MONONGAHELA CAPITAL MANAGEMENT

PERCEPTIONS

1st Quarter, March 31, 2022	**3/31/2022**	**% Change 1st Quarter**	**% Change Year to date**
Dow Jones Industrials	34,678.35	(4.10) %*	(4.10) %*
S & P 500	4,530.41	(4.60) %*	(4.60) %*
Russell 2000	2,070.13	(7.53) %*	(7.53) %*
BC Aggregate BD Index		(5.93) %	(5.93) %
10 YR. Treasury Yield	2.34 %		
30 YR. Treasury Yield	2.45 %		

** Includes reinvested dividend*

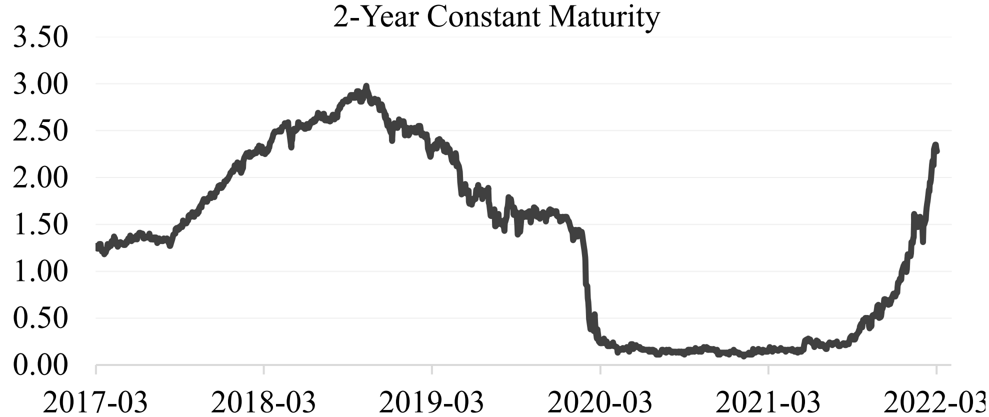
The Punch Bowl

Of particular interest in the 1st quarter was the dramatic increase in the 2-year Treasury note yield. The yield on the 2-year was 0.20% (20 basis points) at the end of August 2021, and by the end of March 2022, it had exploded upward to 2.31%. The Federal Reserve (Fed), which had been late in recognizing the structural changes affecting interest rates, began following the lead of the bond markets, and in the 1st quarter initiated the first federal fund rates increase since December of 2018. In addition, the Fed announced their intention to end their accommodative balance sheet policy. As William M. Martin, the Federal Reserve chairman from 1951 to 1970, noted in a speech on October 19, 1955:

> In the field of monetary and credit policy, precautionary action to prevent inflationary excesses is bound to have some onerous effects – if it did not it would be ineffective and futile. Those who have the task of making such policy don't expect you to applaud. The Federal Reserve, as one writer put it, after the recent increase in the discount rate, is in the position of the chaperone who has ordered the punch bowl removed just when the party was really warming up.

The Fed's balance sheet had been elevated since the 2008/2009 financial crisis, but the aggressive bond buying during the pandemic has filled the punch bowl to the brim with almost $9 trillion in assets. In addition to beginning a process of systematically raising rates, the Fed has also committed to (at least for the moment) reducing their balance sheet by $95 billion a month beginning in May, in effect a tightening of monetary policy. The market impact of these dynamics has been widespread, and we've highlighted the reaction by the aforementioned 2-year Treasury in the chart below.

Market Yield on U.S. Treasury Securities at
2-Year Constant Maturity



Source: Federal Reserve Bank of St. Louis

Sectors

A change in interest rates, particularly a rapid change, may foretell a transition in the business cycle. As analyst, we divide equities into sectors, representing areas of the economy that share related products or services. Each sector has unique characteristics and performs differently at each stage of the business cycle. Standard and Poor's currently recognizes eleven sectors and it is interesting to note in the table below the wide performance variation among the sectors during the 1st quarter when interest rates were breaking higher.

Consumer Disc.	-9.35%	Real Estate	-6.22%	Technology	-8.51%
Consumer Staples	-1.26%	Healthcare	-2.58%	Utilities	+4.77%
Energy	+39.08%	Industrials	-2.36%	Communication Serv.	-11.25%
Financials	-1.48%	Materials	-2.37%		

Energy and Utilities were the best performing sectors and coincidently were the two sectors that carried the highest dividend yield. In addition to positive returns, these two sectors had the lowest beta (a measure of volatility compared to the overall market) along with Consumer Staples.

The surge in interest rates, the relatively quick reversal of Fed monetary policy, and uncertainty in geopolitics have culminated in an extraordinary high level of sector performance dispersion as noted in the table. With uncertainty clouding all forecast, markets should stay volatile, providing opportunities to find value in distressed sectors and trim positions in equities and sectors that appear to have significantly overshot their intrinsic value. We expect the high level of dispersion to continue and look forward to adjusting portfolios.

We have built our research strength on individual security analysis and that remains the first level of review for the management of your portfolio. Sector analysis is another important tool, particularly in the current investing landscape, to supplement our fundamental research by understanding the changing risk and rewards in various sectors relative to the business cycle.