KINGSVIEW
INVESTMENT MANAGEMENT

Opportunity Income

Q3 | 2026 Commentary

Fixed income remained largely rangebound during the quarter as investors balanced stronger-than-expected economic growth against persistent inflation and the potential for additional Federal Reserve rate hikes to help combat rising real yields. Yields moved higher across the curve during the quarter, with the largest increases occurring in short-term maturities, while credit markets remained overall well-supported by strong demand and historically tight spreads.

The yield curve flattened late in the quarter, with the 2-year/10-year Treasury spread edging into bear flattener territory as short-term rates rose faster than long-term rates. While higher yields directly pressured bond prices during the quarter, economic and credit market fundamentals remained broadly constructive.

Fixed Income Performance

Rising yields were the primary headwind for fixed income performance during the quarter. Two-year Treasury yields experienced the largest increase, however, the yield curve pushed broadly higher in the quarter, leaving income as the only source of return for many bond investors. Fixed income total returns were modestly negative for the period, even after accounting for coupon income.

Performance was closely tied to duration. Short and intermediate-duration bonds, along with select high-yield sectors, held up best and outperformed our domestic fixed income benchmark. Long-duration Treasuries were among the weakest performers as higher rates weighed on prices heavily.

Despite recent weakness, the backdrop for fixed income remains constructive. Credit spreads remain near multi-decade lows, demand for credit is strong across public and private markets, and current yields remain historically attractive. While markets continue to price in the possibility of additional Fed rate hikes, we believe today's yield levels provide an increasingly attractive foundation for long-term fixed income returns.

Current Portfolio

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 have performed well in a higher sloping yield curve combined with a healthy and expanding economy. As the yield curve normalizes and rates stabilize, and can therefore 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 over the next few years. 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. For these reasons, we believe the current portfolio positioning is attractive given the current environment.

As of quarter end, the forward-indicated forecast yield on the portfolio is 5.23% compared to the aggregate bond benchmark of 4.24%.

Summary

While fixed income did face ongoing pressure from rising yields during the quarter, underlying credit and economic conditions remained healthy and current yields are now at a more attractive position for bond investors. While rates continue to create near-term headwinds, attractive yields, strong credit fundamentals and the potential for eventual yield curve normalization all support a positive intermediate and longer-term outlook for bonds.

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.

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