

Preferred Securities Market Insight | April 2025

## Resilient Sectors Strengthen Preferred Issuance Amid Q1 Market Uncertainty

### Key takeaways

- » \$25 par retail preferreds underperformed \$1,000 par institutional issues, reflecting greater retail sensitivity to interest rate and credit market swings.
- » Tariff headlines and inflation risks continued to weigh on sentiment. Several credit strategists widened year-end spread forecasts in response.
- » Issuance has been robust in the preferred space, led by hybrid utility issuance in the institutional market. Close to \$40 billion in new issues has entered the dollar hybrid capital space this year.
- » Fiscal and trade developments will have a strong impact on preferreds in Q2. Even so, the preferred market benefits from exposure to sectors with more stable earnings, relatively low tariff sensitivity and a strong base of income-seeking demand.

## Recap

The ICE BofA Fixed Rate Preferred Securities Index posted a –1.62% return in March, bringing Q1's total return to just 0.08%. Gains from the first two months of the year were erased as macro volatility returned. \$25 par retail preferreds underperformed \$1,000 par institutional issues, reflecting greater retail sensitivity to interest rate and credit market swings. Notably, auto-sector preferreds underperformed in March as concerns over potential tariff impacts on global supply chains weighed on that segment.

Movement in interest rates and uncertainty on fiscal policy drove Q1 market returns. The 10-year US Treasury yield declined 35 basis points during Q1, ending the quarter at 4.23%, down from 4.58% at year-end 2024. This overall drop supported preferred valuations early in the quarter, but March volatility and renewed rate concerns reversed much of that momentum. The 10-year traded in a tight range over the month as markets balanced Fed commentary, inflation signals, geopolitics and a downgrade to the economic outlook due to tariff concerns.

The March FOMC meeting saw the Fed maintain its 4.25%–4.50% target rate while announcing a slowing in balance sheet runoff starting in April. Fed chair Jerome Powell struck a cautious tone, reintroducing the word “transitory” to describe near-term inflation pressures and stating, “The cost of being cautious is very, very low. The economy is fine. It doesn't need us to do anything, really, so we can wait, and we should wait.”

The Fed's preference to wait and see left markets uncertain about the timing of rate cuts, which contributed to choppiness across fixed income markets in March. The Fed retains an easing bias, with market expectations of three rate cuts slightly outpacing the Fed's dot plot, which shows two rate cuts for 2025. Soft data such as business and consumer confidence weakened notably in March, while hard data such as employment and spending remained more resilient. The Atlanta Fed's GDPNow forecast dipped to –2.8% for Q1, adding to concerns that the economy may be decelerating faster than official data reflects.

Tariff headlines and inflation risks continued to weigh on the market mood. The White House announced and then partially delayed tariffs on China, Canada and Mexico, creating uncertainty and raising expectations for near-term inflation pressures. We expect to learn more on reciprocal tariffs from the administration in early April. Economists and strategists revised 2025 GDP forecasts lower, reduced S&P 500® year-end targets and warned of a stagflation-lite environment with slowing growth and sticky inflation. Several credit strategists widened year-end spread forecasts in response to deteriorating expectations and macro conditions.

The preferred market remains heavily weighted to financials and utilities, two sectors that proved resilient in Q1 and are relatively insulated from tariff-related disruptions.

Financial issuers continued to exhibit strong capital positions and more stable earnings, while utilities—particularly in California—rebounded from early-year weakness tied to wildfire headlines.

Despite rising economic uncertainty and weakening consumer confidence, the unemployment rate remains low, and bank earnings have been strong. These factors support the case that bank credit fundamentals remain solid, helping anchor current valuations and sustain a constructive outlook for preferred securities. Spreads remained generally tight but steady, reflecting investor confidence in underlying credit quality, even as broader markets began to price in more macro risk.

Issuance has been robust in the preferred space, led by hybrid utility issuance in the institutional market. Close to \$40 billion in new issues has entered the dollar hybrid capital space this year. In the QDI bank space, net new issuance remained modest, helping maintain relatively balanced technicals. YTD issuance stands at \$11.3 billion, with redemptions of \$8.8 billion. Of that, only \$2.5 billion has been issued in the \$25 par space, with \$1.1 billion in redemptions.

In March alone, one large US trust bank issued \$500 million of \$1,000 par, 6.30% in non-call five-year preferreds, and \$500 million of a similar structure in the \$25 par market at 6.15%. This reflects the month's small supply and strong demand for \$25 par securities from retail investors. Utility and insurance hybrids again made up the majority of supply, with coupons ranging from 6.1 to 7.5%. ETF inflows continued in the first quarter but turned negative at the end of March, driven by demand for yield and diversification but reflecting a choppy macro backdrop.

