Parametric

Preferred Securities Market Insight | October 2025

Banks Boost Preferred Issuance in September

Key takeaways

» September saw the Fed deliver its first rate cut of the year, pivoting toward the labor market as payrolls and revisions signaled unusual weakness and inflation remained sticky.

» Preferreds outperformed again in September, supported by ETF inflows tightening credit spreads.

» $12 billion of new preferred and hybrid issuance priced in September, including the first US bank preferred to come through 6% since 2022.

» More than $5 billion of announced redemptions in hybrids, preferreds, and AT1s over the next month will provide a strong positive technical, with cash hitting during the earnings blackout period.

Recap

Preferred securities extended their rally through September, supported by a favorable technical backdrop and resilient fundamentals. The ICE BofA Fixed Rate Preferred Index returned 1.66% in September, bringing Q3 performance to 4.41% and YTD to 5.46%. $25 par securities, which had underperformed for much of the year given their lower coupons and longer duration, rebounded strongly with a 1.96% gain, while $1,000 par IG preferreds rose 1.26%. The ICE USD Contingent Capital Index is now up 8.98% YTD, outpacing most other preferred sub-indexes. Flows were robust with preferred ETFs attracting $660 million of inflows in September and $1.1 billion in the quarter alongside steady demand from separately managed accounts (SMAs).

The Fed's pivot at the September FOMC dominated macro conditions. The Committee cut rates by 25 basis points to 4.00–4.25% in what chair Jerome Powell described as a "risk management cut." While the move came in response to mounting labor market weakness—August payrolls showed only 22k jobs, downward revisions totaled 21k, and unemployment rose to 4.3%—the Fed's tone remained hawkish, with inflation sticky and projections revised higher. The Treasury curve ended the month flatter, with the 10-year yield slipping 7 basis points to 4.15%, while credit spreads rallied to new cycle tights, with IG OAS ending September at 76 basis points (bps).

Looking at market technicals, the environment remains highly supportive. More than $5 billion of redemptions across hybrids, preferreds and contingent convertible securities are scheduled in October, led by two large European banks. Those will fall during the earnings blackout period, creating reinvestment pressure when primary issuance is limited. ETFs have reversed prior outflows, with AUM in US preferreds now above $39 billion and net flows positive over the past year. SMAs remain an important source of demand, benefiting from the QDI tax treatment and active tax management strategies.

Fundamentals remain solid across key sectors. Banks are well capitalized, with GSIBs increasingly engaging in capital optimization-driven issuance after last year's wave of net redemptions. Increased supply this year has supported valuations with $1000 par preferreds offering more option-adjusted spread (OAS) than BB-rated high yield bonds. In the utilities sector, leverage is stabilizing, as hybrids, equity issuance and asset sales support capex growth, and valuations remain attractive with utility hybrids offering approximately 75 bps pickup over senior unsecured debt.

September's $12 billion issuance wave was broad-based. Banks accounted for the largest share, with a large trust bank, regional US bank and multiple Canadian banks leading activity. The trust bank priced its preferred at 5.95%, the lowest for a US bank since 2022. Utilities also tapped the market in size with multi-tranche hybrid issues. In total, financials drove a little more than half of the $12 billion supply, with utilities and energy contributing meaningful size and REITs providing incremental diversity.

Looking ahead

The coming month will see another Fed meeting, the start of earnings season, and a supportive technical backdrop for the preferred market. Markets are pricing another one to two Fed cuts by year end, with labor data and inflation data key drivers of expectations. Q3 bank and utility results should confirm strong sector fundamentals, paving the way for additional issuance before year end. On the technical side, more than $5 billion of redemptions in October could support investment demand, particularly with issuance limited by earning blackout windows.

From a positioning perspective, we continue to favor bank and utility fixed-to-floating structures with QDI treatment, which offer after-tax yield advantages, while utility hybrids provide incremental spread for investors comfortable with extension risk. Overall, preferreds remain a compelling source of high tax-advantaged income, supported by solid fundamentals and powerful technicals. While valuations remain at the tight end of the range, the combination of strong demand and resilient credit could keep the asset class well supported into year end.

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