CORBYN INVESTMENT MANAGEMENT, INC.

October 2018

Dear Advisors and Clients:

After a volatile first half of the year, equity markets rose steadily during the third quarter of 2018 while the government bond market continued its slide lower as interest rates rose. Stock market gains were supported by increased investor expectations for future growth amidst strong domestic economic reports and positive corporate earnings results. If turmoil was to be found during the third quarter, it tended to be observed, not in the broader capital markets, but in Washington, D.C. as tensions there continued to run high on a number of policy and political fronts.

We are pleased to report that all Corbyn accounts again generated positive performances during the quarter. Both our equity and fixed income accounts were relatively consistent, generating steady returns throughout the quarter.

Equities

Investors reacted positively to several economic indicators including quarterly GDP growth reaching a nearly four-year high powered by better than expected industrial activity. The U.S. consumer remained quite healthy as evidenced by strong spending and consumer confidence reaching levels not seen since 2000, driven by continued job growth, accelerating wage growth, and rising home prices. Concerns for future growth do remain, however, as positive developments such as a revised trade agreement with Mexico and Canada were offset by escalating tensions with China following the implementation of a 10% tariff on $200 billion of Chinese goods in late September.

Gains in Corbyn-managed equity-oriented portfolios were fairly widespread driven by solid earnings growth and outlooks buoyed by company-specific initiatives, cash flow deployment, and secular tailwinds underpinned by a growing economy. Our focus on domestically-oriented companies has helped insulate the portfolios from ongoing global trade battles, while U.S. tax reform and diminished regulatory burdens continue to provide tailwinds.

Fixed Income

The recent acceleration in the pace of economic growth continued to fuel expectations that inflation may increase. These inflation concerns drove interest rates higher in September with the 10-year and 30-year Treasury yields rising towards their year-to-date highs reached in mid-May, and the yield curve steepened slightly off its multi-year lows. As a result, many intermediate and longer-dated Treasury bond indices declined, extending their losses from the first half of the year. Corporate and high yield bond indices fared better, posting small gains for the quarter, although many investment-grade corporate bond indices and the well-known Barclays US Aggregate Index remain negative for the year.

Corbyn-managed fixed income accounts produced positive returns again this quarter, as they have during each quarter of 2018, despite the rise in Treasury rates during the year. Our continued focus on high yield bonds with short durations, accompanied by stringent fundamental credit analysis, has allowed us to produce steady positive returns during a period when many fixed income investors have struggled. As we have mentioned in recent letters, we are somewhat unique among investors in welcoming steadily rising rates. This allows us to reinvest proceeds from redeemed securities into new securities with similar credit risks at higher yields.

In discussions with current and prospective clients, a question that has been raised more often recently is how we are able to maintain a steady approach to investing in a world which seems more prone to rash judgements, shortsighted decisions, and a limited willingness to take a long-term approach. It is a fair question, and one we answer by highlighting the merits of our investment process, an important aspect of which is understanding how each individual stock and bond will contribute to the long-term goal of making money for our clients with less volatility than the market as a whole. This requires parsing through the bombardment of information and opinions that seemingly come from all angles at all times, eliminating the irrelevant, and focusing solely on the salient data required to identify promising companies that we believe represent good value. We firmly believe that by actively researching individual companies, studying their financial components, and maintaining an ongoing dialogue with company management teams and industry analysts, we can identify and focus only on the information that ultimately drives long-term value creation. Taking this active, “bottom-up” approach to investing allows us to pinpoint the fundamental drivers of a business, ignore the “noise”, and uncover attractive investment opportunities.

At Corbyn, we believe that it can be risky to assume a passive approach to investing without any gauge for when the direction of sentiment might change. Charting a course through active, individual security selection should be an essential component to intentionally arriving at your destination rather than just hoping that the market gets you to where you want to go.

We wish each of you an enjoyable beginning to the fall season and we look forward to reporting further progress in the months ahead.

Respectfully,

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