



JOHN W. ROSENTHAL CAPITAL MANAGEMENT, INC.

March 2022 Quick Overview Summary

Save the Date for our *2022 Annual Bank Investment Summit* to be held at 12 noon on Thursday June 2nd in the Downes Ballroom at Corbett Hall within Notre Dame Stadium on the campus of the University of Notre Dame.

Headlines:

- After a Solid Start for Our Funds Early this Year, the 1st Quarter of '22 Ended on a Sour Note: March Outcomes were Down for ALL Banks; While Broader Market Indices Regained Some of Their Footing. (See Table Below)
- “Fed Liftoff on Interest Rates” is a Welcomed/Expected/Forecasted Event (by us) – and Remains a Positive for Banks
- Russia’s Invasion of Ukraine Continues to Dominate Headlines and is Driving Extreme Market Volatility/Decreased Stock Prices
- Despite Solid Loan Growth in Q1, Future Overall GDP and the Possibility of “War-Recession” is Causing Uncertainty for Loan Growth Going Forward. The Impact of “Re-Opening 2.0” Post-Covid is Unclear
- In Our Upcoming 1st Quarter General Newsletter, We Will Do a *Deep Dive* into Interest Rates and the Yield Curve. That Analysis Will be Very Important and We Strongly Encourage You to Digest it Fully. In Summary, for Now:
 - The Absolute Level of Interest Rates have Increased: Fed Funds Target Rate Moved to 0.25% vs. 0.00% and the Yield on the 10-year UST has popped to 2.84% at this writing vs. 1.51% at 1/1/22 – even with UST’s Serving as a “Safe Haven” – Which Curtails Yields in Times of Crisis
 - The Yield Curve Has Flattened Notably: 10/2 UST Spread Declined from 0.87% at 1/1/22 to 0.37% as of now
 - In “Normal Times” This Would be a bit Concerning. But with the Glut of Deposits in Banks from Covid Stimulus, this Flattening of the UST Yield Curve Isn’t Likely to Negatively Impact Net Interest Margins at Our Banks for the Foreseeable Future. Bank Funding Costs are NOT Currently the same as U.S. Treasury Funding Costs!
 - The FOMC Increased the Fed Funds Target Rate by ¼ % – with 3 to 6 more Rate Hikes Expected This Year. These Higher Rates, Coupled with the Run-Off of 1% Yielding PPP Loans as they are Forgiven, are Very Good for Asset Sensitive Community Banks and are Likely to Cause their Net Interest Margins to Rise over the Next Several Quarters
 - The Fed has Announced Plans to “Taper” its Bond Buying Program Even More Aggressively – Lessing Demand for UST’s – which, we believe, Should Cause the 10-year UST to Increase Even Further Over Time
- Despite all the Market Turmoil, Fund 2 has Outperformed both Bank and Broader Market Indices in Q1. Fund 1 Outperformed Fund 2 Last Year and it Appears Both Funds have now “Evened-Out” over the Past 15 Months.
- Quality is Currently “On Sale” in the Financial Sector – Making Our “Specific Stock Picking” *Ever more Important*
- Loan Quality and Managing Expenses will Continue to be Key Factors Driving Earnings Performance Throughout 2022 – and Our Banks have a Proven Track Record in Both These Areas

Summary Results Table: The table below presents our performance by month and YTD as of 3/31/2022; and the last 3 years.

Results Table

2022	Fund 1 ¹	Fund 2 ¹	^BANK ³	KRE ³	S&P 500 ²	Russell 2000 ²
Jan.	-2.1%	+2.0%	-0.2%	+1.1%	-5.3%	-9.7%
Feb.	+1.2%	+0.7%	+2.1%	+3.7%	-3.1%	+1.0%
March	-5.4%	-3.0%	-8.3%	-7.2%	+3.9%	+2.1%
YTD	-6.3%	-0.4%	-6.5%	-2.8%	-4.6%	-6.9%
2021	37.7%	32.7%	39.7%	37.0%	26.9%	13.7%
2020	1.9%	-6.1%	-10.6%	-9.0%	16.3%	18.4%
2019	17.4%	22.7%	21.2%	27.1%	28.5%	23.7%



1. Average monthly net rate of return after fees/expenses
 2. Russell 2000 is a small-cap stock market index and “BANK” is the Nasdaq Small Cap Bank Index
 3. BANK is the Nasdaq Small Cap Bank Index, KRE and KBE are regional bank stock ETF’s

As always, you may reach us by calling the office at 574-243-6502, John’s cell at 574-276-1128, or Adam’s cell at 440-667-5974. Or by email: john@rosenthalpartners.net or adam@rosenthalpartners.net

With warmest personal regards,

John and Adam