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The Navigator

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# Dire Straits - Money for Nothing

By Edward Lim, CFA

First a caveat, I am but a sophomore political analyst and I certainly do not possess any information nor direct lines into the rumbunctious mind of President Trump nor the recalcitrant Iranian supreme council. But I am student of macro-economics, keen reader of history, and certainly prefer data to the cacophony of relentless "experts" going on live TV.

We will list some of our observations and key issues that we will be marking to market as this story develops.

## 1. Dire Straits of Hormuz: Money for nothing

It is a well-known fact that this pivotal waterbody transport 20% of global oil demand, aka 20mn barrel per day. What many commentators failed to mention closing the straits is an economic suicide for Iran. 60% of its oil production is exported (40% is for domestic consumption) and 100% of its export goes through this passageway. 50 to 60% of Iran's budget is funded by oil export. It is no wonder that the Rial has depreciated 75% since the start of the war. It is estimated that Iran currently stores only 30 days of oil reserve onshore and that is provided the US and Israel does not destroy these storage terminals.

Little is also said that Saudi exports 65% of its oil through the Straits, Iraq 77%, UAE 66%, Kuwait 60% and more than 90% of Qatar's LNG exports. Each of these countries is highly dependent on oil as revenue ranging from 40 to 90% of their budget. Iran closing of the Straits is not only its own economic suicide, it is a declaration of war on all his neighbours. But it is an ingenious strategy, as Dwight Eisenhower once said, "If you can't solve your problem, enlarge it", Iran has intentionally and ironically coalesced friends and foes to wage economic persuasion on their behalf against the protagonists, US and Israel.

## Can't solve your problem? Enlarge it

| | % of Product shipped via Hormuz | % of Govt revenue from Oil | Any way to bypass the Straits |
|---|---|---|---|
| **Iran** | 52% | 40 to 60% | Trapped: Goreh-Jask bypass remains non-functional in current combat conditions. |
| **Saudi** | 60-65% | 60% | Partial bypass via East-West pipe 2mb/d only |
| **Iraq** | 75% | 90% | Vulnerable: North Pipeline via Turkey is limited |
| **UAE** | 60% | 50% | Can move 1.8 mb/d via Fujairah Pipeline |
| **Kuwait** | 60% | 78% | Trapped: 100% seaborne exports are through the Gulf |
| **Qatar** | 93% of LNG | 80% | No real bypass for export markets |

Source: IEA, OPEC, IMF

Prior to this war, there was no shortage of oil globally. In fact, the global oil supply was in a glut that lasted 3 years and was expected to increase further in 2026. There is an estimated oversupply of 1.3 to 1.5 mb/d globally driven by supply increases from non-OPEC+ producers that came online in 2023 to 2025 before supply increase abates in 2026 and 2027.

## No shortage of oil prior to this incursion

| | 2023 | 2024 | 2025 | 2026(F) | 2027(F) | 3 years Growth |
|---|---|---|---|---|---|---|
| **Global Oil Demand** | 101.7 | 102.9 | 105.5 | 106.4 | 107.6 | 2.0% |
| **Global Oil Supply** | 102.1 | 103 | 106.8 | 107.8 | 107.8 | 0.9% |
| **Oversupply** | 0.4 | 0.1 | 1.3 | 1.4 | 0.2 | |

