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Preferred Strategy

Year Ahead 2024: Peak rates are a tailwind

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Preferred Strategy
United States

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A list of abbreviations can be found at the end of this report.

Borrowing costs and bank stress drove preferreds in 2023

2023's higher-for-longer rates backdrop weighed on duration assets and left preferred returns decidedly in the middle relative to peers—$25 pars have added 7.4%, and $1000 pars have gained 6.5% year-to-date. Within the space, shorter-duration preferred structures (fixed-to-floating $1000 pars and floating rate names) led for most of the year, though longer-duration pockets (including REITs and hybrids) moved sharply higher during moments of rates repricing lower, including in January and then again in November, when softer CPI data cemented the market's thinking that the Fed has concluded its rate-hiking cycle. In addition to rates moves, bank stress also whipsawed the financials-heavy preferreds space and helped to drive yields toward historical highs.

Cycle peaks support duration, but high rates risks persist…

If the Fed has, indeed, quit hiking benchmark rates, history suggests that preferreds, particularly longer-duration fixed-for-life $25 pars, may benefit. Notably, following past cycle peaks, broad market $25 par preferreds have registered consistent gains and have outperformed all other fixed-income asset classes we track. Additionally, peaking yields may benefit bank issuers given most pressure points this cycle (such as NII pressure, mark-to-market losses on bonds, hard-landing driven credit losses, and commercial real estate repricing) have been the direct result of high borrowing costs. Investors have already taken note—indeed, flows data suggests that retail demand for preferreds mutual funds and ETFs has already begun to improve relative to 2024's outflows.

…which we think begs a balanced approach to allocations

Despite the recent supportive economic data and favorable market reaction, we believe that rates will remain higher-for-longer and rates vol will stay elevated. With this in mind, we suggest managers consider a balanced approach that includes both shorter-duration fixed-to-floating $1000 par and longer-duration $25 par preferreds when considering investment strategies for 2024. What's more, we think that $1000 par institutional preferreds continue to offer relative value versus their $25 par counterparts. Though a credit shock or sharply higher rates remain important downside risks for 2024, we believe that preferreds are better insulated than either IG or HY corporate bonds.

Issuance to improve amid pickup in refinancing activity

Relative to what we saw in the period between 2019 and 2021, fewer issuers sold new preferreds in 2022 and 2023 as issuers have been hesitant to redeem given much higher refi rates. However, we've seen evidence that the preferreds primary market is beginning to thaw as issuers adjust to the backdrop of higher-for-longer borrowing costs. This considered, we believe that new financing activity will continue to trend higher next year. While not an immediate driver of preferreds new issuance, we are also closely watching the proposed reforms to the Basel framework, which may require big banks come to market to raise new capital to satisfy stricter regulatory requirements.

Refer to important disclosures on page 12 to 14. Analyst Certification on page 10.

2023 in review

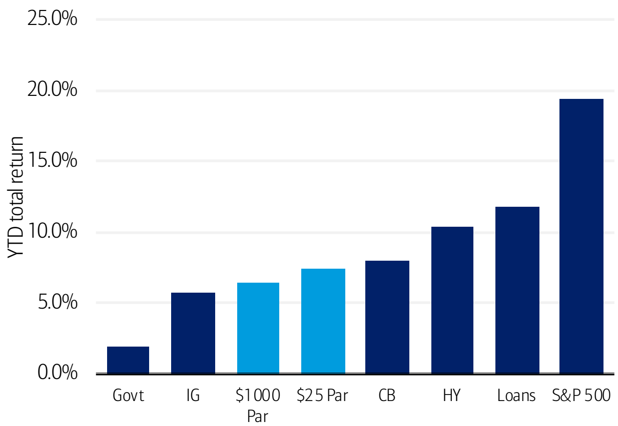
Rates were 2023's top driver of cross-asset performance

Duration underperformed last year as interest rates climbed to 15+ year highs…

Heading into 2023, many had expected the Fed's battle with soaring inflation would trigger a recession, resulting in falling interest rates. Despite a number of near misses (perhaps most notably the regional bank failures in Q1), both consumers and the labor market remained resilient, supporting economic activity despite facing the tightest monetary policy since before the Global Financial Crisis. This has resulted in an environment where interest rates have remained higher-for-longer to the benefit of large-cap equities, cash, and commodities, and to the detriment of small-cap stocks and duration (Exhibit 2). Year-to-date, preferred returns have been decidedly in the middle versus peers—$25 pars have added 7.4%, and $1000 pars have gained 6.5% (Exhibit 1).

Exhibit 1: Cross-asset year-to-date performance

Preferreds have outperformed government bonds and IG credit year-to-date, though they've trailed stocks, leveraged loans, and HY and convertible bonds



Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg. Data as of 07-Dec-2023.

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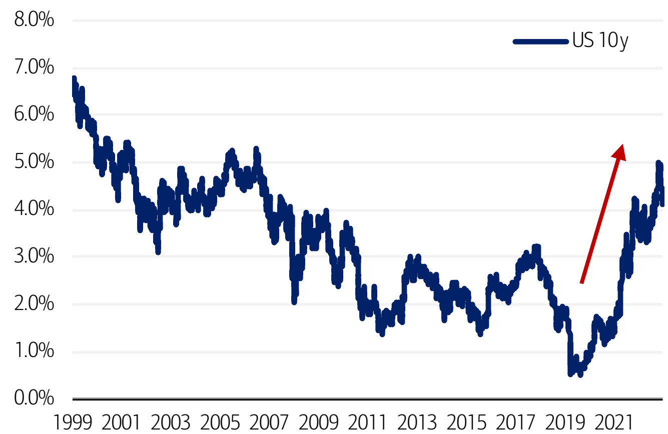
Exhibit 2: US 10y interest rates history

US 10y yields eclipsed 5% in 2023 for the first time since before the Global Financial Crisis



Source: BofA Global Research, Bloomberg. Data as of 07-Dec-2023.

