

Preferreds vs. Convertibles: Same “Bond-Like” Label, Opposite Drivers

What 15 years of CEF index data says about two income sectors that fell together in 3Q 2026 for very different reasons, and how retired investors and advisors can act now

By **John Cole Scott, CFS** | President & CIO, CEF Advisors | Data through 10/14/2026

KEY TAKEAWAYS

- **Different drivers.** Preferred CEFs are mostly a rate trade (duration 5.61 years on 36.5% leverage). Convertible CEFs are mostly a US stock trade (NAV beta 1.01 vs. 0.26).
- **Related, not interchangeable.** Weekly NAV correlation has been 0.72 since 12/31/2011, but only 0.54 over the past year.
- **Regime matters.** After a year of rising rates, which is where we are, preferreds have historically led the following year. After a fast drop in rates, convertibles have led by a wide margin.
- **Valuation favors preferreds today.** A -10.15% discount vs. a -4.12% three-year average, RSI of 29, and all 12 index funds at discounts.
- **Look past the label.** Funds in the same sector differ widely: CoCos run from 2% to 37% of preferred funds, and convertible funds range from 95% convertibles to hybrids holding a third in other bonds.

Same quarter, different stories

In the third quarter of 2026, the CEFData Preferred Equity Index fell 9.12% on price and the Convertible Bond Index fell 10.76%. On a client statement, they look like the same event. They were not.

“Preferred CEFs are mostly an interest-rate trade. Convertible CEFs are mostly a US stock trade with a bond floor.”

EXHIBIT 1

3Q 2026 performance and volatility

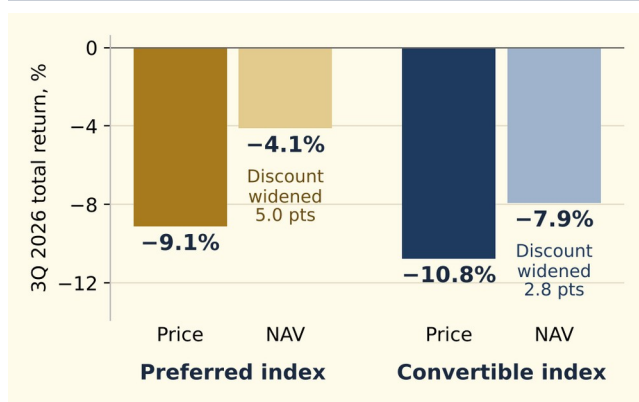
AS OF 9/30/2026	PREFERRED INDEX	CONVERTIBLE INDEX
3Q price / NAV TR	-9.12% / -4.12%	-10.76% / -7.92%
YTD price / NAV TR	-5.92% / -2.31%	+8.47% / +13.65%
1-year price / NAV TR	-7.43% / -1.24%	+12.19% / +14.52%
Discount 9/30 vs. 10-year average	-8.8% vs. -1.6%	-8.2% vs. -3.6%
1-year NAV vs. price volatility	4.8 vs. 9.9	19.4 vs. 19.0
NAV/price correlation (1-year weekly)	0.90	0.88

AS OF 9/30/2026	PREFERRED INDEX	CONVERTIBLE INDEX
NAV TR since 12/31/2011, annualized	7.15%	8.92%

Source: CEFData.com index data. Total returns include distributions.

EXHIBIT 2

3Q 2026: price fell further than NAV



Source: CEFData.com Preferred Equity and Convertible Bond Indexes, total return 6/30–9/30/2026.

The preferred funds' portfolios lost only 4.12% at NAV; most of the price damage came from a widening discount, which is a sentiment move. The convertible funds lost 7.92% at NAV, a portfolio move after a strong run, and were still up 13.65% at NAV year to date at 9/30 (Exhibit 1).

Investors and advisors tend to file both sectors under "bond-like income." Our data since 12/31/2011 says that label hides two very different bets. Preferred CEFs are mostly an interest-rate trade. Convertible CEFs are mostly a US stock trade with a bond floor. Knowing which bet you own, and what each has historically done in the regime we are in now, matters more than usual today.

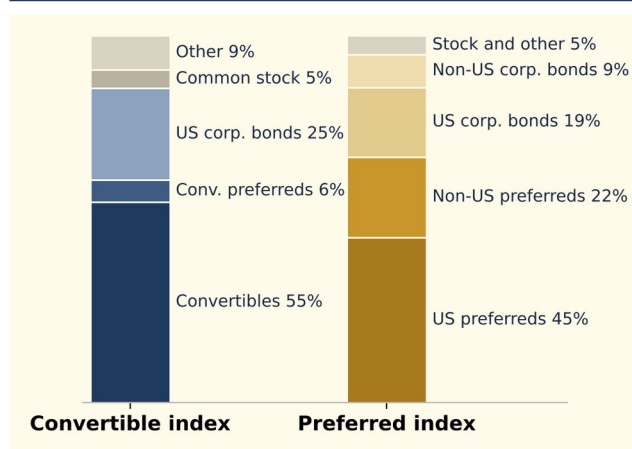
What you actually own

Preferred securities pay fixed or floating dividends and rank ahead of common stock but behind bonds. Banks, insurers and utilities dominate issuance, and with long or perpetual maturities, preferreds behave like long-duration bonds. Convertible bonds are corporate bonds that can be exchanged for the issuer's stock: their value rises with the stock above

the conversion price and leans on the bond floor below it.

EXHIBIT 3

What is inside each index



Source: CEFData.com; allocations as reported by each fund's sponsor, last reporting period. Values marked ≈ are estimated from CEFData allocation charts.

In 2026, the convertible market has become largely a technology and AI financing market. Reported figures put US convertible issuance at a record of about \$131 billion, with roughly 44% tied to AI and nearly 30% issued as zero-coupon bonds (Bloomberg/Goldman Sachs). Zero-coupon convertibles pay no interest, so convertible fund payouts lean more on gains than on coupon income.

Neither CEF index is a pure play (Exhibit 3). The 12 funds in the Preferred Equity Index report about two-thirds preferred stock and roughly 28% corporate bonds, though much of that "bond" sleeve is institutional preferreds, as the holdings data below shows. The nine funds in the Convertible Bond Index hold only about 61% convertibles, including convertible preferreds, with roughly a quarter in US corporate bonds and about 5% in common stock.