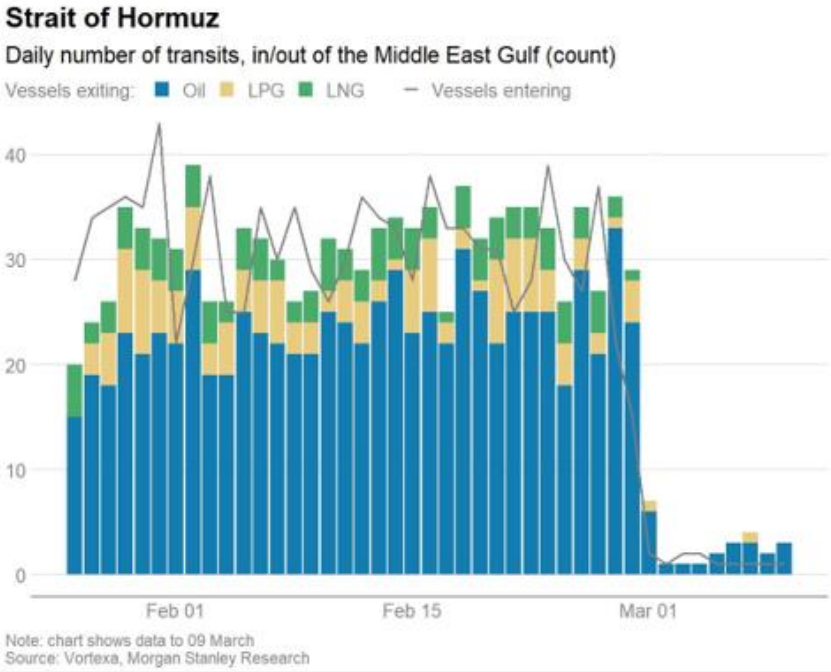
Source: IEA and JP Morgan

There is also oil on water storage which is estimated to be another 250mn barrels. In addition, most of the developed countries carried 1-2 months of inventory outside of their strategic reserves with China carrying the largest with 102 days' worth of imports. Under the IEA program, the strategic reserves of 32 countries are estimated at 1.2bn. Hence, if we combine the excess supply of 1.5mb/d, oil on water coverage, inventory build, and a rumoured possibility of IEA coordinating the release of 300-400mb, the global economy can withstand up to 60-90 days of the straits closure before it substantially depletes the excess inventory located across all these channels.

At the point of this publication, oil trades around $100 having doubled in the past few weeks. This is in sharp contract of the declining price trend since it peaked in 2022 post the second Russian-Ukraine war. At $100, the risk premium of oil to its fair value implies market participants are expecting the Straits to be closed for more than 60 days. If that is the eventuality, Iran economy will collapse of what is little left now and there will also be severe ramifications to rest of the world through lower growth and higher inflation.

We are not postulating this will not happen but for the record, the Straits of Hormuz has never been closed, nor is it closed now. Traffic has merely trickled to less than 15% of pre-war traffic. This brings us to the first data point we will be monitoring; how many crossings were made and thanks to AI and plenty of alternative data out there, we can track this every day. Whether the Straits are reopened because of US backstops and protection, or Iran's largess, or the GCC putting pressure on all parties or some adrenaline seeking captain and crew are of no interest to us. We leave that to the politicians and TV talking heads. All we care about is to see the delta of change in traffic flowing through it improves.

