

Why preferred securities may continue to deliver strong returns in 2026

2025 was a solid year for preferred securities. And there are ample reasons to believe returns will stay favorable in 2026.

Of course, we entered the year with credit spreads near historically tight levels and unlikely to narrow much further. However, we expect spreads to hold in this low range amid resilient growth and because credit fundamentals are supportive.

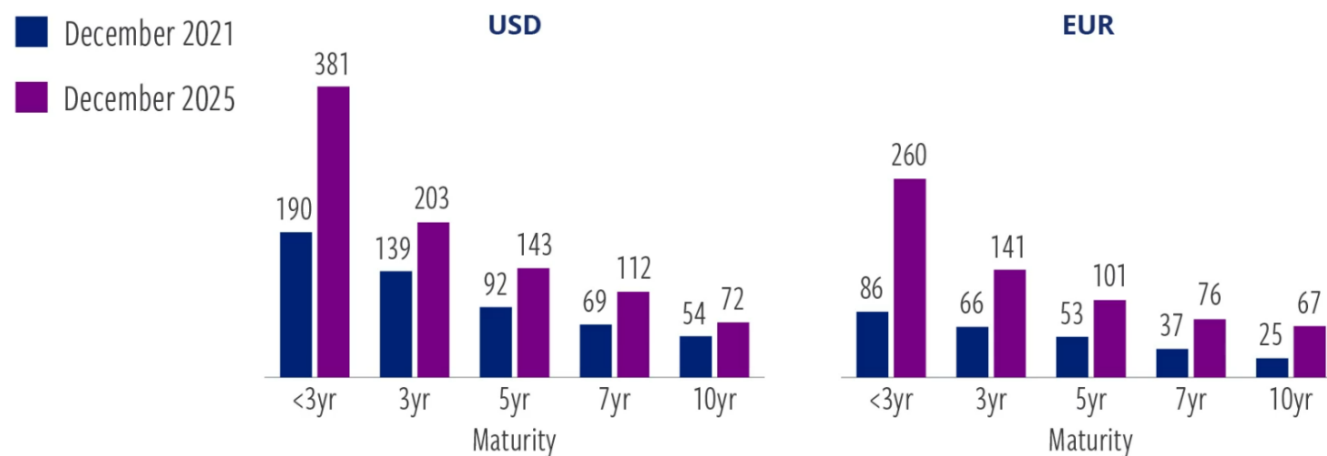
For instance, banks—the largest issuer segment of preferreds—are enjoying strong profitability, supported by diversified earnings drivers beyond AI. Plus, bank balance sheets are in the best shape in memory, putting banks in a position to return capital to shareholders. Strong investor demand and limited net new bank preferred issuance are providing a supportive technical backdrop for the preferreds market.

Meanwhile, income levels across the preferreds universe are attractive for long-term buyers, in our view, providing some of the highest yields found among investment-grade securities, ranging from 6 to 7%. Preferreds' high income component has helped them meaningfully outperform investment-grade bonds on a total return basis over the past 10 years.

Moreover, preferreds currently have higher total return “breakevens” than in recent periods, offering a buffer for unforeseen events. Breakevens represent the amount by which interest rates could rise and/or credit spreads could widen before the total return drops to zero.

Preferreds are currently well cushioned against uncertainty

U.S. dollar and euro total return breakevens (basis points)



At December 31, 2025. Source: ICE BofA, Cohen & Steers.

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