March, with the 10-year trading in a range and closing the month only modestly higher. More importantly, credit spreads tightened meaningfully. IG OAS narrowed nine bps to 81 bps, while HYs tightened 45 bps to 283 bps. The combination of a less hostile rate backdrop and tighter spreads is precisely the environment where preferreds, with their hybrid duration and credit exposure, tend to do well. Credits related to business development companies (BDCs) and insurance companies outperformed.

This is the kind of monthly performance that reminds investors why income remains the dominant driver of total return at current spread levels. With IG OAS at 81 bps and preferreds offering yield premiums well above senior unsecureds, the math of carry plus a stable rate environment continues to work. We've said consistently that the Congressional Budget Office baseline on rates is a floor rather than a ceiling, and April's price action—where modest rate stabilization paired with spread compression—reinforces our view that selection and structure matter more than directional duration calls in this environment.

## FOMC: Powell's last meeting, Warsh's first headache

The April 28–29 Federal Open Markets Committee (FOMC) meeting was a transitional moment. The FOMC held the policy rate steady at 3.5% to 3.75% as universally expected, but the meeting was notable for what surrounded it rather than the decision itself. The Justice Department dropped its probe of outgoing chair Powell ahead of the meeting, clearing the political path for Kevin Warsh's nomination to advance out of the Senate Banking Committee on a 13-11 party-line vote the same morning. Powell, in his final press conference as chair, confirmed he intends to remain on the Board of Governors after his term as chair ends on May 15, an unusual step that preserves his vote on the rate-setting committee through January 2028 and could meaningfully constrain the new chair.

The decision came with four dissenters—the most since October 1992. Three of the four (Hammack, Kashkari, Logan) dissented against language in the statement they viewed as too dovish, preferring removal of the easing bias; one (Miran) dissented in favor of a cut. The split underscores how difficult it'll be for Warsh to engineer a near-term cutting cycle even if he's inclined to do so. Markets absorbed the message and now price roughly flat policy rates through July 2027. For preferred investors, the practical implication is that the front end of the curve is unlikely to provide meaningful relief on funding costs for issuers, but it also reduces the tail risk of a hawkish surprise that could drive another duration-led drawdown like March's. We view the rate environment as range-bound rather than directional, which favors income harvesting and disciplined positioning over bets on either a duration rally or a credit-led repricing.

## Bank earnings: A reassuring set of prints

Large-bank 1Q26 earnings were the most important fundamental input of the month, and the results were broadly reassuring for preferred holders. Money centers benefited from outsized trading and investment banking results, while regional banks delivered double-digit year-over-year (YoY) net income growth driven by NII expansion, fee income strength and continued credit normalization. Net interest margins

stabilized to expand modestly across the sector, fixed-rate asset repricing continued to provide a tailwind and a number of banks revised full-year NII or fee guidance higher. Capital positions remain robust; CET1 ratios drifted modestly lower as banks deployed capital through buybacks and loan growth, but buffers above minimums are healthy and several banks raised their FY26 repurchase plans.

More important than the numbers was the messaging. Management teams used 1Q26 calls to push back, in unusually direct terms, on the private credit and consumer credit narratives that had weighed on sentiment in March. On private credit, the disclosures were granular and consistent: Lending to BDCs and private credit funds is a small fraction of total loans across the money center and regional bank universe—single-digit percentages for most—and is structured with strong collateral, conservative advance rates and covenant protections. One large regional bank CFO went farthest, characterizing the bank's non-depository financial institution (NDFI) book as its lowest-risk loan category, with effectively zero losses going back 25-plus years and explicitly guiding to zero losses on the portfolio.

The clarification on the "business credit intermediary" line in NDFI regulatory reporting was particularly useful. The category, which had been read by some observers as a proxy for private credit exposure, turned out to be dominated by trade-receivable securitization rather than direct lending to private credit funds. That reframing alone should reduce some of the headline-driven anxiety around bank NDFI disclosures going forward. On the consumer side, management teams universally reported stable-to-improving delinquencies and net charge-offs, with credit card metrics ticking modestly higher seasonally but lower YoY. Tighter underwriting and the runoff of weaker 2022–2023 vintages continue to support the consumer credit story. None of this means there aren't risks worth monitoring. We continue to think the dispersion in BDCs and software-exposed credit is real, but the systemic narrative that drove March's spread widening looks substantially less compelling after this earnings season.

## **Technical: Still a tailwind, even with supply picking up**

Institutional preferred supply picked up notably in the days following bank earnings, but the broader technical picture remains supportive. YTD, banks have redeemed over \$10 billion more in preferred securities than they've issued, a continuation of the multi-year contraction in net supply that's been a structural tailwind for the asset class. Recent regulatory developments—including the Basel III re-proposal, which is expected to reduce real-world assets by mid-to-high single digits across the regional bank universe and roughly 5% across the Global Systemically Important Bank cohort—are reducing the imperative for banks to husband regulatory capital and at the margin, this should sustain the favorable redemption-versus-issuance dynamic.

April's primary calendar was orderly and well-absorbed. A large money center bank issued a \$1,000 par fixed-to-float preferred at 6.10%, with a major US brokerage house pricing at the same level. An auto-related financial lender came at 7.1%. A large Spanish bank priced AT1 at 7.125% and a large French bank at 7.2% earlier in the month. On the corporate hybrid side, an energy pipeline issuer brought five- and 10-year non-call hybrids at 6.125% and 6.375%, respectively. The use-of-proceeds the bank issues is largely tied to refinancing—imminent calls on existing preferred series—which means net supply impact has been muted and the market has digested the calendar without spread concession.

ETF flows reinforced the technical picture. Preferred ETFs took in more than \$300 million in April, a brisk pace that reflects continued demand from yield-oriented investors looking to deploy cash at attractive starting yields. With \$1,000 par preferreds yielding well above senior unsecured corporates, and with qualified dividend income treatment available on a meaningful share of the universe, the after-tax case for preferreds remains compelling for taxable accounts. Between negative net supply, healthy ETF inflows and a stabilizing rate environment, the technical setup heading into May looks as constructive as it has all year.

## Looking ahead

We enter May with the asset class in a meaningfully better position than the March drawdown suggested. Bank fundamentals are stable to improving, credit narratives that drove March's spread widening have been substantially defused by 1Q26 earnings disclosures, technicals continue to favor preferreds through negative net supply and the rate backdrop has shifted from hostile to range-bound. Spreads are tight by historical standards, which limits the scope for further compression, but elevated all-in yields mean income remains the dominant return driver, and at current levels, that income is doing real work.

Risks worth watching include the Warsh confirmation and any signals about the Fed's reaction under new leadership, the durability of the energy-driven inflation impulse from the Iran conflict and continued dispersion in pockets of private credit and software-exposed lending. None of these are systemic threats to the preferred market in our view, but they are sources of dispersion that can reward security selection. As we've said for some time now, this is an environment where the structure of what you own—fixed-for-life versus fixed-to-reset, \$25 par versus \$1,000 par, bank versus corporate hybrid, US versus European AT1 and so on—matters more than directional bets. April rewarded that framing, and we expect May to favor more of the same.

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