Parametric

Preferred Securities Market Insight | March 2025

Preferreds Extend Gains in February

Key takeaways

» Preferreds posted another month of positive performance in February. The ICE BofA Fixed Rate Preferred Securities Index returned 1.10%, bringing YTD performance to 1.73%.

» High yields, credit stability and improving technicals continue to support the asset class.

» Financial issuers, which represent the bulk of the preferred securities market, continued to show strong capital positions, stable earnings and low direct exposure to potential tariff policies.

» Investors remain focused on the Fed, inflation data, credit fundamentals and growing concerns about the fiscal outlook as they evaluate opportunities in preferred securities.

Recap

Preferred securities built on January's positive momentum, delivering another month of gains in February. The ICE BofA Fixed Rate Preferred Securities Index returned 1.10% for the month, bringing its year-to-date return to 1.73%. Investors remained attracted to the sector's high yields, improving valuations and stability in credit fundamentals, particularly within the financial sector, which dominates the preferreds market. The decline in long-term Treasury yields during the second half of February supported price appreciation across the asset class. Meanwhile, limited new issuance and ongoing demand from yield-focused investors provided technical support, reinforcing preferreds' role as a compelling income-generating allocation. California utilities rebounded 3% to 4%, erasing some of January's wildfire-related losses.

Interest rates and strong credit fundamentals drove returns in February. The 10-year US Treasury yield ended the month at 4.24%, down from mid-month highs above 4.50%. This decline in rates provided a tailwind for preferred prices, particularly those with longer durations. Financial issuers, which represent the bulk of the preferred securities market, continued to show strong capital positions and stable earnings. Spreads remained tight but steady, reflecting confidence in issuer credit quality. The preferred market is heavily weighted to financials and utilities, two sectors that are somewhat insulated from potential tariff wars.

Fixed income markets demonstrated resilience in February amid mixed economic signals. Stronger-than-expected inflation data early in the month reignited concerns about the Federal Reserve maintaining higher interest rates for longer. However, as the month progressed, risk sentiment shifted toward caution on the back of softer economic growth indicators and rising geopolitical tensions. This drove a modest flight to quality, with investors moving into longer-duration assets.

The White House announced tariffs on China, Canada and Mexico on February 1, eventually implementing some and pausing others on March 4 after some confusion and delay. The administration released multiple plans to implement further tariffs during the month. Uncertainty surrounding tariff policies has caused business and consumer sentiment to suffer. Some economic indicators, like the Atlanta Fed GDPNow and the Citi Economic Surprise Indicators, dipped into negative territory.

Preferreds remained well bid, with attractive yields and income stability supporting demand, and inflows into ETFs continued. Limited net new issuance helped maintain favorable supply/demand dynamics. Banks have issued $9.6 billion in preferred year to date while calling $8.1 billion, producing net new issuance of only $1.5 billion. Only one large bank issued $2 billion of a $1,000 par non-call five-year preferred at 6.95%. We saw multiple utilities issue hybrids between 6.375% and 6.50%. Two Canadian cable and telecom providers issued multiple billion hybrids to fund asset purchases, with the pricing of five- and 10-year call tranches near 7%.

Looking ahead

The preferred securities market extended its positive momentum into February 2025, benefitting from lower long-term rates, attractive yields and resilient credit fundamentals. As we highlighted in our 2025 outlook, preferreds remain well-positioned for income-focused investors, offering competitive yields, relative stability and potential price appreciation in a market still navigating economic uncertainty. With yields near post-crisis highs and spreads near historical averages, preferred securities present a compelling opportunity—provided investors remain selective and mindful of the evolving macro landscape.

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