Not all preferred or convertible funds are alike

Index averages hide wide differences between funds. Holdings-level data from each fund's latest portfolio filing shows what they actually own (Exhibit 5 and Exhibit 4).

Most preferred funds live in the institutional market. Preferred securities come in two main forms: \$25-par retail preferreds that trade on exchanges, and \$1,000-par institutional preferreds, including contingent capital securities, that trade over the counter. In eight of the 12 preferred funds, \$25-par preferreds are only 7–30% of the portfolio; the rest is institutional preferreds, the larger part of the market that most individuals cannot easily access. Because many institutional preferreds are legally structured as subordinated debt, some data sets show them as bonds. That is why Nuveen’s JPC and NPFD can look like bond funds: JPC’s 6/30/2026 fact sheet shows 90.1% institutional \$1,000-par and 7.9% retail \$25-par preferreds. They are preferred funds built like their peers.

The exceptions are John Hancock’s funds. HPF, HPI and HPS are true hybrids. John Hancock reports HPF at 51% preferred securities and 46% corporate bonds as of 9/30/2026, and HPI and HPS hold nearly identical portfolios. PDT holds about 43% common stock, making it the most equity-like fund in the group.

Hidden conversion risk varies sharply. Contingent capital securities (CoCos) are institutional bank preferreds that can convert to equity or be written down if a bank’s capital falls too far, as holders of Credit Suisse’s securities learned in 2023. They make up 34–37% of LDP, PSF, PTA and JPC, 18–27% of DFP, FFC, FPF and NPFD, and only 2–4% of the four John Hancock funds. Non-US issuers range from 12% (PDT) to 54% (PSF).

EXHIBIT 4

Fund-level portfolio detail

FUND	SPONSOR	\$25-PAR	\$1,000-PAR*	CoCos	COMMON	NON-US	TOP 10	LEV.
DFP	Flaherty & Crum.	29%	51%	18%	—	29%	30%	38%
FFC	Flaherty & Crum.	30%	50%	18%	—	30%	28%	38%
FPF	First Trust	24%	48%	27%	—	42%	28%	36%
LDP	Cohen & Steers	7%	53%	37%	—	54%	32%	33%
PSF	Cohen & Steers	12%	49%	37%	—	54%	31%	33%
PTA	Cohen & Steers	21%	44%	34%	—	52%	33%	35%
JPC	Nuveen	12%	52%	34%	—	47%	34%	38%
NPFD	Nuveen	11%	67%	20%	—	35%	32%	37%
HPF	John Hancock	56%	40%	4%	—	14%	26%	39%
HPI	John Hancock	56%	39%	4%	—	14%	26%	39%
HPS	John Hancock	56%	39%	4%	—	14%	26%	39%
PDT	John Hancock	30%	24%	2%	43%	12%	25%	35%

FUND	SPONSOR	CONV. BONDS	CONV. PREF.	OTHER BONDS	COMMON	TECH	TOP 10	LEV.
BCV	Gabelli	83%	12%	1%	—	20%	27%	16%
CCD	Calamos	75%	14%	10%	1%	39%	25%	32%
ECF	Gabelli	70%	11%	—	11%	18%	25%	14%
CHI	Calamos	62%	12%	26%	1%	33%	21%	33%
CHY	Calamos	61%	12%	26%	1%	33%	21%	33%
NCZ	Virtus	58%	8%	30%	—	28%	21%	34%

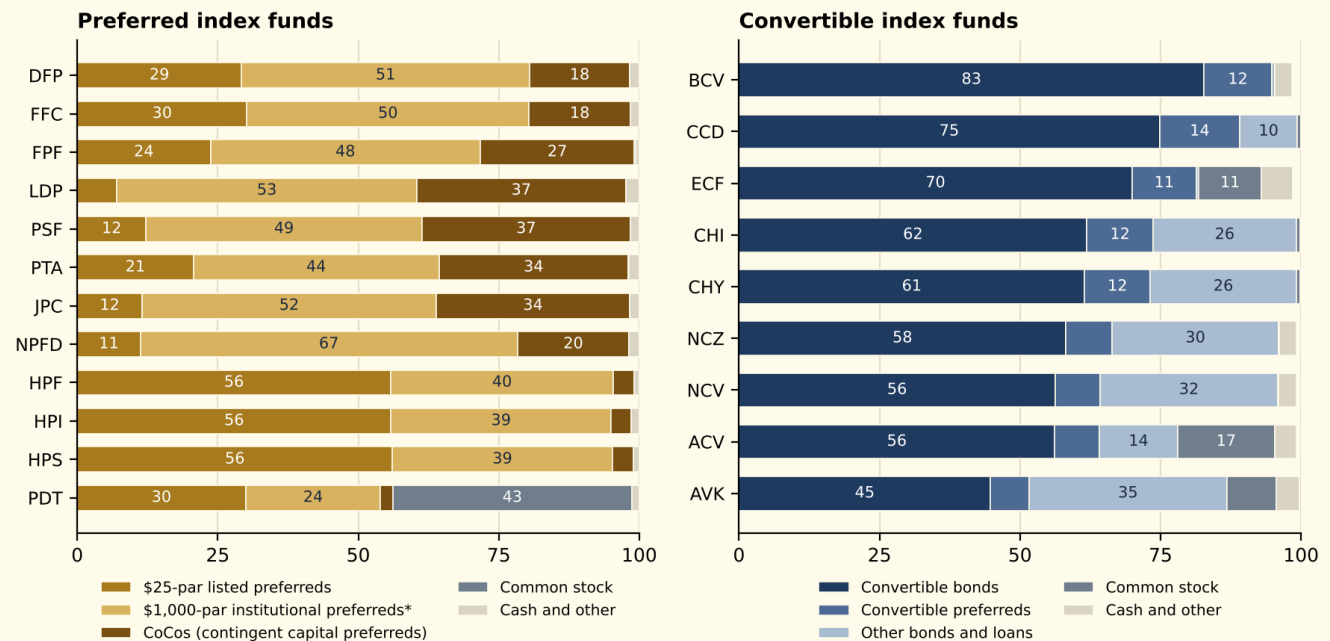
FUND	SPONSOR	CONV. BONDS	CONV. PREF.	OTHER BONDS	COMMON	TECH	TOP 10	LEV.
NCV	Virtus	56%	8%	32%	—	27%	20%	34%
ACV	Virtus	56%	8%	14%	17%	30%	23%	28%
AVK	Guggenheim	45%	7%	35%	9%	17%	14%	37%

