



The Age of Turbulence

April 2026

Dear investors,

In the early hours of February 28, 2026, the United States and Israel launched surprise airstrikes against Iran, starting a new war. In the weeks that followed, the conflict dominated market attention — not because of Iran’s economic significance, but because the military operations damaged part of the oil production infrastructure in the Persian Gulf countries and disrupted most maritime traffic through the Strait of Hormuz: a 34-kilometer-wide channel through which 15% of global oil production flows, along with ~12% of urea (an important raw material for fertilizer production) and ~30% of helium, used in a range of industrial processes including semiconductor manufacturing.

Since the war began, oil prices have risen ~40%, negatively impacting costs across a wide range of goods and services worldwide. Inflation and interest rate projections were upended, in yet another example of how macroeconomic theses are frequently invalidated by unpredictable events. The oil and gas industry, until then in the shadow of the renewable energy transition narrative, was thrust back into the spotlight.

Everyone now wants to know when the war will end and how long it will take for Persian Gulf supply to return to normal — but no analysis will answer that question with enough precision to underpin investment theses. There is more value in drawing lessons from this and similar events.

The Economic Fragility of Globalization

In the ancient world, economies were far more regionalized. Each country consumed predominantly what was produced domestically or in nearby territories, due to the high cost of transportation at the time. Long-distance trade was confined to goods with high value per unit of weight and volume: silks, spices, precious stones and metals, luxury goods, and so on.

As maritime transport became more efficient and safer — especially after World War II — countries began pursuing greater economic efficiency by specializing in industries where they held global competitive advantages. They would export their products at prices lower than other nations could manufacture them and, in return, import what their trading partners produced more efficiently. This is the fundamental logic behind why free trade brings greater prosperity to all involved.

This productive arrangement has two important consequences. The first is that national economies have become extremely interdependent, meaning problems in one place can ripple across the global economy. The second is that the pursuit of economies of scale has led to the construction of massive industrial complexes. In some sectors, a significant portion of the global economy depends on just a handful of such facilities. If something happens to one of these complexes and/or the logistics route that channels its output, the entire world suffers.

The Persian Gulf oil and gas fields and the Strait of Hormuz are not the only economic chokepoints in the world — and they are not even the most critical ones. Among logistics bottlenecks, the Strait of Malacca, which connects the Indian Ocean to the Pacific, channels roughly one-third of global maritime trade. The Suez Canal, connecting the Mediterranean to the Red Sea, handles ~15% of global commerce. Among industrial complexes, TSMC's largest plant currently produces around 65% of the global volume of advanced semiconductors (3nm and 5nm). Together with its other facilities in Taiwan, TSMC manufactures more than 90% of this category of chips and 37% of the global volume of logic chips (CPUs, GPUs, and the like). The world economy depends so heavily on these plants that the geopolitical conflict between the United States and China over Taiwan's independence revolves around exactly this issue. If these factories were to shut down, it would be a global catastrophe.

The leading developed economies are discussing the risks created by globalization and seeking ways to take a step back: diversifying their supply chains and reshoring some strategic sectors, even if doing so introduces certain economic inefficiencies. However, globalization took decades to build. The chokepoints will not disappear in just a few years.

Current Geopolitical Risks

In our March letter, we explained why we expect greater geopolitical tensions in the future. The rivalry between the United States and China for global leadership is the clearest driver, but there are several other flashpoints involving countries that are relevant to the global economy.

The war between Russia and Ukraine continues and is part of a deeper tension in which Russia believes the territorial borders established after the dissolution of the Soviet Union can be challenged on historical or national security grounds, while Europe seeks to contain any Russian territorial expansionism moving in its direction.

The war against Iran is just one more chapter in an age-old conflict between Israel and other Middle Eastern countries, driven by historical and religious factors, layered over the conflict between Iran — which seeks full independence from external influence — and the United States, which views Iran's regime as problematic and believes it must be contained to mitigate greater risks in the future.

Less prominent in the news, India and Pakistan have been disputing border territories and exchanging threats for decades. In May 2025, the conflict escalated to airstrikes involving fighter jets, missiles, and drones, but a ceasefire was quickly negotiated and war was avoided. Even so, tensions persist between two countries that possess nuclear weapons and enormous populations.

