April 2024

Dear Clients and Advisors,

We are pleased to share that all Corbyn strategies started the year on a strong note, both on an absolute basis and relative to market indices. Accounts with the greatest exposure to equities had the highest returns, benefitting from solid overall market momentum, combined with very strong performances of several stocks. Corbyn fixed income strategies produced yet another quarter of consistent positive performance in what continues to be a volatile interest rate environment. Despite the strong first quarter results, we, as always, remain vigilant and prepared to adjust the composition of the portfolios as myriad economic and geopolitical uncertainties could cause market expectations to change rapidly.

Investors began the year with high expectations that the Federal Reserve (the "Fed") was poised to begin a series of interest rate cuts, potentially beginning as early as March. This rate-cutting outlook was far more aggressive than the Fed's own forecast, which had called for three rate cuts during 2024. However, as has been the case during the last year, continued stronger-than-expected economic, employment, and inflation data caused the market to reduce expectations for the magnitude and timing of rate cuts. Despite the stronger economic backdrop, the Fed indicated at its March meeting that it still planned multiple rate cuts before the end of the year, suggesting that inflation was coming under control, a message that provided the fuel to stoke a rally in the equity market into quarter-end.

The current environment of solid economic growth, strong employment levels, and declining inflation, combined with the prevailing belief that interest rates will begin to move lower is providing a solid foundation for corporate earnings growth and market valuations (the so-called "goldilocks" backdrop of an economy that is not too hot, nor too cold). We have certainly seen evidence of this in the solid earnings results reported by many of the companies held in the portfolios. We remain cognizant, however, that, during this very dynamic market environment, changing expectations are perhaps the only certainty. Therefore, we will continue to work on identifying investment opportunities that we believe are well positioned to provide solid performance over the long term, across a variety of economic and market backdrops.

Fixed Income

Corbyn's fixed income investments once again generated positive returns during the first quarter. Our gains were relatively modest, but were a welcome contrast to the declines in the broader fixed income market, as reflected by the 0.78% decline of the Bloomberg Aggregate Index. Following the very strong bond market rally at the end of 2023, government bonds sold off significantly in early 2024, as investors dialed back rate cut expectations in response to stronger economic data. By the end of the quarter, the yield on the 10-year U.S. Treasury bond had risen from 3.9% at year end to 4.2%.

The total number and magnitude of potential Fed rate cuts continues to be a source of debate in the market, leaving the broader fixed income market susceptible to disproportionate volatility relative to modest moves in macroeconomic data points. While the Fed is attempting to "thread the needle" by keeping rates high enough to curb inflation without causing significant economic weakness, we see the potential for a wide range of outcomes. If inflation data continues to come in higher than expected, we may get very little relief from the Fed in the form of rate cuts. If unemployment begins to suddenly increase and consumer spending begins to drop precipitously, we could see multiple rate cuts over a short period of time. Numerous other scenarios could also develop, and we anticipate the market will wrestle with these questions throughout the remainder of the year.

Critically, with uncertainty in fixed income markets continuing, Corbyn's fixed income strategy, which is designed to provide clients with stable returns while limiting volatility, provides an element of comfort in these uncertain times. Our emphasis remains on identifying securities of companies with business prospects and balance sheets that exhibit the clear financial wherewithal to effectively manage their debt. As always, we spend a lot of our time determining which bond in a company's capital structure is most attractive and likely to be retired sooner than others, whether due to the bond's interest rate, maturity date, redemption characteristics, or covenant specifics. We continue to believe that Corbyn fixed income strategies are well positioned to weather a variety of economic scenarios and strive to provide clients attractive risk-adjusted returns, with less volatility than most bond indices.

Equities

Corbyn's equity investments extended their strong performances from last year, producing solid returns during the first quarter. As we mentioned in our last quarterly letter, we were optimistic that investors would broaden their interest towards companies with strong operating fundamentals instead of focusing on a small number of mega-cap technology companies. This broadening-out occurred as the equity market rally continued, and we remain optimistic that this trend will continue to benefit areas of the market in which Corbyn has often found opportunities, including value-oriented small and mid-sized companies.

We often write about the hallmarks of our investment philosophy, which include identifying and investing in companies that are operating from a position of fundamental strength, underpinned by company-specific and/or secular tailwinds, and run by management teams that understand how to utilize this strong foundation to create shareholder value in a variety of ways. This past quarter, in particular, several of our portfolio investments benefited from increased market appreciation for certain long-term growth tailwinds. Currently, investors are eagerly looking for investment opportunities in companies associated with artificial intelligence, cloud computing, electrical vehicles, the reshoring of manufacturing back to the U.S., and energy sustainability and efficiency. Several high-profile companies involved directly in these new technologies garner significant media attention. However, there is a large and very diverse ecosystem exposed to these secular themes – companies that may benefit greatly, but fly under the mass media radar.

We thought it might be helpful to discuss a long-time Corbyn investment that, although not a household name, has benefitted from, and should continue to benefit from, such a secular tailwind, in this case, specifically the increasing and changing demand for electricity in America. MYR Group is a specialty electrical contractor that builds out the basic electrical infrastructure critical for many new technologies to function efficiently or expand. Its highly skilled workforce is relied upon to build the complex power configurations required by data centers, as capacity is expanded to support the growth of artificial intelligence and cloud computing. In addition, companies looking to bolster U.S.-based supply chains are relying on MYR to provide the electrical services needed to build out domestic manufacturing capabilities in high-tech industries such as semiconductors, biotechnology, and electrical vehicles. The Company also has a large business unit serving the transmission and distribution needs of electric utilities. This segment provides specialized services to modernize and improve the reliability of the electric grid, which is critical to connecting new sources of renewable power generation and to address changing electric power distribution requirements, such as the development of an electrical vehicle charging network. MYR is benefitting from multi-year industry growth tailwinds that have driven strong earnings growth. In recognition of its improved prospects, MYR's valuation multiple has expanded at the same time its earnings have increased, a powerful combination for shareholder returns. In addition to the powerful secular tailwinds in place, MYR also has a strong balance sheet, solid free cash flow generation, and a long-tenured management team. Despite being less glamorous than many of the industries it serves, we expect MYR to continue to grow shareholder value throughout a variety of macroeconomic and equity market environments.

As we look ahead, we feel confident about our ability to continue delivering strong long-term, risk-adjusted returns across all Corbyn's investment strategies. We also remain poised to take advantage of opportunities that may present themselves during periods of market volatility. As always, we welcome the opportunity to enhance and expand our relationship, so please feel free to reach out at any time.

Respectfully,

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