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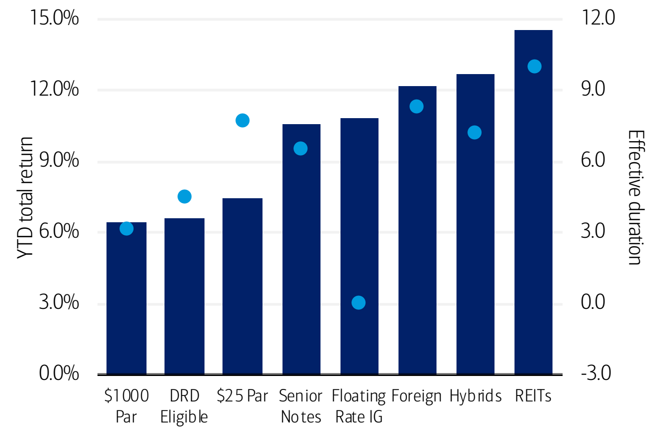
…and within preferreds, fixed-to-floating $1000 pars led for most of 2023

Notably, year-to-date returns among subsets of the preferred space suggest that the longest-duration pockets (including REITs, hybrids, foreign names, and senior notes) outperformed, which seems counterintuitive given the spike in yields (Exhibit 3). Indeed, as we mentioned earlier, fixed-rate $25 pars have led fixed-to-floating rate $1000 pars year-to-date. However, the top-line performance does not tell the whole story. Though they've outperformed on a year-to-date basis, more rates-sensitive $25 pars only bested $1000 pars during 4 months, and in fact $1000 pars led for the vast majority of 2023.

Specifically, the bulk of $25 par's outperformance came during January (when they led by over 8.7 percentage points) and November (when they led by 5.4 percentage points)—both periods defined by a meaningful repricing lower in rates (see our 01-December Preferred Recommended List). The only real exception here was March, when preferred securities and rates plunged together amid the regional bank failures (Exhibit 4).

For most of the year, we had advocated for $1000 pars over $25 pars given their relatively limited sensitivity to rates, though since mid-November we've shifted to a more balanced approach as softer-than-expectation inflation data had cemented the market's thinking that the rates cycle has peaked (see our 15-November Preferred Strategy note). We maintain this thinking heading into 2024 (more on this later on).

Exhibit 3: Preferred subset year-to-date performance
Despite the increase in interest rates, longer-duration pockets of the preferreds space managed to outperform shorter-duration pockets



Source: BofA Global Research, ICE Data Indices, LLC. Data as of 07-Dec-2023.
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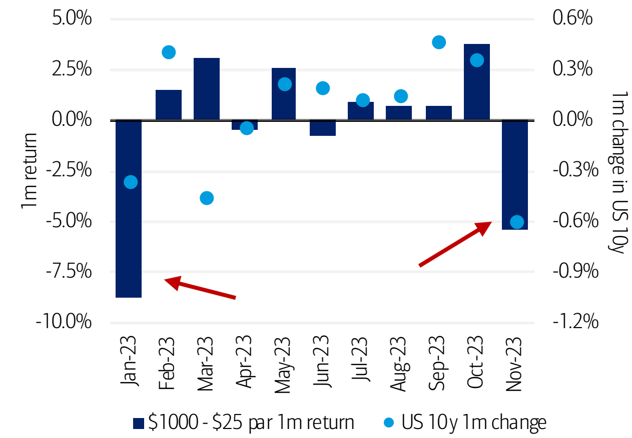
Exhibit 4: $1000 - $25 par performance differential by month
Why? Shorter-duration subsets (such as F2F $1000 pars) massively underperformed during periods of rate declines, like January and November



Source: BofA Global Research, ICE Data Indices, LLC. Data as of 30-Nov-2023.
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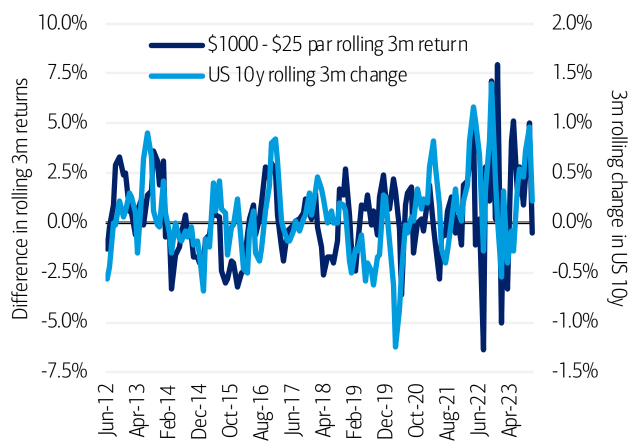
High levels and vol of rates caused more bifurcation among $25 and $1000 pars

What's particularly notable is the scale in which $25 and $1000 par preferred securities diverged in 2023, a function of both the high levels and volatility of interest rates. Indeed, a consequence of their significant differences in rates-sensitivity (Exhibit 3 above shows $1000 pars now have an average effective duration of 3.1 years versus $25 par's 7.7 years), the performance differential between $25 and $1000 pars has closely tracked moves in interest rates historically. However, 2023's extraordinary rates vol has made that relationship especially volatile and has required investors to devote additional consideration to the rates-sensitivity of their holdings (Exhibit 6).

