

Preferred Securities

Marketing communication | As of 31 Mar 2026

Key takeaways

- During the first quarter, the Preferred Securities strategy posted a negative absolute return, performing in line with its benchmark, the ICE BofA Core Plus Fixed Rate Preferred Securities Index.
- The \$25 par preferred securities market returned -1.61% as measured by the ICE BofA Core Plus Fixed Rate Preferred Securities Index.
- Duration positioning and sector allocation primarily contributed to this quarter's relative outperformance versus the benchmark.

Market review

Economic growth remained solid, although the outlook was clouded by the conflict in the Middle East. Early estimates indicate U.S. gross domestic product (GDP) grew roughly 2.5% year over year in the first quarter, a slight acceleration from 2025's pace. Following earlier signs of softening, the U.S. labor market surprised to the upside in March's report, with unemployment edging down to 4.3%. With the Strait of Hormuz effectively closed amid the Iran conflict, West Texas Intermediate (WTI) oil prices surged in March and ended the quarter above \$100 per barrel, after averaging around \$60 over the prior three months. While it is too early for this move to materially affect economic activity or reported data, it will likely add upward pressure to global inflation in coming months. Inflation releases — still affected by reporting delays after last quarter's government shutdown — showed the core Personal Consumption Expenditures (PCE) Price Index, the preferred measure used by the Federal Reserve (Fed), slightly above 3.0% year over year through January.

Global central banks generally struck a more hawkish tone at their March meetings, reflecting the risk of higher near-term inflation from rising oil prices. The Fed held rates steady at 3.50%-3.75% in January and March, though some participants revised inflation and rate projections higher. Three other major developed-market central banks — the European Central Bank (ECB), Bank of Japan (BoJ) and Bank of England (BoE) — also left policy unchanged during the quarter. The Reserve Bank of Australia began to tighten amid healthy economic activity, raising rates twice by 25 basis points. Messaging shifted more cautious overall, with the Fed adopting a wait-and-see approach to additional cuts this year. The ECB and BoE highlighted upside inflation risks and signaled that rate hikes remain possible this year, while the BoJ maintained a hawkish stance, emphasizing inflation control over growth risks.

U.S. Treasury yields traded in a well-defined range until the Iran conflict escalated, sending rates sharply higher — particularly at the front end of the curve — as expectations for Fed rate cuts were pushed out. Two-year Treasury yields rose 32 basis points over the quarter, while 30-year yields finished only 4 basis points higher. Ten-year Treasury yields increased 12 basis points to 4.30%, as the March selloff reversed an earlier rally. Credit spreads widened as well, contributing to flat-to-negative total returns across most fixed income asset classes.



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The asset class, represented by a Custom Benchmark Index* that encompasses the preferred securities and U.S. dollar-denominated contingent capital securities (USD CoCos) markets, returned -0.81% in the first quarter. The index slightly underperformed financial senior debt, but materially outperformed financial equities. Given the hybrid nature of this asset class, we expect performance to typically fall between senior debt and equities from the same issuers. For context, the Bloomberg U.S. Credit-Financial Institutions Index returned -0.67% for the quarter, while the S&P 500 Financials Sector Index returned -9.47%.

Within the asset class, \$25 par preferred securities underperformed both \$1000 par preferreds and USD CoCos, returning -1.6% for the quarter versus -0.2% and -1.1%, respectively. This marked the second consecutive quarter in which \$25 par preferreds lagged the other two categories. The underperformance primarily reflected the segment's longer duration profile at a time when interest rates moved meaningfully higher. At quarter-end, the average duration of a \$25 par preferred was roughly nine years, more than double the effective duration of the \$1000 par preferred and USD CoCo segments (4.2 years and 3.6 years, respectively). The average option-adjusted spread (OAS) for \$25 par preferreds increased by 25 basis points during the quarter, widening more than \$1000 par preferreds (up 14 basis points) but less than USD CoCos (up 42 basis points).

Despite meaningful geopolitical developments during the quarter — most notably the conflict between the United States and Iran — sector-specific headlines for banks and insurance companies, the two largest sectors in our market, remained relatively benign. Banks, the largest issuers of preferred and USD CoCo securities, reported fourth-quarter 2025 earnings results that generally exceeded expectations, extending a multi-quarter trend. During the quarter, the Fed and FDIC finally released the Basel III "endgame" proposals. We view the proposals as practical and broadly in line with expectations. We also believe they should allow banks to utilize balance sheets more efficiently to support their businesses and the domestic economy without materially undermining the strong fundamental backdrop for the U.S. bank sector.

Fourth-quarter earnings from the insurance sector, the second-largest segment of our market, were also strong, with both property and casualty (P&C) and life insurers performing well. The P&C category continued to benefit

from a decade-long trend of larger carriers reducing exposure to catastrophe-prone geographies. With limited exposure in the Southeast and West Coast, the sector has been relatively insulated from insured losses tied to hurricane activity and California wildfires. A benign hurricane season was also welcome, given forecasts had called for an active 2025 storm season. In the life insurance segment, product demand remained robust, supported by post-pandemic trends. Life insurers have also benefited from record annuity issuance in recent years, with annuity sales reaching approximately \$450 billion in 2025. Annuities align naturally with the aging demographic in the United States and other developed economies. Also, the still-elevated rate environment allows many annuity products to offer meaningfully higher income streams than during the prolonged low-rate period following the Global Financial Crisis. Overall, our outlook for both the bank and insurance sectors remains constructive.

