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Separately Managed Accounts

Global Fixed Income

Preferred Securities

Marketing communication | As of 30 Sep 2025

- **During the third quarter, the Preferred Securities strategy underperformed its benchmark, the ICE BofA Core Plus Fixed Rate Preferred Securities Index.**
- **Detractors included security selection, sector allocations and a shorter duration profile.**
- **In the fixed income market, spread sectors broadly outperformed Treasuries during the quarter led by the preferred securities market.**

Market review

The U.S. economy continued to steadily slow during the third quarter, and the labor market softened, but overall growth continued to hold up well. Real consumption continued to expand at around a 2% pace, despite a sharp slowdown in job creation. The unemployment rate ticked up to a new cyclical high of 4.3% in August, while other measures of labor market slack pointed to more stability. Inflation increased as the impact from tariffs steadily fed through to consumer prices, while leading indicators pointed to further upside ahead. Core personal consumption expenditures (PCE) inflation increased to 2.9% year-on-year, up from its recent low of 2.6% in April.

After holding rates steady at its July meeting, the Federal Reserve (Fed) reduced the target federal funds rate by 25 basis points in September, to a range of 4.00%-4.25%. The Fed's updated economic projections showed few changes, but its policy statement noted heightened downside risks to the labor market. As a result, the heavily scrutinized dot plot of projected rate changes now shows two more rate cuts this year and one in 2026. The European Central Bank and Bank of Japan kept policy steady throughout the period while the Bank of England cut rates by 25 basis points once during the quarter in August. U.S. Treasury rates declined across the yield curve, with the 10-year Treasury yield ending the quarter eight basis points lower at 4.16%. Shorter rates fell more due to expectations for further cuts, while the long end remained pressured by concerns over long-term inflation and fiscal deficits, resulting in a steeper yield curve.

Lower rates and tightening credit spreads fueled positive returns across fixed income asset classes with spread sectors broadly outperforming Treasuries, led by the preferred securities market. The strategy's benchmark posted a 6.1% third-quarter return, outpacing both financial senior debt and financial equities. Given the hybrid nature of this asset class, we expect its performance will typically fall between senior debt and equities from the same issuers. A comparable senior corporate bond index, the Bloomberg U.S. Credit-Financial Institutions Index, returned 2.4% for the quarter, while the S&P 500 Financials Sector Index gained 3.2%.

Within the preferred securities market, the 6.1% return of the $25 par preferred segment meaningfully outperformed both $1000 par preferreds and U.S.

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dollar-denominated contingent capital securities (USD CoCos), which returned 3.0% and 3.9%, respectively. Average option adjusted spread (OAS) for the $25 par preferred segment decreased by 56 basis points during the quarter, while the average OAS for $1000 par preferreds and USD CoCos decreased by 12 basis points and 45 basis points, respectively. In addition to the larger decrease in OAS, the performance of the $25 par preferred segment also benefited from its longer average duration. As noted above, interest rates decreased across the yield curve during the quarter. At quarter end, the average effective duration of $25 par preferreds was 8.2 years, materially longer than both $1000 par preferreds and USD CoCos, which had effective durations of 4.2 years and 3.6 years, respectively.

Headlines specific to the two largest sectors in the combined preferred securities and USD CoCos market – banks and insurance companies – remained relatively benign during the quarter. Banks, the largest issuers of preferred and USD CoCo securities, released second-quarter 2025 earnings results that generally exceeded expectations, a trend that has now spanned a number of quarters. Second quarter earnings from insurance companies, which represent the second largest sector within our market, were also strong with both the property and casualty (P&C) and life subcategories performing quite well. The P&C category continued to benefit from this past decade's trend of larger players exiting catastrophe-prone geographies. With limited exposure in the Southeast and West Coast, the P&C industry has been rather insulated from insured losses related to recent hurricane activity and California wildfires. At the same time, the P&C and reinsurance sectors have leveraged those catastrophes to secure higher premiums during policy renewals, which has helped the industry combat the effects of inflation related to claims from other events. For the life segment, insurance products continued to run at a healthy pace as demand has remained robust ever since the onset of the Covid pandemic. Life insurance companies have also benefited from record issuance of annuity products over the past few years. This is a product that naturally fits the aging demographic here in the United States and across most other developed economies. In addition, the current elevated interest rate environment allows annuity products to pay investors significantly higher revenue streams today compared to the prolonged era of low interest rates following the Great Financial Crisis. Overall, the outlook for both the bank and insurance sectors within our market remains constructive for the foreseeable future.

Portfolio review

The Preferred Securities strategy posted a positive absolute return for the quarter but underperformed relative to its benchmark, the ICE BofA Core Plus Fixed Rate Preferred Securities Index, on a gross and net of fees basis. On an absolute basis, spread compression was the main driver of this quarter's positive return, with coupon income and duration contributing as well. On a relative basis, however, the strategy's underperformance primarily resulted from security selection, while sector allocations and duration also modestly detracted.

Despite the positive absolute performance this quarter, the strategy underperformed on a relative basis mostly due to security selection in the banking and insurance sectors, which together account for roughly 80% of the strategy. Much of the drag from these two sectors resulted from the strategy's underweight in lower-coupon preferred securities, which outperformed during the quarter driven by falling interest rates and tighter spreads. In recent years, as the Fed battled inflation by raising rates, many securities with lower coupons experienced meaningful interest rate duration extension and spread duration extension as their estimated call dates were pushed out multiple times beyond their first call dates. As a result, these lower-coupon securities currently have more price volatility than their higher-coupon counterparts and outperformed during the quarter's strong advance. Overall, the strategy has much larger exposure to higher-coupon securities, and therefore less volatility, versus its benchmark.

