



Month Ended Dec 31st, 2023

Preferred Market Update

- The yield-to-worst (YTW) of the preferred & hybrid securities market tightened significantly during the month of December, with the Custom Preferred Full Market Blend currently offering a YTW of 7.08% (Fig. 1).
- The preferred & hybrid securities market is trading at 91.13% of par. Historically, the average cumulative forward return subsequent to the market trading at 90-95% of par is 4% at 1-Yr, 27% at 3-Yr, and 41% at 5-Yr (Fig. 2).
- The preferred & hybrid securities market ended the year with some of the highest current yields across all fixed income asset classes. The current yield of the preferred securities market is 6.24%, which is 1.89% wide to investment grade corporate bonds (Fig.3).
- Preferred ETFs saw \$373MM in net flows in December, which brought YTD net flows to nearly \$600MM. The majority of inflows were in active ETFs, which saw \$408MM in net flows. (Fig. 4).

Custom Preferred Full Market Blend Yield-To-Worst (%)

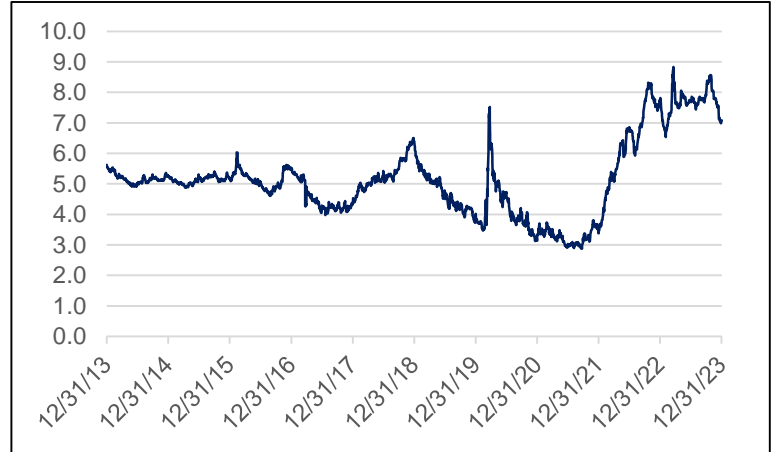


Figure 1: Data Source: Stonebridge and Bloomberg as of 12/31/2023.

Forward Returns Based on % Par

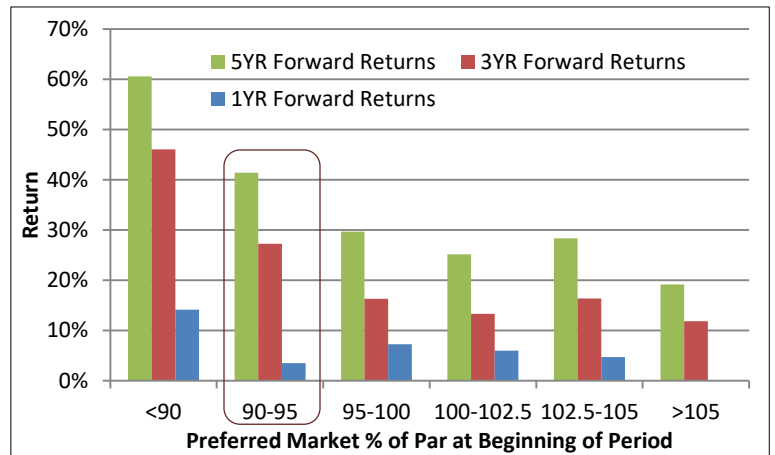


Figure 2: Stonebridge and Bloomberg as of 12/31/2023.

Total Return and Effective Duration

| ICE BofA Index | Ticker | Rating | Eff Dur | Cur Yld* | YTD TR* |
|--|--------|--------|---------|----------|---------|
| Custom Preferred Full Market Blend* | N/A | BBB3 | 4.34 | 6.24% | 7.14% |
| Core Plus Fixed Rate Preferred Securities | POP4 | BBB3 | 7.48 | 6.46% | 9.62% |
| U.S. IG Institutional Capital Securities | CIPS | BBB2 | 3.27 | 5.50% | 9.67% |
| USD Contingent Capital Index | CDLR | BB1 | 2.69 | 6.72% | 1.09% |
| US High Yield Institutional Capital Securities | HIPS | BB2 | 3.09 | 6.38% | 8.25% |
| U.S. Corporate | COA0 | A3 | 6.81 | 4.35% | 8.40% |
| U.S. Cash Pay High Yield | JOA0 | B1 | 3.31 | 6.51% | 13.40% |
| Current 10-Yr U.S. Treasury | GA10 | AA1 | 7.92 | 4.29% | 2.83% |
| U.S. Municipal Securities | U0A0 | AA3 | 6.63 | 4.31% | 6.50% |
| U.S. Mortgage Backed Securities | MOA0 | AA1 | 5.45 | 3.45% | 4.98% |

Figure 3: Data Source: ICE Data Services as of 12/31/2023. *Definition on page 2.

