

Preferred Securities Market Insight | April 2026

Rates Drove the Drawdown, Dispersion Is Emerging

Key takeaways

- » **Rates drove performance:** Higher Treasury yields and a repricing of Fed expectations primarily drove weakness across preferreds and hybrids in March.
- » **\$25 par underperformed \$1,000 par:** Retail preferreds lagged in March (**approximately -3.9% versus -1.7% for \$1,000 par investment-grade**), reflecting greater duration and equity sensitivity in a volatile rates environment.
- » **Early cracks in private credit:** Idiosyncratic stress in business development companies and software-linked credits contributed to modest spread widening, though moves remained contained.
- » **Limited direct exposure, but important connectivity:** Preferreds have minimal direct exposure to private credit, but indirect linkages through banks and insurers warrant monitoring.

Market recap

March was a rates-driven drawdown across preferred securities, with higher Treasury yields and elevated volatility weighing on returns. The move was consistent with broader fixed income markets, where duration—not credit deterioration—was the dominant driver of performance. Treasury yields moved sharply higher during the month, reflecting a repricing of the Fed path alongside rising inflation expectations tied to higher energy prices and geopolitical developments.

Structure largely drove performance dispersion within preferreds. Retail \$25 par securities underperformed institutional \$1,000 par preferreds, reflecting their longer-duration profile and greater sensitivity to equity market volatility. CoCos and AT1 securities also lagged while higher oil prices and geopolitical uncertainty weighed on European and Asian equity markets. This dynamic is consistent with the broader credit backdrop, where higher yields pushed total returns lower even while spreads only widened modestly.

This was not a credit-led selloff. While investment-grade spreads widened modestly over the month, the magnitude of the move remained limited relative to the increase in underlying yields. This distinction remains critical. Fundamentals across the preferred universe, particularly in large bank issuers, remain broadly stable. The primary headwind continues to be the path of interest rates.

The defining macro development in March was the shift in the Fed's reaction function. While the Fed held rates steady at its March meeting, updated projections and commentary pointed to higher inflation expectations and increased uncertainty tied to energy markets. This drove a meaningful repricing in policy expectations, with markets pushing out the timing of rate cuts and even pricing the possibility of additional tightening at times.

The Iran conflict and associated energy shock also pushed oil prices above \$110 per barrel, reinforcing inflation concerns and contributing to a bear-flattening of the yield curve. This resulted in a challenging environment for duration-sensitive assets, including preferred securities, where higher yields more than offset coupon income. From a preferred market perspective, this reinforces a key theme. Returns remain heavily dependent on the path of rates, particularly in an environment where spreads are relatively tight and incremental income is the primary driver of performance.

Private credit: Emerging risk, not systemic

Alongside the rates-driven move, March also saw increased investor focus on private credit, particularly in business development companies (BDCs) and software-exposed lending portfolios. Concerns around AI-driven disruption have intensified scrutiny of software business models, which represent a significant portion of many private credit portfolios.

These concerns have begun to manifest in market behavior. BDCs have underperformed, redemption requests have increased and some funds have used gating mechanisms to manage liquidity. While these developments have contributed to a more cautious tone across credit markets—and modest spread widening in both investment-grade (IG) and high-yield (HY) bonds—they remain largely idiosyncratic rather than systemic.

It's also important to contextualize this within public markets. Software represents a relatively small portion of the IG universe, and preferred indexes have limited direct exposure to BDCs or underlying private credit borrowers. The connection is instead indirect, primarily through financial institutions. These are namely banks and insurance companies that provide financing to, or invest alongside, these markets.

Bank and insurance connectivity

While preferreds don't have meaningful direct exposure to private credit, the connectivity through bank and insurance issuers remains an important area of focus. For banks, exposure to private credit primarily takes the form of lending to non-bank financial institutions, including BDCs and private credit funds. These exposures remain a relatively small portion of total loan books and are typically structured with strong collateral, conservative advance rates and covenant protections. In many cases, diversified pools of underlying loans secure these revolving credit facilities.

Exposure is somewhat more direct for insurance companies, since they have become significant providers of long-term capital to private credit markets. However, these investments are generally aligned with long-duration liabilities and are often structured as senior secured claims on underlying assets. Both banks and insurers tend to sit higher in the capital structure than unsecured BDC debt holders as a result, limiting potential downside risk.

Recent spread widening in parts of the financial sector reflect increased investor sensitivity to these linkages, but the overall level of exposure remains manageable. Unlike prior cycles, risk isn't concentrated in deposit-funded institutions but is distributed across long-term capital providers. However, while private credit introduces a source of increasing dispersion, we don't view it as a source of systemic risk for preferred securities at this stage.

Technicals: A continued source of support

Despite the more volatile macro backdrop, technical factors remain supportive for preferreds. Net supply in institutional preferreds continues to contract, with redemptions—particularly from large bank issuers—outpacing new issuance.

This dynamic has been a consistent tailwind for the asset class. With fewer securities outstanding and steady demand for income-oriented investments, preferreds continue to benefit from a favorable supply-demand imbalance. Even in the context of broader credit market volatility, new issuance has been relatively limited and generally well absorbed.

This stands in contrast to the broader IG market, where supply remains elevated, which M&A activity and ongoing capital investment trends partially drove. The relative scarcity of preferred issuance, combined with strong issuer fundamentals, continues to provide an important anchor for valuations.

Bank earnings preview

Large-cap banks are set to kick off earnings season in the coming weeks. There are several key themes in focus for preferred investors.

First, the outlook for net interest income (NII) remains central, particularly in a higher-for-longer rate environment where asset yields have adjusted more quickly than funding costs. Second, increased market volatility raises questions around capital markets activity and fee generation, which could introduce some near-term earnings variability.

More importantly, investors will be focused on credit quality and provisioning, particularly in the context of higher energy prices and emerging concerns around private credit exposure. While we expect commentary to acknowledge these risks, underlying asset quality and capital levels across large banks remain strong.

Evolving regulatory dynamics are also driving the potential for greater balance sheet flexibility, which may influence capital deployment decisions, including buybacks and issuance activity. From a valuation perspective, recent weakness in bank equities has brought multiples closer to historical norms, despite continued strength in profitability metrics.

Looking ahead

The preferred market remains positioned at the intersection of strong technicals and a more uncertain macro backdrop. On one hand, issuer fundamentals remain solid, particularly in the banking sector. The asset class also continues to benefit from negative net supply and attractive income levels. On the other hand, higher rates, geopolitical uncertainty and emerging pockets of credit stress are contributing to increased volatility and dispersion across markets.

The broader credit environment reflects a similar balance. Spreads remain relatively tight by historical standards, suggesting limited room for further compression, while elevated yields provide a meaningful source of carry. Income is more likely to drive future returns in credit than valuation changes, with a greater emphasis on stability than spread tightening.

In this environment, security selection and active credit oversight are becoming increasingly important. While risks are rising in certain segments, particularly in private credit and software-exposed borrowers, we believe they remain concentrated rather than systemic.

Higher rates and increased volatility primarily drove March performance across preferred securities, not a deterioration in underlying credit fundamentals. Private credit concerns are beginning to surface and contribute to modest spread widening. However, these risks appear to be idiosyncratic and manageable, particularly in the context of strong bank and insurance balance sheets.

With supportive technicals, resilient issuers and attractive income, preferreds remain well positioned, but the path of rates, inflation expectations and evolving geopolitical risks will continue to shape near-term performance.

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