South Korea and North Korea remain in a state of constant tension. The rivalry dates back to the division of the Korean Peninsula into a socialist and a capitalist territory after World War II, in much the same way Germany was divided. Today, North Korea is under a socialist dictatorship, highly militarized and armed with nuclear weapons, while South Korea is a developed economy deeply integrated into global trade, with nearly half of its GDP coming from exports.

Until recently, Japan was essentially demilitarized, operating under an agreement by which the United States guaranteed Japanese national security. But the Trump administration has been encouraging its allies to develop their own defense capabilities, and Japan has begun a clear and deliberate expansion of its military capacity. Other countries in the region view this shift with deep suspicion, rekindling memories of Japanese invasions they suffered in the last century.

We do not wish to come across as pessimistic, but it is a fact that there are many possibilities for future conflicts. Which will be the next flashpoint is impossible to predict, but there is a considerable chance that some new confrontation will emerge and cause negative economic impacts that reverberate worldwide.

This general conclusion has limited usefulness in avoiding specific problems. Even so, the awareness that the future will be turbulent increases our skepticism toward highly elaborate projections that inevitably take the current scenario as their starting point and analyze the impact of one or another change their authors expect to occur. Such forecasts tend to fall apart due to events that were unforeseen at the time they were made.

The pertinent question for investors is how to adapt their strategy in the face of this murky landscape.

Investing in Critical Industries

The idea of investing in the sectors on which the global economy depends is almost instinctive — but there are some important caveats. The first is that obvious opportunities rarely remain mispriced for long. Everyone knows about TSMC's quality and relevance, so its shares trade at a consistently high valuation. The second point is that efforts are generally underway to dismantle these economic bottlenecks, making their long-term existence uncertain. The United States dedicated \$53 billion in subsidies to develop domestic semiconductor companies. It is hard to say how dominant TSMC will still be in the sector 10 years from now. The third point is that operating in critical activities, in and of itself, does not guarantee high profitability. Let us explore why.

Several industries that produce commodities critical to the economy generate mediocre average returns: steel mills, cement producers, petrochemicals, fertilizers. What explains this is the competitive dynamics of the sector. When many companies offer the same undifferentiated products, the primary way to win customers is to offer better prices than competitors. That competition drives prices down to the level at which the capital deployed in operations is only minimally remunerated. This is the industry's equilibrium point. Profitability can temporarily rise due to a sudden surge in demand or a sharp drop

in competitor supply, but the reverse can also happen and push profits into negative territory. In other words, such sectors generate volatile and, on average, unattractive returns.

In a curious contrast, there are extremely profitable companies in the luxury goods segment — jewelry, clothing, and accessories. Nothing significant would happen to the global economy if these companies disappeared overnight, yet their shareholders have grown wealthier than many entrepreneurs working for the literal survival of humanity.

It may seem counterintuitive, but a business's profitability depends less on how useful it is to humanity and more on the degree of control it has over the supply of something the market demands — whether out of whim or necessity. The best position is to dominate the production of something vital to the world. The second best is to dominate the supply of any product with enduring demand.

Our Approach

We have been drawing on a technique common among mathematicians and echoed by Charlie Munger in his famous recommendation: “Invert, always invert.” Rather than analyzing what is likely to change in the future, we have kept our focus on what is not likely to change. Which demands remain stable across a wide range of geopolitical scenarios? Which companies have operations less dependent on external factors and are therefore more resilient to the shocks that conflicts can cause?

This more prudent approach seems fitting for a moment when we know that various problems lie ahead. We have been prioritizing robust businesses when selecting stocks for our portfolios. We want to invest in companies that serve predictable demand, with the greatest possible dominance over their market segment, with production processes that are not heavily exposed to highly complex global supply chains, and with a solid capital structure capable of withstanding potential negative shocks.

Despite this more defensive bias, we remain optimistic about the return expectations for our funds. When markets go through turbulence, defensive stocks sometimes fall just as much as the rest. This has created opportunities for us to buy solid companies at significantly discounted prices. Their results tend to remain healthy and cause prices to recover over the medium term.

Turbulence can cause unease, but every crisis generates opportunities for investors who stay alert, interpret facts with realism, and adapt their strategy accordingly.