

Preferred Securities Select

Marketing communication | As of 31 Dec 2025

- **During the fourth quarter, the Preferred Securities Select strategy outperformed its benchmark, the ICE BofA US All Capital Securities Index.**
- **Coupon structure allocation, yield curve positioning, sector allocation and security selection all contributed to this quarter's relative outperformance.**
- **The preferred securities market produced modestly positive results, as measured by 0.3% return for the ICE BofA US All Capital Securities Index.**

Market review

Continued easing by the Federal Reserve (Fed) provided support for markets facing headwinds during the fourth quarter, including the extended U.S. government shutdown, weakening job market and geopolitical concerns. U.S. markets were flying blind for much of the quarter because of delayed economic data releases due to the closure, with the most recent figures likely still reflecting the effects of incomplete data collection. At the headline level, inflation improved, with the core Consumer Price Index (CPI) rising 2.6% year-over-year in November, while U.S. unemployment ticked up slightly, to 4.6%. Resilient U.S. consumer spending led to a modest improvement in the Fed's gross domestic product (GDP) growth projection of 1.7% for full-year 2025 and a stronger growth outlook of 2.3% in 2026.

Monetary policy worldwide continued to diverge. The Fed cut rates by 25 basis points in both October and December, lowering the target federal funds rate to a range of 3.50%-3.75%. The dovish pivot was driven by mounting evidence of labor market softening and inflation data that remained surprisingly benign. However, the Fed's accompanying statement in December telegraphed a more patient approach going forward, with potentially only one rate cut in the coming year. The Bank of England also cut rates in December by 25 basis points, while the European Central Bank held policy steady. Meanwhile, the Bank of Japan departed from the global trend by hiking rates by 25 basis points in December.

The U.S. Treasury yield curve steepened during the quarter as longer-term rates rose modestly, the 10-year Treasury yield ended nearly flat at 4.18% and rates at the shorter end fell. Lower rates across the short-to-intermediate portion of the yield curve and tightening credit spreads continued to fuel broadly positive fixed income returns. 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, posted a 0.9% fourth-quarter return, underperforming 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 4.8% for the quarter, while the S&P 500 Financials Sector Index gained 2.0%.



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Within the asset class, \$25 par preferred securities meaningfully underperformed both \$1000 par preferreds and USD CoCos, posting a quarterly total return of -1.4% versus 1.1% and 1.8% for the other two segments, respectively. This represents a reversal of relative performance as \$25 par preferreds significantly outperformed the other two categories in the previous quarter. The average option-adjusted spread (OAS) for the \$25 par preferred segment increased by 34 basis points during the quarter, while the average OAS for \$1000 par preferreds and USD CoCos increased by just 6 basis points and 5 basis points, respectively. From a risk perspective, the average effective duration of the \$25 par preferred segment was 8.8 years at quarter end, materially longer than both the \$1000 par preferred and USD CoCo segments, which had effective durations of 4.2 years and 3.6 years, respectively.

Meanwhile, 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 third-quarter 2025 earnings results that generally exceeded expectations, continuing a multi-quarter trend. Third-quarter earnings from the insurance sector, the second-largest sector within our market, were also strong, with both the property and casualty (P&C) and life subcategories performing well.

The P&C category continued to benefit from a decade-long trend of larger players exiting catastrophe-prone geographies. With limited exposure in the Southeast and West Coast, the P&C industry has been fairly insulated from insured losses related to recent hurricane activity and California wildfires. The benign hurricane season this past year also aided the P&C segment, after forecasters predicted a fairly active storm season at the beginning of the year.

For the life segment, insurance products continued to sell at a healthy pace as demand has remained robust since the onset of the Covid pandemic. Life insurance companies have also benefited from record issuance of annuity products over the past few years, with annuity sales reaching approximately \$450 billion in 2025. Annuities naturally align with the aging demographic in the United States and across most other developed economies. In addition, the still-elevated interest rate environment allows annuity products to pay investors significantly higher income 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.

Portfolio review

During the fourth quarter, the Preferred Securities Select strategy posted a positive return, outperforming its benchmark, the ICE BofA US All Capital Securities Index, on a gross and net of fees basis. On an absolute basis, coupon income contributed the most to this quarter's total return, while yield curve positioning was also modestly additive. On a relative basis, the strategy's outperformance resulted from a variety of factors, including coupon structure allocation, yield curve positioning, sector allocation and security selection.