Exhibit 5: $1000 - $25 par preferred 3m returns v. 10y rates
The rolling 3m performance differential between $1000 and $25 par preferreds closely tracks 3m changes in 10y yields



Source: BofA Global Research, ICE Data Indices, LLC. Data as of 30-Nov-2023.
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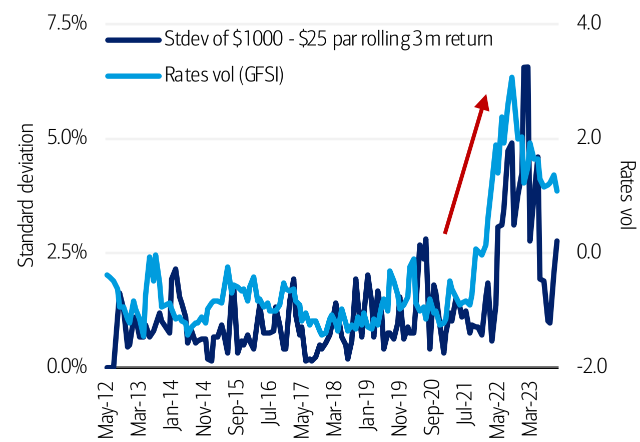
Exhibit 6: Vol of $25 and $1000 par return differential v. rates vol
The standard deviation of the performance differential between $1000 and $25 par preferreds has risen along with climbing rates volatility



Source: BofA Global Research, ICE Data Indices, LLC. Data as of 30-Nov-2023.
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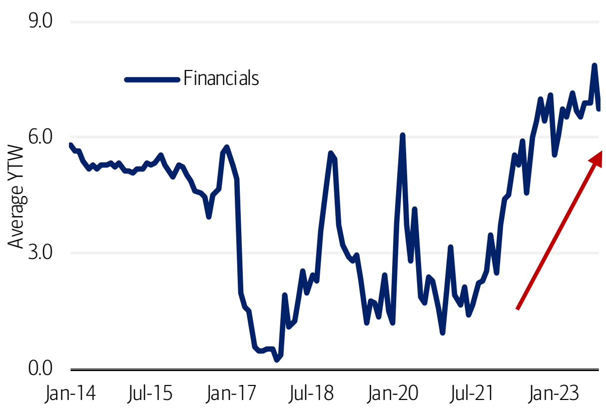
Fixed-rate preferreds saw record yields among bank stress

Bank failures produced record yields not only among financials sector issuers…

A key market for banks and financials issuers (which comprise more than three-quarters of the space—see our Preferreds Securities Primer), preferred volatility ramped up in light of the collapse of Silicon Valley Bank (SVB) in March. While First Republic captured the most attention (indeed, the bank had 7 outstanding $25 par preferreds which were effectively marked to zero when they were excluded from JP Morgan's acquisition), broader names, particularly regional banks and financials, saw their preferreds trend lower as concerns over deposits and dividends had plagued investors. In light of the stress and ongoing pressure on banks amid the higher rates backdrop, as we noted earlier this year (see our [15-May Preferred Strategy] note), yields among financials sector $25 par preferreds increased significantly, peaking around 7.9% (Exhibit 7). For the first time since 2017, they even out-yielded their non-financials counterparts (Exhibit 8).

Exhibit 7: Average YTW of financials sector $25 par preferreds
Yields of financials sector preferreds rose to 10-year highs in 2023...



Source: BofA Global Research, ICE Data Indices, LLC. Data as of 30-Nov-2023.
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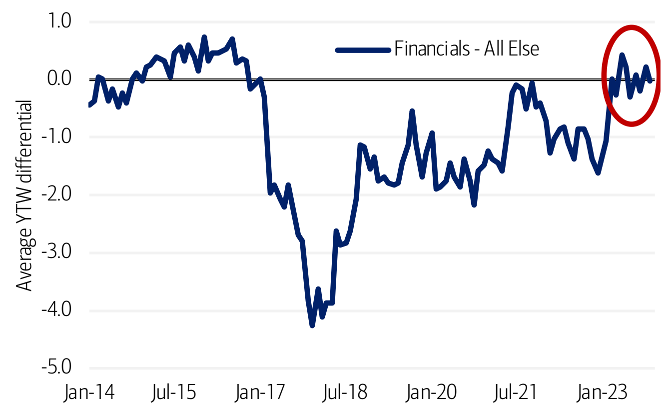
Exhibit 8: Average YTW of financials sector v. all $25 par preferreds
...and out-yielded non-financials preferreds for the first time since 2017



Source: BofA Global Research, ICE Data Indices, LLC. Data as of 30-Nov-2023.
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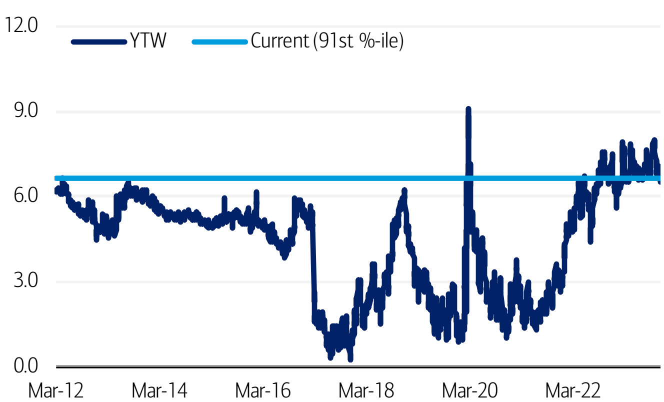
...but also among broader preferreds, allowing for quality yield opportunities

Not only have financials sector yields expanded, but also the broader fixed-rate preferreds space has seen its average yield rise to near records. In fact, the average yield-to-worst among broad market $25 pars is now 6.7%, in its 91st percentile since 2012 (Exhibit 9). Perhaps more notably, fixed-rate preferred yields also appear outsized versus other asset classes when discounting for issuer credit quality, a topic we covered extensively earlier this year (see our [12-July Preferred Strategy] note). Specifically, the average yield among $25 par fixed-rate preferreds is now 6.7% and its average OAS is just under 130bps. In comparison, IG bonds, which have a comparable credit spread of a bit over 110bps, offer just 5.5% yield (1.2pp lower) and are not eligible for the same QDI benefit provided by most $25 par preferreds (Exhibit 10). While we cannot ignore the fact that preferreds rank lower in the cap structure and are exposed to more volatility than traditional bonds (partially explaining their higher yields), historically their interest payments have been stable with few missed payments outside the Global Financial Crisis and recent banks crisis (refer to our [24-April Preferred Strategy] note for details).