Source: CEFData.com holdings data (latest fund filings, 4/30/2026–7/31/2026); Tech = IT/software exposure; tech and leverage from CEFData fund data as of 10/13/2026. *\$1,000-par institutional preferreds excluding CoCos; for HPF, HPI, HPS and PDT this bucket is mostly corporate bonds (John Hancock reports HPF at 51.1% preferred securities and 46.4% corporate bonds, 9/30/2026). — = zero or not reported. Funds are shown as educational examples, not recommendations.

EXHIBIT 5

What each fund actually holds

What each fund actually holds, % of long investments



* For HPF, HPI, HPS and PDT this bucket is mostly corporate bonds (John Hancock reports HPF at 46.4% corporate bonds, 9/30/2026).

Source: CEFData.com holdings data from each fund's latest portfolio filing (as of 4/30/2026–7/31/2026), excluding derivatives. CoCos are identified by the filings' convertible flag on institutional preferreds; *for the John Hancock funds this bucket is mostly corporate bonds; John Hancock reports HPF at 51.1% preferred securities and 46.4% corporate bonds as of 9/30/2026.

Convertible funds. BCV (95%) and CCD (89%) are the purest convertible portfolios, counting convertible preferreds. CHI, CHY, NCV, NCZ and AVK hold 26–35% in other bonds and loans, mostly below investment grade, and ACV and ECF hold 17% and 11% in common stock. Technology and software exposure runs from 17% (AVK) to 39% (CCD). Credit quality differs as well: preferred funds are 43–81% investment grade, convertible funds 9–15%, with much of the rest unrated.

“In eight of the 12 preferred funds, exchange-listed \$25-par preferreds are only 7–30% of the portfolio.”

A CEF is not the same as owning the securities or an ETF

There are four ways to own these asset classes, and they behave differently (Exhibit 10 and Exhibit 9).

SIDEBAR: CAN AN ETF BE LEVERED?

Yes, but within tighter limits than a CEF. ETFs are open-end funds under the Investment Company Act of 1940:

- **Bank borrowing.** Allowed only from banks, with 300% asset coverage, which caps borrowing at about one-third of total assets. This is how PFFA levers.
- **Derivatives.** Swaps, futures and options can add economic leverage within value-at-risk limits under Rule 18f-4.
- **No preferred shares.** Unlike CEFs, ETFs cannot issue preferred shares or notes, a common source of longer-term, fixed-rate

CEF leverage.

Daily creations and redemptions also make borrowing riskier for an ETF: outflows can force sales while the loan is still owed. A CEF's fixed capital is the structural reason most leverage in these sectors sits in CEFs.

Individual securities. Exchange-listed \$25-par preferreds are accessible to individuals, but many larger preferred issues and nearly all convertibles trade in \$1,000 lots, largely among institutions. Retail buyers face wide bid-ask spreads, call risk when rates fall, and concentration: a portfolio of a dozen preferreds is often a portfolio of a dozen banks.

KNOW THE TERMS

NAV Net asset value: what a fund's portfolio is worth per share.

\$25-par preferreds Retail preferreds listed on exchanges, typically issued in \$25 increments.

CoCos Contingent capital securities: bank preferreds that convert to equity or are written down if the bank's capital falls too far.

Leverage Borrowing or preferred shares a fund uses to buy more assets; magnifies income, gains and losses.

RSI Relative strength index (0–100): below 30 is considered oversold.

Discount / premium How far a CEF's market price sits below (discount) or above (premium) its NAV.

\$1,000-par preferreds Institutional preferreds traded over the counter in \$1,000 lots; often legally structured as subordinated debt.

Convertible bond A corporate bond that can be exchanged for the issuer's stock.

Duration A bond's or fund's sensitivity to interest rates: about the % price change for a 1% rate move.

Destructive RoC Return of capital that is not covered by NAV growth, which erodes the fund's value over time.

Index ETFs. Index ETFs such as PFF and PFFD offer low fees, daily liquidity and trading close to NAV. The trade-off is that they are passive, unlevered and weighted by what has been issued, and most hold only exchange-listed \$25-par preferreds. Convertible ETFs such as CWB and ICVT follow the issuance calendar, which today means more technology and AI exposure.

Active ETFs. A growing middle ground pairs active management with ETF pricing. Nuveen's NPFI looks much like an unlevered version of its preferred CEFs: mostly institutional preferreds, 67% banks,

73% BBB-rated, a 0.56% expense ratio and a 6.9% market yield. Virtus InfraCap's PFFA goes further, using roughly 25% leverage, which lifts its market yield to 10.6% and its expense ratio, including interest, to 2.11%. Both trade within about a percent of NAV, so there is no discount to capture, but none to fear either. The largest active preferred ETFs are First Trust's FPE (\$5.9 billion) and FPEI and Principal's PREF (about \$1.9 billion each), and several CEF sponsors now run both wrappers: Nuveen (NPFI), First Trust (FPE, FPEI), John Hancock (JHPI) and Cohen & Steers (CSPF).

Unlevered, they yield about 5.5–6.3%, versus 9.95% for the CEF index at a 10% discount. Active convertible ETFs are still small, about \$170 million across First Trust’s FCVT, Advent’s ACSV and Calamos’s CVRT, but they offer a useful comparison: Advent and Calamos also run convertible CEFs (AVK; CCD, CHI and CHY). Same managers, different wrappers: the ETFs are unlevered, trade at NAV and yield about 1.2–1.6% from coupon income, while the CEFs add 30–37% leverage, discounts or premiums, and roughly 10% managed distributions. CVRT targets more equity-sensitive convertibles, so it is not a pure bond-style comparison.