Sector allocations also hindered relative performance led by the strategy's cash balance, which typically only has a material impact when the market experiences extreme moves. With the benchmark advancing more than 6% during the quarter, the strategy's modest cash allocation was a notable drag on performance. The REIT sector also detracted because the strategy had no exposure, and REITs strongly outperformed the broader market.

In addition, the strategy's meaningfully shorter duration profile versus its benchmark index was a notable detractor as rates fell during the quarter.

Like the prior quarter, issuance of $25 par preferreds was fairly light, but we did see a few issuers come to market with attractive deals. In July, we added a new issue from Citizens Financial Group, establishing a roughly 2.5% position in the name. In September, we added new issues from DTE Energy and Xcel Energy, initiating 1% positions in each name.

Preferred Securities

Outlook

While the macro outlook remains less certain given U.S. tariff policy and other geopolitical concerns, we remain constructive on the fundamentals underlying the U.S. economy, as well as the global bank sector, the largest issuer within our market. Generally speaking, the global bank sector remains significantly derisked compared to before the Covid pandemic. Also, in the United States, we anticipate increased merger and acquisition activity among smaller and mid-sized banks. All else equal, we believe the resulting larger and more diversified banks will provide even greater stability to the sector. Our outlook also remains positive for the insurance sector, the second largest issuer of securities within our index, given historically high risk-based capital levels, the added protection from regulatory oversight, a business model that inherently benefits from higher interest rates, and near record-setting sales of annuity products for the past three calendar years. As noted above, we are encouraged by the fact that most P&C insurance providers have exited high-risk geographies and lines of business over the past few years, leaving those risks to various state and/or federal government insurance programs. While our current concerns regarding our asset class are more macro in nature, we believe underlying fundamentals should allow the largest sectors in our market to weather meaningful market turmoil if economic conditions were to deteriorate.

Our outlook regarding valuations in the preferred securities market remains fairly constructive given the strong fundamentals underlying our largest sectors, coupled with supportive supply/demand technicals. At quarter end, however, the OAS for the $25 par preferred securities market was below its longer-term average.

From a technical perspective, we expect net supply to be modestly positive for the foreseeable future. With Moody's officially changing its methodology for assigning equity credit to hybrid securities in early 2024, a move that aligned its methodology closer to S&P and Fitch, more corporate hybrid issuers have taken advantage of garnering the 50% equity content treatment for hybrid structures from each of the Big 3 rating agencies. With capital expenditures likely to increase meaningfully across the utility sector, those issuers will need to manage leverage levels to protect their ratings. As a result of these factors, we anticipate corporate hybrid supply to be net positive at $25-$30 billion in 2025. Given much of this new hybrid issuance will be eligible for investment grade or high yield corporate bond indexes, investor interest will be broad based, and this new supply should be easily absorbed. This wave of index-eligible hybrid supply may also spur more investor interest in the preferred securities asset class, which could further support current valuations.

Barring any unforeseen developments, we anticipate maintaining most of the strategy's current positioning relative to its benchmark index. We continue to favor securities with coupon reset features because these securities have minimal duration extension risk compared to their fixed-rate counterparts. Plus, in the current rate environment, many of these securities nearing their rate resets have the potential for coupon increases. We also continue to maintain the strategy's overweight in the financial sector, which is generally comprised of highly regulated industries, and underweight in industrials, which is more defensive in nature and has less government oversight. Banks and insurance companies, which make up most of the financial sector, are subject to strict regulations, plus most banks are required to regularly participate in fairly rigorous stress tests. We will likely use bouts of weakness to add spread duration to the strategy by rotating out of near-term callable securities, and into securities with longer call protection.

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is $100,000.

Important information on risk

All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. The preferred securities strategy entails certain risks, including preferred security risk, interest rate risk, income risk, credit risk, non-U.S. securities risk and concentration/non-diversification risk, among others. There are specific risks associated with investing in preferred securities, including generally an absence of voting rights with respect to the issuing company unless certain events occur. The issuer of preferred securities may redeem the securities prior to a specified date. As with all call provisions, a redemption by the issuer may negatively impact the return of the security held by an account. Investing internationally presents certain risks not associated with investing solely in the U.S., such as currency fluctuation, political and economic change, social unrest, changes in government relations, differences in accounting and the lesser degree of accurate public information available, foreign company risk, market risk and correlation risk. Preferred security investments are generally invested in a high percentage of the securities of companies principally engaged in the financial services sector, which makes these investments more susceptible to adverse economic or regulatory occurrences affecting that sector.

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Glossary

The **Bloomberg U.S. Credit-Financial Institutions Index** measures the performance of U.S. dollar denominated publicly-issued investment-grade corporate bonds in the financial sector. The **S&P 500® Financials Index** comprises those companies included in the S&P 500® that are classified as members of the GICS® financials sector. The **ICE BofA Core Plus Fixed Rate Preferred Index** tracks the performance of fixed-rate U.S. dollar denominated preferred securities issued in the U.S. domestic market. Qualifying securities must be rated at least B3 and must have an investment grade rated country of risk. **Contingent capital securities (CoCos)** are debt or capital securities of primarily non-U.S. issuers with loss absorption contingency mechanisms built into the terms of the security. **Option adjusted spread (OAS)** is the constant spread that when added to all discount rates from the Treasury curve on the binomial interest rate tree model (used by the indices) will make the theoretical value of the future cash flows equal to the market price of the instrument. **It is not possible to invest directly in an index.** Clients should consult their financial professional regarding unknown financial terms and concepts.

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