

Preferred Securities Market Insight | September 2025

Labor and Government Challenge the Fed as Preferreds Rally in August

Key takeaways

- » The ICE BofA Fixed Rate Preferred Index gained 1.23% in August, bringing YTD performance to 3.74%. Both \$25 par and \$1,000 par preferreds rallied over 1%. By contrast, USD contingent capital securities underperformed amid political and budget concerns.
- » Large downward payroll revisions and rising unemployment tilted Fed policy decisively toward rate cuts at the September FOMC, reinforced by chair Jerome Powell's dovish Jackson Hole comments.
- » The two-year US Treasury yield fell 35 bps and the 30-year rose three bps as markets priced easing but questioned Fed independence under persistent political pressure.
- » ETF flows turned positive, with \$300 million into preferred ETFs and strong inflows across IG credit. August supply reached \$7.2 billion, bringing YTD issuance to \$76 billion—a 35% year-over-year increase—including bank, utility, energy and insurance hybrids.

Recap

Preferred securities extended their summer rally in August. The ICE BofA Fixed Rate Preferred Securities Index returned 1.23%, lifting year-to-date gains to 3.74%. Both retail-friendly \$25 par and institutional \$1,000 par preferreds delivered returns above 1%, while USD contingent capital securities (CoCos) lagged on European political and budget noise. Investor appetite remained resilient as ETF inflows totaled \$300 million for the month alongside a \$12.8 billion surge of investment-grade (IG) credit ETF inflows—a five-year high.

On the macro side, the labor market reset the policy narrative. July payrolls were lighter than expected at 73,000, with a massive 258,000 jobs revised down from prior months, pulling the three-month average to just 35,000—the weakest since 2020. The unemployment rate edged up to 4.2%, confirming softer labor momentum. At Jackson Hole, Federal Reserve chair Jerome Powell emphasized “downside risks to employment,” marking a shift in the Fed’s reaction function toward protecting labor, even as inflation remains above target. Markets now fully expect a September rate cut.

Political interference added another dimension. The White House’s dismissal of Fed governor Lisa Cook for allegations of mortgage fraud, along with threats of further appointments, prompted renewed concerns about Fed independence. This translated into a steeper yield curve: The two-year note dropped 35 bps in August, while the 30-year Treasury yield ended the month slightly higher at three bps. Term premia in the long end of the rates curve are rising as investors demand compensation for policy uncertainty.

The new issue market slowed from July but remained healthy at \$7.2 billion. Year-to-date issuance reached \$76 billion, up 35% year over year. Highlights included:

- A Ba1/BB rated regional returned to the market after four years with \$400 million at 6.875%, refinancing a called security that would have reset higher.
- An IG domestic utility issuer priced \$1.5 billion in five- and 10-year call hybrids at 6.0% and 6.2%, respectively. Both tranches included floors, but valuations appear rich for 10-year call floored paper.
- An energy pipeline raised \$2 billion in two tranches at 6.50% and 6.75%.
- A large German insurer tapped \$1.2 billion at 6.55%, while a smaller US insurer priced \$500 million at 7.0%.
- A California-based utility priced \$800 million at 6.375% amid positive legislative progress on wildfire fund replenishment.

Looking ahead

High carry, stable bank credit and favorable technicals continue to support preferreds. With Fed easing expected to begin in September and macro uncertainty elevating demand for income-generating hybrids, the asset class is positioned for continued strength. We continue to favor callable fixed-to-floaters with QDI treatment, particularly from bank and utility issuers, while exercising valuation discipline in hybrids with extended call protection. We’ve noticed that longer-duration assets like \$25 par securities and municipal bonds have underperformed YTD. These assets could see a mean reversion if the Fed signals an aggressive cutting cycle.

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