Closed-end funds. CEFs add active management and leverage (36.5% for the preferred index, 29.1% for the convertible index), which lifts market yields to about 9.95% and 9.70%. A fixed share count

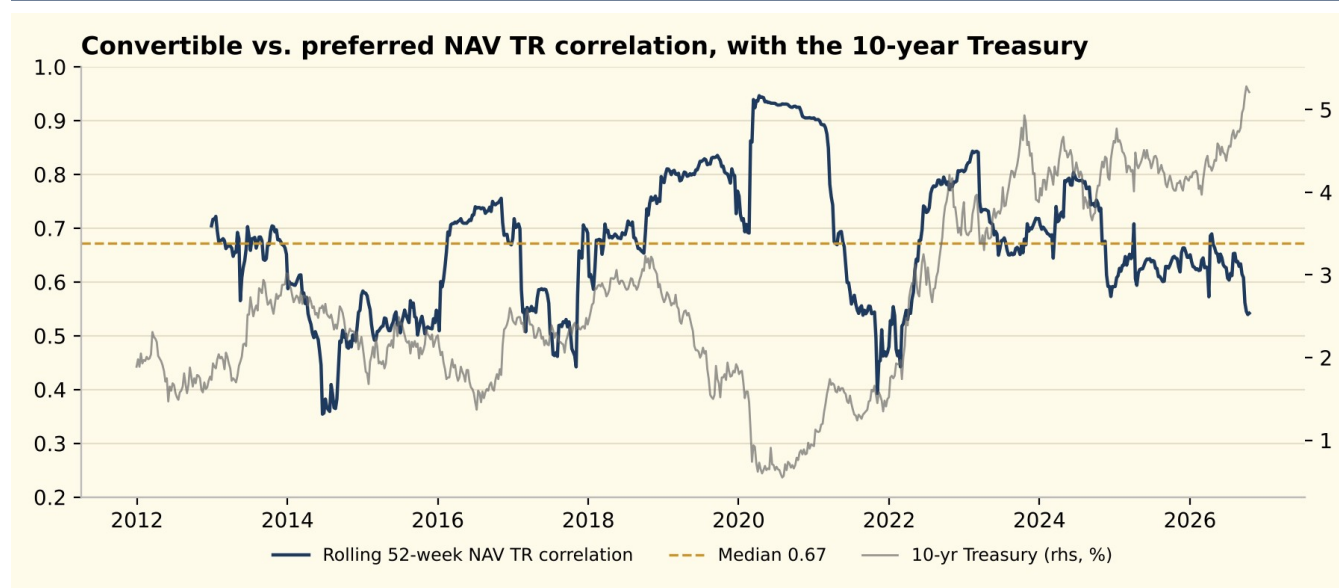
means managers are never forced sellers to meet redemptions. CEFs also add the discount: price can move away from the value of the portfolio. That is an added risk in a selloff and an added source of return when sentiment recovers. For income investors who want active management and the chance to buy portfolios below their value, CEFs are the most flexible tool, as long as price and NAV are watched separately.

Two different drivers

Over time, the two sectors are related but far from interchangeable. Weekly NAV total return correlation between the indexes has been 0.72 since 12/31/2011, rising to 0.79 on a quarterly basis. Over the past year it has dropped to 0.54, near the low end of its 0.35–0.95 range (Exhibit 6). They are diversifying each other more than usual right now.

EXHIBIT 6

Rolling 1-year NAV TR correlation, with the 10-year Treasury yield



Source: CEFData.com; FRED (DGS10). Weekly NAV total returns, rolling 52 weeks.

EXHIBIT 7

Rate and US stock sensitivity (NAV TR)

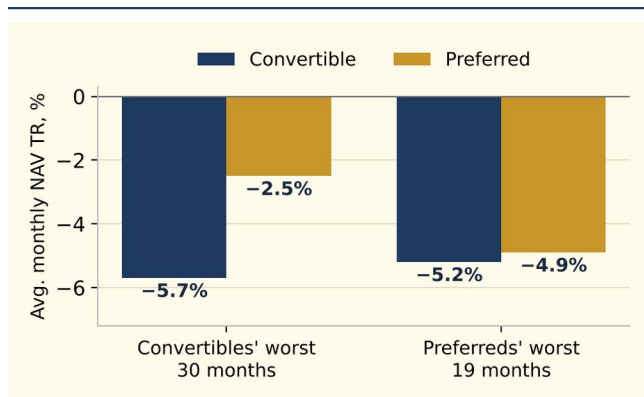
MEASURE	PREFERRED	CONVERTIBLE
Per +0.50% in the 10-year, since 12/31/2011	-0.9%	≈0%
Per +0.50% in the 10-year, past year	-2.5%	-4.4%
Correlation to 10-year yield change, 1-year	-0.58	-0.35
NAV beta to S&P 500, 1-year weekly	0.26	1.01

MEASURE	PREFERRED	CONVERTIBLE
Correlation to S&P 500, 1-year weekly	0.61	0.81
Up / down capture vs. S&P 500, past year	17% / 33%	85% / 99%
Duration (years)	5.61	2.16
Max NAV drawdown, ex-COVID	-25.0% (3/20/2023)	-35.4% (10/14/2022)

Source: CEFData.com; FRED; SPY total return. COVID Feb–Apr 2020 carved out of the rate statistics and drawdowns. In the past year, convertibles' larger rate figure came mostly through the US stock link.

EXHIBIT 8

Average NAV TR in each sector's worst months



Source: CEFData.com, monthly NAV total returns since 12/31/2011.

The drivers explain the gap (Exhibit 7). Preferreds are the rate trade: since 12/31/2011, excluding COVID, preferred NAV has moved about -0.9% for each +0.50% in the 10-year Treasury, while

convertible NAV has moved about zero. Convertibles are the US stock trade, with a one-year NAV beta to the S&P 500 of 1.01 versus 0.26 for preferreds.

The past year added a twist. Convertible NAV captured 99% of the S&P 500's down weeks but only 85% of its up weeks, the opposite of the convexity investors buy convertibles for. With the 10-year up more than a full point, rising rates pressured bond floors and the corporate bond sleeve while the equity option was working.

