THALASSA
CAPITAL LLC

Quarterly Letter July 2022

Written July 8, 2022

THALASSA CAPITAL LLC

"Appear weak when you are strong, and strong when you are weak."
Sun Tzu, The Art of War

The words of Sun Tzu seem to apply perfectly to the current state of the economy. Macro statistics show an economy that is still strong and growing, as validated today by a solid job report, but the underlying tone is weakening under the hammering of a central bank rightfully intent to control inflationary pressures and a war that does not seem to have an end game in sight.

At present, the market shows the worst of both worlds: inflation now and slow growth just around the corner. On the bright side, the correction in equity valuations makes the asset class more appealing for long-term returns. And yet, even after such a brutal correction, if earnings and profit margins significantly deteriorate from here, equities in aggregate are still not a screaming bargain. However, as indicated in our last missive, some sectors continue to show long-term opportunities: energy (renewables and not), health care, infrastructures (i.e. water) and anything useful to build more resilient supply chains. On the subject of infrastructures, one bit of good news came out of China, who seems interested in dusting off a strategy from an old playbook. The Chinese government indicated that it could move up to this year approximately $220 billions of funds earmarked for infrastructures spending next year. It's an undeniable admission that China sees the slowdown in the economy as gathering strength, a fact that requires a traditional counterattacking move. A Chinese stimulus would benefit economies globally, but it would also continue to pressure energy prices, a plague especially for Europe.

Bonds suffered a historical correction as well; the increased correlation between equities and bonds in such tough times significantly stressed the pain in portfolios traditionally allocated between the two asset classes. The good news here is that the severe correction in all bonds, in junction with a perception that the slowdown of the economy will keep long-term rates lower than expected, has created an opportunity. Fixed income has become somewhat attractive for the first time in a while. High quality credit, private credit and US Treasury inflation protected securities are areas of interest. Conversely, emerging market debt, especially denominated in local currency, has deteriorated under currency exchange pressures and increased dangers of a global recession.

Overall, we reiterate that returns expectations should be kept moderate in most asset classes for some time. Eventually this malaise shall pass too, and striking opportunities will materialize but for the moment, a cautious stance continues to be required

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

Youri Bujko

Davide Accomazzo

T.310.867.2255 - F. 310.388.1455 - Web. www.thalassacapital.com