

Preferred Securities Market Insight | February 2026

## Musical Chairs

### Key takeaways

- » **Preferreds delivered strong total returns in January**, with the ICE BofA Fixed Rate Preferred Securities Index (POP1) up 1.32%, led by \$25 par retail preferreds (POP4) +1.94%. Institutional \$1,000 par securities lagged but remained positive (CIPS +0.52%), while contingent capital performed well (COCO +1.15%).
- » **Rates and credit markets decoupled**. Treasury yields rose early in the month amid geopolitical and global rate volatility, while credit spreads tightened to multidecade lows as risk appetite remained resilient.
- » **The Fed paused** after three consecutive cuts, while markets digested the nomination of Kevin Warsh as the next Federal Reserve chair, reinforcing expectations for a data-dependent, inflation-aware policy path.
- » **Bank fundamentals remain a key pillar for preferreds**. Fourth-quarter 2025 earnings and FY26 guidance point to improving net-interest margins (NIMs), benign credit quality, strong capital markets activity and ample capital, supportive for both valuations and income stability.

## Market recap

January began quietly but finished eventfully. Large-cap equities pushed to new highs, commodities rallied sharply early in the month and Treasury yields rose before reversing late in January. Geopolitical stress and a sharp sell-off in long-end Japanese government bonds briefly pushed the 10-year Treasury yield to roughly 4.29%, but rates and commodities retraced following the announcement of Warsh as the president's nominee for Fed chair. Credit markets largely looked through the volatility: Investment-grade (IG) spreads tightened to levels last seen in the late 1990s, and high-yield spreads also compressed, underscoring the strength of technicals and investor demand from yield buyers.

## Rates, Fed policy and the curve

The Fed left policy rates unchanged at its January meeting, keeping the target range between 3.5% and 3.75% after three prior 25-basis point cuts. While there were dissents in favor of another cut, the Federal Open Markets Committee (FOMC) broadly supported a pause, citing signs that labor market weakness is stabilizing and concern that inflation—especially against a backdrop of strong growth and higher commodity prices—remains above target. Markets are currently pricing two additional cuts later in 2026.

In late January attention shifted to the Fed chair transition. Warsh's nomination was viewed as market-credible and investor-friendly, though his reputation as an inflation hawk reinforced expectations that policy easing will proceed cautiously. The yield-curve bear steepened earlier in January but flattened modestly into month-end, leaving curve dynamics an important consideration for preferred investors going forward.

Most market strategists currently forecast a steepening yield curve. Warsh's appointment should theoretically help their call. His prior views against quantitative easing and the Fed's use of the balance sheet caused long-end yields to drift higher on his announcement. The White House continues to call for lower short-term rates, but the market hasn't really priced-in significantly lower rates, as it takes a majority of the 12 FOMC members to move overnight levels. Current voting members have a mix of views.

Some strategists feel that Warsh will use his prior experience as a Fed governor to successfully cajole a majority of FOMC members to vote for rate cuts. Warsh has shown an optimism about AI, which may allow him to focus on its effects on the employment side of the Fed's mandate and cut rates, while productivity gains like we saw in the late-1990s could reduce Fed worries about further inflation. A steepening yield curve could exacerbate the recent outperformance of \$1,000 par preferreds over \$25 par fixed for life structures.

## Preferred securities performance

Preferreds benefited from a constructive mix of carry, tightening credit spreads and resilient risk sentiment:

- POP1 Fixed Rate Preferred Securities Index: +1.32%
- POP4 \$25 par retail preferreds: +1.94%
- CIPS \$1,000 par institutional capital securities: +0.52%
- COCO contingent capital: +1.15%

Performance dispersion reflected structural differences. Retail \$25 par securities, which had lagged during periods of curve steepening in 2025, benefited from strong income carry and renewed demand. Institutional \$1,000 par securities posted more modest gains, consistent with their typically lower convexity and tighter starting spreads, but remained well supported by fundamentals.

## Bank earnings recap

Fourth-quarter 2025 bank earnings and FY26 guidance reinforced a constructive backdrop for the preferred market. Across large money-center and regional banks, results pointed to sustainable earnings strength supported by several key themes:

- Net interest margins (NIM) improved, as lower funding costs more than offset declines in earning asset yields. The emergence of a steeper yield curve late in 2025 and into early 2026 has further supported NIM expectations.
- Capital markets activity remained robust, with strong investment banking pipelines and particularly resilient equities trading and financing businesses. Management commentary across large banks remained constructive on deal activity heading into 2026.
- Credit quality stayed benign, with no evidence that isolated credit events from mid-2025 have evolved into broader sector stress. Net charge-offs and nonperforming assets generally improved year over year, and guidance suggests a stable loss environment in 2026.
- Capital positions remain strong, even as banks shift from capital build toward capital return. CET1 ratios declined modestly in fourth-quarter 2025 as a result of share repurchases and balance sheet growth, but buffers remain ample and supportive of preferred capital.

For preferred investors, this combination of stable earnings, improving margins, benign credit and disciplined capital management continues to underpin the sector's income profile and downside risk mitigation.

## New issuance and calls

January saw heavy issuance across IG credit, led by banks and financial issuers, with near-record supply readily absorbed by the market. \$4.1 billion of new preferred and subordinated issuance was met with solid demand and limited concessions, reflecting strong technicals. We saw one money-center bank return to the \$25 par market for the first time since 2016, issuing \$800 million of fixed-for-life preferreds at 6.25%. At the same time, calls and redemptions remained an important offset, keeping net supply manageable and supporting secondary performance. One money-center bank redeemed three issues, totaling \$1.45 billion. They chose to refinance in the senior debt markets. We expect issuance to remain active in early 2026, but regulatory considerations and issuer capital optimization strategies should limit net growth in bank-preferred supply.

## Looking ahead

We remain constructive on preferred securities. A backdrop of solid economic growth, moderating inflation and gradual Fed easing should support income-driven returns, even as rate volatility persists. Bank fundamentals—strong capitalization, improving margins and benign credit trends—remain a key anchor for the asset class.

Curve shape will be an important driver of relative performance: Sustained steepening could favor institutional \$1,000 par structures, while a flatter or lower-rate environment would be more supportive for \$25 par retail preferreds. Valuations remain reasonable relative to other income alternatives, and with net supply expected to stay contained, preferreds are well-positioned to deliver attractive carry with manageable volatility in the months ahead.

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