One more pattern matters for portfolio construction: protection runs one way (Exhibit 8). In convertibles' 30 worst months, preferreds lost 2.5% on average versus 5.7%. In preferreds' 19 worst months, convertibles fell just as hard. Rate and bank shocks, such as March 2023, hit both.

EXHIBIT 9

Preferred and convertible ETFs vs. the CEF indexes

FUND	TYPE	EXPENSE RATIO	MARKET YIELD	LEV.	PRICE VS. NAV	1-YR NAV TR	3-YR NAV TR (ANN.)
PFF	Pref. index	0.45%	6.5%	—	-0.1%	-1.7%	6.6%
NPFI (Nuveen)	Pref. active	0.56%	6.9%	—	+0.2%	+1.4%	—
PFFA (Virtus)	Pref. active	2.11%*	10.6%	≈25%	+0.4%	-1.3%	11.6%
FPE (First Trust)	Pref. active	0.83%	6.3%	—	—	—	—
CEF Preferred Index	12 CEFs	1.30%**	9.95%	36.5%	-10.15%	-1.3%	11.2%
CWB	Conv. index	0.40%	1.1%	—	+0.7%	+10.2%	16.3%
ACVT (Advent)	Conv. active	0.65%	1.6%	—	—	—	—
CEF Convertible Index	9 CEFs	1.33%**	9.70%	29.1%	-4.89%	+11.8%	20.2%

Source: CEFData.com ETF data as of 10/9/2026; CEF index NAV TR through 10/9/2026 and index characteristics as of 10/14/2026. *Includes interest expense on leverage. **Non-leveraged expense ratio. FPE and ACVT expense ratio and trailing yield from Stock Analysis and TradingView (October 2026); their returns are not yet in CEFData's ETF data. ACVT launched 4/30/2025. Other active ETFs named in the text are not shown. — = not applicable or not reported. Funds are shown as educational examples, not recommendations. Past performance does not guarantee future results.

EXHIBIT 10
Four ways to own preferreds and convertibles

	INDIVIDUAL SECURITIES	INDEX ETFs	ACTIVE ETFs	CEFs
Access	\$25-par listed preferreds; many issues and most convertibles in \$1,000 lots	One share; trades daily	One share; trades daily	One share; trades daily
Price vs. value	Each security's market price	Trades close to NAV	Trades close to NAV	Can trade at a discount or premium
Leverage	None	None	None to $\approx 25\%$ (PFFA)	29–37% (index averages)
Management	You select and monitor	Passive, index-weighted	Active	Active
Income	Varies by issue	$\approx 6.5\text{--}6.9\%$ (preferred); $1.1\text{--}1.5\%$ (convertible)	$\approx 5.5\text{--}10.6\%$ (preferred); $\approx 1.2\text{--}1.6\%$ (convertible)	$\approx 9.7\text{--}10.0\%$ market yield (index averages)
Main added risk	Calls, concentration, spreads	Issuer and sector concentration	Manager risk; leverage cost (PFFA)	Discount swings, leverage cost
Best fit	Large portfolios with research capacity	Low-cost core exposure	Active management without discount risk	Active income; buying below NAV

Source: CEF Advisors; CEFData.com ETF data as of 10/9/2026. CEF figures are CEFData index weighted averages as of 10/14/2026.

“Convertibles caught 99% of the S&P 500’s down weeks but only 85% of its up weeks.”

What history says after big rate moves

Calendar-year returns show the regimes (Exhibit 13). In 2013, the taper year, rates rose with US stocks and convertibles returned 20.9% at NAV versus 2.1% for preferreds. In 2014, rates fell and preferreds returned 17.6% versus 0.1%. In the 2022 rate shock, both lost money, convertibles more (–26.3% vs. –15.3%).

We tested every trading day since 12/31/2011 for 10-year Treasury moves of 0.50% or more (Exhibit 14 and Exhibit 12). Two signals stand out:

- **After a fast drop in rates, convertibles led.** Following a 90-day decline of 0.50% or more, convertibles returned 20.9% at NAV over the next year versus 9.5% for preferreds, and led in 92% of signals outside 2020. Fast declines usually come from growth scares, and convertibles rebound with US stocks.
- **After a year of rising rates, preferreds led.** Following a 12-month rise of 0.50% or more, preferreds returned 5.6% the next year versus 2.7%, and convertibles led only 39% of the time.

EXHIBIT 11
Same manager, two wrappers

MANAGER	CEF	LEVERAGE	MARKET YIELD	PRICE VS. NAV	ETF	LEVERAGE	YIELD	PRICE VS. NAV
Advent	AVK	37%	12.5%	–10.3%	ACVT	None	1.6%	$\approx$ NAV
Calamos	CHI	33%	10.1%	+4.5%	CVRT	None	1.5%	$\approx$ NAV
Nuveen	JPC	38%	11.2%	–8.9%	NPFI	None	6.9%	+0.2%
First Trust	FPF	36%	10.7%	–12.5%	FPE	None	6.3%	$\approx$ NAV
Cohen & Steers	PSF	33%	8.5%	–12.7%	CSPF	None	5.6%	$\approx$ NAV

Source: CEFData.com CEF data as of 10/13–10/14/2026 and ETF data as of 10/9/2026; ACVT, CVRT, FPE and CSPF yields from Stock Analysis (October 2026). $\approx$ NAV: ETFs trade close to NAV through creation and redemption. CVRT targets more equity-sensitive convertibles than CHI. Funds are shown as educational examples, not recommendations.

