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Preferred Securities Market Insight | June 2025

Tariff Détente and Fiscal Concerns Push Yields Higher in May

Key takeaways

» Preferreds rebounded in May, with the ICE BofA Fixed Rate Preferred Index up 0.69%, trimming YTD losses to -0.63%.

» Technicals remain supportive despite $60 million in ETF outflows. Markets expect $5.5 billion in redemptions in the first half of June.

» Fixed-to-float preferreds remain well positioned for a “higher for longer” rate environment.

» Qualified Dividend Income (QDI) preferred structures continue to offer equity-like, high single-digit after-tax returns with lower volatility.

Recap

Risk markets rallied in May as geopolitical tensions eased and investors welcomed signs of stabilization in global trade policy. The ICE BofA Fixed Rate Preferred Securities Index rose 0.69%, trimming year-to-date losses to -0.63%. Institutional preferreds continued to outperform retail paper, with the $1,000 par ICE BofA US Investment Grade Institutional Capital Securities Index returning 1.49% and the $1,000 par ICE BofA US High Yield Institutional Capital Securities Index up 2.38%. The ICE BofA Contingent Capital Index also posted a strong 1.69% gain. This rebound coincided with a softening in US–China rhetoric as both sides signaled a pause in the tariff escalation that rattled markets in April. The resulting compression in credit spreads and firm economic data helped preferreds regain footing, particularly in hybrid structures with rate reset features. Equities rebounded, with the S&P 500® returning over 6%.

The 10-year Treasury yield rose 24 basis points on the month as fiscal concerns resurfaced after Moody's downgraded the US sovereign credit rating to Aa1 on May 16, citing deteriorating governance and long-term fiscal imbalances. This followed renewed market chatter around the so-called One Big Beautiful Bill (BBB), a prospective all-in infrastructure and tax package floated by the White House. While the downgrade had limited near-term market impact, it reignited investor focus on the growing deficit, long-end Treasury supply and political constraints facing the Federal Reserve. Chair Jerome Powell maintained a "wait and see" posture at the May FOMC meeting, emphasizing that the Fed would require more progress on inflation before considering rate cuts. As of the month's end, the curve continued to price in two cuts for 2025, reflecting the market's push and pull between strong labor data and mounting structural risks.

Preferred ETF funds saw modest net outflows of approximately $60 million in May. However, technicals remain constructive. Markets expect roughly $5.5 billion in preferred securities to be redeemed in the first two weeks of June, which should create reinvestment demand. Issuance in May included a notable $850 million utility hybrid priced at 6.50% in the $25 par market. Most of the month's new supply came from smaller borrowers in the retail $25 par segment. Meanwhile, institutional flows into $1,000 par securities remained robust, particularly in names with strong reset structures and call incentives.

Looking ahead

Markets now turn to the June 18 FOMC meeting. While no rate cuts are anticipated, the release of a fresh Summary of Economic Projections and a new dot plot could reshape expectations. We'll be monitoring upcoming economic data closely for signs of a potential rebound, particularly if tariff tensions ease or fiscal policy shifts. The White House has requested that the House and Senate produce a final version of the BBB by July 4. Meanwhile, the market still has tariff concerns, with the 90-day reprieve on reciprocal tariffs expiring on July 8.

Preferreds continue to offer attractive value in this environment—particularly fixed-to-floating rate securities, which benefit from higher yields in a rising-rate regime. Sectors like banks and utilities remain well-positioned, and portfolios emphasizing call structure, credit quality and after-tax income are poised to perform.

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