## Switch off your TV and just watch this space




**Number of vessels leaving MEG via the Strait of Hormuz**

By vessel type; latest value as per 09 Mar 2026

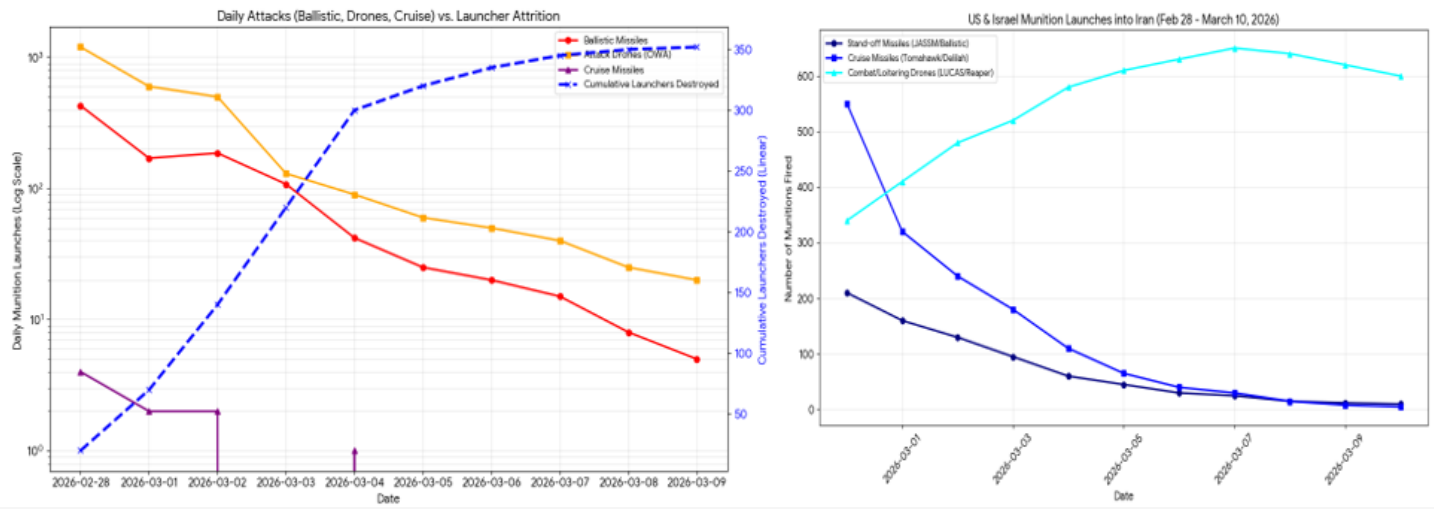
| Date | Oil | LNG | LPG | Total |
|---|---|---|---|---|
| 09 Mar | 3 | 0 | 0 | 3 |
| 08 Mar | 2 | 0 | 0 | 2 |
| 07 Mar | 3 | 0 | 1 | 4 |
| 06 Mar | 3 | 0 | 0 | 3 |
| 05 Mar | 2 | 0 | 0 | 2 |
| 04 Mar | 1 | 0 | 0 | 1 |
| 03 Mar | 1 | 0 | 0 | 1 |
| 02 Mar | 1 | 0 | 0 | 1 |
| 01 Mar | 6 | 0 | 1 | 7 |
| 28 Feb | 24 | 1 | 4 | 29 |

*Source: Vortexa, Morgan Stanley Research*

## 2. Rocket man: I think it's gonna be a long, long time

It is reported that during the June 2025 war, Israel has destroyed a significant amount of Iran's ballistic missiles launchers leaving only 400-500 launchers left. We can never be sure but based on the 300-400 missiles launched in the first two days it does correspond to this capacity. It is reported that US-Israel has since destroyed another 300 units of launchers and it is no surprise the number of ballistic missiles launched has since trickled to a few per day. It could be the IRGC are conserving their resources, retaining their reserves for a ground invasion. As for drones, while the velocity of attack has also slowed, how much more inventory does Iran still have is an unknown. What we do know is the US have targeted the industrial complexes that manufacture them. We have been tracking these exchanges as crude barometers of escalating or diminishing violence.