EXHIBIT 12

NAV TR during and after 10-year Treasury moves of 0.50% or more

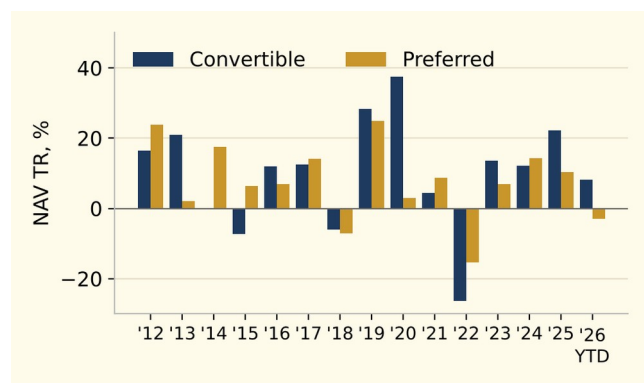
10-YEAR MOVE	EPISODES	PREF DURING	PREF +1 YR	CONV DURING	CONV +1 YR
90-day rise $\geq +0.50\%$	41	-2.3%	+6.9%	-1.3%	+6.7%
90-day fall $\leq -0.50\%$	33	+3.3%	+9.5%	+1.2%	+20.9%
90-day flat	74	+2.8%	+6.7%	+3.5%	+8.8%
1-year rise $\geq +0.50\%$ (today)	52	+4.7%	+5.6%	+9.2%	+2.7%
1-year fall $\leq -0.50\%$	25	+9.6%	+7.7%	+11.4%	+16.8%
1-year flat	76	+9.7%	+7.5%	+11.6%	+11.4%

Source: CEFData.com; FRED (DGS10). Rise/fall = 10-year move of 0.50% or more. Signals measured daily since 12/31/2011; windows overlap, so N (episodes) is the true sample size. COVID Feb–Apr 2020 carved out.

“After a year of rising rates, which is where we are now, preferreds have historically led the following year.”

EXHIBIT 13

Calendar-year NAV total return

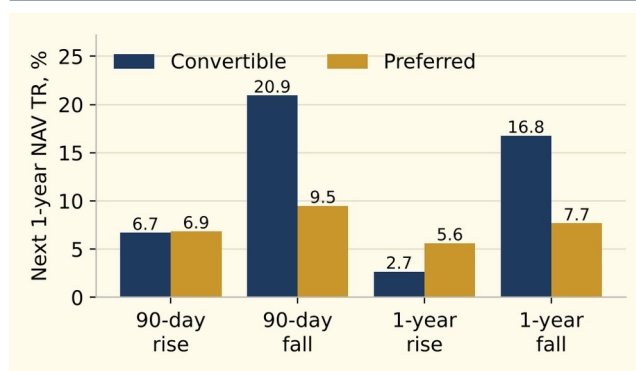


Source: CEFData.com. 2026 is year to date through 10/14/2026.

The second signal is today's setup. The 10-year was 5.21% on 10/13, up 1.16% over one year; during 3Q alone it rose from 4.44% to 5.29%.

EXHIBIT 14

Next 1-year NAV TR after 10-year Treasury moves of 0.50% or more



Source: CEFData.com; FRED (DGS10). Average next-year NAV TR after each signal since 12/31/2011, excluding COVID Feb–Apr 2020.

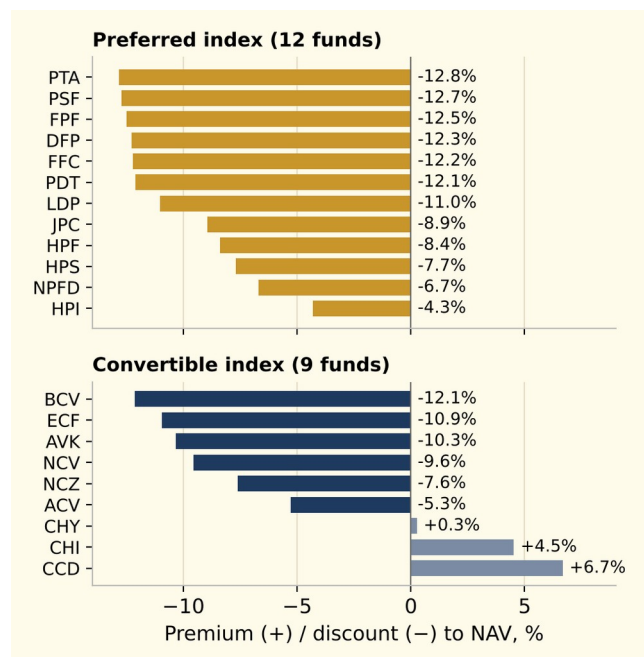
Where they stand today

Valuation favors preferreds (Exhibit 16). The preferred index trades at a -10.15% discount versus a -4.12% three-year average, sitting at 18% of its three-year discount range. All 12 index funds trade at discounts, seven wider than -10% (Exhibit 15). Over the past year, preferred price TR trailed NAV TR by 7.6 points.

Convertibles are priced fuller. Their -4.89% average discount masks three Calamos funds (CCD, CHI and CHY) trading at premiums, while Bancroft (BCV), Ellsworth (ECF) and Advent (AVK) trade at discounts wider than -10%. On income,

convertibles are more efficient: a 7.11% leverage-adjusted NAV yield versus 6.56%, with less leverage.

EXHIBIT 15 Fund-level premium/discount, 10/14/2026



Source: CEFData.com. Funds are index constituents shown as educational examples, not recommendations.

EXHIBIT 16 Index profile, weighted averages

AS OF 10/14/2026	PREFERRED	CONVERTIBLE
Discount	-10.15%	-4.89%
1-yr / 3-yr / 5-yr average discount	-4.27% / -4.12% / -3.33%	-5.16% / -3.20% / -3.55%
Relative discount range (3-year)	18%	40%
Market yield	9.95%	9.70%
Leverage-adjusted NAV yield	6.56%	7.11%
Leverage	36.53%	29.07%
1-year RoC / 3-year destructive RoC	22.23% / 0.00%	35.71% / 0.00%
Non-leveraged expense ratio	1.30%	1.33%
RSI	29.0	36.4
Funds / net assets (\$M)	12 / 768	9 / 469

Source: CEFData.com. Relative discount range: where today's discount sits within its 3-year range (0% = widest).

Where the income comes from. Preferred funds drove most of the distribution increases among CEF sectors in 3Q and over the past year, backed by coupon income. Convertible funds lean more on realized gains: over the past year, about 36% of the convertible index's distributions were return of capital versus 22% for preferreds. None of it was destructive over three years, because convertible NAVs have grown. In a weaker year for US stocks, convertible payouts are the ones more likely to come under pressure.

