

Preferred Securities Market Insight | March 2026

Battening Down the Hatches

Key takeaways

- » **Institutional preferreds outperformed in February**, with \$1,000-par securities returning roughly **0.85%**, compared with **0.49% for the broader preferred market** and **0.45% for the \$25-par retail segment**, though retail preferreds still lead year-to-date (YTD) performance.
- » **Credit spreads widened across markets**, particularly in lower-quality segments, as geopolitical risk, private credit concerns and sector-specific developments weighed on risk sentiment.
- » **Artificial intelligence (AI) disruption emerged as a new market theme**, shifting focus from infrastructure demand toward the potential impact on business models, particularly within software.
- » **Preferred market technicals remain constructive**, supported by continued net redemptions in institutional preferreds and steady investor demand for income-oriented assets.

Market recap

Preferred securities delivered mixed results in February amid more volatile macro and credit backdrops. Institutional \$1,000-par securities modestly outperformed during the month, though retail preferreds still lead returns YTD after their strong start earlier in the year. Over the trailing 12 months, preferred indexes continue to show solid performance, with returns ranging from roughly 4% to 10%, depending on structure and credit quality.

The broader credit environment was more challenging. Treasury yields declined modestly early in the month before retracing higher, while credit spreads widened across both investment-grade and high-yield markets as risk appetite deteriorated. The **10-year Treasury briefly fell below the 4% level** on geopolitical concerns before moving back higher later in the month as oil prices rose and inflation fears resurfaced. Despite the headlines, the benchmark yield has spent most of the year trading in a relatively narrow **4% to 4.25% range**.

A significant policy development occurred when the **Supreme Court ruled that tariffs imposed under the International Emergency Economic Powers Act were illegal**, potentially requiring the government to refund hundreds of billions of dollars in previously collected tariff revenue. In response, the administration moved quickly to introduce a new **temporary global tariff under Section 122 of the Trade Act of 1974**, while simultaneously pursuing additional trade measures under Sections 301 and 232. These developments add another layer of uncertainty to the policy outlook and highlight the evolving interplay between trade policy, fiscal policy and inflation expectations.

At the same time, markets increasingly began to focus on the disruptive potential of **agentic AI**. Earlier in the cycle, investors were primarily concerned with the capital investment required to support AI infrastructure. More recently, attention has shifted toward how rapidly-evolving AI capabilities may affect existing business models. The launch of several advanced AI applications has raised questions about the durability of traditional software subscription models and recurring revenue streams, creating increased volatility across both equity and credit markets.

This shift has been particularly evident in **business development companies (BDCs)**, many of which have meaningful exposure to software companies in their loan portfolios. One large, software-focused BDC declined sharply following earnings after reporting a notable increase in non-

accruals and a net loss for the year. Credit spreads on the issuer widened significantly—at one point by as much as 70 basis points (bps)—placing pressure on the broader BDC complex. With software exposures frequently exceeding **20% of loan portfolios**, concerns around AI-driven disruption remain an overhang for the sector.

Elsewhere in credit markets, event risk also contributed to volatility. In the media sector, a **high-profile merger transaction** between two major entertainment companies resulted in significant spread widening across the capital structure of the acquiring company. Legacy preferred securities associated with the transaction declined roughly **10 points**, highlighting the sensitivity of subordinated securities to changes in capital structure and leverage.

Private credit also drew renewed attention during the month after several developments—including redemption restrictions at a large private credit fund and losses tied to a UK commercial lender—raised questions about liquidity and transparency in the space. At this stage, these events appear largely idiosyncratic rather than indicative of systemic stress, but they've contributed to a more cautious tone across credit markets.

Preferred supply

Preferred issuance during February remained limited. The most notable transaction came from a **large US trust bank**, which issued a **\$500 million \$1,000-par perpetual preferred** with a **5.625% coupon and a reset spread just above 200 bps over the five-year Treasury**. The deal represented one of the tightest reset spreads ever achieved for a bank preferred. While we evaluated the transaction, we ultimately chose not to participate given the relatively tight back-end spread compared with opportunities available in the secondary market.

More broadly, capital issuance across the hybrid market remained active, with utilities and insurance companies issuing subordinated securities that were generally well received despite the more volatile credit environment.

Importantly, net supply in institutional preferreds continues to contract. A large global systemically important bank announced the redemption of approximately \$3.5 billion of outstanding preferred securities, continuing a trend of calls across the sector. YTD, institutional bank preferred redemptions have far exceeded new issuance, providing ongoing technical support for the asset class.

Looking ahead

Looking ahead, the preferred market continues to benefit from a combination of supportive technicals and generally strong financial sector fundamentals. Net supply remains negative in institutional preferreds as redemptions outpace new issuance, while investor demand for income-oriented assets remains healthy. In addition, large banks—the dominant issuers in the preferred market—continue to report strong capital levels and stable asset quality.

That said, the broader credit environment may remain more volatile in the months ahead. Credit spreads have begun to widen modestly from historically tight levels, and the market is increasingly pricing greater dispersion across sectors as the implications of AI evolve. Industries with significant exposure to potential technological disruption—such as software and certain areas of private credit—may continue to experience heightened volatility.

Interest rates also remain an important driver for preferred performance. While geopolitical events and inflation data have caused periodic swings, the **10-year Treasury has remained largely range-bound this year**, suggesting that coupon income will continue to drive the majority of returns for the asset class. If this range-bound rate environment persists and credit fundamentals remain stable, preferred securities should continue to offer attractive income and relative value compared with many other segments of the fixed income market.

Overall, while near-term volatility in credit markets may persist, we believe the preferred asset class remains well positioned to generate steady income-driven returns supported by favorable technicals and resilient issuer fundamentals.

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