October 2023

Dear Clients and Advisors,

Following a sanguine start to 2023, fixed income and equity markets came under pressure during the third quarter, as interest rates moved sharply higher following continued evidence that economic conditions remained quite resilient. Performances of the various Corbyn strategies were mixed in the quarter, ranging from small positive returns in fixed income strategies to low-single-digit declines in the more equity-focused strategies. Year-to-date, all Corbyn accounts have generated positive returns, reflecting the gains achieved during the first half of the year and our conservative approach, which helped to insulate the portfolios during the market decline in the last two months of this quarter.

Initially, the third quarter began how the second quarter ended, with equities and fixed income markets continuing to grind higher. However, sentiment turned more cautious as markets reacted to several macroeconomic trends. Reports about corporate earnings, employment trends, and the housing market continued to reflect stronger economic growth than economists expected. Consequently, investors became increasingly concerned about the magnitude and duration of inflationary pressures.

After raising the Federal Funds rate by 25 basis points in July, the Federal Reserve (the "Fed") left the rate unchanged in September, as expected. However, more importantly, the wording of the Fed's September statement strongly indicated that rates would remain higher for an extended period. Although the Fed has repeatedly stated their intention to keep rates "higher for longer" to bring inflation down to target levels, many market participants and prognosticators had questioned their resolve, believing that rate cuts would be coming in the near future. Continued strong economic data, stickier inflation and a determined Fed impacted many investors' view of the markets, causing prices of U.S. Treasuries (especially those with longer maturities) to fall precipitously going into the end of the quarter, resulting in most yields surging to their highest levels in over 15 years. Equity markets also sold off, reacting to the impact of higher interest rates on asset values. As we have mentioned previously, rapid changes in short-term macroeconomic and monetary policy expectations often cause market volatility. We believe it is important to maintain a long-term investment focus, while taking advantage of short-term volatility to make prudent changes to the portfolios to maximize long-term, risk-adjusted returns through all market cycles.

Fixed Income

Corbyn fixed income strategies once again provided positive returns, despite significant volatility in the broader fixed income market. For long-time readers, this undoubtedly sounds repetitive, but it is a hallmark of our fixed income strategy. Our focus on credit analysis and short duration continues to help us attain our oft-repeated goal of delivering steady results during most economic environments. The Fed's September meeting was in-line with our expectations, but appears to have been a wake-up call for many in the fixed income markets, resulting in a rapid sell off in longer-duration fixed income assets. The Bloomberg US Agg Index posted another negative quarter of performance (down over 3%) and has now fallen *more than 14%* in the last three years. Despite the move higher in long-term rates, the Treasury curve remains inverted with the 2-year Treasury yielding almost 50 basis points more than the 10-year Treasury at quarter end. We continue to see value in short-dated corporate bonds that benefit from this positioning on the yield curve.

Despite the rapidly evolving interest rate backdrop, we remain excited about the potential equity-like return opportunities in short-duration high-yield securities. With most short-duration bonds in our universe now selling at discounts to par, we are able to purchase them at very attractive spreads to Treasury securities of similar maturity, but will achieve an even better return if the bonds are redeemed prior to maturity – a feature not available with Treasuries. The balance sheets of many companies within the high-yield universe remain relatively healthy, with manageable near-term debt maturities and significant cash flow cushions, providing a level of flexibility to absorb higher interest rates going forward. As we look into the end of 2023 and beyond, we are mindful that higher rates may weaken the fundamentals of certain companies; therefore, we remain focused on risk mitigation by employing our rigorous security selection process designed to maintain attractive risk-adjusted returns by avoiding those securities that may face growing challenges in a "higher for longer" environment.

Equities

Year-to-date, Corbyn equity investments are up low-to-mid single digits after the decline during the third quarter. This quarter's performance was relatively in line with the major market averages but better than the mid and small cap indices, where accounts have more exposure. With rising interest rates the prevailing theme, there were few places to hide, especially during the last two months of the quarter. With respect to short-term price movements, macroeconomic developments and rapid sentiment shifts can leave little room for company-specific differentiation. It can also present opportunities to purchase shares in high-quality companies benefiting from specific catalysts or secular tailwinds that should separate them from the pack over the long term. As a result, we remain focused on those companies that we believe will create value over the long term, despite the inevitable bumps along the way, and are actively seeking ways to take advantage of the market weakness to best position the portfolios for the future.

Our focus remains on well-run businesses that generate significant amounts of free cash flow and maintain strong balance sheets. These types of companies should be well-positioned in a "higher for longer" interest rate environment, operating from a position of strength while others struggle to adjust to higher interest costs. In addition, our emphasis on stocks trading at reasonable valuations should be increasingly relevant as higher interest rates often disproportionately impact the value of less-profitable, higher-growth and more expensively-valued companies in a negative manner. As a result, we are confident that our investment strategy should do well in a sustained higher-rate environment, in contrast to the near-zero interest rate environment of the last several years that favored higher-growth and more speculative investments.

Please contact us at any time, as we welcome the opportunity to help you navigate the ever-changing market environment. In the meantime, we wish you and your loved ones a great Holiday Season and look forward to our next update in January.

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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In closing, we would like to share a couple exciting firm updates!

First, thank you for supporting the successful reorganization of the Greenspring Fund into the Cromwell Greenspring Mid Cap Fund, which closed on August 11th. Corbyn will serve as the Fund's sub-advisor and will continue to manage the portfolio, seeking strong risk-adjusted performance over an entire market cycle, by focusing on well-capitalized mid-sized businesses generating significant free cash flow with strong, market-leading and defensible franchises supported by secular and/or company-specific tailwinds. Please call us with any questions.

Second, we are excited to welcome Moira Donovan as our new Chief Compliance Officer. Moira has taken the reins from Liz Swam, who retired at the end of August after a thirty-year career at Corbyn. With over twenty years of asset manager and financial advisor compliance experience, including positions at Chenery Compliance Group, SC&H Group, and Legg Mason, Moira brings a wealth of knowledge to our firm. After a deliberate search and transition period, we are highly confident that Moira will be a strong addition to our team, continuing our culture of high ethical and compliance standards.

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