## Missiles and drones launched from both sides have subsided in recent days



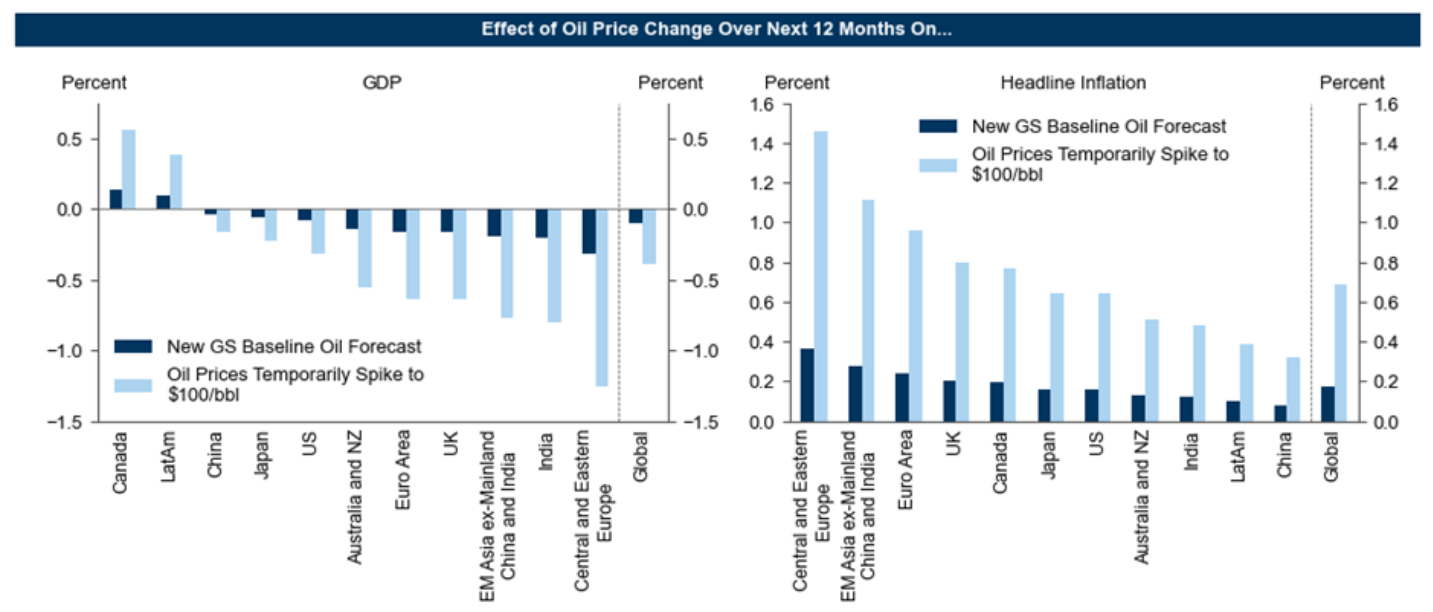

Source: Gemini

## 3. Light my fire: No time to wallow in the mire

At the start of the year, our macro views is a pro-growth global economy fuelled by continual capex investments in AI and its ancillary supporting industries, an upsurge in productivity as generative AI integrates into the physical world, a resilient consumer that bends but does not break even as a the labour market stalls and inflation remains sticky and above central banks' targets. However, we did caution that we are in a mature bull market that started in Oct 2022 and we should be prepared for 15 to 20% correction even absent of a recession. Valuation is a headwind, but earnings growth and revision momentum have remained positive therefore anchoring a pro-risk stance in the portfolio.

As long as we do not have a standstill in the Straits that last more than 60 days, recent developments do not alter significantly the views made at the start of the year. Should oil price stay around $80/bbl but moderate further to $65 by end of the year, Goldman Sachs expects a short-term increase to global inflation of 0.2pp and a 0.1pp drag in global growth. This will not derail pre-war GDP nowcasting global growth of 3.0%, latest PMI implied growth of 2.8%ar, and consensus forecast of 3.3% for 2026. The bigger impact on inflation will be felt in Europe and EM which could truncate the expected path of further easing but historically, central bankers in developed markets has often looked beyond oil supply shocks in calibrating their interest rate policy. On balance, we do not think monetary policy will reverse to tightening because of this development especially given the fluid nature of this conflict and a labour market that is generally weakening across the US, Europe and China. However, should oil stay around $100 over the course of the year, the impact will increase to 0.4pp drag in global growth and inflation to rise by 0.7pp.

## If oil trends $80 to $65 by end of the year, impact on growth and inflation is not material




Source: Goldman Sachs

## 4. Under Pressure: That's the terror of knowing what this world is about.

It is easy to be cowered in fear just as it is easy to be lulled into greed. This what makes the stock market function. When we analysed various incidences of conflicts or war since World War I, it is striking the market can look beyond it, most of the time. Across 41 events since 1914, the probability of DJIA Index rising 22, 63 and 126 days after the event is tilted positively with 63%, 71% and 75% of the time with the DJIA rising rather than declining. The average returns of positive outcomes are 5%, 8% and 11% respectively over those time periods. When returns are negative, they are not materially skewed against the positive outcomes. When we further analyse those events that have attendant impact to the oil markets (15 events), the probability of positive returns remained higher than negatives at 80%, 73%, 73% positive returns over 22, 63 and 126 days. The returns of positive outcomes are not dissimilar to the negative returns of 5.5%, 9.7% against -5.7%, -9.8% from 22 to 63 days. But skewed positive after 126 days with average positive returns of 12% versus -4%. Putting them together, there is asymmetry of positive outcomes over the entire series as well as a smaller cohort of events related to oil shocks.

