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Preferred Securities Market Insight | May 2025

Tariff Uncertainty Jolts Credit Markets

Key takeaways

- Preferreds declined in April as tariff-related volatility spiked, with the ICE BofA Fixed Rate Preferred Securities Index finishing 1.40% lower on the month, pushing year-to-date returns to –1.32%.
- Credit spreads widened across corporate credit, particularly in lower-rated and more economically sensitive portions of the market.
- Investment-grade (IG) preferreds fared better than high yield (HY), and $1,000 par institutional securities outperformed the $25 par retail segment.
- Primary supply slowed in April, but a money-center bank priced a $3 billion variable-reset preferred at 6.625% as risk sentiment improved at the end of the month.

Recap

Tariffs reemerged as a key market catalyst in April. Hawkish reciprocal tariff details caught investors off-guard, spurring a broad sell-off in risk assets, with investment-grade (IG) corporate credit spreads hitting the widest levels since 2023. Volatility dissipated after the administration softened its stance mid-month, but credit spreads finished the month wider, particularly in more economically sensitive and tariff-exposed portions of the market.

In contrast, preferred securities largely avoided the direct line of fire, thanks in part to a higher concentration in financials and utilities—two sectors with more stable earnings and low tariff exposure. $1,000 par preferred securities declined only 0.77% in April as lower short-term interest rates offset some of the widening in credit spreads. By issuer, auto-related and non-bank financial issuers underperformed, while utilities comprised the majority of top-performing securities in the month. $1,000 par preferred spreads finished 40 basis points (bps) wider, roughly at the levels from early August.

Despite macro nerves, first-quarter bank earnings came in better than feared. Large-cap US banks reported solid credit metrics, deposit stability and continued consumer strength. Credit card delinquencies were lower year over year despite some increases among subprime borrowers, and overall loss rates remain below historical averages. The April Senior Loan Officer Opinion Survey (SLOOS) confirmed credit conditions remain tight, particularly in CRE and consumer credit, but also showed steady demand in C&I and prime auto lending. While policy choices could influence consumer fundamentals going forward, lenders are approaching these potential headwinds from a position of strength.

The robust primary market slowed in April amid macro volatility. The first preferred didn’t price until April 24 after risk sentiment began to thaw. But that security, a $3 billion money-center issue priced at 6.625%, was notable in that it was issued without a clear refinancing candidate. Bank preferreds had negative net supply last year as some of the largest banks with excess capital allowed their preferreds outstanding to decline. With this one issue, banks returned to positive net supply this year. As future regulations become clearer, some large banks and regional lenders have the potential to optimize capital structures and issue more preferreds.

Looking ahead

The Fed is taking a “wait and see” approach as the potential inflationary and growth impacts from tariffs put its dual mandate objectives in conflict. While measures of consumer and business sentiment have declined, hard data such as monthly jobs figures remain strong enough to allow for a patient approach to the economic risks posed by policy changes.

For preferred investors, the recent macro volatility has left valuations near best levels of the past year. Tariff policy remains fluid, but sectors such as banks and utilities are better insulated from headline risk, and portfolios with an emphasis on sector selectivity, call structure and after-tax yield remain well-positioned. Fundamentals remain solid, as Q1 earnings demonstrated, and banks are approaching economic headwinds from a position of strength. Preferreds continue to offer high after-tax yields and more stable income, particularly as rate volatility and trade rhetoric cloud the macro outlook.

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