

The Long Run

Investment Letter
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*War, children,
It's just a shot away
It's just a shot away*

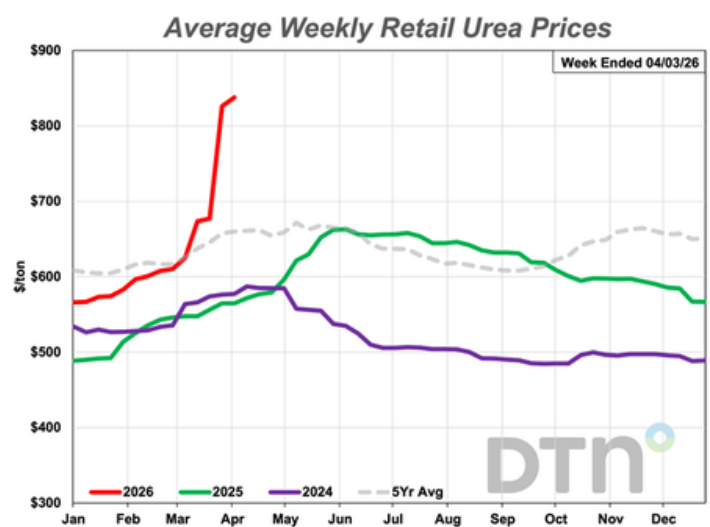
—Gimme Shelter, Rolling Stones

The opening days of April 2026 present a striking paradox between Wall Street's expectations and the world's physical constraints. Heading into this earnings season, the "paper" economy appears exceptionally robust. Bottom-up Earnings Per Share (EPS) estimates have risen nearly 3% since the start of the year, and over half of S&P 500 companies have issued positive guidance—the highest rate since 2021. This momentum, driven largely by the technology sector's relentless expansion, suggests an economy operating at peak velocity. However, as the conflict in Iran enters its sixth week and the future of the Strait of Hormuz remains in doubt, this momentum is meeting a wall of friction.

The contrast between Wall Street sentiment and the reality of global trade is becoming stark as the first-order impacts of the conflict are just beginning to reach the domestic economy. While the first quarter was buoyed by strong labor data and a 12.3% expected annual earnings growth rate, these are inherently lagging indicators. The physical world moves on a different timeline. Ships that diverted around the Cape of Good Hope eight weeks ago are only now reaching their destination ports.

However, for critical commodities like nitrogen fertilizer—of which the Persian Gulf produces roughly one-third of the global supply—there is no alternative route.

For the American farmer in the midst of the 2026 planting season, the 32% spike in urea prices at the New Orleans hub is an immediate margin-killer. This "Nitrogen Noose" represents the first wave of a broader supply chain headache that corporate leadership is only beginning to quantify. We are likely entering a "fog of earnings" period reminiscent of the tariff-driven uncertainty of a year ago, where the inability to forecast an end to the war makes forward guidance an exercise in guesswork.



This pressure is further amplified by the escalating cost of diesel fuel, which serves as the "last mile" lifeblood for both global trade and domestic delivery. While headline oil prices at \$110 per barrel capture the news, it is the refined diesel market that will dictate the depth of the US economic slowdown. Europe and emerging markets are already reeling from the energy tax imposed by the blockade, and as these costs work their way through the American supply chain, the "growth scare" will likely transition from a bear-market talking point into a realized hit to consumer discretionary spending. The current optimism—that the crisis might be resolved "in weeks, not months"—is a fragile hope held against a current backdrop of increasing military threats to regional infrastructure.

Diesel Surpasses \$200 a Barrel Benchmark ICE Gasoil futures surge as Iran War squeezes supplies



Sittin' On A Fence

A year that started with stocks buoyed by regulatory easing, tax stimulus, clear pathways to lower inflation, and lower interest rates has become a year in which the Federal Reserve has taken some planned interest rate cuts off the table—and in which most Americans will likely face higher living costs. If the conflict in Iran concludes quickly, these issues will be significant headwinds to growth that larger companies should, nonetheless, be able to overcome considering the current economic momentum. If, on the other hand, the war stretches on and the interruption of global supply chains continues for months, and not weeks, many countries around the globe could face recession as we head into 2027.