## Looking ahead

Preferreds enter Q2 with mixed momentum: high starting yields, strong credit fundamentals, favorable technicals and renewed macro headwinds. The first quarter marked the weakest S&P 500® performance since 2022, driven in large part by a 16% cumulative decline in the Magnificent 7 tech stocks. Broader risk sentiment softened as investors recalibrated expectations for growth, inflation and policy.

Fiscal and trade developments will have a strong impact on preferreds in Q2. Even so, the preferred market benefits from exposure to sectors with more stable earnings, relatively low tariff sensitivity and a strong base of income-seeking demand. With the Fed signaling patience and solid fundamentals still supporting credit spreads, preferreds continue to offer a compelling risk-reward profile, especially for investors looking for income stability, sector selectivity and call-structure awareness in the face of macro crosscurrents.

---

### ABOUT

Parametric Portfolio Associates LLC ("Parametric"), headquartered in Seattle, is registered as an investment advisor with the US Securities and Exchange Commission under the Investment Advisers Act of 1940. Parametric is a leading global asset management firm, providing investment strategies and customized exposure management directly to institutional investors and indirectly to individual investors through financial intermediaries. Parametric offers a variety of rules-based investment strategies, including alpha-seeking equity, fixed income, alternative and options strategies. Parametric also offers implementation services, including customized equity, traditional overlay and centralized portfolio management. Parametric is part of Morgan Stanley Investment Management, the asset management division of Morgan Stanley, and offers these capabilities through offices located in Seattle, Boston, Minneapolis, New York and Westport, Connecticut.

### DISCLOSURES

This material may not be forwarded or reproduced, in whole or in part, without the written consent of Parametric. Parametric and its affiliates are not responsible for its use by other parties.

This information is intended for informational purposes and details investment strategies and opportunities identified by Parametric. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors. Past performance is not indicative of future results. Investing entails risk, and there can be no assurance that Parametric will achieve profits or avoid incurring losses. Preferred securities are subject to interest rate risk. They generally decrease in value if rates rise and increase in value if rates fall. Parametric and Morgan Stanley do not provide legal, tax or accounting advice or services. Clients should consult with their own tax or legal advisor prior to entering into any transaction or strategy described herein. Additional information is available on request.

Charts, graphs and other visual presentations and text information were derived from internal, proprietary or service vendor technology sources or may have been extracted from other firm databases. As a result, the tabulation of certain reports may not precisely match other published data. Data may have originated from various sources, including, but not limited to, Bloomberg, MSCI/Barra, FactSet or other systems and programs. Parametric makes no representation or endorsement concerning the accuracy or propriety of information received from any third party.

Source of all data: Bloomberg, 2/28/2025. Bloomberg is a trademark and service mark of Bloomberg Finance LP ("Bloomberg"). "Barclays" is a trademark and service mark of Barclays Bank Plc, used under license. Bloomberg Finance LP and its affiliates (collectively "Bloomberg") or Bloomberg's licensors own all proprietary rights in the Bloomberg Barclays indexes. Neither Bloomberg nor Barclays Bank Plc or its affiliates (collectively "Barclays") guarantees the timeliness, accuracy or completeness of any data or information related to the Bloomberg Barclays indexes. This strategy is not sponsored or endorsed by Bloomberg or Barclays, and each makes no representations regarding the content of this material.

References to specific securities and their issuers are for illustrative purposes only and are not intended to be and should not be interpreted as a recommendation to purchase or sell such securities. Any specific securities mentioned are not representative of all securities purchased, sold or recommended for advisory clients. Actual portfolio holdings vary for each client, and there is no guarantee that a particular client's account will hold any or all of the securities identified. It should not be assumed that any of the securities or recommendations made in the future will be profitable or will equal the performance of the listed securities.

All contents ©2025 Parametric Portfolio Associates LLC. All rights reserved. Parametric Portfolio Associates® and Parametric® are trademarks registered in the US Patent and Trademark Office and certain foreign jurisdictions.

Parametric is located at 800 Fifth Avenue, Suite 2800, Seattle, WA 98104. For more information regarding Parametric and its investment strategies, or to request a copy of the firm's Form ADV or a list of composites, contact us at 206 694 5500 or visit [www.parametricportfolio.com](http://www.parametricportfolio.com).

**PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. INDEX PERFORMANCE IS SHOWN FOR ILLUSTRATIVE PURPOSES ONLY AND NOT MEANT TO DEPICT THE PERFORMANCE OF A SPECIFIC INVESTMENT.**

[parametricportfolio.com](http://parametricportfolio.com)