EXHIBIT 17 Price TR after the RSI-plus-discount signal

PRICE TR	3 MO	6 MO	12 MO	% UP, 12 MO
Pref, after signal (31)	+3.8%	+4.8%	+12.4%	66%
Pref, all days	+1.8%	+3.7%	+7.2%	—
Conv, after signal (12)	+4.4%	+4.4%	+19.3%	82%
Conv, all days	+2.5%	+5.1%	+10.0%	—

Source: CEFData.com. Signal: RSI under 30 with 1-year price TR trailing NAV TR by its worst 20% of readings (3.5+ points for preferreds, 4.3+ for convertibles). COVID Feb–Apr 2020 carved out.

Technicals add to the preferred case (Exhibit 17). Preferred RSI was 27.8 on 9/30 and 29.0 today, which is oversold. Since 12/31/2011, excluding COVID, preferreds have been this oversold and this far behind NAV (RSI under 30, price trailing NAV by 3.5 or more points over the prior year) in 31 episodes. Price TR over the next 12 months averaged 12.4% versus 7.2% for all days, positive about two-thirds of the time. That history is supportive, not a guarantee: discounts can stay wide longer than investors expect.

How to act now: retired investors

For retired investors who own these funds directly or through an advisor, six practical steps:

1. **Check NAV before reacting to price.** If a preferred fund is down 9% but its NAV is down 4%, most of the loss is sentiment, which has historically reversed.

2. Put each fund in the right bucket.

Preferred CEFs belong in your rate-sensitive income bucket. Convertible CEFs belong closer to your US stock allocation than to your bonds.

3. Know what is inside. A “preferred” fund may hold 37% in bank CoCos, close to half in corporate bonds, or 43% in common stock, and a “convertible” fund may hold a third in other bonds.

4. Size for the rate risk you can live with.

With 5.6 years of duration on about 37% leverage, a preferred CEF can move like a leveraged long-term bond fund.

5. Be careful paying premiums. Buying a convertible fund above NAV after a strong run adds discount risk on top of US stock risk.

6. Plan for volatility before it arrives. Decide in advance what discount or price drop would make you add, rather than sell. High-distribution CEFs often fit well in IRAs.

How to act now: RIAs and financial advisors

For advisors, this is the framework we use at CEF Advisors:

EXHIBIT 18

When each sector has historically led

CONVERTIBLE CEFs HAVE LED...	PREFERRED CEFs HAVE LED...
After a 90-day drop of 0.50%+ in the 10-year (growth scare)	After a full year of rising rates (0.50%+), as now
When rates rise with growth and US stocks rally (2013)	When rates fall and US stocks go nowhere (2014)
When price trails NAV sharply and RSI is under 30	When the discount is wide vs. its own history and RSI is near 30, as now
When up-capture vs. US stocks beats down-capture	When diversification from US stocks matters most

Source: CEF Advisors analysis of CEFData.com index data since 12/31/2011. Historical patterns may not repeat.

- **Look past the sector label.** Check each fund’s core-sector share, contingent capital exposure, bank and technology concentration, and credit quality.
- **Diligence the fund, not the sector.** Compare each fund’s discount with its own three-year history, and review leverage cost and structure, duration, distribution coverage, return of capital and destructive RoC.
- **Tilt with the regime.** After a year of rising rates, preferreds have historically led. Our current positioning leans toward preferreds over convertibles on valuation, sentiment and the rate regime.
- **Name the rotation trigger in advance.** A 90-day drop of 0.50% or more in the 10-year has been the most reliable signal to lean back into convertibles.
- **Compare the wrapper, not just the sector.** An active preferred ETF can deliver institutional exposure without discount risk; a CEF adds leverage and the chance to buy below NAV. When CEF discounts are wide, as now, that second feature is worth more.
- **Do not chase.** Trailing relative performance between the two sectors has not predicted the next year.
- **Harvest discount narrowing.** We consider moving from a fund after a 5% or greater discount narrowing at the fund level, and we reinvest distributions strategically rather than automatically.
- **Set client expectations.** Show NAV alongside price, and explain that discount swings are a feature of the structure, not a sign the portfolio broke.

BEFORE YOU BUY: 8 QUESTIONS FOR ANY PREFERRED OR CONVERTIBLE CEF

1 What does the fund actually own? \$25-par or \$1,000-par preferreds, CoCos, convertibles, corporate bonds or common stock.

3 How much leverage, at what cost? Note the amount, cost, and whether it is fixed or floating.

5 Is the distribution earned? Look at earnings coverage, return of capital and destructive RoC.

7 What is the credit quality? Investment-grade share, below-investment-grade share and unrated holdings.

2 How much rate risk? Check duration, and leverage-adjusted duration where the sponsor reports it.

4 Where is the discount vs. its own history? Compare it with the fund's 1-, 3- and 5-year averages, not just the sector.

6 How concentrated is it? Banks, tech and AI issuers, top-10 holdings and non-US exposure.

8 Is a CEF the right wrapper? Compare an active ETF or individual securities for this account, its taxes and its time horizon.

“Watch price and NAV separately: that gap is either your opportunity or your warning.”

Bottom line

Preferred and convertible CEFs share a label, not a driver. Preferreds are a leveraged rate trade that today looks cheap on discount, sentiment and rate

history. Convertibles are a US stock trade with a bond floor that has recently delivered more downside than upside, at fuller prices. And within each sector, funds differ more than the labels suggest. In our view, the data supports leaning toward preferreds now while watching the 10-year for the signal to rotate back. Whatever you own, watch price and NAV separately: that gap is either your opportunity or your warning.

EXHIBIT 19

Today's signal dashboard

SIGNAL	READING TODAY	HISTORICALLY FAVORS
10-year Treasury, past 12 months	Up 1.16% (5.21% on 10/13)	Preferreds: they have led after a year of rising rates
10-year Treasury, past 90 days	No drop of 0.50% or more	Convertibles, but only after a fast drop
Preferred discount vs. 3-year average	-10.15% vs. -4.12%	Preferreds
Preferred price TR vs. NAV TR, 1 year	Price trails NAV by 7.6 points	Preferreds
Preferred RSI	29.0 (oversold)	Preferreds
Convertible discounts	-4.89% average; CCD, CHI and CHY at premiums	Caution on paying premiums
Convertible NAV beta to the S&P 500	1.01 over the past year	Convertibles, if US stocks rally

Shaded rows: preferred signals lit today. Source: CEFData.com index data as of 10/14/2026; FRED (DGS10). Signals describe historical tendencies, not forecasts.

