

Preferred securities: The quality behind the yield

Strong fundamentals, improving credit quality and attractive yields underpin the case for hybrid credit today.

August 2026

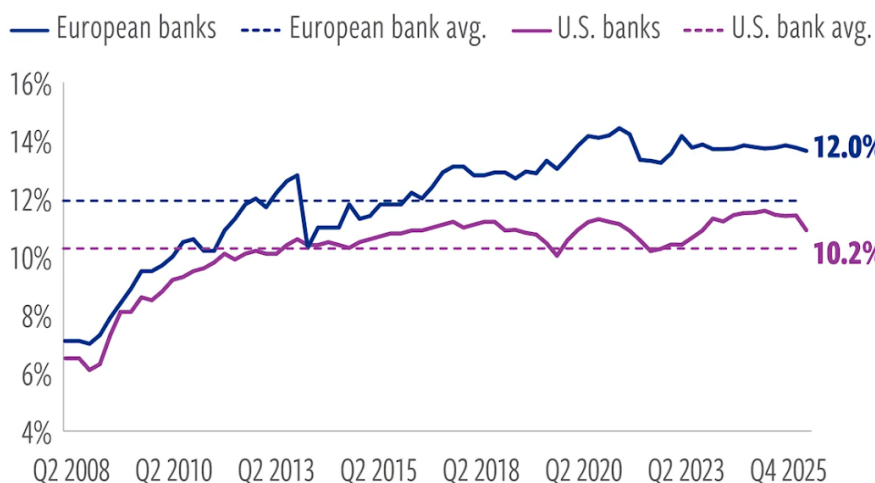
When investors see yields of 6% to 8%, they often assume they're taking significant credit risk. But it's generally a different story in today's preferred securities market.

Many preferred securities are issued by some of the strongest companies in the global economy, including banks, insurers and utilities. These sectors represent the core of the preferreds market and have entered this period from a position of strength.

Strict capital requirements since the global financial crisis mean core capital ratios for banks and insurance companies are near historically high levels, providing a significant cushion against future losses while supporting credit quality. Strong earnings expectations and profitability further reinforce issuer fundamentals. And the story extends beyond financials.

Bank fundamentals remain healthy

Core capital ratios of major U.S. & European banks



- Capital ratios remain at historically high levels
- Strong capital and reserves provide cushion against future loan losses
- Earnings expectations and profitability remain elevated, supporting issuer fundamentals

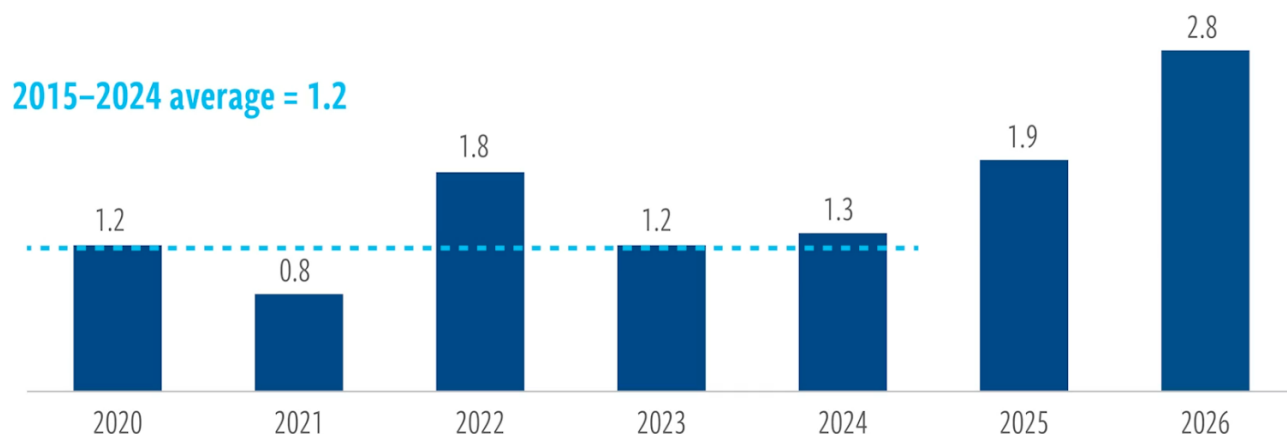
At March 31, 2026. Source: Bloomberg, Cohen & Steers.

Utilities, for instance, are benefiting from rising investment tied to artificial intelligence, data center growth and power infrastructure needs. These companies are generating healthy earnings and cash flows while operating under regulated business models that can provide stability across economic cycles.

These stronger fundamentals are showing up in credit ratings as well. Over the last several years, rating upgrades have substantially outpaced downgrades, reflecting healthier balance sheets, stronger capital levels and improved credit quality across the preferreds universe.

Upgrade momentum signals a higher-quality market

Annual credit rating upgrade-downgrade ratio



At 30 June 2026. Source: Bloomberg, Cohen & Steers. Past performance is no guarantee of future results.

What makes this especially compelling is the income investors receive.

Today, investment-grade preferreds offer yields around 7%. Achieving only modestly higher yields in high-yield bonds typically requires taking on substantially lower credit quality. The tight yield spread between the two points to attractive values for preferreds relative to history.

In our view, that's the opportunity in preferred securities today.

Strong earnings support strong balance sheets. Strong balance sheets support credit quality. And that combination helps investors access some of the highest income available within investment-grade fixed income markets.

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Contingent capital securities (CoCos). CoCos are debt or hybrid securities with loss absorption characteristics built into the terms of the security, for example a mandatory conversion into common stock of the issuer under certain circumstances, such as the issuer's capital ratio falling below a certain level. Since the common stock of the issuer may not pay a dividend, investors in these instruments could experience a reduced income rate, potentially to zero, and conversion would deepen the subordination of the investor, hence worsening the investor's standing in a bankruptcy. Some CoCos provide for a reduction in the value or principal amount of the security under such circumstances. In addition, most CoCos are considered to be high yield securities and are therefore subject to the risks of investing in below-investment-grade securities.

Duration risk. Duration is a mathematical calculation of the average life of a fixed-income or hybrid security that serves as a measure of the security's price risk to changes in interest rates (or yields). Securities with longer durations tend to be more sensitive to interest rate (or yield) changes than securities with shorter durations. Duration differs from maturity in that it considers potential changes to interest rates, and a security's coupon payments, yield, price and par value and call features, in addition to the amount of time until the security matures. Various techniques may be used to shorten or lengthen a portfolio's duration. The duration of a security will be expected to change over time with changes in market factors and time to maturity.

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