

The case for preferred securities as the Fed prefers no forward guidance

Bottom line up top

Financial markets navigated a watershed week, replete with a long-awaited diplomatic deal in the Middle East, another batch of mixed U.S. economic data and a new Fed chair leading his first policy meeting.

Diplomacy. The 14-point memorandum of understanding between Iran and the U.S., released last Wednesday, triggered a 60-day window to negotiate the final terms to end the nearly four-month-long conflict. Key sticking points remain, but the framework of the deal covers the reopening the Strait of Hormuz, easing financial restrictions on Iran and agreeing on the status of Iran's nuclear program.

Data. Last week's housing-related releases disappointed, with starts and building permits for May falling short of forecasts, while home builders cut prices and the NAHB Housing Market Index ticked lower from May to June. In contrast, May retail sales surprised to the upside, gaining a healthy +0.9%. We expect further strength in consumer spending amid resilient labor markets and rising household net worth.

Debut. With Kevin Warsh now at the helm, the Fed held rates steady for its fourth consecutive meeting. But a more hawkish pivot was unmistakable: With the Fed's Summary of Economic Projections anticipating a surge in the core Personal Consumption Expenditures (PCE) Price Index from 2.7% to 3.6% by year-end, the closely watched "dot plot" of rate expectations (Figure 1) showed nine of the 18 Fed members who submitted projections penciling in a rate increase for 2026. This marked a change from the March meeting, when the median "dot" implied an expected rate cut. Shortly after Chair Warsh's press conference, markets began pricing in a 65% probability of a September hike, pulled forward from December.

Perhaps more striking than the dot shift was the overhaul of the policy statement: The word count was slashed, details of members' votes were eliminated, and the price stability component of the Fed's dual mandate was emphasized while the goal of maximizing employment was downplayed. And Chair Warsh minced no words at his press conference: "We've dropped forward guidance." He also announced numerous task forces to revamp Fed operations and policy frameworks, including what and how the central bank communicates with the public and financial markets.

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COMMENTARY

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*On behalf of
Nuveen's Global
Investment Committee*

As Nuveen's Chief Investment Officer and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she is a portfolio manager for several key investment strategies.

from structural tailwinds, including relentless demand for power generation driven by AI data centers and the electrification of the economy.

- **Positive supply and demand factors.** European issuers of additional tier 1 (AT1) CoCos have front-loaded new supply of these securities, with roughly 80% of their projected full-year volume already issued. Importantly, the market has absorbed this heavy issuance well, and supply should become a tailwind in the second half of this year. On the heels of revised proposals from U.S. regulators that would overhaul the Basel III endgame risk-based capital framework, we believe U.S. banks might issue \$13 billion of aggregate net new supply over the next 12 to 18 months as they optimize their balance sheets under the proposed new rules. In our view, there’s likely to be ample appetite for this level of new issuance, given the broad investor base for preferreds. Demand for tax-advantaged qualified dividend income (QDI), which certain preferred stock structures provide, is strong, while hybrid preferred securities are generally eligible for inclusion in corporate bond indexes.
- **The particular advantages of \$1000 par securities.** We continue to favor the growing \$1000 par segment over the \$25 par category. \$1000 par securities offer (1) shorter duration (5.3 years versus 8.8, as shown in Figure 2), a key consideration in the higher-for-longer rate environment and (2) more exposure to QDI as a percentage of income.

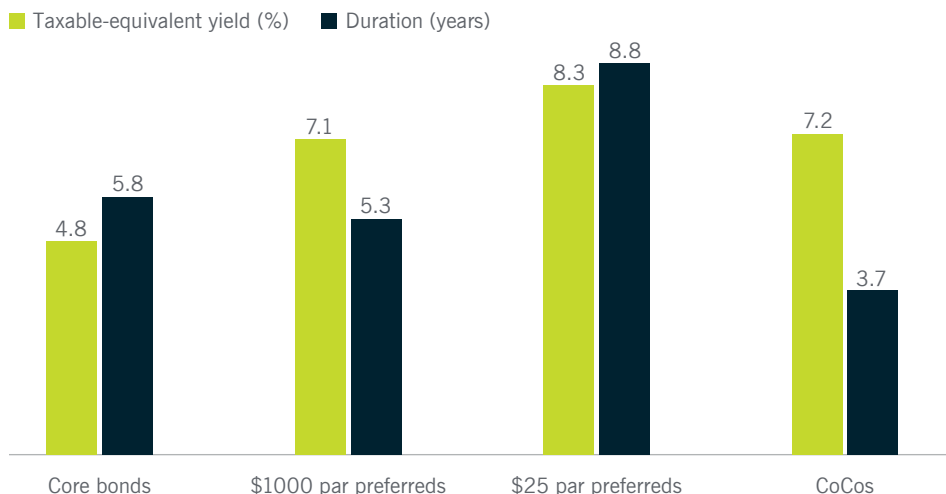
For these reasons, we see preferred securities as a compelling asset allocation option for investors seeking an attractive source of return and tax-efficient income, as well as an effective diversifying complement to other investment grade fixed income holdings.

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Preferred securities offer attractive income levels and solid fundamentals.

Figure 2

Preferred securities offer attractive income relative to duration



Data source: Nuveen, Bloomberg, L.P., 08 Jun 2026. Representative indexes: **core bonds:** Bloomberg U.S. Aggregate Bond Total Return Index; **\$1000 par preferreds:** ICE BofA U.S. Investment Grade Institutional Capital Securities Index; **\$25 par preferreds:** ICE BofA Core Plus Fixed Rate Preferred Index; **CoCos** (ICE BofA USD Contingent Capital Index). **Taxable-equivalent yield (TEY)** is the yield a taxable investment needs to possess (before taxes) for its yield to be equal to that of a tax-free investment. The yields shown are based on the highest individual marginal federal tax rate of 37%, plus the 3.8% Medicare tax on investment income. For preferreds, 100% of the income is assumed qualified dividend income, which is taxed at 20% plus the 3.8% Medicare tax. Individual tax rates may vary. **Performance data shown represents past performance and does not predict or guarantee future results.**

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Regular meetings of the GIC lead to published outlooks that offer:

- macro and asset class views that gain consensus among our investors
- insights from thematic “deep dive” discussions by the GIC and guest experts (markets, risk, geopolitics, demographics, etc.)
- guidance on how to turn our insights into action via regular commentary and communications

For more information, please visit nuveen.com.

Endnotes

Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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