Exhibit 9: Average YTW of $25 par preferreds versus history
$25 par preferreds now yield 6.7%, in its 91st percentile since 2012



Source: BofA Global Research, ICE Data Indices, LLC. Data as of 07-Dec-2023.
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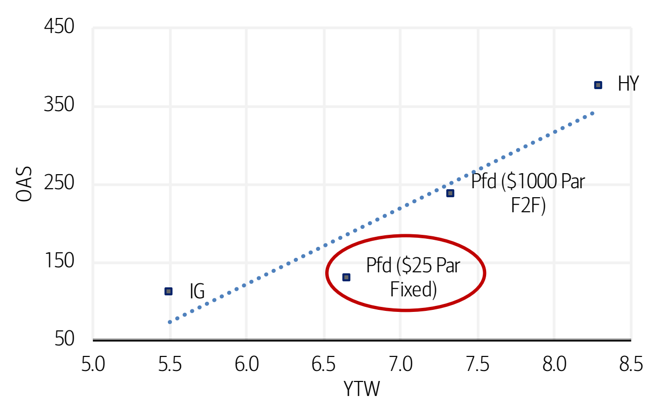
Exhibit 10: Cross-asset current YTW versus OAS
$25 par preferreds offer more yield than their credit spreads would suggest



Source: BofA Global Research, ICE Data Indices, LLC. Data as of 07-Dec-2023.
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Outlook for 2024

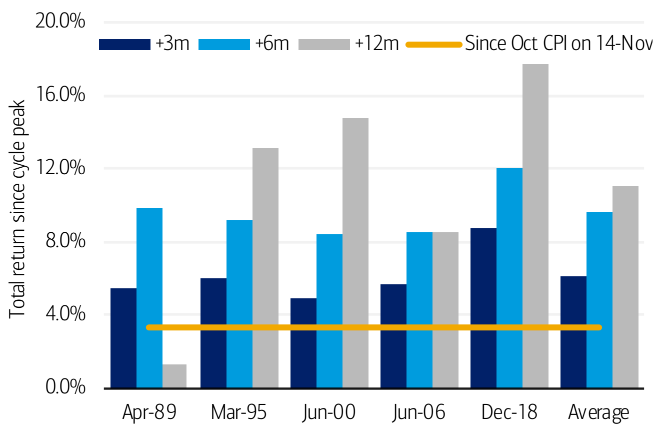
Cycle peak benefits duration, but higher rate risks persist

The market thinks the cycle has peaked—this would be supportive of preferreds

October's softer-than-expected CPI print cemented the recent market thinking that the Fed is finished hiking benchmark rates this cycle. Indeed, Fed Funds futures now suggest investors believe the central bank will trim its policy rate 5 times (25bps each) in 2024, which would bring the effective rate to around 4% versus 5.5% today. Our economists broadly agree—they are calling for a soft landing for the US economy, and they expect a 25bps rate cut each quarter starting in June 2024 until reaching a terminal rate of 3% in 2026 (see the 27-November Thematic Investing note).

Within the preferreds space, longer-duration pockets (such as fixed-rate, REITs, and hybrids) have unsurprisingly most-benefitted from this shift in sentiment. Indeed, Exhibit 4 from earlier shows that fixed-rate $25 pars largely outperformed fixed-to-floating $1000 pars in November. This is consistent with history. In fact, as we discussed last month (see our 15-November Preferred Strategy note), we've found that traditional $25 par preferreds have been among the strongest performers when previous rate hike cycles have concluded. Specifically, based on data since 1989, $25 par preferred securities have logged consistent gains in each the 3, 6, and 12-month periods following each cycle's last hike, averaging 6.2%, 9.6%, and 11.1%, respectively (Exhibit 11), and during the same windows they've outperformed all other fixed income asset classes we track. Take 6-months after cycle peaks, for example. In this window, preferreds have trailed only equities, though notably their gains have been more consistent (Exhibit 12). Since the October CPI print in mid-November, $25 par preferreds have added 3.4%, and history suggests we may see further upside if the cycle has, in fact, peaked.

Exhibit 11: Broad market preferred returns after rate cycle peaks
Broad market preferreds have logged average gains exceeding 11% in the 12-months after Fed rate hiking cycles end



Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg. Data as of 07-Dec-2023.
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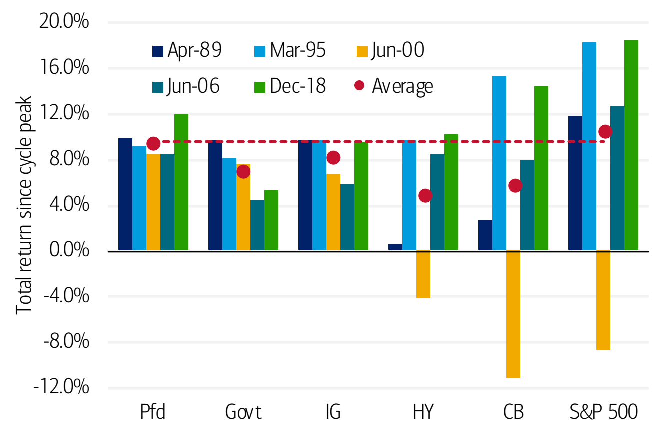
Exhibit 12: Cross-asset returns 6 months after rate cycle peaks
In the 6 months following past cycle peaks, preferreds have gained 9.6%, on average, ahead of fixed income and just behind equities



Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg. Data as of 07-Dec-2023.
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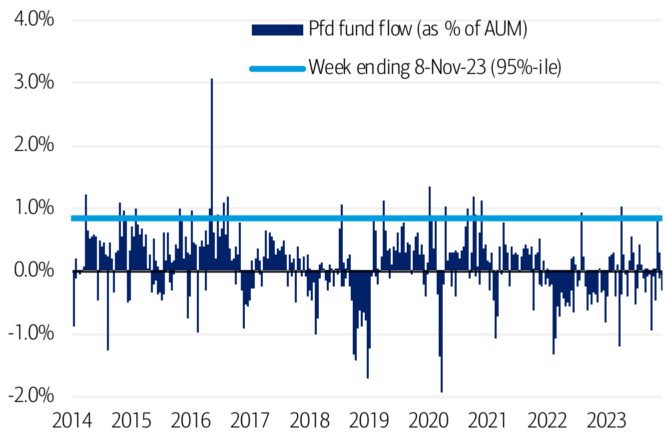
Rates optimism has driven sharp and persistent inflows into preferreds funds

The rates cycle-driven optimism has also powered sizable and consistent inflows into preferreds funds. Although October's soft CPI print was the final straw, the market had been coming to the consensus that the Fed was done in advance of the data release, and weekly flows into preferreds retail funds (both mutual funds and ETFs) totaled nearly $270mn, or 0.9% of AUM, during the week ending on 08-November—a near record inflow in its 95th percentile since 2014 (Exhibit 13). Demand had persisted for the remainder of the month. Indeed, preferred mutual funds recorded inflows each week in November, only the fourth such occasion of 4+ consecutive weeks of inflows since the start of 2022 (Exhibit 14). Given the positive performance trends following cycle peaks (Exhibit 11), we'd expect further inflows in 2024 if the market continues to believe the Fed has concluded hiking.

Exhibit 13: Preferred market fund flow history
Preferred ETFs and mutual funds saw sharp inflows leading up to the October CPI totaling nearly 0.9% of total AUM



Source: BofA Global Research, EPFR Global. Data as of 06-Dec-2023.
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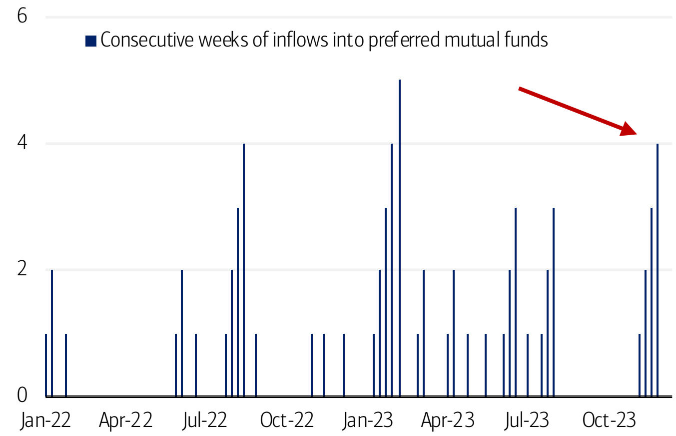
Exhibit 14: Preferred mutual fund weeks of consecutive inflows
Preferred mutual funds saw inflows each week during November, only the fourth instance of 4+ consecutive weeks of inflows since the start of 2022



Source: BofA Global Research, EPFR Global. Data as of 06-Dec-2023.
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Nonetheless, higher-for-longer interest rate risks beg a balanced approach…

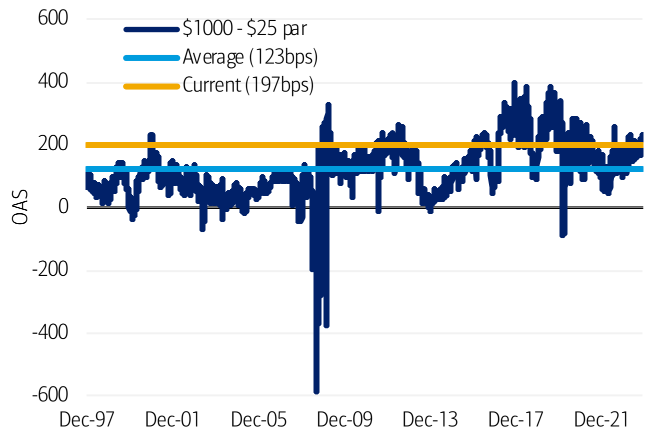
Despite the recent data and subsequent market reaction, we still believe that rates will remain higher-for-longer and rates vol will stay elevated. Indeed, economic growth remains firm, and both the labor market and consumers continue to show resilience, giving policymakers little reason to cut. Notably, while our rates strategists believe yields are now near peak levels, they think they'll be slow to come down from here, and they are calling for US 10y to end 2024 at 4.25% (see their 19-November Global Rates Outlook). Though little changed from today's levels and below the October highs, they think rates will stay well above pre-pandemic highs. What's more, risk-assets are now priced for perfection, and any hot data or hawkish rhetoric may result in sharp moves to rates-sensitive assets. While the recent data and views from our economists give us more confidence in longer-duration preferred structures (including $25 pars), we maintain caution. This in mind, we suggest managers consider a balanced approach that includes both shorter-duration fixed-to-floating $1000 par and longer-duration $25 par preferreds when considering investment strategies for 2024.

…and we continue to see relative value in $1000 pars versus their $25 par peers

Besides providing balance to highly rates-sensitive fixed-rate $25 pars, we believe that $1000 par preferreds continue to offer relative value within the broader preferreds market. As we noted earlier this year (see our 11-August Preferred Strategy note), $1000 pars now trade at a discount to their mom-and-pop-focused counterparts. In fact, when comparing the OAS of IG-rated $25 par versus $1000 par preferreds, it is evident that outside of a few extreme stress periods (namely the Global Financial Crisis), the institutional preferreds consistently trade wide to the retail names despite similar having issuers (we see a similar trend when comparing yields). Today, the spread differential ($1000 - $25 par) is just under 200bps, much wider than the historical average spread differential of about 123bps (Exhibit 15). Why the premium in $25 pars? We believe this is mostly a function of their investor-base. Mom-and-pop investors buy on exchanges and have less of a focus on valuation than institutional managers. Additionally, preferred ETFs (like PFF) are often forced buyers of $25 par names, helping to drive up their valuations.

