Opportunity Income

Q1 | 2026 Commentary

The first quarter of 2026 brought mostly muted bond performance, with most bond asset classes closing out near flat to unchanged for the period. While bonds are seen as taking a break after demonstrating strong performance last year, fixed income did put some work in this quarter helping to stabilize well diversified portfolios.

Fixed income returns remain subdued by renewed inflation concerns and modest increases across the yield curve for the quarter. This, combined with widening credit spreads, has kept any meaningful returns at bay for now. While bond yields did in fact push higher during the quarter, the majority of the real returns for fixed income can be directly attributed to yields, and not from pricing help along the curve.

Corporate and long treasury bond holdings outperformed the domestic fixed income benchmark. We believe bonds will continue to see a welcoming and positive total return environment if rates continue to fall and inflation concerns do not materialize as aggressively as expected right now. According to Fed futures rate consensus information, only one more rate change is possible during 2026, largely dependent on updated economic and inflation data from this point forward. There is also a large percentage chance of no rate changes this year.

The 2/10 year treasury spread declined over the entire quarter, moving from notable bull steepener territory into a more lackluster bear flattener portion of the yield curve. Overall, the current bond environment is still signaling underlying confidence in the general economy, even as credit spreads currently trade near recent swing highs. The flattening aspect of the overall yield curve is mainly due to the likelihood of a more hawkish and watchful Fed moving forward.

The Opportunity Income portfolio remains in its first opportunity phase with no changes throughout the quarter as the yield curve began to flatten. The yield curve remained in the lower range of its historical average and flattened with rising shorter-term yields. 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 may be rewarded in the coming years as we return to a more typical bond market.

Traditionally riskier bonds perform well in a higher sloping yield curve combined with a healthy and expanding economy. As the yield curve normalizes and rates stabilize and can be more easily forecasted, this makes budgeting borrowing costs easier for firms and more efficient for those smaller firms that have been struggling to borrow at higher rates. A strong economy also means that corporate bonds may be a safer bet, and, in our view, have a strong chance of outperforming treasuries. The bond market remains receptive to high-quality issuers as has been evidenced by still well-below average corporate bond spreads and healthy investment grade issuance demand. Overall bonds remain quite inexpensive and look poised to continue to hold their prime position as a portfolio diversifier given recent equity volatility.

As of quarter end, the forward-indicated forecast yield on the portfolio is 4.75% compared to the aggregate bond benchmark of 4.06%.

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.