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Preferred Securities Market Insight | November 2025

"Cockroaches" Show Up in the Credit Market's Darkest Corners

Key takeaways

- Bank earnings remained a bright spot, with large-cap banks posting strong fee income, higher net interest margins and improved credit quality.
- The Fed cut rates 25 bps and announced the end of quantitative tightening effective Dec. 1, a technical step to avoid reserve scarcity.
- Investment-grade supply stayed heavy at $150 billion, pressuring spreads marginally wider even as equity markets hit new highs and earnings beat expectations.[1]
- Preferred performance was flat overall, with $1,000 par preferreds outperforming $25 par as ETF flows remained positive.

[1] Source: JP Morgan research as of 10/31/2025.

Recap

October brought a mix of strong fundamentals and late-month rate volatility. Large-cap bank results were consistently solid: Higher fee income from trading, investment banking and wealth management offset modest net interest income (NII) growth. Credit metrics improved, with lower delinquencies and charge-offs in consumer portfolios and ongoing commercial real estate CRE stabilization.

JPMorgan CEO Jamie Dimon's remark that "when you see one cockroach, there are probably more" triggered a brief widening in business development company (BDC) and non-banking financial institution (NBFI) spreads, underscoring the market's hypersensitivity to isolated credit events. Losses tied to bankruptcies from two auto-sector companies proved immaterial, and spreads quickly retraced. Two smaller regional banks that we don't own spooked markets briefly as they announced losses to fraudulent borrowers. Away from these idiosyncratic events, core banking fundamentals remain resilient. But vulnerabilities persist, mainly in subprime lending and the less transparent private-credit space.

The Federal Reserve's 25-basis-point (bps) cut to 3.75%–4.00% and its decision to end quantitative tightening (QT) marked a turning point for liquidity conditions. This was a technical—not tactical—move to stabilize reserves and prevent money-market stress reminiscent of 2019. The Fed has now reduced rates 150 bps from the 5.25%–5.50% range in August 2024, into a range that chair Jerome Powell describes as "modestly restrictive." Powell's caution that "December is not a foregone conclusion" for another interest rate cut reversed early-month gains, pushing 10-year yields back toward 4.1%. Meanwhile, the ongoing government shutdown—now past 30 days—limited data visibility and reinforced the Fed's wait-and-see stance.

Credit markets remained well-anchored. Investment-grade (IG) spreads widened modestly to 80 bps, while high-yield (HY) spreads moved up to 294 bps. Heavy issuance of $150 billion weighed slightly on valuations, but strong demand and healthy risk appetite kept returns positive, with IG at 0.38% and HY at 0.16%. Equities continued to rally, particularly large-cap growth stocks, with the S&P 500® up 2.3% month to date (MTD). A trade détente with China and continued AI-related capex spending buoyed the outlook for credit and equities.

In preferreds, performance diverged between institutional and retail tranches. $1,000 par issues outperformed amid steady separately managed account (SMA) and institutional demand, while $25 pars softened after the Fed meeting. A regional bank issued a $450 million 6.35% Perp NC5, becoming the 11th $25 par bank preferred of the year—the second-lowest coupon since 2022)—highlighting healthy demand from both individual and institutional buyers. ETF flows remained constructive at $200 million MTD and $1.4 billion year to date. Overall supply was light at $4 billion, and net redemptions continue to provide a positive technical tailwind.

Looking ahead

As the year winds down, the backdrop remains supportive for preferreds despite modest rate volatility. We'll be keeping an eye on four areas:

- Earnings momentum and capital strength should sustain demand for financial preferreds, though investors will continue to monitor subprime and private-credit exposures for signs of strain.
- The Fed's QT conclusion removes a liquidity overhang. The next inflection hinges on data releases once the government shutdown ends. A pause in December may look more likely as the shutdown wears on. In the meantime, each week of closure has trimmed US GDP by 0.10%.
- IG spreads may stay range-bound as issuers front-load refinancing. Robust flows and limited net supply should contain volatility.
- We expect muted issuance and steady fund inflows through year end. With average new issue yields near 6% and stable credit fundamentals, the asset class continues to offer compelling, tax-advantaged income.

October confirmed the strength of the banking system and the durability of preferred fundamentals. While we believe "cockroaches" may still crawl out from the darker corners of credit, the broader foundation remains solid, leaving preferreds well-positioned heading into the final stretch of 2025. The Fed's rate-cutting cycle may get delayed, along with the issuance of economic data. But the trend remains lower for the Fed funds rate, which should continue to support easier financial conditions and preferred returns.

[1] Source: Creditsights as of 10/31/2025.

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