Notably, given that income-seeking mom-and-pop investors often focus on coupons rather than yields, we've found that among the biggest comparative discounts occur in names where the issuer's $25 par instruments had high coupons versus its $1000 par counterparts (Exhibit 16)—top results include preferreds from Duke Energy (DUK), Charles Schwab (SCHW), and CMS Energy (CMS).

Exhibit 15: $25 v. $1000 par preferred historical spread differential
Based on OAS, $1000 par preferreds now trade at a ~200bps discount to $25 pars, much wider than the 123bps average spread differential since 1997



Source: BofA Global Research, ICE Data Indices, LLC. Data as of 07-Dec-2023.
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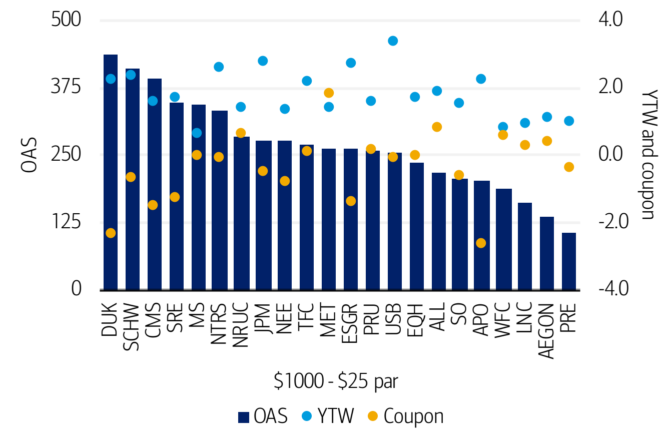
Exhibit 16: OAS, YTW, and coupon comparison by preferred issuer
By issuer, the biggest discounts among $1000 pars could be found in names where the $25 par preferreds have the biggest coupon versus $1000 pars



Source: BofA Global Research, ICE Data Indices, LLC. Data as of 01-Dec-2023.
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Struggling bank issuers may also benefit from peaking interest rates

Higher-for-longer rates have proved challenging for banks, the top issuers of preferred securities. In fact, US bank stocks are now trading near record lows relative to the S&P 500 (Exhibit 17). However, our banks analysts have taken a more favorable view of the sector in light of peak-rate expectations. In a recent note (see their 05-November US Banks note), they wrote that topping rates may serve as a mini clearing event for bank stocks given most pressure points this cycle (such as NII pressure, mark-to-market losses on bonds, hard-landing driven credit losses, and commercial real estate repricing) have been the direct result of high borrowing costs. This considered, they believe investors should add exposure if both the peak rates and soft-landing scenarios hold. Indeed, we've found that historical cycle peaks have ushered in periods of bank outperformance versus broader markets. Based on the last four hiking cycles ending in 1995, 2000, 2006, and 2018, bank stocks have largely outperformed the S&P 500, on average, in the months following the peak in yields (Exhibit 18). However, risks to this view include a resurgence in inflation (which triggers even higher rates) or a credit cycle as the lagged effects of higher rates catch up with businesses and consumers.

Exhibit 17: Z-score of US banks versus S&P 500 price ratio
US bank equities are now trading near record lows relative to broader US market stocks (S&P 500)

Source: BofA Global Research, Bloomberg. Data as of 07-Dec-2023.
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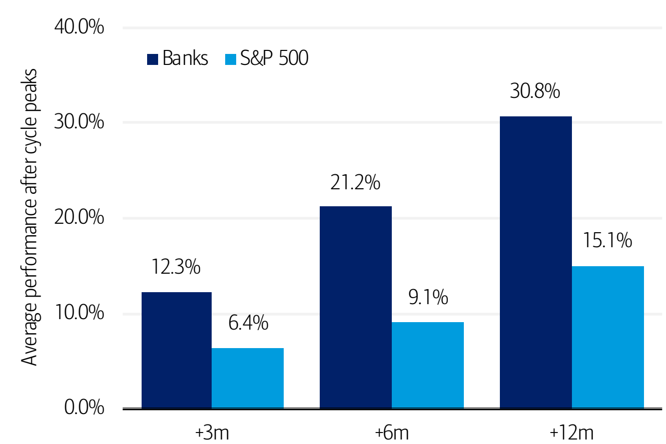
Exhibit 18: Bank versus broad market stock returns after cycle peaks
Based on the last four hiking cycles ending in 1995, 2000, 2006, and 2018, banks have largely outperformed broader stocks after rates have peaked



Source: BofA Global Research, Bloomberg. Data as of 07-Dec-2023.
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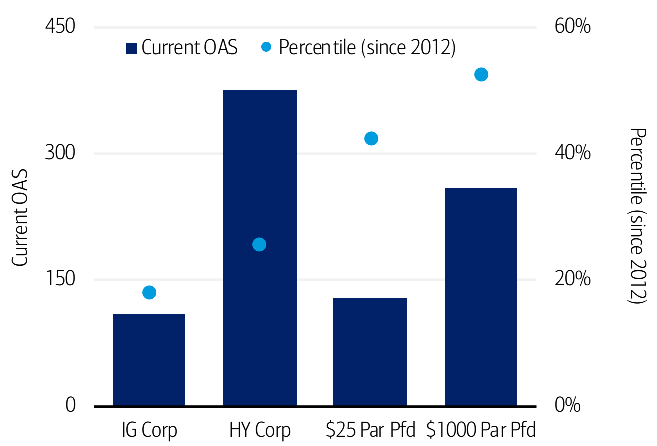
Rates shock and credit events are downside risks, but preferreds have a cushion

Like our banks analysts, we agree a credit event remains a crucial downside risk to both bank issuers and the broader preferreds space. However, compared to fixed income assets, we believe preferreds now have a greater ability to absorb spread widening. Partially a function of last year's economic resilience, corporate credit spreads remain quite tight versus history—IG bond spreads are now just over 110bps, tight in their 18th percentile since 2012, while HY bond spreads are about 380bps, also relatively tight in their 26th percentile. In comparison, $25 par and $1000 par preferred spreads are now just under 130bps and 260bps, respectively, in their 43rd and 53rd percentiles (Exhibit 19). To us, their wider spreads suggest preferreds have more cushion in the event the credit cycle accelerates.