Portfolio review

During the quarter, the Preferred Securities strategy posted a negative return, modestly outperforming its benchmark, the ICE BofA Core Plus Fixed Rate Preferred Securities Index, on a gross of fees basis, but underperforming net of fees. On an absolute basis, coupon income was the sole contributor to total return. On a relative basis, the strategy's outperformance was primarily driven by duration positioning and sector allocation.

The strategy's interest rate positioning contributed overall during the quarter. Notably, the strategy benefited from its shorter duration profile versus its benchmark, which lessened its sensitivity to rising U.S. Treasury yields during the quarter. The duration of the strategy's portfolio was 7.4 years at quarter-end, roughly 1.4 years shorter than its benchmark. However, Treasuries did not move in unison — the Treasury curve flattened over the period, with the 2-year yield rising 32 basis points, the 10-year rising 12 basis points, while the 30-year rose only 4 basis points. Relative to its benchmark, the strategy carried more interest rate exposure at the short end of the curve and less at the long end. As the curve flattened, this yield curve positioning acted as a slight detractor, offsetting some — but not all — of the benefit derived from the duration underweight.

Sector allocation also contributed to relative performance, primarily driven by the strategy's underweight to non-bank finance companies (including private equity firms and aircraft lessors), which underperformed within the index.

Investor concern regarding private credit exposure among finance and insurance companies weighed on valuations across both sectors. The strategy had little exposure to non-bank finance companies, which was a key benefit to relative performance. However, the strategy's overweight to the insurance sector offset a meaningful portion of the sector allocation contribution.

As in recent quarters, issuance of \$25 par preferreds remained muted, although the strategy participated in two new issues. In late January, the strategy established a 1.5% position in Citigroup 6.25% and in mid-March established a 0.75% position in NextEra Energy 6.5% due April 15, 2086. Additionally, the strategy executed several smaller secondary trades later in the quarter, rotating out of currently callable securities and into those with longer call protection, adding to both duration and yield on balance.

Outlook

Despite ongoing uncertainty related to the U.S.-Iran conflict, negative headlines in private credit, trade friction from U.S. tariff policy and the ongoing Russia-Ukraine war, we remain constructive on the U.S. economic outlook. In our view, consumer resilience, better-than-expected recent labor data, and meaningful fiscal stimulus expected to flow into the economy later this year from the One Big Beautiful Bill Act should provide ample support.

We are similarly constructive on the global banking sector, the largest issuer in our market, which has meaningfully reduced risk relative to pre-pandemic levels. In the United States, we also expect increased merger and acquisition activity among small- and mid-sized banks. Greater scale and diversification should further strengthen the banking sector. Our outlook for the insurance sector — the second-largest issuer within our index — also remains positive. We see several supportive factors, including historically high risk-based capital levels, enhanced regulatory oversight, a business model that benefits from higher interest rates, and record annuity sales over the past four years. In addition, as noted above, most P&C insurers have reduced exposure to high-risk geographies in recent years, shifting more of those risks to state and/or federal government insurance programs.

While our current concerns for the asset class are primarily macroeconomic, the largest sectors in our market are positioned well to weather volatility should economic

conditions deteriorate. Although average OAS of the \$25 par preferred securities market ended the quarter below longer-term median levels, we remain constructive on the segment's relative value case. In our view, current valuations are supported by both strong fundamentals and technicals.

Recent signs of renewed inflationary pressures following the U.S.-Iran conflict and lingering tariff effects have led investors to scale back expectations for Fed cuts in 2026. At the start of the quarter, the market implied a high probability of two 25-basis-point cuts in 2026. By quarter-end, fed funds futures reflected only a marginal probability of one 25-basis-point cut this year.

We continue to monitor employment data closely, given that consumer spending accounts for roughly 70% of U.S. economic activity. As noted earlier, the latest employment report, released shortly after quarter-end, was much stronger than expected and should lend further support to the consumer. As of this writing, we estimate the probability of a U.S. recession over the next 12 months at less than 30%, near the low end of our internal projections over recent quarters.

From a technical standpoint, we expect a modest amount of net positive supply in the near term. Utility issuers, in particular, must balance funding AI-related capex against rising leverage and potentially punitive rating-agency actions. Issuing hybrid securities that receive equity-content treatment from rating agencies is an effective way to raise capital while limiting incremental balance-sheet leverage. We expect the market to absorb this hybrid supply, especially because much of it should be eligible for investment grade or high yield corporate bond indexes, broadening demand beyond traditional preferred investors. As noted above, the Fed and FDIC released the much-anticipated Basel III proposals late in the quarter, including updated capital guidelines for U.S. banks. If implemented, we estimate U.S. banks could issue roughly \$13 billion of additional preferred securities to optimize their capital stacks. We also expect this supply to be well received, given that bank-issued preferreds generally pay tax-advantaged, QDI distributions that are attractive to tax-sensitive investors.

Barring unforeseen developments, we expect to maintain most of the strategy's current positioning relative to the benchmark. We continue to favor securities with coupon-reset features. Compared with fixed-rate structures,

they carry less duration-extension risk, and in today's rate environment many securities nearing their reset dates may see coupon increases.

We also continue to overweight the broader financial sector and underweight industrials as a defensive positioning choice. The financial sector is dominated by highly regulated industries: banks and insurers are subject to stringent oversight, and most banks also undergo regular and rigorous stress-testing. For these reasons, we continue to

prefer more highly regulated industries over those with less government oversight, which supports our financials overweight and offsetting industrials underweight.

That said, we will likely use periods of market weakness to add spread duration 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 Custom Benchmark Index consists of 60% ICE BofA U.S. All Capital Securities Index and 40% ICE USD Contingent Capital Index.

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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