Opportunity Income

Q1 | 2024 Commentary

The first quarter of 2024 continued the theme from prior years of market fits and starts for fixed income on improving inflation data and, as a result, we are continuing to see a divided and struggling bond market. Bright spots can at times be seen in the fixed income markets on days with muted inflation and economic data.

While the market has reached a consensus of potentially lower forward rates into the second half of 2024, and this should support fixed income prices, unfolding inflation and economic data from this point will determine the pathway for any Fed cuts. A calmer bond market for the next few quarters may be likely, as the tug-of-war between the Fed and markets unfolds slowly and the market expectations begin to align with the Fed's opinions.

The truth is that the bond market appears to already be pricing in a more dovish Fed, with lower rates going forward in 2024 and little to no surprises in this consensus outlook as it has remained static for some time now. This may support bond prices nicely over the next few years. The Fed continues to be at the center of the bond market and has yet to loosen financial conditions, especially in shorter-dated bonds. Little has changed on this front for over two years now.

As has been the case over the past two years, the portfolio remained in a fully defensive stance throughout the first quarter as the yield curve remained inverted (short-term yields higher than long-term yields). An inverted yield curve points towards a possibly declining forward rate relative to shorter dated bonds, and this has historically meant lower forward rates because of slowing growth or a possible recession at some point. The current yield inversion continued to improve throughout the first quarter, and it is possible we will see the yield curve normalize soon if the data trends continue their current trajectory.

We are still well off cycle lows in bonds as forward rates of return in the bond market continue to improve. This is true across a wide range of duration outcomes from a bond drawdown mechanic standpoint. Rates can now move higher from this point without bonds declining significantly depending on the magnitude of interest rate changes. The longer that bonds continue to trade sideways in a range, the better forward rates of return look for investing in them.

Lead Portfolio Manager
Mitch Ehmka, CFA®, CIPM®
Chief Trading Officer

Mitch has worked with Kingsview since 2010 and has assumed increasing responsibility during his tenure, serving as Head Trader for 3 ½ years, and then as Director of Trading for the last five years.

Mitch oversees all trading operations within the firm from Chicago and runs the day-to-day trading operations of Kingsview Investment Management. He will also continue to sit on the investment committee.

Mitch helps Advisors, fellow Portfolio Managers and the Investment Committee implement investment strategy, and assists in guiding portfolio implementation within Kingsview's systems. Mitch also spearheads the GIPS efforts of Kingsview Investment Management and oversees its claim of compliance with the GIPS standards in investment performance reporting.

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We view many different pieces of the bond market collectively when constructing portfolios, and we study these relationships closely. This knowledge is perhaps less helpful for fixed income investors in cycles like this, where duration mechanics have been unrelenting on bond valuations as rates climb. We continue to closely monitor portfolio exposures and forward rates of return appear to be improved versus this time last year.

As of the end of the first quarter, the forward indicated forecast yield on the portfolio is 3.55% compared to the aggregate bond benchmark of 3.61%.

We at Kingsview Investment Management appreciate your continued support of the Opportunity Income portfolio. Should you wish to speak with one of our portfolio managers, please email investments@kingsview.com.