Coupon structure positioning was the most significant driver of relative outperformance this quarter due to the strategy's overweight to securities with coupon reset features and corresponding underweight to fixed-rate coupon securities. During the quarter, fixed-rate coupon structures – which comprise nearly 90% of the total \$25 par preferred market – materially underperformed securities with coupon reset features. As evidence, the ICE BofA Core Plus Fixed Rate Preferred Securities Index returned -1.4% for the quarter, while the ICE US Institutional Capital Securities Index, a broad-based \$1000 par preferred securities index, gained 1.1%. Therefore, the strategy's roughly 20% overweight in securities with coupon reset features versus the benchmark was the largest contributor, given the substantial performance divergence between these two segments of the market.

Yield curve positioning, which is driven in part by the strategy's coupon structure allocation, also contributed favorably to its relative return. A key advantage of holding securities with coupon reset features versus their fixed-rate coupon counterparts is they often have shorter durations and reduced duration extension risk. Therefore, the strategy's overweight to securities with coupon reset features contributed to a lower duration profile than its benchmark. This positioning proved beneficial during the quarter as the short end of the curve outperformed the longer end. The two-year Treasury yield fell 13 basis points, while the 30-year Treasury yield rose by 11 basis points, resulting in a steeper yield curve. As the curve steepened, the strategy's higher exposure to the short end of the curve was beneficial, from a relative performance perspective.

Finally, the banking sector, by far the strategy's largest sector overweight, benefited relative performance on both a sector allocation and security selection basis. The banking

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sector modestly outperformed the broader market during the quarter, which benefited relative performance given the strategy's material overweight. Additionally, security selection contributed as many of the strategy's overweighted positions outperformed the overall banking sector. On the other hand, the strategy's underweight to the electric sector was the only noteworthy, but minor, detractor in terms of sector selection.

Strategy trades this quarter mostly involved smaller purchases that added to existing holdings but also included one new security. Purchases were primarily funded with existing cash, increasing the strategy's duration and yield at the margin. The team added one new position in Citigroup 6.625%, which was issued in early December.

Outlook

Despite ongoing uncertainty surrounding U.S. tariff policy and geopolitical developments, we maintain a constructive outlook for the U.S. economy, particularly as meaningful fiscal stimulus flows into the economy during 2026. We are similarly constructive about the global banking sector, the largest issuer within our market, which has substantially reduced risk compared with pre-pandemic levels. Also, in the United States, we anticipate increased merger and acquisition activity among smaller and mid-sized banks. The resulting larger, more diversified banks should provide greater stability to the sector.

Our outlook also remains positive for the insurance sector, the second-largest issuer of securities within our index. Several factors support this view: 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 three years. Additionally, as noted above, most P&C insurers have exited high-risk geographies in recent years, transferring those risks to state and/or federal government insurance programs. While our current concerns regarding our asset class are more macroeconomic in nature, we believe strong underlying fundamentals position the largest sectors in our market to weather significant turmoil should economic conditions deteriorate.

We also remain fairly constructive about valuations in the preferred securities market given the strong fundamentals underlying our largest sectors, coupled with supportive

supply/demand technicals. At year's end, the average OAS for the \$25 par preferred securities market, which increased by 34 basis points during the quarter as noted above, was slightly above its longer-term average.

From a technical perspective, we expect modestly positive net supply over the near term. In early 2024, Moody's changed its methodology for assigning equity credit to hybrid securities, bringing its methodology in line with S&P and Fitch. This alignment has enabled more corporate issuers to obtain 50% equity content treatment for their hybrid structures from all three major rating agencies, supporting increased hybrid issuance. Looking ahead, the utility sector's sharply rising capital expenditures (capex) will play an increasingly important role in supply dynamics. Utility issuers must balance the funding of capex projects against rising leverage levels and potential rating implications. Considering these factors, we anticipate corporate hybrid net supply could reach \$50 billion or higher in 2026. That said, we expect the market to readily absorb this supply. Much of this new issuance will be eligible for investment grade or high yield corporate bond indexes, ensuring broad-based investor participation.

Barring any unforeseen developments, we anticipate maintaining most of the strategy's current positioning relative to its benchmark index. We believe an underweight to \$25 par preferreds versus \$1000 par preferreds remains warranted, given the above-mentioned thoughts on valuations. We also continue to favor securities with coupon reset features because these securities 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 some 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.

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For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is \$400,000.

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 U.S. All Capital Securities Index** is a subset of the ICE BofA U.S. Corporate and U.S. High Yield Index including all fixed-to-floating rate, perpetual callable and capital securities, and fixed-rate preferred securities. The **ICE BofA Capital Securities Index** tracks the performance of U.S. dollar-denominated investment-grade corporate debt publicly issued in the U.S. domestic market, consisting of fixed-to-floating-rate, perpetual callable and capital securities. **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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