Besides a credit event, another key risk for 2024 is that interest rates continue higher from here. Though the market has effectively priced out this risk, we believe it certainly remains on the table, especially if economic data prints remain robust—indeed, the bond market repeatedly had this wrong in 2023 as it priced in rate cuts that ultimately never came. While we concede another upwards rate shock would likely result in preferred underperformance (like in October when 10y yields touched 5% for the first time since 2007—see our 01-November Preferred Recommended List), constructively higher rates have been modestly positive for fixed-rate preferreds in the past. To determine this, we looked at every month since 2012, and we divided them into 16 buckets based on S&P 500 earnings growth and moves in 10y yields (quartiles for each metric). Within each bucket, we then found the average performance of $25 par fixed-rate preferreds. Although their returns were not as strong as they were during the periods of declining rates, preferreds realized small gains in each instance where yields rose alongside corporate earnings growth (Exhibit 20). In their 2024 outlook, our rates strategists highlighted this scenario (higher growth resulting in higher rates versus expectations) as a plausible scenario for next year (see their 19-November Global Rates Year Ahead).

Exhibit 19: Credit spread summary for preferreds and corporate bonds

While IG and HY bond spreads remain tight versus history, preferred spreads are relatively wider, suggesting a greater cushion in a credit event



Source: BofA Global Research, ICE Data Indices, LLC. Data as of 07-Dec-2023.

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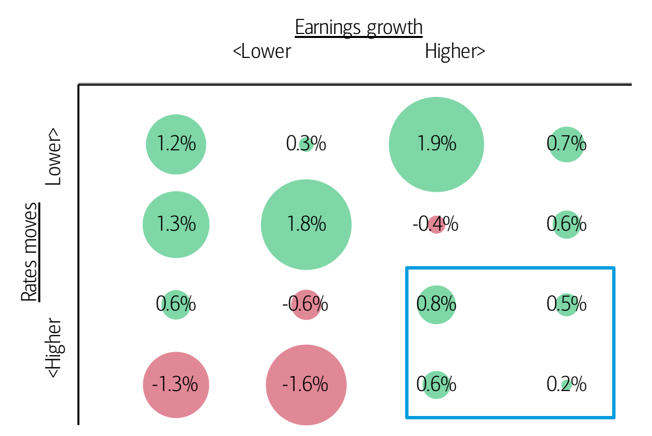
Exhibit 20: Average preferred returns by rates and earnings quartiles

Preferred returns have been positive, on average, during historical periods of upwardly moving rates when earnings growth has also been positive



Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg. Data as of 04-Dec-2023.

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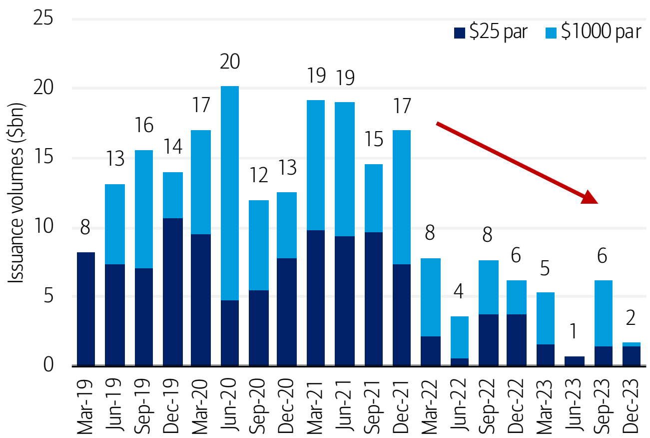
Issuance to improve amid pickup in refinancing activity

Preferred primary activity has cooled as issuers have redeemed fewer names

Relative to what we saw in the period between 2019 and 2021, fewer issuers sold new preferreds in 2022 and so far during 2023 (Exhibit 21). Indeed, while the fall in capital markets activity has not been unique to preferreds (corporate bonds, convertible bonds, and equities have all seen similar declines in primary volumes over the past 2 years), it is no doubt significant—preferred issuance volumes (both $25 and $1000 pars) averaged $60bn from 2019 to 2021 versus just $14bn in 2023—a drop of more than 75%.

We think the lack of primary has been mostly a function of the financing backdrop, which has been unfavorable given the starkly higher borrowing costs. Indeed, despite the fact that a number of outstanding preferreds are now callable, issuers have been hesitant to redeem them given they'd likely be forced to refinance with higher coupon instruments. In fact, we've found that since the start of 2022 (when US 10-year yields jumped from just 1.5% to 5%), issuers have redeemed just $14bn of their outstanding $25 par preferreds versus over $36bn in 2021 and over $22bn in 2020 (Exhibit 22). What's more, the turmoil surrounding the collapse of Silicon Valley Bank and First Republic in the first quarter also weighed on investor demand for preferred securities, which may have contributed to the chill in the primary market.

Exhibit 21: Preferred market issuance volumes
In 2022 and 2023 year-to-date, preferreds market issuance has declined relative to the previous 3 years



Source: BofA Global Research, Bloomberg. Data as of 07-Dec-2023.

