June 30th, 2026

Dear Fellow Investors,

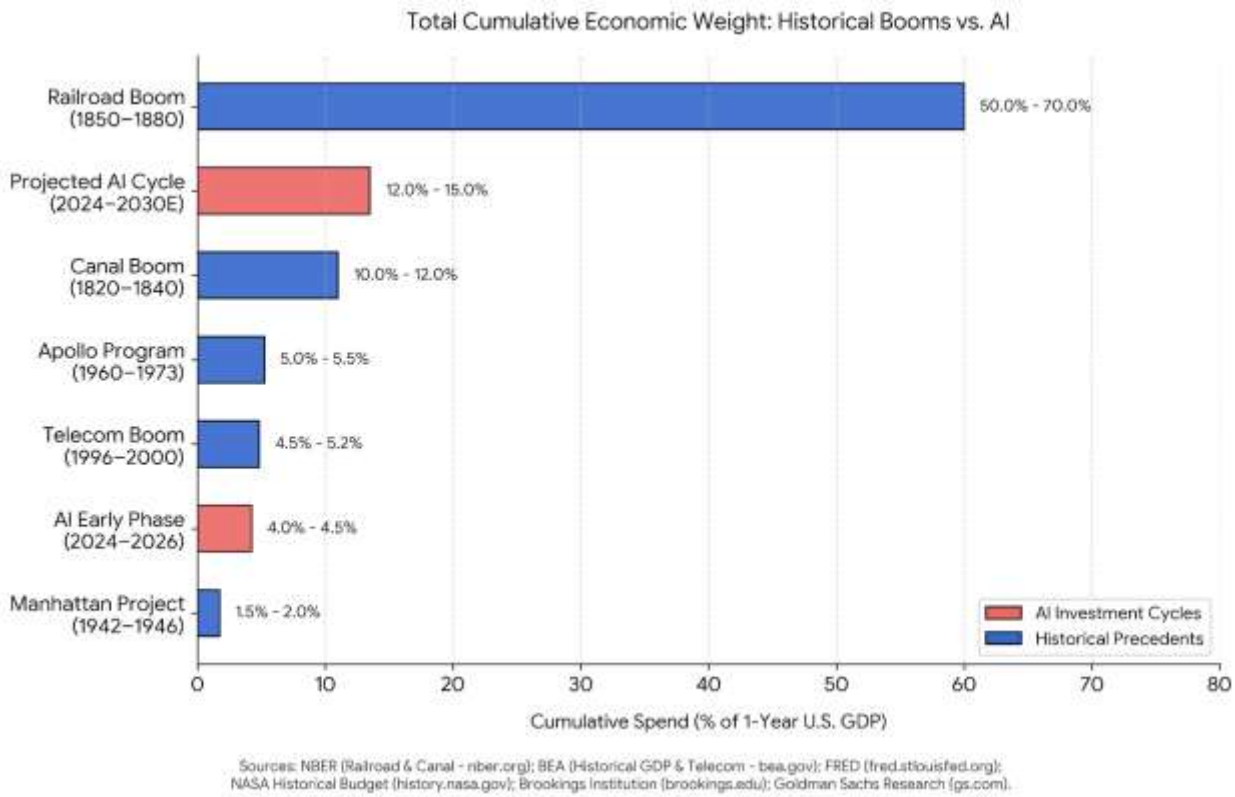
We have found, over the years, that the events which feel most urgent at the time are rarely the ones history remembers precisely, and the US-Israel-Iran conflict that began at the end of February has already provided several occasions to be confidently wrong. Three moments are worth recording, if only so we can look back later and see how little the confidence was warranted.

On April 7–8, a two-week ceasefire was announced - brokered, a touch improbably, by Pakistan - and extended on April 21. A more ambitious 60-day framework followed on June 11, formalised into the Islamabad Memorandum on June 17. And a full year before either of those, on June 23–24, 2025, a Qatar-mediated ceasefire had already brought the so-called Twelve-Day War to its conclusion. One notices a pattern: ceasefires in this conflict have a way of concluding wars that then decline to stay concluded. Hostilities resumed again in early July, which is either a great pity or entirely predictable, depending on how much faith one had in the previous three.

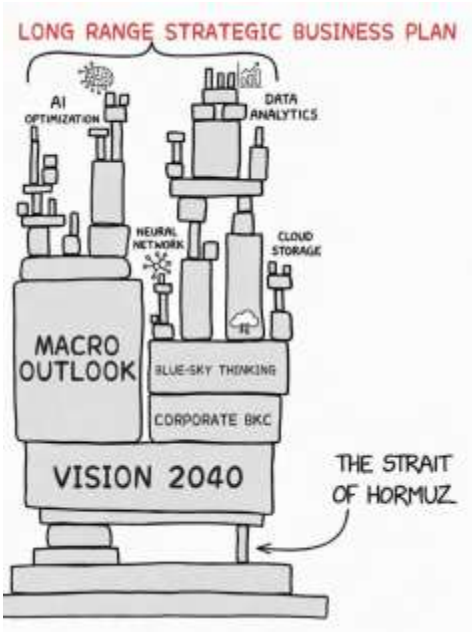
This leaves the world in a heightened state of economic and political uncertainty. The most immediate economic consequence of a prolonged Middle East conflict is disruption to energy and commodity supply chains. There is a phenomenon economists call the reverse bullwhip effect, and it is worth understanding because it is decidedly unpleasant for everyone in the chain.

