Opportunity Income

Q4 | 2025 Commentary

The last quarter of 2025 brought higher asset prices for fixed income, two additional rate cuts from the Fed, and continued stronger than expected corporate earnings and guidance. For nearly all of Q3 and Q4 bonds performed well, helping to boost diversified and more conservative portfolio returns.

Within fixed income, corporate and high yield bond holdings outperformed relative to the domestic fixed income benchmark. We believe bonds overall will continue to see a welcoming and positive total return environment if rates continue to fall given overall current market conditions. According to Fed Futures rate consensus information, 2-3 more rate cuts are possible during 2026, largely dependent on updated economic and inflation data. While bond prices pushed higher during the quarter, along with increasing bond demand, the majority of the move seen in fixed income can be directly attributed to bond and duration mechanics.

The broad risk yield spread, as measured by the 2/10-year treasury spread, marched higher over the entire quarter, moving slightly steeper into positive territory with a notable bull steepener pattern within the 2/10. A bull steepener is typically a bullish sign for fixed income, as falling shorter-term rates help prop up bond prices. Shorter-term yields are seeing pressure from Fed rate cuts and the longer end of the curve is not seeing the same moves. Overall, the current bond environment is signaling strong confidence in the underlying economy, as credit spreads currently trade near historic lows and, at this point, the majority of the treasury yield curve, from 3 months to 30 years, is following suit. Overall, we believe this bond environment signals confidence in credit and a continued robust and healthy demand for corporate bonds.

The Opportunity Income portfolio remains in its first opportunity phase with no changes throughout the year as the yield curve further normalized during the quarter but overall remained in the lower range of its historical average. This normalization is largely a result of increasing market consensus on a more normal longer-term interest rate picture. A normal, or upward sloping curve, points towards an expected strong economy over the reference period (2-10 years from now). This historically means higher longer-dated rates during expansion as opposed to shorter-dated yields because of perceived stable future GDP growth, wages, and more normal levels of inflation if the economy is expanding at a comfortable pace. We believe the normalization of the yield curve is expected to continue over the next few years.

Traditionally riskier bonds perform well in a higher sloping yield curve combined with a healthy and expanding economy. As the economy continues to expand and rates stabilize lower, this makes budgeting borrowing costs easier for firms and more efficient for those smaller firms that have been

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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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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 below average corporate bond spreads and healthy investment grade demand. Overall, bonds remain quite inexpensive and look poised to continue to hold 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. 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. Those mechanics can also be beneficial over a longer total investment horizon that aligns with investor's capital needs. In the fixed income space, we continually monitor portfolio exposures and forward rates of return appear to be improved from this point over the next few years.

As of quarter end, the forward indicated forecast yield on the portfolio is 4.55% compared to the aggregate bond benchmark of 3.99%.

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.