



Quarterly Letter April 2022

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THALASSA CAPITAL LLC

“And then she went to the porridge of the Little, Small, Wee Bear, and tasted that; and that was neither too hot nor too cold, but just right.” – Robert Southey

We entered 2022 preparing for difficulties but hoping for goldilocks. One quarter into the new year and we find ourselves dealing with the expected, inflation and rising rates, and the unexpected, a needless war, that in addition to the human misery that is causing, has also exacerbated the foreseen headwinds.

The negative supply shocks to the global economy in the form of war and renewed COVID related lockdowns in China during a resurgence of demand is creating conditions that PIMCO is half-jokingly calling the “Anti-Goldilocks” economy. The convergence of inflation and eventual slower economic growth, after interest rates will rise sufficiently to cool off short-term demand, are reminiscent of the difficult 1970s. Back then, equities and bonds performed poorly while commodities and real estate did quite well.

History never repeats itself, but it often rhymes. In this light, we continue to believe that portfolios should be creatively diversified as a pure 60% equity/40% bonds allocation will probably disappoint.

Furthermore, the war in Ukraine increases the dispersion of outcomes we can expect in the global economy. We expect Europe to be affected much more from the war; this fact should increase considerably the odds of a regional recession by the end of the year. However, the energy shock that the Old Continent is, and will continue, to endure does open opportunities for the US energy sector and global renewable infrastructure companies.

The US economy seems more sheltered from the ramifications of war, but the effect of rising rates and Quantitative Tightening (the process by which the Federal Reserve shrinks its balance sheet and reduces liquidity in financial markets) should have meaningful influence on our economy as well. Goldman Sachs has just increased the odds of a domestic recession within the next 24 months to 35%. We believe that might actually be too optimistic.



Ultimately, we still believe portfolios, in addition to diversification, must retain flexibility, in the form of willingness to be tactical, and inflation protection by allocating to commodities and inflation protected securities. We also urge long-term portfolios to be on the lookout for dislocations and value opportunities in terms of specific sectors such as health care or single franchises with a solid strategic view but suffering from short-term issues.

As always, we would like to thank you for the renewed confidence in our work,

Youri Bujko

Davide Accomazzo