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Dire Straits

The Strait of Hormuz has long stood at the center of global energy and trade, a narrow maritime corridor whose importance has only deepened over time. Historically, it has functioned as a resilient artery; even during the Iran-Iraq War, when oil tankers were targeted in the so-called "Tanker War," commercial shipping never fully ceased. This continuity reinforced the strait's reputation as a passage that, despite threats and geopolitical tension, remained open for business. That historical precedent makes the current crisis especially significant, as it challenges a decades-long assumption of uninterrupted flow.

PERSPECTIVE

Today's conflict has introduced an unprecedented "squeeze" on maritime traffic. Ships that would normally transit the strait are now stranded or delayed on either side, forming visible clusters near Gulf ports and along regional coastlines as shown in Image I. Thousands of vessels, particularly tankers, have either anchored in place or rerouted, while an estimated 20,000 seafarers remain effectively trapped at sea. These crews face mounting risks, unable to dock or access basic services, underscoring the human dimension of what is often framed purely as an economic issue.

The strait carries an extraordinary share of global energy. Chart I shows roughly one-fifth of the world's oil, around 20 million barrels per day, passes through it, alongside about 20% of global liquefied natural gas. This daily transit underpins energy supplies for Europe and Asia, leaving global markets highly sensitive to any disruption. With few viable alternatives, even partial constraints create immediate ripple effects across supply chains and pricing systems. Shipping firms have halted transits, insurance costs have surged, and alternative routes, such as rounding southern Africa, add significant time and expense. The result is a compounding logistical bottleneck; a literal and figurative squeeze on global trade flows.

Energy markets have responded sharply. Oil prices surged from roughly $72 per barrel to near $120 during the early phase of the conflict. This spike has fed directly into inflation, most visibly in the United States, as Chart II shows the average gasoline price climbing above $4 per gallon. Such increases can strain household budgets, and complicate efforts by the Federal Reserve to manage inflation and interest rates. The current situation echoes past energy shocks but with modern financial amplification. Markets reacted with heightened volatility as inflation expectations increased and anticipated Fed rate cuts evaporated for the near term. This reflects a familiar pattern in periods of geopolitical stress, where energy supply disruptions translate quickly into broader financial instability.

IMAGE I

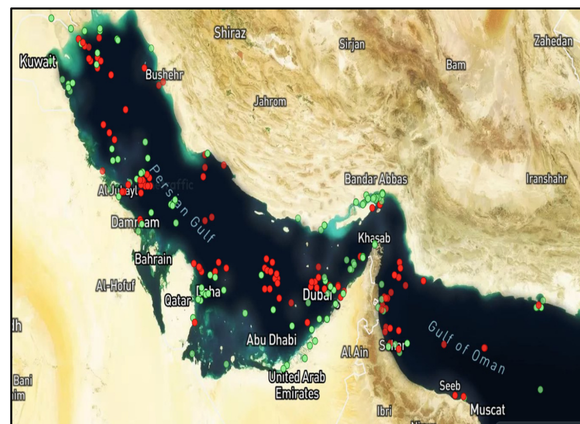


CHART I

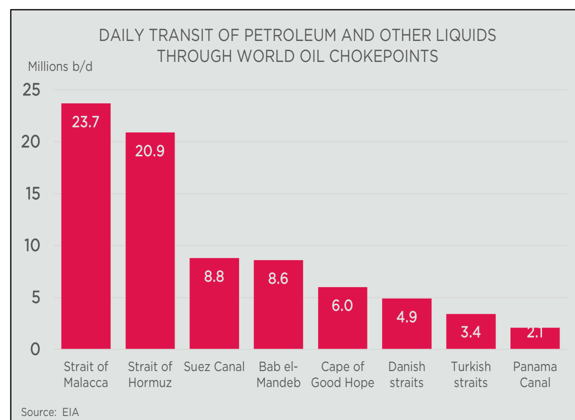
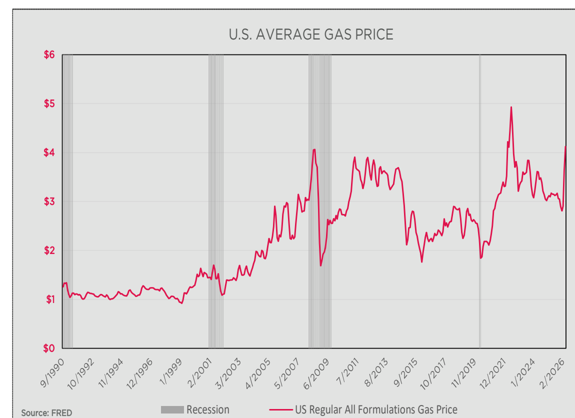


CHART II



INVESTMENT IMPLICATIONS

Over the past six years, the U.S. economy has faced major disruptions, from the COVID-19 pandemic to rising inflation, interest rates, and tariffs. New geopolitical risks could push energy prices higher and raise stagflation concerns. Though such shocks are often temporary, it reinforces the importance of aligning portfolios with goals, horizons, and risk tolerance. Abandoning sound principles in response to unusual and volatile conditions is not advisable.

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