## War related incidents: The only thing to fear is fear itself

| Event | Event Date | 22 Days (%) | 63 Days (%) | 126 Days (%) |
|---|---|---|---|---|
| WWI - Assassination in Sarajevo | 28/6/1914 | -0.5 | -1.1 | 10.2 |
| WWI - Austria declares war on Serbia | 28/7/1914 | -4.2 | -6.4 | 7.1 |
| WWI - Exchange closed | 12/12/1914 | 8.1 | 5.5 | 20.4 |
| WWI - U.S. declares war on Germany | 6/4/1917 | -2.3 | 1.2 | -11.8 |
| WWI - U.S. troops arrive in France | 26/6/1917 | -5.1 | -14.4 | -24.4 |
| WWI - Austria Hungary Surrender | 4/11/1918 | -3.3 | -6.1 | 6.8 |
| WWI - Germany Surrenders | 11/11/1918 | -5.3 | -7.3 | 3.9 |
| WWII - Germany invades Poland | 1/9/1939 | 13.9 | 12.3 | 8.1 |
| WWII - Germany invades France | 10/5/1940 | -23.6 | -17.9 | -9.9 |
| WWII - France Surrenders | 22/6/1940 | 0.3 | 9.4 | 7.4 |
| WWII - Pearl Harbor | 7/12/1941 | -2.4 | -9.6 | -16 |
| WWII - D Day | 6/6/1944 | 4.8 | 5.2 | 4.4 |
| WWII - Germany Surrenders | 7/5/1945 | 0.8 | -3 | 12 |
| WWII - Hiroshima | 6/8/1945 | 8.3 | 13 | 24.8 |
| WWII - Nagasaki | 9/8/1945 | 9.8 | 16.7 | 21.5 |
| WWII - Japan Surrenders | 14/8/1945 | 8.3 | 15.5 | 21.9 |
| Korea - North Korea invades South Korea | 25/6/1950 | -8.9 | 1 | 2.2 |
| Korea - U.S. Ground troops arrive in Korea | 30/6/1950 | 2.5 | 9.3 | 10.5 |
| Korea - Cease Fire Signed | 27/7/1953 | -0.9 | 2.1 | 8.3 |
| Vietnam - Gulf of Tonkin | 2/8/1964 | 0.3 | 3.7 | 7.4 |
| Vietnam - U.S. Marines sent | 8/3/1965 | -0.4 | 0.6 | 0.5 |
| Yom Kimpur War | 10/6/1973 | -3.0 | -11.3 | -12.2 |
| Vietnam - North Vietnam overtakes Saigon | 30/4/1975 | 3.6 | 2.7 | 4.4 |
| Gulf - Iraq invades Kuwait | 2/8/1990 | -9.8 | -15.6 | -6.4 |
| Gulf - U.S. ground troops arrive in Saudi Arabia | 9/8/1990 | -4.4 | -9.1 | 3.5 |
| Gulf - U.N. authorizes force | 29/11/1990 | 3.9 | 13.7 | 18.4 |
| Gulf - Desert Storm begins | 17/1/1991 | 17 | 19.8 | 18.7 |
| Gulf - Ground assault begins | 24/2/1991 | 0.9 | 0.4 | 4.1 |
| Gulf - Kuwait Liberated | 27/2/1991 | 1.7 | 3.3 | 6.1 |
| Afghanistan - Initial Bombing | 7/10/2001 | 5.2 | 11.8 | 11.9 |
| Afghanistan - Fall of Kabul | 12/11/2001 | 3 | 2.7 | 7.2 |
| Iraq - Use of Force Authorized | 10/10/2002 | 17.2 | 20.4 | 12.8 |
| Iraq - US Invasion | 20/3/2003 | 0.8 | 12.4 | 15.5 |
| Iraq - Fall of Baghdad | 12/4/2003 | 5.4 | 11.9 | 17.9 |
| Russia - Invasion of Georgia | 8/8/2008 | -4 | -25.9 | -32.8 |
| Libya - NATO Intervention Begins | 19/3/2011 | 3.5 | 0.4 | -5.3 |
| Syria/Iraq - US Airstrikes against ISIS | 8/8/2014 | 3.1 | 6 | 7.9 |
| Afghanistan - Fall of Kabul (US Withdrawal) | 15/8/2021 | -2.4 | 1.3 | -1.9 |
| Ukraine - Russian Full-Scale Invasion | 24/2/2022 | 5.4 | -3.1 | -0.6 |
| Gaza - Outbreak of Israel-Hamas War | 7/10/2023 | 1.5 | 11.6 | 14.4 |
| Middle East - Iran Direct Attack on Israel | 13/4/2024 | 5.7 | 6.5 | 14.1 |
| | | | | |
| | | | | |
| **Metric (Across 41 Events since 1914)** | | **22 Days** | **63 Days** | **126 Days** |
| Overall Mean (Average) Return | | 1.33% | 2.19% | 5.20% |
| Overall Median Return | | 0.90% | 2.70% | 7.20% |
| % of Positive Returns | | 63% | 71% | 75% |
| % of Negative Returns | | 37% | 29% | 25% |
| Average of Positive Returns Only | | 5.40% | 7.90% | 10.80% |
| Average of Negative Returns Only | | -5.03% | -10.65% | -12.13% |
| | | | | |
| **Those events related to oil shocks (15 events)** | | **22 Days** | **63 Days** | **126 Days** |
| Overall Mean (Average) Return | | 21.73% | 29.91% | 48.40% |
| Overall Median Return | | 20.67% | 40.00% | 52.67% |
| % of Positive Returns | | 80% | 73% | 73% |
| % of Negative Returns | | 20% | 27% | 27% |
| Average of Positive Returns Only | | 5.51% | 9.67% | 12.13% |
| Average of Negative Returns Only | | -5.73% | -9.78% | -4.20% |

