Opportunity Income

Q2 | 2026 Commentary

Fixed income continued to trade mostly sideways in the first half of the year, with select pockets of outperformance seen in some higher yield spaces of the bond market. It seems now that most fixed income traders remain focused on renewed inflation concerns, along with any associated rate hikes the Fed may use to fight it. Bond yields saw modest increases across the yield curve, with larger increases in the front end of the curve for the quarter. The majority of fixed income returns for the period can be directly attributed to yields, and not from pricing help along the curve. While bonds are seen as continuing their break after demonstrating strong performance last year, they did put in some work earlier in the year to help stabilize portfolios during earlier geopolitical turmoil and periods of elevated volatility.

We believe bonds may exhibit stronger real returns if rates continue to fall and inflation concerns can remain muted and subdued from this point forward. According to Fed futures rate consensus information, one to two rate hikes are possible during 2026, largely dependent on updated economic and inflation data. There remains only a small chance of no rate changes this year, largely due to persistent and sticky inflation data.

The 2/10 year treasury spread continued to decline throughout the quarter. The 2/10 spread has quickly moved from notable bull steepener territory near the start of the year, into bear flattener territory. The bond environment is still signaling great confidence in the general economy and credit spreads currently trade near multi-decade lows. High demand persists for corporate credit investments and related vehicles, both public and private.

The Opportunity Income portfolio remains in its first opportunity phase with no changes throughout the quarter. 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, corporate and higher-yield 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.

As of quarter end, the forward-indicated forecast yield on the portfolio is 4.82% compared to the aggregate bond benchmark of 4.01%.

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.**