CORBYN INVESTMENT MANAGEMENT, INC.

January 2023

Dear Clients and Advisors,

All of Corbyn's investment strategies finished the year strongly, posting solid positive performances during the fourth quarter, especially the more equity-oriented accounts. In a very volatile and challenging environment for both the equity *and* fixed income markets, Corbyn's stock and bond investments significantly outperformed most of the broader market indices during the year. While never satisfied with attractive relative performance during a period of absolute declines, our navigation of this year's treacherous markets afforded much beneficial insulation from the broader market volatility.

During the fourth quarter, the equity and fixed income markets remained extremely sensitive to data points regarding inflation and employment levels, and corresponding Federal Reserve (the "Fed") commentary. Day-to-day volatility was significant, as investors continued to weigh the efficacy of tightening monetary policy against the potential risks of recession. Equity markets rallied during the first two months of the quarter, and Treasury yields fell (with bond prices rising) precipitously in November, as inflation data came in lower than expected. Investors began anticipating an end to the Fed's interest rate hiking cycle and a possible "pivot" to cutting rates later in 2023. However, much like the third quarter, Chairman Powell threw cold water on this narrative near the end of the quarter, particularly at the December Fed meeting when the Federal Open Market Committee (the "FOMC") hiked the Federal Funds rate another 50 basis points (bringing the year's total increase to 425 basis points) and significantly raised its stated expectation for the peak Federal Funds rate for the third consecutive meeting. In response to another clear message from the Fed indicating that rates would remain "higher-for-longer," equity markets fell and bond yields moved higher (with bond prices declining) into the end of the year. With this sudden sentiment change, we were once again reminded of the futility of trying to predict single macroeconomic data points, or how the market may react to them in the short term, choosing instead to stay focused on executing our disciplined approach to investing and positioning the portfolios for attractive longer-term success.

Fixed Income

Corbyn fixed income accounts produced positive returns during the fourth quarter, further recouping some of the losses experienced during the first half of the year, and ended the year with only modest negative total returns. Our disciplined focus on security-specific credit analysis of short-duration bonds proved quite beneficial, significantly shielding the accounts from much of the turmoil in the fixed income markets. As a result, our investment strategies vastly outperformed the broader bond market indices, which experienced tremendous losses during the year as seen by the performance of the Bloomberg US Aggregate Bond Index (-13%) and the Bloomberg US Corporate High Yield Index (-11%).

With continued mixed economic signals, the magnitude of future interest rate hikes and the ultimate direction of the Fed's interest rate policy as 2023 progresses remain hotly debated topics. Given the aggressive rate hikes to date, we are already seeing several areas of the economy begin to slow, especially in housing-related end markets. However, other areas of the economy remain stubbornly strong and continue to drive inflationary pressures, most notably employment markets. Energy markets continued to be volatile, driven in part by exogenous factors, including the war in Ukraine and China's Covid-related policies. As economic uncertainties increase, the financial markets seem to be pushing bond yields below the Fed's goals, and the Fed Funds futures market is currently predicting a Fed pivot to a more accommodative policy in the back half of 2023.

Heading into the new year, we remain excited about the opportunities we see in the fixed income market. Absolute yields are at relatively high levels when compared to the last several years, and corporate balance sheets remain generally healthy. We anticipate the Fed will continue to raise rates throughout the first half of 2023, but the push-pull between a firm job market, sticky inflation and a possible recession creates uncertainty, especially with respect to the longer-duration end of the yield curve. By carefully selecting short-duration bonds of only those companies that, based on our analysis, still exhibit strong fundamentals as well as an ability to absorb potential macro-economic related pressures, our process should continue to provide a buffer against an uncertain environment and generate attractive risk-adjusted returns.

Equities

Corbyn's equity investments generated strong high-single-digit returns during the fourth quarter, the second consecutive quarter of positive returns after a challenging start to the year for all investors. While disappointed with negative returns for the year, we are encouraged that our investment discipline helped the portfolios avoid the more severe losses seen this year by major market indices such as the S&P 500 (-18%) and the NASDAQ (-33%). Investors aggressively shunned speculative assets and growth stocks most of the year, while higher-quality, more rationally valued stocks held up much better. We welcome this return to favoring companies that are currently creating value, as opposed to companies whose value is driven by the potential of significant growth and profits far-off in the future, as it aligns better with our investing philosophy. As always, we seek to invest in companies that have strong franchises with fiscally-responsible balance sheets and significant free cash flow generation. While in the short term we expect price volatility to continue as the market grapples with monetary, economic, and geopolitical uncertainty, we remain confident that our investment style should hold up relatively well, with investments benefiting from strong management teams that can deploy available capital during these volatile times to drive long-term value creation.

Since at least 2008, an entire generation of investors has benefitted from an environment of low inflation and very accommodative monetary policy, as the Fed frequently injected liquidity into the system and kept interest rates extremely low. Supported by a generally benign inflation backdrop, the Fed would often inject liquidity into the financial system and cut rates at the first sign of economic weakness to support financial markets (the "Fed Put"), boosting investor confidence and instilling a "buy the dip" mentality in the equity markets. With low savings rates and a belief that the Fed would not allow a prolonged market correction, investors searched for ever-higher returns, willing to pay lofty prices for rapidly-growing and highly-speculative companies, betting that the continuation of easy access to capital would fund operating losses, while waiting for the potential award of earnings far in the future. From mega-cap technology stocks to start-up electric vehicle makers to cryptocurrency, valuations across large swaths of the market moved to record levels.

This paradigm, however, was rocked during 2022. Unexpectedly high and prolonged inflation spurred the Fed to aggressively move away from its easy monetary policy, and it raised interest rates at a pace not seen since the 1980's, while also ending its most recent quantitative easing program established in the early days of Covid. With investors now able to generate improved current income from common stock dividends and bonds, they are far less motivated to invest in future promises, as they did in a very low interest rate environment. This should continue to push investors towards reprioritizing traditional quality and valuation measures as opposed to hopes and dreams, continuing to bring the market back closer to our sweet spot as stock pickers.

It was certainly another eventful year, and we are grateful for the trust our clients and partners have put in us during this challenging time. We hope you and your loved ones enjoyed the Holiday Season and look forward to continuing our relationship in 2023 and beyond!

Respectfully,

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