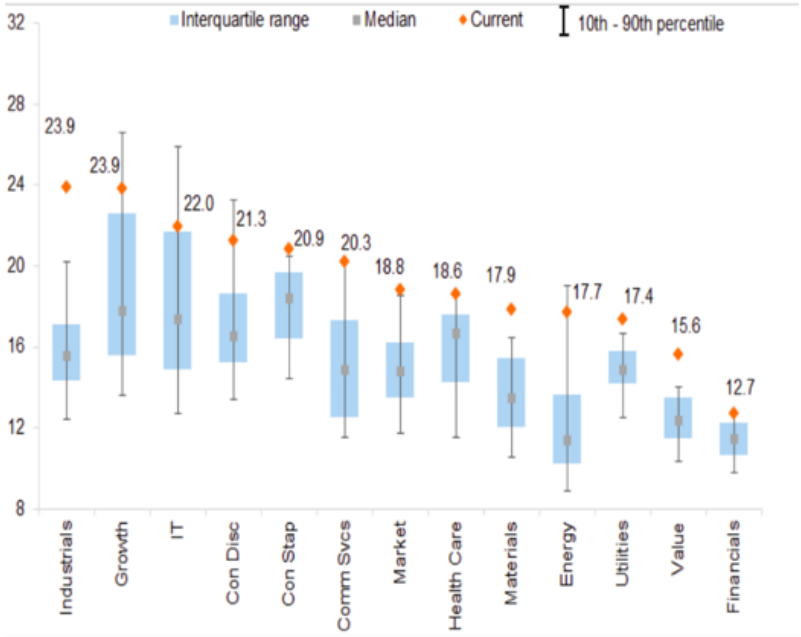
Source: NDR and Bloomberg

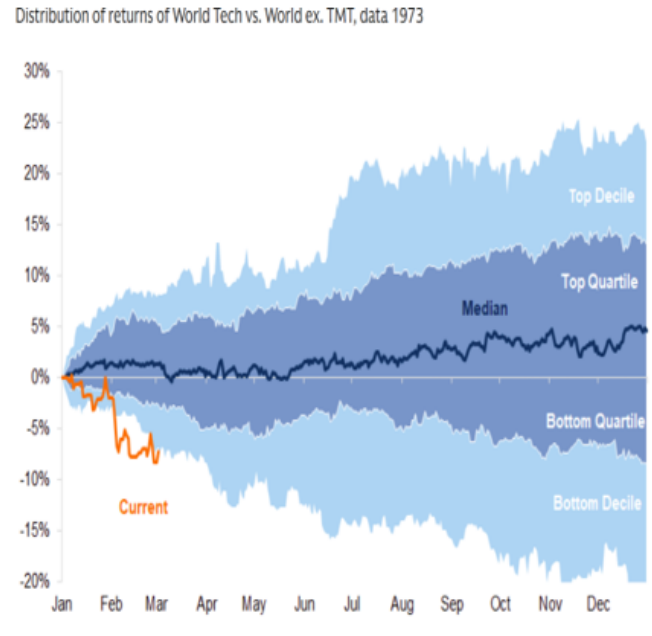
## Asset Allocation Strategy

**Fixed Income: Unchanged remains underweight.** While inflation could increase in the short-term, we expect central banks to look beyond this volatile category and instead focus on downside risk to growth and already tenuous labour market therefore maintaining the status quo on interest rates or with a slight bias to ease. Our fixed income managers have always been conservative in their portfolio construction. Moreover, most of them are duration unconstrained hence will have the flexibility to manage interest rate risk if required. A good example of prudence is our Global Bond Portfolio which is conservatively constructed with target yield and credit quality as the two key considerations. It tends to outperform in difficult markets and so far, year-to-date, it remains positive with a non-material decline in this month. The oil impact on the portfolio will primarily be on airlines in which we have less than 7.5% exposure and offsetting is our energy exposure of 9%. Close to 50% of the portfolio are in relatively defensive sectors like consumer staples, healthcare, utilities and tech (no software issuer, mostly semi and hardware). Yield of the portfolio is 4.98% with coupon of 5.42% and duration of 5 years and remains a BBB investment grade portfolio.

**Equities: Remains overweight but vulnerable to growth risk and steep valuations.** The equities complex is slightly more complicated than fixed income where yields are high enough to cushion growth and interest rate risks for the latter, but valuations are steep for the former. The current macro regime remains that of Recovery phase even with a modest downgrade from this event, hence, should still favour equities over fixed income. We believe the global economy can withstand 1-2 months