July 2023

Dear Clients and Advisors,

During the second quarter, all Corbyn strategies once again generated positive returns, adding to the first quarter gains to produce low-to-high single digit returns for the first half of the year. Accounts with greater exposure to equities posted the highest returns, driven by the strong equity market rally during June. The fixed income accounts continued to provide steady positive performance despite the surge in interest rates in the second half of the quarter that negatively impacted many fixed income investors' portfolios. We are pleased that our conservative approach continues to deliver solid results, while shielding the portfolios from the more extreme volatility experienced over the last 18 months within the broader fixed income and equity indices.

The quarter began relatively quietly as investors seemed to anticipate an economic slowdown that would allow the Federal Reserve (the "Fed") to end its interest rate hiking cycle. As the quarter progressed, however, economic activity continued to prove stronger and more resilient than expected. Upwardly revised first quarter GDP growth, significantly stronger-than-expected employment gains, and solid manufacturing, new home construction, and retail sales data again called into question predictions for an imminent recession and strengthened expectations that the Fed may be able to engineer a "soft landing." Although the Fed "paused" from hiking rates at its June meeting, committee members forecasted two additional rate hikes this year - in direct contrast to market expectations - reflecting the stronger economy and need to further combat stickier inflation. Interest rates quickly moved back towards their cycle highs, pushing the performance of the 10-year U.S. Treasury Note into the red for the quarter. Equity prices moved higher, reflecting the stronger economic data and greater confidence in upcoming corporate earnings reports. Importantly, the extremely narrow equity market leadership witnessed in the first five months of the year broadened out due to increased confidence in economic growth. Investor expectations for macroeconomic conditions and monetary policy were, once again, reset this quarter, and we are cognizant that expectations can change and evolve rapidly. Our focus on long-term, risk-adjusted performance should allow us to continue weathering this unpredictable environment well, while maintaining a keen focus on taking advantage of volatility when it presents itself.

Fixed Income

Corbyn fixed income investments once again provided positive returns while insulating clients from much of the continued volatility in the broader fixed income market. The performances of broad fixed income indices were mixed in the quarter, with the Bloomberg U.S. Aggregate Index slightly negative and the Bloomberg U.S. Corporate High Yield Index slightly positive. The lower quality segment of the high yield market outperformed during the quarter, as strong economic data gave investors the confidence to move back into this riskiest portion of the market.

The domestic economy remains healthy, but inflation, while improving, continues at elevated levels. Treasury yields remain heavily influenced by increased speculation that interest rates are at, or near, peak levels. We continue to believe that forecasting interest rate movements is subject to many unpredictable events and inherently very difficult to achieve accurately. As we mentioned in our previous letter, recent economic data largely support interest rates near today's levels, and we continue to expect rates to remain elevated over at least the medium term. Until "something breaks" in the economy or geopolitics, or data indicates signs of significant slowing, interest rates are likely to stay "higher for longer."

During this period of heightened uncertainty, we are capitalizing on the inverted yield curve, a situation in which, in many cases, yields on short-duration, high yield securities are equal to, or higher than, the yields of similarly-rated bonds with longer maturities. Short-term yields are also well above historical levels, despite spreads to Treasuries tracking near historical averages. Looking forward, we continue to be excited by opportunities for equity-like returns, while maintaining our disciplined focus on risk. We believe careful security selection is necessary to protect portfolios in the event of an economic slowdown. Consequently, our rigorous credit analysis remains critically important.

Equities

Corbyn equity investments generated mid-single digit returns during the second quarter, driving year-to-date returns to high-single to low-double digit levels. These results compare favorably to the broader market and value indices, such as the Dow Jones Industrial Average, S&P 500 Equal Weight Index, and the Russell 3000 Value Index.

The performance of the Nasdaq and the S&P 500 Index continued to significantly outpace the broader market, driven by a small number of large technology companies, as enthusiasm surrounding the potential of artificial intelligence reached a fever pitch. The movement of the S&P 500 Index increasingly resembles a mega-cap technology growth index rather than the wider large-cap stock market index it was originally intended to represent. Since the S&P 500 is a market-capitalization weighted index, the bigger the company market value, the bigger its influence on the index. The seven largest names in the S&P 500, all giant technology companies, now account for nearly 30% of the entire index and accounted for approximately 75% of the index's 17% year-to-date gain. In contrast, the S&P Equal Weight Index, which weights all index constituents the same, regardless of market capitalization, rose only 7% during the quarter.

