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, opening a new war. In the weeks that followed, the conflict dominated market attention not because Iran matters much economically, but because the strikes damaged part of the oil production infrastructure in the Persian Gulf and disrupted most maritime traffic through the Strait of Hormuz a 34-kilometer-wide channel that carries 15% of global oil output, along with roughly 12% of the world's urea (a key fertilizer input) and about 30% of its helium, used in everything from semiconductor manufacturing to a range of other industrial processes.

Since the war began, oil prices have risen ~40%, pushing up costs across a wide range of goods and services worldwide. Inflation and rate forecasts got upended one more reminder that macro theses have a habit of falling apart the moment something unpredictable happens. Oil and gas, which had spent recent years in the shadow of the renewable-energy 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 normalize but no analysis can pin it down with the precision an investment thesis would require. There's more value to be found in drawing lessons from this and similar episodes.

The Economic Fragility of Globalization

Economies used to be far more regional. Each country consumed mostly what it produced domestically or sourced from nearby territories, since long-distance transport was simply too expensive. Cross-border trade was limited to goods with high value per unit of weight and volume: silk, spices, precious stones and metals, luxury goods, and the like.

As maritime transport got cheaper and safer (especially after World War II) countries leaned into specialization, chasing efficiency wherever they held a global edge. They'd export what they made more cheaply than anyone else, and import what their trading partners produced more efficiently in return. That's the basic logic behind free trade making everyone better off.

This setup cuts two ways. First, national economies became deeply interdependent, so a problem in one place can ripple through the entire global economy. Second, the drive for economies of scale led to massive, concentrated industrial complexes in some sectors, a handful of facilities underpin a huge share of global output. If something happens to one of these complexes, or to the logistics route that carries what it produces, the whole world feels it.

The Persian Gulf and the Strait of Hormuz aren't the world's only economic chokepoints they're not even the most critical ones. Among logistics bottlenecks, the Strait of Malacca, linking the Indian Ocean to the Pacific, carries roughly a third of global maritime trade. The Suez Canal, connecting the Mediterranean to the Red Sea, handles about 15% of global trade. Among industrial complexes, TSMC's largest plant alone produces around 65% of the world's advanced semiconductors (3nm and 5nm). Together with its other Taiwan facilities, TSMC makes more than 90% of that chip category and 37% of the world's logic chips (CPUs, GPUs, and similar). The world depends so heavily on these plants that the U.S.-China standoff over Taiwan's independence is, in many ways, a fight over exactly that. If these factories went dark, it would be a global catastrophe.

Major developed economies are now grappling with the risks globalization created, looking for ways to pull back: diversifying supply chains, reshoring some strategic sectors, even at the cost of some economic efficiency. But globalization took decades to build. These chokepoints won't disappear in a few years.

Current Geopolitical Risks

In our March letter, we laid out why we expect geopolitical tension to keep rising. The U.S.-China rivalry for global leadership is the clearest driver, but there are several other flashpoints involving countries that matter to the global economy.

The war between Russia and Ukraine grinds on, part of a deeper standoff in which Russia sees the borders drawn after the Soviet Union's collapse as up for renegotiation, on historical or national-security grounds, while Europe works to contain any Russian territorial ambitions directed at it.

The war against Iran is just the latest chapter in an age-old conflict between Israel and its neighbors, rooted in historical and religious fault lines, layered on top of the standoff between Iran, which wants full independence from outside influence and the United States, which views Iran's regime as a problem it needs to contain to head off bigger risks down the road.

Getting less airtime: India and Pakistan have been trading threats and disputing border territory for decades. In May 2025, that friction escalated into airstrikes involving fighter jets, missiles, and drones, though a ceasefire was quickly negotiated and war was avoided. Tensions remain between two nuclear-armed countries with enormous populations.

Tensions between the two Koreas never really go away. The rivalry traces back to the Korean Peninsula's post-WWII split into socialist and capitalist territories, much like Germany's own division. Today, North Korea is a highly militarized, nuclear-armed socialist dictatorship, while South Korea is a developed economy deeply woven into global trade, with nearly half its GDP coming from exports.

Until recently, Japan was largely demilitarized, relying on a U.S. security guarantee. But the Trump administration has been pushing allies to build their own defense capabilities, and Japan has begun a clear, deliberate military buildup. Neighboring countries view this with deep suspicion, given lingering memories of Japanese invasions from the last century.

We're not trying to sound alarmist but the range of potential future flashpoints is genuinely wide. Which one erupts next is impossible to predict, but there's a real chance some new confrontation emerges and sends negative economic ripples around the world.

That's a useful mindset, but it won't help you sidestep any particular crisis. Still, knowing the future is likely to be turbulent makes us more skeptical of highly elaborate projections the kind that treat today's scenario as fixed and simply model out the impact of whatever change the author has in mind. Those forecasts tend to fall apart the moment something nobody saw coming actually happens.

The real question for investors is how to adapt their strategy to this murky landscape.

Investing in Critical Industries

Investing in the sectors the global economy depends on sounds almost obvious, but there are a few important catches. First: obvious opportunities rarely stay mispriced for long. Everyone knows TSMC is a high-quality, systemically important company, so its shares trade at a consistently rich valuation. Second: governments are actively working to dismantle these bottlenecks, so there's no guarantee they last. The U.S. alone has committed $53 billion in subsidies to build up domestic semiconductor players it's hard to say how dominant TSMC will still be a decade from now. Third: being critical to the world doesn't automatically mean being profitable. Here's why.

Plenty of industries that produce commodities critical to the economy (steel, cement, petrochemicals, fertilizers) generate mediocre average returns. The reason comes down to competitive dynamics. When many companies sell the same undifferentiated product, the main lever left to win customers is price. That competition drags prices down to the point where invested capital barely earns a return the sector's natural equilibrium. Profitability can spike temporarily on a demand surge or a sudden drop in competitor supply, but it can just as easily swing negative. On average, these sectors deliver volatile, unattractive returns.

Contrast that with the luxury goods segment (jewelry, apparel, accessories) where some companies are wildly profitable. The global economy wouldn't blink if these companies vanished overnight, yet they've made their shareholders far wealthier than many entrepreneurs tackling problems essential to humanity's survival.

Counterintuitive as it sounds, a business's profitability has less to do with how useful it is to humanity and more to do with how much control it holds over the supply of something the market wants whether out of necessity or pure whim. The best position of all is dominating the supply of something the world genuinely can't do without. The second best is dominating the supply of anything with durable demand.

Our Approach

We've leaned on a technique borrowed from mathematicians and made famous by Charlie Munger: “Invert, always invert.” Instead of trying to forecast what's likely to change, we've kept our focus on what's unlikely to change. Which sources of demand hold up across a wide range of geopolitical scenarios? Which companies run operations that depend least on external factors, and are therefore most resilient to the kind of shocks conflict tends to cause?

That more cautious lens feels right for a moment when trouble ahead is more a question of when than if. We've been prioritizing robust businesses in our stock selection companies serving predictable demand, commanding as much dominance over their niche as possible, with production processes that aren't heavily exposed to complex global supply chains, and a capital structure solid enough to absorb a shock.

Despite that defensive tilt, we remain upbeat about return prospects for our funds. When markets go through turbulence, defensive stocks sometimes fall just as much as everything else. That's given us chances to buy solid companies at meaningfully discounted prices. Their underlying fundamentals tend to hold up, and share prices usually catch up over the medium term.

Turbulence is uncomfortable, but every crisis creates opportunities for investors who stay alert, read the facts clearly, and adjust their strategy accordingly.