
January 2024

Dear Clients and Advisors,

Fixed income and equity markets surged higher in the fourth quarter of 2023, capping off a year heavily influenced by numerous changes in the outlook for monetary policy and economic expectations which, in turn, caused periods of significant short-term volatility. Despite these market fluctuations, we are pleased to report that all Corbyn strategies generated strong positive returns for the quarter, ending the year with annual gains ranging from mid-single-digits to mid-teens, with those accounts most exposed to equities leading the way.

Throughout the year, market participants struggled with their ability to interpret often-contradictory economic data and their impact on the outlooks for the current interest rate cycle, economic growth, and asset valuations. 2023 clearly demonstrated that trying to predict the course of interest rates and the subsequent impact on markets is quite difficult, as economic data and other considerations are in a constant state of change. For much of the year, the market debated when the Federal Reserve (the "Fed") would stop raising rates, with such timing consistently delayed further into the future, with a "higher-for-longer" Fed message. At the Fed's December meeting, however, the market may have finally received the answer it was seeking. Although the Fed decided to hold rates steady, commentary from Fed Chairman Powell implied a significant policy shift, as the Fed's stated interest rate outlook changed and began to indicate not only the end of additional hikes, but also the expectation for interest rate *cuts* in 2024. Markets reacted quickly and positively, with both fixed income and equity markets surging into the end of the year. Stock prices rallied across the board, driving many indices to all-time high territory. Prices of 10-year U.S. Treasury bonds also rallied sharply, driving the yield down almost 70 basis points to 3.88%, which resulted in about a 15% price gain. This abrupt swing offset the rate increases experienced earlier in the year, and the 10-year yield actually ended the year virtually unchanged from a year ago.

As 2024 begins, investor expectations have been dramatically reset, with multiple interest rate cuts now built into expectations. Although many uncertainties remain, one thing is certain - the shape and duration of interest rate cycles are notoriously hard to predict, especially in the short term. Therefore, we will continue to maintain a disciplined approach across our investment strategies, with a focus on prioritizing long-term returns, while remaining prepared to take advantage of short-term volatility.

## Fixed Income

Corbyn's fixed income strategies once again provided very attractive positive returns in the fourth quarter, which brought annual returns into the mid-to-high single digits – comparing favorably to

the 5.5% full year total return of the Bloomberg U.S. Aggregate Bond Index (the "Agg"), a broad measure of the fixed income market. In the two years since the Fed began raising rates, our focus on limiting volatility - through thoughtful security selection, high current yield, and shorter duration - continued to pay off, with Corbyn's fixed income portfolios achieving low-to-mid-single-digits *gains* versus the -8.2% *decline* of the Agg, cumulatively.

The sudden shift in the Fed's interest rate outlook was a somewhat surprising development. While inflationary pressures have slowed over the last year, they still remain above the Fed's target levels. We remain cautious of the risk that the path of inflation and interest rates will not be smooth, given the unpredictable nature of economic activity and consumer behavior. Current economic forecasts continue to show a wide range of potential outcomes, although the consensus anticipates positive, but slowing, growth. The strength of the U.S. consumer has been the subject of much debate over the last year, and it remains to be seen if the pace of consumer spending can be maintained at current levels. Given the uncertain backdrop, it seems premature to anticipate significant Fed interest rate cuts in the near term.

As we look forward into 2024, we anticipate continued volatility in the movement of interest rates, as the macroeconomic environment evolves. While we always monitor economic conditions, our investment process is not predicated on any specific interest rate or macroeconomic forecast. We remain focused on our fundamental, bottom-up research process, whereby we study individual company capital structures and seek to identify the specific securities that we believe can generate attractive risk-adjusted returns. As mentioned last quarter, fundamentals (balance sheets, cash flow generation, etc.) remain relatively healthy for many high yield issuers. Our strategy continues to benefit from the inverted yield curve, and most bonds still trade at discounts to par, allowing for both attractive current yield and *upside optionality* in our returns. In this environment, we believe Corbyn's fixed income strategy is well positioned to add value to portfolios, through attractive returns while limiting volatility related to the uncertain macroeconomic backdrop.

## Equities

Corbyn's equity investments had a strong year, generating mid-teens total returns. Fourth quarter performance was particularly strong, with account holdings producing mid-single-digit to low-double-digit gains. Looking back over the year, it is noteworthy that we were able to limit downside volatility during the August through October market sell-off, while still participating in the year-end rally. This type of lower volatility performance remains one of the key goals of our equity strategy.

During the current rate-hiking cycle, equity markets have been volatile due to ever-changing expectations for economic growth, inflation, and the direction of monetary policy. Over the last two years of monetary tightening, Corbyn equities have generated a generally positive low-single-digit return, roughly in line with broader value indices and the S&P 500 and significantly better than the Nasdaq's low-single-digit decline. Importantly, Corbyn's equity holdings achieved this performance with significantly less volatility, declining far less in 2022, and thereby, not nearly as reliant on the huge 2023 rally. We firmly believe that less volatile performance, especially during

periods of macroeconomic and geopolitical uncertainty, helps clients reduce the risk of anxiety-driven investment decisions and stay focused on long-term investment goals.

Looking forward, we are hopeful that the apparent end to Fed tightening may allow investors to refocus from obsessive "Fed watching" to individual company fundamentals. We believe the portfolios are well positioned for this shift, with the market likely to reward our emphasis on investing in well-capitalized businesses that are benefitting from secular and/or company specific tailwinds and generate high levels of free cash flow. As always, we work to identify and invest with management teams that have strong track records of creating shareholder value.

As the new year begins, it is often a popular time for investors and advisors to reexamine their investment portfolios and objectives, especially after the volatility of the last few years. We are excited about the opportunities we are seeing across Corbyn's investment strategies, and we welcome the opportunity to partner with you to ensure you maintain a solid foundation for the years ahead. Please reach out to us at any time, and we wish you a Happy New Year!

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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