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The Search for Order

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The Strait of Hormuz is a narrow, 21-mile-wide stretch of water in the Middle East. History tells us its name comes from the ancient Persian god of wisdom and order.

It is troubling that a place named after "order" is now at the center of the disorder for the global economy. Today, about 20% of the world's oil and natural gas travels through this small artery. When this artery feels like it might close up, the balance in commodities flowing around the earth shifts, causing major challenges.

Why This Matters Beyond Gas Prices

A closure of the Strait of Hormuz affects much more than just the price of a gallon of gas. It hits the "ingredients" of modern life:

- **Technology**: Factories that make microchips for phones and AI need a steady flow of energy. A disruption could slow down the tech world.
- **Healthcare**: Many hospital machines, like MRIs, need helium to work. Much of the world's helium comes through this same narrow water.
- **Fertilizer and Food Supply**: Natural gas is a key ingredient in making fertilizer. Reduced supply or higher prices could raise farming costs, which may eventually lead to higher food prices worldwide.
- **Jet Fuel**: A large share of the jet fuel used by airlines is refined from oil that passes through this region. Disruptions could push airline costs higher, impacting global business activity and travel-dependent industries.

Because these industries are essential to the U.S., Europe, and Asia, there is strong global motivation to keep trade moving and limit damage.

What's Driving Today's Tension?

The war has added uncertainty to markets, especially in energy prices.

In periods like this, strong language and public threats are not unusual. Often, they are part of negotiation tactics rather than signs of inevitable conflict. At the same time, every major country involved faces limits—legal, economic, and political—on how far tensions can realistically go.

Because of these constraints, long-lasting disruptions are usually not in anyone's best interest. Markets tend to understand this over time, even if prices swing

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sharply in the short run. That is why we expect higher market volatility around key moments, followed by efforts to reduce tensions.

What the Bond Market Is Telling Us

One way investors look past headlines is by watching the bond market—especially U.S. Treasury yields.

If investors truly feared runaway inflation, long-term interest rates would likely rise sharply. Instead, rates have remained relatively stable, even as oil prices increased.

This suggests the market sees higher energy prices as a temporary drag on the economy, not a permanent shift to high inflation. Investors appear to believe that supply disruptions will ease and that economic balance will return.

Base Case —and the Risks

The base case for market participants is that current tensions will ease. Historically, geopolitical scares often lead to sharp but short-lived market reactions. Once uncertainty fades, markets tend to recover.

That said, responsible scenario analysis also considers less favourable outcomes. If energy disruptions lasted longer than expected:

- Inflation could stay higher, keeping interest rates elevated
- Profits could come under pressure
- Economic growth could slow more than anticipated leading to recession

While we see this as less likely, it reinforces why diversification and quality investments matter, especially during uncertain periods.

Beyond the Headlines: Signs Beneath the Surface

There are early signs of improvement that haven't drawn much attention. Per the UK Maritime Trade Operations Center, nine vessels per day transited the Strait on both Friday and Saturday. This is still far below the 130-per-day average, but a clear rebound from the one or two daily crossings seen in prior weeks. In stressed markets, the direction and pace of change matter more than the absolute level.

On the supply side, Saudi Arabia's east-to-west pipeline, moving roughly 7 million barrels per day, doesn't eliminate the estimated 18 million-barrel daily shortfall, but

it materially reduces it. The system remains strained, but it is adapting rather than failing outright.

Returning to Balance

The ancient god of order was all about finding balance after a struggle. History shows us that even when things look dark, the world usually finds its way back to the light.

Our role is to stay focused on what matters most— executing financial plans and a sound investment process. We are actively monitoring developments, managing risk, and positioning portfolios to stay resilient through changing conditions.

Short-term uncertainty is part of investing. Discipline, balance, and perspective are what help turn uncertainty into opportunity over time.

**This information is not intended as a recommendation. The opinions are subject to change at any time and no forecasts can be guaranteed. Investment decisions should always be made based on an investor's specific circumstances. Investing involves risk, including possible loss of principal.*

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