EXHIBIT 20
Appendix: fund-by-fund snapshot

FUND	SPONSOR	PREM./ DISC.	REL. RANGE	MARKET YIELD	LEV-ADJ NAV YIELD	EARNINGS COVERAGE	LEVERA GE	1-YR NAV TR
Preferred index (12)								
PTA	Cohen & Steers	-12.1%	4%	9.5%	6.2%	79%	35%	-0.7%
DFP	Flaherty & Crumrine	-11.5%	18%	8.3%	5.4%	99%	38%	+0.4%
PSF	Cohen & Steers	-11.4%	20%	8.3%	5.5%	92%	33%	+0.4%
PDT	John Hancock	-11.3%	23%	8.9%	5.9%	71%	35%	+2.2%
FPP	First Trust	-10.9%	2%	10.5%	6.9%	78%	36%	-1.6%
LDP	Cohen & Steers	-10.4%	11%	8.3%	5.6%	92%	33%	+1.9%
FFC	Flaherty & Crumrine	-10.2%	19%	8.5%	5.5%	100%	38%	+0.6%
JPC	Nuveen	-7.4%	20%	10.9%	7.3%	75%	38%	+0.8%
HPS	John Hancock	-6.9%	4%	11.3%	7.6%	78%	39%	-3.9%
HPF	John Hancock	-6.1%	0%	11.3%	7.7%	77%	39%	-3.9%
NPFD	Nuveen	-4.7%	59%	10.6%	7.3%	70%	37%	+1.6%
HPI	John Hancock	-2.8%	2%	10.9%	7.6%	77%	39%	-4.1%
Convertible index (9)								
BCV	Gabelli	-13.4%	25%	6.4%	4.8%	16%	16%	+4.7%
ECF	Gabelli	-11.7%	42%	5.5%	4.3%	17%	14%	+5.8%
AVK	Guggenheim	-10.3%	30%	12.2%	7.9%	33%	37%	+6.5%
NCV	Virtus	-9.6%	51%	10.7%	7.2%	15%	34%	+8.3%
NCZ	Virtus	-7.3%	66%	10.1%	7.0%	14%	34%	+8.9%
ACV	Virtus	-4.9%	23%	10.5%	7.8%	—	28%	+11.0%
CHY	Calamos	-0.8%	51%	10.1%	7.5%	—	33%	+12.2%
CHI	Calamos	+4.3%	64%	9.7%	7.6%	—	33%	+11.9%
CCD	Calamos	+7.1%	100%	9.7%	7.9%	—	32%	+13.7%

Source: CEFData.com fund data as of 10/13/2026. Rel. range: where today's discount sits within its 3-year range (0% = widest). Earnings coverage: net investment income as a share of the distribution; convertible funds pay largely from gains, so low coverage is expected. — = not reported. Funds are index constituents shown as educational examples, not recommendations.

WHAT WOULD CHANGE OUR VIEW

Our positioning leans toward preferreds today. These are the signals that would make us lean back toward convertibles:

- A 90-day drop of 0.50% or more in the 10-year Treasury. After past drops, convertibles led preferreds over the next year in 92% of signals outside 2020.
- Preferred discounts narrowing back toward their three-year average of about -4%, which would remove much of today's valuation edge.
- Preferred price catching up to NAV with RSI well above 30, a sign the selling is over.
- A broad US stock rally with convertible up-capture moving back above down-capture, restoring the convexity investors buy convertibles for.

THREE THINGS TO REMEMBER

- 1** Preferred CEFs are mostly an interest-rate trade. Know the duration and leverage before you buy.
- 2** Convertible CEFs are mostly a US stock trade with a bond floor. Check sector and AI exposure: they are not bond funds.
- 3** Check price against NAV on everything you own. That gap is either your opportunity or your warning.

Next CEFData quarterly session: Wednesday, January 20, 2027, 2 pm ET.

ABOUT CEF ADVISORS

CEF Advisors is an SEC-registered investment adviser founded in 1989 and based in Richmond, Virginia. The firm focuses exclusively on closed-end funds, business development companies, and interval and tender-offer funds, managing customized income portfolios for individuals, families and institutions. Its investment process, Trifecta, weighs discount risk and opportunity, income risk and opportunity, and NAV and manager fundamentals. The firm's affiliate, CEFData.com, provides data and analytics on CEFs, BDCs, interval funds and ETFs. CEF Advisors, 2711 Buford Road, # 382, Richmond, Virginia 23235.

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RESOURCES

CEFData.com: daily index data, fund screens and the Preferred Equity and Convertible Bond Indexes used in this article.

AICAlliance.org: education on closed-end funds, BDCs and interval funds from the Active Investment Company Alliance.

The NAVigator Podcast: discussion of this quarter's data and what it means for income investors.

CEFData quarterly session: Wednesday, January 20, 2027, 2 pm ET, reviewing 4Q 2026 results.

METHODOLOGY

Data: CEFData.com Preferred Equity and Convertible Bond Indexes, daily price and NAV total return since 12/31/2011; CEFData fund data as of 10/13/2026 and holdings-level data from each fund's latest portfolio filing (4/30/2026–7/31/2026); Nuveen semiannual report (1/31/2026) and JPC and NPFD fact sheets (6/30/2026); FRED 10-year Treasury yield (DGS10); SPY total return (one year) for beta and capture; CEFData.com ETF data (10/9/2026), with expense ratios and yields for ETFs not yet in that data from Stock Analysis and TradingView (October 2026).

COVID (Feb–Apr 2020) is carved out of drawdown, rate-regime and RSI statistics. Rate-regime and RSI windows are measured daily and overlap; episode counts are the true sample sizes.

IMPORTANT DISCLOSURES

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