THALASSA
CAPITAL LLC

Quarterly Letter July 2017

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THALASSA CAPITAL LLC

"It is easier to forgive an enemy than to forgive a friend."
William Blake

Whether the current Administration was a friend or a foe of financial markets was always a matter of personal interpretations. However, markets initially decided to focus on promises of an aggressive agenda that would have stimulated economic growth beyond the slow pace of the post-crisis years.

Initial missteps became the norm and it is now relatively clear that this Administration will not be able to deliver much of the promised lofty goals. Proper execution is constantly marred by a lack of focus and recurrent and increasing drama.

Absent the cheerleading effect of a friendly set of policies, risky asset are left in the hands of current fundamentals and monetary policy.

As far as the latter, while it is clear that the Fed may not be that significant tailwind it has been for years, the pace of adjustment would seem to be rather slow and therefore not too damaging to risky assets. Ironically, the uncertainty that is emanating out of the White House may indeed act as a brake on any potential will by the Fed to be more aggressive.

Conversely, fundamentals are just right and earnings are growing at a healthy clip around the globe. And while we will eventually have another recession (PIMCO puts the probability of an economic contraction at 70% over the next five years), none of the classic indicators are showing stress on a short term basis (12 months). We do see an uptick in car loan defaults and in personal leverage but nothing yet that would indicate a quick erosion of economic integrity.

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This state of affair is conducive of moderately positive risky assets performance but it makes them so much more vulnerable to volatility spikes as the buffers from monetary policy and policy adjustments gets significantly reduced.

At the sector level, we don't see much changes in the fundamental and valuation profile of most industries since our last missive. MLPs and REITs still provide above average yields within a context of fair to attractive valuations but are yet lacking a catalyst for a significant move higher.

On the tech front, the current volatility is providing opportunistic entry points in single names where the long term story remains intact but the short term noise overrides common sense.

We have also initiated independent research on the biotech and pharmaceutical sectors where a combination of valuations and long term opportunities may be creating the conditions for an interesting long term exposure albeit within volatility parameters that can be higher than average.

And last but not least, we are maintaining a long bias with Private Equity Managers even after the recent positive action. Valuations, market opportunities and balance sheets remain positive elements with high correlation to the equity indexes being the only negative factor.

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

Youri Bujko

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