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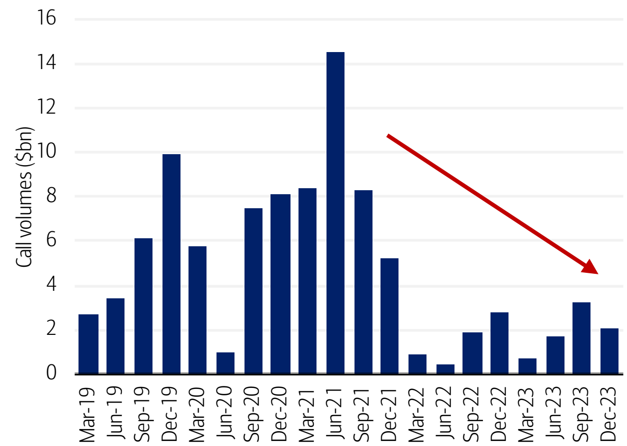
Exhibit 22: $25 par preferred market call volumes
Using $25 pars as a proxy, the market has seen fewer preferreds called since the start of 2022 as issuers have been more hesitant to redeem



Source: BofA Global Research, Bloomberg. Data as of 07-Dec-2023.

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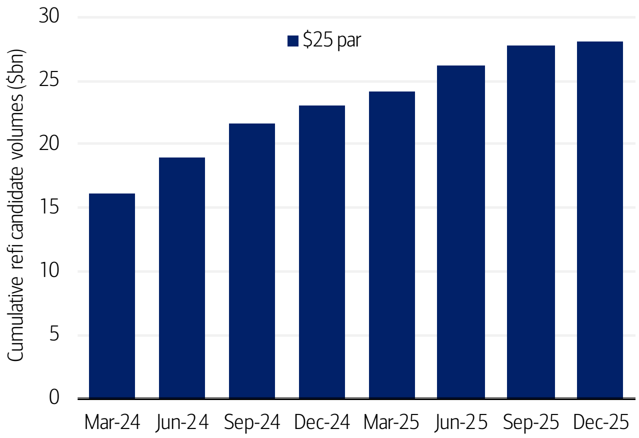
Adjustment to higher-for-longer rates suggests more refinancing

However, we've seen evidence that the preferreds primary market is beginning to thaw as issuers adjust to the backdrop of higher-for-longer rates, as we discussed previously. Earlier in the year, issuers had held out hope that borrowing costs would quickly subside, though expectations for such an event have since faded. As a result, volumes have picked up in the second half—borrowers have accepted that rates may remain elevated for some time and that the curve may steepen, suggesting less reason to sit on the sidelines (Exhibit 21).

To get a sense of how much may be eligible to be redeemed and possibly refinanced, we screened our universe of $25 and $1000 par preferreds for those which are coming up for call. For IG-rated names, we limited our refi candidate list to those that have 300bps+ rests (if resetting) or 6%+ coupons if fixed-for-life, while for HY-rated and unrated names, we included only those with 400bps+ resets or 8%+ coupons.

Based on these criteria, we estimate there's about $23bn that could be potentially redeemed and refinanced in the $25 par market before year-end 2024 (Exhibit 23), while we estimate about $43bn in the $1000 par space (Exhibit 24). This would represent a sizable pickup versus what's been called and refinanced over the last 2 years, though is about average compared to history (Exhibit 21 and Exhibit 22).

Exhibit 23: $25 par refi candidate cumulative volumes by quarter
Based on our criteria, there's about $23bn in refi candidate volumes in the $25 par market before the end of 2024



Source: BofA Global Research, Bloomberg. Data as of 07-Dec-2023.
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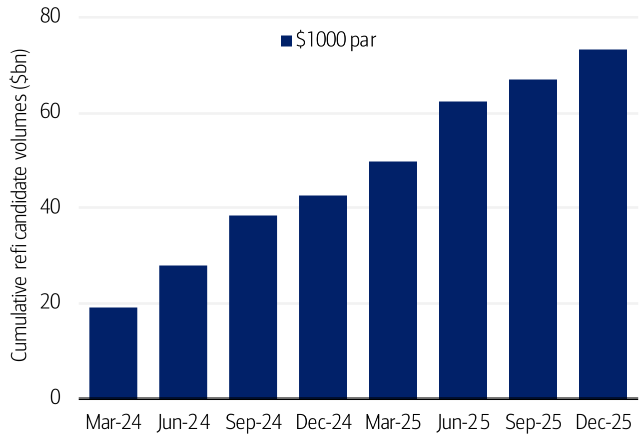
Exhibit 24: $1000 par refi candidate cumulative volumes by quarter
Based on our criteria, there's nearly $43bn in refi candidate volumes in the $1000 par market before the end of 2024



Source: BofA Global Research, Bloomberg. Data as of 07-Dec-2023.
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Not an immediate factor, but capital reform may eventually drive new issuance
Another potential driver of new issuance in the capital securities subset of preferreds is regulation. Though most megabanks (GSIBs) are well capitalized today, proposed reforms to the Basel framework may require big banks to issue to meet stricter Tier 1 capital requirements. However, the new proposals wouldn't go into effect until at least mid-2025 (with the potential for it to extend out even further), and our banks analysts expect meaningful changes to the proposed rules given pushback from Congress, lack of unanimity at the Fed, and the upcoming president elections (see their 12-November US Banks note). This in mind, we don't expect Basel reforms to have an immediate impact on preferreds issuance, but we are closely watching this for a larger impact in the months to come.

Abbreviations

- CB: Convertible bond
- CPI: Consumer Price Index
- DRD: Dividends received deduction
- F2F: Fixed-to-float
- GFSI: Global Financial Stress Indicator
- GSIB: Global Systemically Important Bank
- HY: High yield
- IG: Investment grade
- NII: Net interest income
- OAS: Option adjusted spread
- Pfd: Preferred
- REIT: Real Estate Investment Trust
- YTD: Year-to-date
- YTW: Yield-to-worst

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R1] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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