Opportunity Income

Q1 | 2025 Commentary

Fixed income had an interesting start to 2025 in the first quarter, trading higher overall as uncertainty took hold of global financial markets and investors hunted for stability. The general price support for high-quality fixed income can be at least partially attributed to some "flight to safety" positioning, combined with some modest rate cut expectations. Overall, intermediate-term interest rates drifted lower nearly all quarter, helping to support current bond prices. There is now uncertainty priced into financial markets and, while this is dragging on equity markets at present, this has historically presented some forward opportunity for credit and bond markets.

The treasury yield curve, as measured by the 2/10-year treasury spread, has so far continued to march much higher into positive territory, now approaching levels not seen in over three years. Credit spreads, while elevated in recent days, remain compressed from normal historical ranges, signaling healthy demand for high quality and liquid corporate bonds. Widening credit spreads are likely a function of current equity volatility, as investors seek to reposition portfolios to capitalize on lower equity levels. Regardless of this fact, we believe the current bond environment is still signaling confidence in the underlying economy, albeit with slightly higher volatility going forward than this time last year.

In the first quarter, bets on duration and safety were the main winners given the unfolding uncertainty on the global economic picture. Bonds continue to remain historically inexpensive even after last quarter's modest rally, and the bond market outlook continues to improve for high quality securities. The Fed's target for short-term and intermediate rates still leaves opportunity on the table for bonds.

The Opportunity Income Portfolio left its fully defensive stance at the end of 2024 as the yield curve further normalized to close out the year. We believe the current portfolio is well positioned to capitalize on a return to a more normal yield curve and we expect fixed income investors to be rewarded in the coming years with longer-dated bonds once again holding a time premium.

Traditionally, riskier bonds perform well in a higher sloping yield curve combined with a healthy and expanding economy and we believe that this is historically the best chance for the Opportunity Income portfolio to add value against its fixed income benchmark with its risk framework. While recent challenges in the market have thrown some uncertainty into the mix, we expect the bond market to remain receptive to high-quality issuers.

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Mitch Ehmka is the Managing Director of Research and Performance for Kingsview Partners. 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 five years before being named Chief Trading Officer in 2022. Mitch oversees all trading operations within the firm from Chicago, runs the day-to-day trading operations of Kingsview Investment Management and is a founding member of 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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Speculation on modest rate cuts continues to support current bond prices but are not yet the "fuel" needed for a bond rally. Overall, bonds remain quite inexpensive on a historical basis and look poised to retake their prime position as a portfolio diversifier given recent equity volatility.

We view many different pieces of the bond market collectively when constructing portfolios and we study these separate pieces of the market and their present and historical relationships closely. In the fixed income space, we continually monitor portfolio exposures and forward rates of return appear to have improved from this point over the next few years.

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.