YTD Preferred ETFs Net Flows (MM US\$)

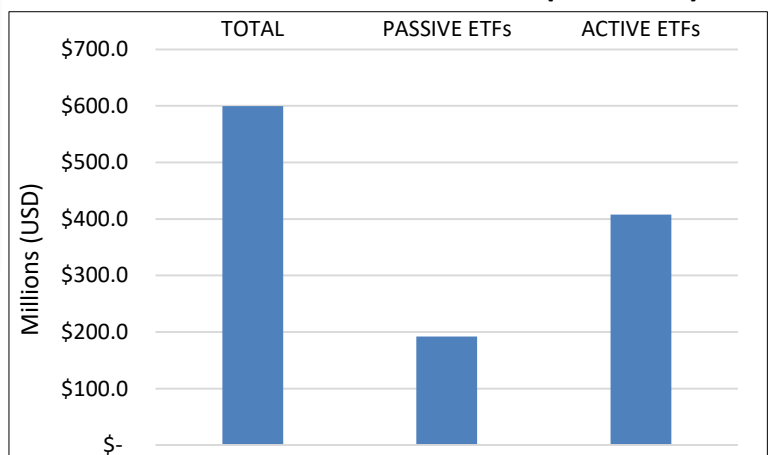


Figure 4: Data Source: Bloomberg and Stonebridge as of 12/29/2023.

Past performance is not a guarantee of future results. Please see other side for index definitions and risk considerations



Stonebridge Advisors LLC Preferred Securities

Monthly Monitor

Risk Considerations:

Preferred securities ("Preferreds") are "hybrid" securities, typically involving risks similar to both equity and debt securities. As with any investment, you can lose money through an investment in preferreds. Preferreds are usually issued by companies in the financial sector which involves additional risks than a more diversified investment, including the adverse effects of volatile interest rates, economic recession, decreases in the availability of capital, increased competition from new entrants in the field, and the potential for increased regulation.

Securities issued by foreign issuers, including Preferreds, are subject to additional risks including currency fluctuations, political risks, withholding, the lack of adequate financial information, and exchange control restrictions.

Certain Preferreds are rated below investment grade ("high-yield" or "junk" securities) or may be unrated. High-yield securities should be viewed as speculative and carry additional risks compared to investment grade securities. High-yield securities are subject to the risks of higher interest rates, economic recession, deterioration of the high-yield market, possible downgrades, and defaults of the interest, dividends and/or principal. High-yield security prices tend to fluctuate more than higher rated securities, and are more affected by short-term credit developments.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, neither First Trust nor Stonebridge are undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

Definitions:

- **POP4** – ICE BofA Core Plus Fixed Rate Preferred Securities Index – tracks the performance of fixed-rate US dollar denominated preferred securities issued in the US domestic market. This index is comprised of 100 retail securities and does not require securities to be investment-grade rated.
- **CIPS** – ICE BofA US IG Institutional Capital Securities Index – tracks the performance of US dollar denominated investment grade hybrid capital corporate and preferred securities publicly issued in the US domestic market.
- **COA0** – ICE BofA US Corporate Index – tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market.
- **JOA0** – ICE BofA US Cash Pay High Yield Index – tracks the performance of US dollar denominated below investment grade corporate debt, currently in a coupon paying period, that is publicly traded in the U.S. domestic market.
- **GA10** – ICE BofA Current 10-Year US Treasury Index – is a one-security index comprised of the most recently issued 10-year US Treasury note.
- **MOA0** – ICE BofA US Mortgage Backed Securities Index – tracks the performance of US dollar denominated fixed rate and hybrid residential mortgage pass-through securities publicly issued by US agencies in the US domestic market.
- **UOA0** – ICE BofA US Municipal Securities Index – tracks the performance of US dollar denominated investment grade tax-exempt debt publicly issued by US states and territories, and their political subdivisions, in the US domestic market.
- **CDLR** – ICE USD Contingent Capital Index – Subset of the ICE BofA Contingent Capital Index including all securities denominated in US dollars.
- **HIPS** – ICE BofA US High Yield Institutional Capital Securities Index – tracks the performance of US dollar denominated sub-investment grade hybrid capital corporate and preferred securities publicly issued in the US domestic market.
- **Custom Preferred Full Market Blend** – ICE BofA Custom Blend Index – 30% POP4 / 30% CDLR / 30% CIPS / 10% HIPS

† - Current yield

‡ - Year-to-date total return

Indexes are unmanaged and an investor cannot invest directly in an index. Index constituent composite ratings are simple averages of ratings from Moody's, S&P and Fitch and are subject to change. **Past performance is not a guarantee of future results.**

Stonebridge Advisors, LLC ("Stonebridge") has entered into a contractual agreement with an affiliate, First Trust Portfolios L.P. ("First Trust") to solicit clients for Stonebridge. Stonebridge pays 20% of its management fee to First Trust with respect to each solicited client for the first five years from the date such solicited client becomes a client of Stonebridge, and 10% each year thereafter. Since Stonebridge's management fees are based upon a percentage of assets under management, the more assets under management, the higher fee income to both Stonebridge and First Trust. In addition, due to such compensation, First Trust has an incentive to recommend advisory services of Stonebridge, resulting in a material conflict of interest which should be considered when making a decision to engage Stonebridge. First Trust will not be involved in the provision of services by Stonebridge.