of reduced traffic in the Straits but any longer, the transmission mechanism into equities will start to incorporate growth risk but also risk of tighter financial conditions. However, we are seeing interesting opportunities in the tech sector now given that sector has peaked in Oct last year and have corrected ahead of this current war driven by its own idiosyncratic concerns about AI disruption of potential profit pools. Over a 20-year period, tech is now the only sector trading within its interquartile range while the rest of the other sectors are trading closer or above 90th percentile expensive. The year-to-date performance of tech has been the worst it has been in 50 years, and this is extraordinary given that tech sector is forecast to have the highest EPS growth of 45% and 21% 2026-2027 amongst all sectors in contrast to global equities EPS growth of 17% and 14% respectively.

## Tech is relatively cheap, has the strongest growth but the worst showing in 50 years




Source: Goldman Sachs

**Hedge Funds:** As of end of Feb, our fund of hedge funds had an impressive start with an estimated return of 5% so far. We will be compiling a mid-month review in the coming weeks and will keep all informed. It is worth nothing the fund has transversed significant economic and geopolitical events since 2018. These include US-China trade war and quantitative tightening part 1 in 2018, global pandemic in 2020, quantitative tightening part 2 in 2022, oil shock from Russia-Ukraine second war in 2022, Hamas-Israel war in 2023, Liberation Day and the Israel-Iran 12-day war in 2025, and the current second oil shock. And yet throughout this period, it has returned 9%*pa, on volatility of less than 4%, generated more than 75% of positive months with returns that are lowly correlated to the broader equities and bonds. We believe it will continue to do so even in this current climate.