Here is how it works. A small hiccup at the source of supply - a meaningful reduction in oil flows through a critical corridor - sends each subsequent link in the supply chain scrambling to secure whatever product remains. Each link hoards a little more than it needs, just in case. By the time that anxiety travels from the wellhead to the end consumer, what began as a modest disruption has become a full-blown panic. It is the supply chain's version of an acoustic echo: a small whisper at one end becomes a deafening shout at the other.

The longer the present conflict endures, the greater the likelihood that the energy and commodity complex will experience this very dynamic. One need not reach far for a historical parallel. The disruptions to goods and services wrought by the lockdowns and reopenings of the COVID-19 era produced severe and lasting distortions in price. Central banks, burned badly by moving too slowly in that episode, are watching the current situation carefully. We suspect they will move considerably faster this time if inflation pressures mount. The honest answer (and we prefer honest answers even when they are uncomfortable) is that nobody knows with confidence which direction short- and medium-term interest rates will travel from here.




Layer onto this one of the largest capital allocation booms in modern history. Projected cumulative AI spending is on track to rival the only comparable infrastructure buildout in human history - the railroads. Except railroad capital was deployed over three decades, and this one is being compressed into one. Whatever you believe about AI's ultimate value, the physical buildout requires enormous energy: the IEA's base case has incremental electricity consumption **from IT spend rising by 438 TWh by 2030, against a 2024 global baseline of 295 TWh**. Take a moment, it's worth sitting with that: **the incremental draw alone is 1.5 times what the entire world consumed in 2024**.No wonder the graphic below was circulating quite prominently in the early days of March – highlighting the Strait of Hormuz as a critical source of global fragility since 25% of the world's seaborne oil trade transited through it in 2025.




Not all countries / regions are affected equally by an energy and commodity shock. The table below is an energy snapshot for the top 20 countries in the world by nominal GDP. It calculates the energy deficit (defined as energy imports – energy exports in peta joules) and divides it by the total domestic energy consumption.

| Deficit / Consumption (%) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|
| United States | -17% | -18% | -11% | -5% | 1% | 6% | 6% | 9% | 12% |
| Canada | 97% | 101% | 108% | 111% | 114% | 121% | 132% | 134% | 135% |
| Brazil | -11% | -3% | -1% | 1% | 5% | 14% | 5% | 9% | 17% |
| Mexico | 1% | -7% | -17% | -26% | -29% | -18% | -27% | -26% | -27% |
| Germany | -90% | -92% | -91% | -90% | -94% | -85% | -86% | -94% | -88% |
| United Kingdom | -58% | -53% | -53% | -52% | -49% | -38% | -52% | -53% | -59% |
| France | -78% | -78% | -81% | -79% | -80% | -72% | -71% | -81% | -74% |
| Italy | -102% | -103% | -105% | -103% | -104% | -98% | -97% | -105% | -98% |
| Spain | -118% | -114% | -120% | -117% | -116% | -103% | -104% | -116% | -105% |
| Netherlands | -77% | -72% | -80% | -91% | -100% | -104% | -89% | -127% | -109% |
| Switzerland | -110% | -108% | -109% | -107% | -114% | -106% | -98% | -108% | -111% |
| Poland | -43% | -44% | -54% | -61% | -62% | -58% | -56% | -64% | -65% |
| Turkey | -111% | -108% | -111% | -106% | -101% | -97% | -100% | -101% | -98% |
| China | -25% | -29% | -32% | -34% | -36% | -37% | -35% | -34% | -40% |
| India | -57% | -56% | -56% | -56% | -59% | -56% | -53% | -56% | -56% |
| Japan | -140% | -139% | -137% | -136% | -134% | -131% | -134% | -137% | -132% |
| Russia | 106% | 105% | 104% | 106% | 108% | 100% | 92% | 88% | 87% |
| Australia | 311% | 323% | 333% | 341% | 375% | 398% | 377% | 379% | 345% |
| South Korea | -134% | -135% | -135% | -139% | -133% | -128% | -131% | -132% | -134% |
| Indonesia | 160% | 165% | 157% | 155% | 159% | 147% | 148% | 143% | 153% |
| Source: IEA Energy Data | | | | | | | | | |

Europe will clearly likely to be disproportionately impacted when it comes to any energy crisis - a fact that we are acutely aware of given our focus on investing in European companies.

With our risk first approach to portfolio management, we carefully stress test operating earnings of the portfolio to an energy shock avoiding opportunities with operational and financial gearing. We liken such situations to picking up pennies in front of a steamroller.

Equity markets however seem to be more sanguine with a short spring fright at the end of Q1 turning into a summer of optimism. Nothing exemplifies this more than the SpaceX IPO on the 12th of June 2026. SpaceX is a remarkable company led by a visionary founder of that we have no doubts. SpaceX had revenues of $19b in 2025 and estimate revenues of $22-30b in 2026. At listing, SpaceX had a market cap of $1.75tn and traded up to $2.2tn on the first day of trading. That represented a lofty multiple of 70-100x 2026 sales. Since then the shares have traded down but still price in a lot of intergalactic growth. Only time will tell if the initial exuberance is justified, but the tepid performance since IPO does reveal a risk-off attitude within capital markets that worries us deeply.

Taken together: security prices appear to be discounting a swift end to the conflict. We hope for this as much as anyone, and our portfolio should do reasonably well if that is how it unfolds. However, there is a fair chance the situation drags on, and a smaller though not negligible chance of an energy spike doing real damage to Continental Europe. We propose to manage this not by predicting which outcome arrives, but by continuing to stress-test our assumptions, holding new investments to a high bar, and preferring risks that do not all fail for the same reason at once. It is worth remembering, in this as in most things, that the mathematician who drowned crossing a river with an average depth of five feet was not wrong about the average.

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**Director of Research**

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