Parametric

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.

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