## Fund of Hedge Fund GARP has delivered across many challenging environment

| | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2018** | 3.8% | -1.4% | 1.9% | 1.6% | 0.1% | -0.6% | 3.3% | 0.2% | 1.9% | -2.1% | -1.0% | -0.7% | **7.1%** |
| **2019** | 0.1% | 1.5% | 0.5% | 0.7% | -0.1% | 1.2% | 0.8% | 2.2% | 0.1% | 0.4% | 0.8% | 1.9% | **10.6%** |
| **2020** | -0.4% | -0.3% | -0.3% | 2.6% | 0.5% | 0.7% | 1.4% | 1.1% | -0.6% | 0.9% | 4.2% | 2.7% | **13.0%** |
| **2021** | 0.8% | 3.3% | 1.9% | 1.4% | 0.3% | 0.7% | 0.4% | 0.6% | 0.0% | 1.2% | -0.2% | 0.0% | **11.0%** |
| **2022** | -0.9% | 0.1% | 1.1% | 1.1% | 1.0% | -0.4% | 0.9% | 1.0% | -0.4% | 1.1% | -0.1% | -0.7% | **4.0%** |
| **2023** | 1.2% | -0.4% | -0.2% | 0.2% | 0.4% | 0.3% | 0.4% | -0.6% | 0.4% | -1.6% | 1.6% | 0.7% | **2.4%** |
| **2024** | 1.6% | 1.4% | 2.4% | 0.3% | 1.2% | 1.3% | -0.1% | -0.2% | 1.2% | 0.7% | 1.9% | 0.8% | **13.3%** |
| **2025** | 1.5% | 0.1% | -0.5% | -0.5% | 1.8% | 1.3% | 1.7% | 1.7% | 1.6% | 0.0% | 1.0% | 1.1% | **11.4%** |

Disclaimer: * Performance from January 2018 to September 2023 is based on internal simulation portfolio and is net of managers' fees and Covenant's fees. Hypothetical quantitative backtest performance has many inherent limitations. Backtested returns are theoretical and are not real and do not reflect actual trading and execution costs. Reference to quantitative backtest does not imply that the strategy will achieve returns, volatility or other results similar to the quantitative backtest. Past performance of this strategy is not representative of future performance. The value of the strategy may go up or down (volatility) as is expected for all financial market instruments. The strategy is NOT a guarantee of a future yield or return on your investment.

**Commodities:** Hold on to Gold but too volatile to go either long or short oil. When we trace back to 2008, when oil spikes aggressively, most of these oil shocks do not last forever nor do they establish a new price range. The first oil shock of 2008 when oil price spiked to $147 and many of these so-called top-rated oil analysts called for a new paradigm of $200 oil as the norm, lasted 150 days before spectacularly falling to $40 in the following six months. There is a good economic reason for this. When oil price exceeds $100, we will witness demand destruction. On the supply side, if oil stays above $70, it will encourage significant output and investments. Plus, the emergence of US shale oil, which is the 2nd lowest marginal cost of production after the Middle-east oil fields and is easier and faster to start-stop production than the Middle-east facilities, has often become the marginal supplier at both ends of the price range.

**Past oil surges do not last forever and did not establish a new price range**

| When oil surges above $110 | Duration (Days) | Peak Price | 6 mths later |
|---|---|---|---|
| Mar - Aug 2008 | 150 | $147 | $40 |
| Feb - May 2011 | 100 | $126 | $104 |
| Feb - May 2012 | 110 | $128 | $110 |
| Mar - Jul 2022 | 120 | $139 | $88 |

Source: Bloomberg

For what it is worth, Goldman Sach commodities team has modelled the potential price range in relation to the length of disruption in the Straits. If you like us do not think the Stratis will be closed for more than three weeks, oil could fall back to $71 according to their analysis. And if it is less than 10 days, it could fall back to $66 per barrel.

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