This narrow concentration in one of the best-known "broad" equity market indices is an underestimated risk for investors who may be lulled into a false sense of security when investing in S&P 500 index funds, thinking they have a widely-diversified portfolio. While the performance of the S&P 500 benefits greatly when this small group is in favor, 2022's dreadful performance illustrates the volatility that can occur when just a few companies heavily influence an index. Even with the significant first half rally during 2023, the S&P 500 is still down over 4% since the end of 2021, on a total return basis.

The last 18 months exemplifies one of Corbyn's core tenets - lower overall portfolio volatility helps to achieve successful long-term returns. We seek to accomplish this by creating diversified portfolios that include companies across a variety of market capitalizations and industries. We focus on companies that are run by strong, experienced management teams with a history of using their companies' free cash flow in shareholder value-creating ways. By also focusing on companies with secular or company-specific tailwinds and attractive valuations, we try to insulate portfolios from severe market downturns, while participating in rising markets. Investors who perform better during market downturns have less temptation to "throw in the towel" and sell stocks at low valuations, when the market is often near its bottom.

We hope that our commentary this quarter provides valuable perspective and confidence. We remain excited about the opportunities that higher interest rates and a broader equity market recovery can bring, and we will continue to strategically take advantage of opportunities where we can. We hope you are enjoying your summer! Please reach out to us if we can help in any way.

Respectfully,

Charles vK. Carlson, CFA
President, Portfolio Manager
Co-Chief Investment Officer

Michael J. Fusting, CFA
Portfolio Manager – Equities
Co-Chief Investment Officer

Michael J. Pulcinella
Portfolio Manager – Fixed Income
Head Trader

Michael A. Goodman, CFA
Senior Investment Analyst

George A. Truppi, CFA
Senior Investment Analyst

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Finally, we have always taken a very deliberate and conscientious approach to hiring new team members at Corbyn, believing the quality of our team is critical to the continued success of our firm and our clients. We are very excited to announce that Jonathan Doman has joined us as a National Sales Director. Jon earned a Master of Business Administration degree from Penn State University and a Bachelor of Science degree in American History from West Chester University of Pennsylvania. After 15 years of building relationships at Vanguard and SEI, Jon will focus on supporting and growing Corbyn's business within the financial advisor community. Jon brings a high level of knowledge, positive energy and enthusiasm that should lead to much success!

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The commentary is based on information believed to be reliable, but we do not represent that it is accurate or complete. The opinions expressed contain general information, are subject to change and should not be considered recommendations to buy or sell any security. Our expectations, beliefs and projections about performance or the markets are not a guarantee of future results. Actual performance results for each individual's portfolio may differ depending on strategy allocations and other factors. Duration is a commonly used measure of the potential sensitivity of the price of a debt security, or the aggregate market value of a portfolio of debt securities, to changes in interest rates prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration. The gross domestic product (GDP) growth rate measures how fast the economy is growing. The rate compares the most recent quarter of the country's economic output to the previous quarter. An inverted yield curve shows that long-term interest rates are less than short-term interest rates. With an inverted yield curve, the yield decreases the farther away the maturity date is and has proven in the past to be a reliable indicator of a recession. Free cash flow measures the cash generating capability of a company by adding certain non-cash charges (e.g. depreciation and amortization) to earnings and subtracting capital expenditures. The Dow Jones Industrial Average is a broad-based unmanaged index comprised of 30 actively traded large-capitalization stocks. The S&P 500 Index is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The Nasdaq Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange. The S&P 500 Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance. The Russell 3000 Value Index is a capitalization-weighted index composed of those companies that are among the largest 3000 US-incorporated equities by market capitalization that exhibit value characteristics such as lower price-to-book ratios and lower expected growth rates. This index is a total return market index, which assumes that all cash distributions are reinvested, in addition to tracking the price movements. The Bloomberg U.S. Aggregate Bond Index is a benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market and includes Treasuries, government-related and corporate securities, MBS, ABS, and CMBS. The Bloomberg U.S. Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). Bloomberg or Bloomberg's licensors own all proprietary rights in the Bloomberg Indices. Bloomberg does not approve or endorse this material or guarantee the accuracy or completeness of any information herein, nor does Bloomberg make any warranty, express or implied, as to the results to be obtained therefrom, and, to the maximum extent allowed by law, Bloomberg shall not have any liability or responsibility for injury or damages arising in connection therewith. Index returns reflect the reinvestment of dividends and capital gains, if any, but do not reflect brokerage commissions or other expenses of investing. It is not possible to invest directly in an index. The information provided is not to be distributed without the written consent of Corbyn Investment Management.