Importantly, when the heat in the global economic system is dialed up so quickly and to this degree, markets and economies can begin to reveal hidden structural weaknesses. Our investment approach has always demanded that we recognize and analyze potentially asymmetric market risks as a critical component of long-term capital preservation. This discipline helps guard portfolios in periods of true dislocation.

Today, we are focused on two such asymmetric risks that have built up in the system and have potential to lead to significant failures and outsized capital erosion. These include too much leverage hidden in the system, a common signal of market excesses—and an S&P 500 index that has not been as concentrated in its top 10 holdings in the past 100 years. As of the end of March, the top ten holdings in the S&P 500 have grown to represent more than 40% of the index. To put that into a 100-year perspective, this level of concentration is roughly double the historical average and comfortably surpasses the peaks seen during the Dot-com bubble (~25%) and the 1970s "Nifty Fifty" era (~30%).

We continue to be concerned about vulnerabilities in the darker corners of the financial system. We are seeing a rise of "Payment-in-Kind" (PIK) toggles, where distressed companies pay interest with more debt—a classic signal of late-cycle exhaustion. The recent First Brands bankruptcy is also very instructive. In that collapse, we saw the dangerous use of off-balance-sheet collateral in transactions where the debt originated from private investing firms owned by the very underwriters of the loans.

This circularity of risk—where a lender essentially lends to itself to keep a zombie company afloat—creates a hidden layer of counterparty fragility. AI challenges to existing software solutions have also put pressure on the space. But, as shipping insurance costs jump sixfold and energy-intensive sectors face "force majeure" events due to the conflict in the Middle East, these interconnected, opaque credit structures could risk a larger dislocation.

Concentration risks increase as the largest companies in the world pour mind-bending amounts of money into the very same dominant investment opportunity—even without a clear sense of where the finish line might be. History provides a stark warning for such periods of outsized capital expenditure.


A century ago, the "Utility King" Samuel Insull became the architect of a massive electrical empire, envisioning a future defined by universal power as the backbone of a new economy. Insull accurately foresaw the incredible impact that electricity would have on American life, but in his race to dominate competitors by creating early scale for his electric ambitions, he built a "pyramid" of highly leveraged holding companies that required a state of perpetual market grace to survive.

Today, we see a striking parallel in the AI race. The tech sector has single-handedly buoyed the S&P 500's earnings profile, yet the \$700 billion being poured into AI infrastructure assumes a stable, low-cost environment that may not exist throughout the term of the buildout. If we construct this "digital aqueduct" too fast—committing historic levels of capital while ignoring the rising costs of the grid and the volatility of the energy backbone—we risk a repeat of the Insull collapse: a generation of stranded assets left behind by a sprint that outran its own headlights.

You Can't Always Get What You Want

This period of systemic pressure serves as a forceful reminder of why investment discipline and independent, fundamental research remain our strongest defenses against an unpredictable world.

While the "paper" economy may project confidence through rising multiples and positive guidance, we remain focused on the "real" economy, where clean balance sheets and sustainable earnings power determine long-term opportunity and survival. Wall Street and investors who fear missing the next Apple or Google or Bitcoin appear increasingly captivated by the singular technological opportunity of the moment in AI.

To us, this narrow focus suggests that the market is overlooking compelling opportunities in other sectors where earnings growth is accelerating now with far less noise. While we continue to hold significant investments in AI technology and infrastructure, we also see transformative potential in areas like advanced water technologies, the disruption of healthcare through genomics, expanding automation, and the fundamental modernization of our electrical grid. By looking beyond the crowded trades of the indices, we find "change agents" in industries that are solving for the very resource constraints that current geopolitical tensions have laid bare. 

SOURCES: Bloomberg; CNBC; The New York Times; FactSet; S&P Capital IQ; International Energy Agency; Federal Reserve Board; S&P Dow Jones Indices; Goldman Sachs Global Investment Research; DTN Progressive Farmer; and RMCM research.

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