CORBYN INVESTMENT MANAGEMENT, INC.

April 2021

Dear Clients and Advisors,

During the first quarter of 2021, Corbyn equity and fixed income accounts enjoyed solid gains, building on a series of strong performance quarters. Optimism for the domestic economy continued to grow amidst the accelerating vaccine rollout, additional fiscal stimulus, stronger than expected earnings results, and positive outlooks from Corporate America during the most recent reporting season. Federal Reserve (the "Fed") Chairman Jerome Powell reinforced this optimism in March, indicating that the Fed expects the U.S. economy to recover more quickly than previously projected, while growing at the fastest rate in more than 30 years.

In March, the American Rescue Plan Act (the "Bill"), the third major stimulus plan to address the economic fallout from the pandemic, was signed into law. The Bill provides funding for individuals, businesses, and state and local governments. This additional liquidity should deliver a meaningful boost to spending in the months ahead at a time when many states are planning to further loosen many restrictions that have hampered economic activity since the beginning of COVID-19. The increased availability of vaccines, pent-up demand for activities that have been restricted during the pandemic, and the additional stimulus payments will likely intensify consumers' desire to spend. These forecasts of increased consumer activity have led many economists to boost expectations for GDP growth this year, with business formations accelerating in order to take advantage of future opportunities.

We are closely monitoring the growing interplay between rising economic expectations, increasing inflationary pressures in many parts of the economy and their influence on interest rates. Part of the balancing act with economic stimulus, whether fiscal or monetary, is to maintain an equilibrium between the desired increase in economic activity and the rate of inflation. The current environment is nuanced as unprecedented fiscal and monetary stimulus are both being applied to an economy that is still dealing with challenges uniquely associated with the pandemic. Another challenge is that some manufacturers still face supply chain disruptions, including low inventories and raw material shortages caused by pandemic shutdowns, leading to higher prices and/or temporary product shortfalls. Stimulus-induced demand and growing consumer confidence are combining to add additional pressure on already-stressed supply chains and prices. The bond market is taking note of this, as interest rates on longer-term U.S. Treasuries moved up sharply during the quarter and have been holding firm at pre-pandemic levels.

Fixed Income

The Federal Reserve continues to maintain that it expects to hold short-term rates near zero until at least 2023. Interest rates on the longer-end of the curve, however, have moved significantly higher in recent months. This increase in longer-term interest rates produced meaningful losses in many longer-dated bonds, as the bond market factors in the reopening of the economy and a corresponding increase in growth and inflation. The yield on the benchmark 10-year U.S. Treasury note, a key driver of interest rates across the economy, closed out the quarter at 1.74%, compared with 0.91% at the end of 2020. While short-term rates were little changed as the Fed continued to hold the Federal Funds Target Rate near zero percent, the increase in longer-term rates proved quite painful to investors in other areas of the bond market. The Bloomberg Barclays U.S. Aggregate bond index (the "AGG") was down 3.37%, the iShares Core U.S. Aggregate Bond ETF (the world's largest bond ETF) declined 3.40% and the iShares 20+ Year Treasury Bond ETF dropped nearly 14.00% during the first quarter of 2021. We are pleased that our focus on short-duration, high yield securities continued to produce steady, positive gains despite the volatility experienced by many bond investors during the quarter.

The volatility that interest rates have experienced during the first quarter of this year and the final quarter of last year has demonstrated the value and advantages of our strategy to invest in less volatile fixed income securities. The decision by the Federal Reserve to let the economy "run hot" in order to achieve its goals of full employment and a 2% inflation rate could continue to push longer-term rates higher as the economy continues to recover from the pandemic. Even if longer-term rates do continue to move higher, they would still remain low by historical standards, particularly when factoring in the robust forecasts for GDP growth. Considering the income-producing nature of our bonds and the potential that longer-term rates may continue to move higher for a prolonged period, the short duration aspect of our fixed income strategy, which allows us to reinvest at higher rates as bonds mature or are redeemed, should continue to be an effective way to moderate risk.

Equities

Our equity accounts performed very well during the quarter, as investors continued to push stock prices higher in a continuation of the fourth quarter's broadening confidence in the economic outlook and corporate profit growth. Throughout the quarter, we heard a consistent message of optimism from management teams, a welcome change from just a few quarters ago when these same executives had little confidence in near-term outlooks. In many cases, companies in our equity portfolios used the pandemic to accelerate changes to their business models, supported by strong balance sheets and free cash flow. Many of these companies are now positioned to emerge from the pandemic leaner, more productive, and with greater competitive advantages. This broad-based enthusiasm has further emboldened investors to invest in more economically sensitive areas of the market, disproportionately benefiting attractively-priced sectors such as smaller companies, industrials, and financials to highlight a few. After years of slow economic growth and low interest rates, which favored the "growth" style of investing, there is now the potential for more robust economic growth and we see a solid foundation for a prolonged rotation into more value-oriented industries and sectors. Underpinned by strong economic tailwinds and individual company dynamics, we believe the portfolio holdings are well-positioned to deliver strong and growing earnings as we move through 2021 and into 2022.

This letter marks the one-year anniversary of the World Health Organization declaring COVID-19 to be a global pandemic. It has been an extraordinary 12 months that will forever be etched in our memories. Although we have all been affected in many and differing ways, it is refreshing to see the level of uncertainty begin to fade. It is exciting to see the beginnings of normalcy return to our lives, and we hope you feel the same growing level of optimism that we do. We are very encouraged by the many emerging "green shoots" of economic activity that are developing.

Thank you for being a valued client and please feel free to contact us if you have any questions or need any assistance.

Respectfully,

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