

Looking for sanity in an insane world

By the time you read this, the Iran War will be four weeks old. It is impossible to predict with any certainty what the outcome will be, and given how quickly things can change, events might have already overtaken this article. But in the chaos of it all, a few things are becoming clearer – notably that even if the war ends relatively soon, there are going to be long-term consequences of the conflict that will take time to heal and digest. At the risk of being completely wrong, this is a brief summary of some rambling thoughts on where to from here?



**Michael
Porter**

I am writing this article on Monday, 23rd March. Markets started the day sharply lower, a consequence of Trump's ultimatum to bomb Iranian power infrastructure should the Strait of Hormuz remain closed. At 13.07pm, markets went crazy, rallying a few percent in a matter of minutes on headlines quoting Trump on Truth Social that he had postponed any further attacks given "very good and productive talks with Iran." Half

an hour later, Iran issued a statement that no such discussions had taken place. Markets immediately went into reverse.

Given events such as those described above, no one can predict what tomorrow will hold. There are too many variables. However, we are now in the fourth week of the war and what

LNG PRICES



Not surprisingly, LNG prices across Europe have surged given their growing dependence on Middle Eastern energy rather than Russian supply. This current crisis is following a similar pattern to the Ukraine invasion.

SPEED READ

- **Markets remain exceptionally volatile. Day-to-day trends are impossible to predict, but some consequences of this war are beginning to crystallize.**
- **Damage to Qatar's Ras Laffan LNG complex will reverberate for years. 17% of its export capacity will be offline for three to five years.**
- **The immediate consequences are higher inflation, higher interest rates and slower economic growth. Longer term, we wonder about global alliances such as NATO and what that means for regional growth.**
- **We expect commodity prices to settle, and believe this is an opportunity to continue to diversify.**
- **Locally, the momentum we anticipated has been dealt a blow. We will face a tougher local economy for longer.**

is becoming clearer is that even if there is a ceasefire, the economic damage will continue to reverberate. We are not going to return to "business as usual" within a few days.

Let me start with a pivotal event. Last Wednesday, Israel bombed a portion of Iran's South Pars gas field. In retaliation, Iran fired five missiles at Qatar. One got through and damaged the Ras Laffan LNG facility. That might seem like just another headline, but the ripples will be felt for years. Why? Ras Laffan is one of the largest pieces of energy infrastructure on the planet – a sprawling industrial zone that contains the plants needed to turn raw gas into liquified natural gas (LNG) as well as dozens of associated industries. The errant missile has destroyed two of the twelve production trains that produce LNG as well as the Pearl Gas-to-Liquids plant. Consequently, 17% of Qatar's LNG export capacity – amounting to almost 13 million tons per annum – has been removed from the global energy market for a period of three to five years.

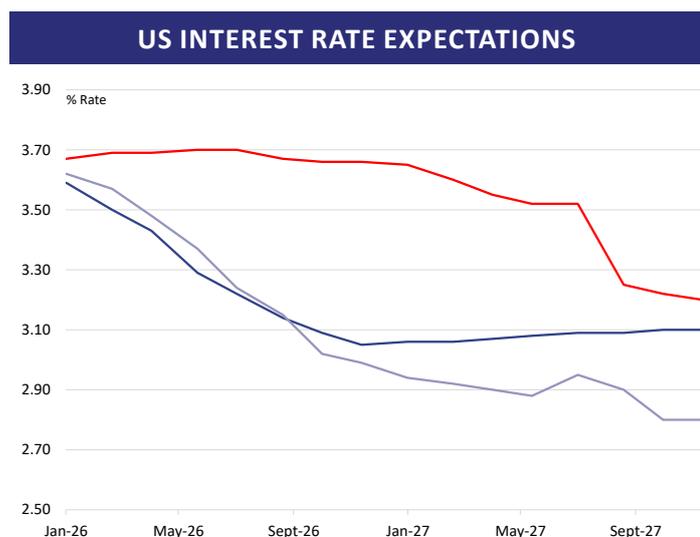
Again, it is important to understand that these plants are some

of the most advanced in the world. The damaged components require exceptional engineering, and take years to design, manufacture and install. That is before we even consider the cost to replace them.

Allied to the above is the price of oil itself – now trading well above \$100 per barrel – and itself very volatile as markets react to every headline. Oil prices should fall if the fighting stops, but we think it would be foolish to assume that oil will revert to \$65 per barrel – the level at which it was trading in mid-January. One of the current consequences is that oil storage facilities in the Gulf are full, so there has been little alternative but to cut production. Ramping that production up again takes time – it is not a matter of just flicking a switch. At the same time, shipping companies need to be convinced their ships and crews are safe. Insurers will no doubt continue to charge excessive rates. Oil prices will fall, but they will take time to revert to previous levels, if at all.

Immediately, there are some clear consequences of the above:

1. Global inflation is going to make a comeback. As we know from Covid and the Ukraine War, an inflationary bubble can last much longer than expected. It is unlikely to be different this time round.
2. Central banks have dramatically changed their tunes. Having been firmly on an easing path earlier this year, central banks are now signalling that interest rates might need to go higher, not lower. We don't expect the same intensity of hikes that prevailed in 2023, but the tailwind of lower rates has dissipated.
3. Higher interest rates themselves have numerous consequences – from weaker consumer spending to lower asset prices.



At the start of the year, US markets were expecting up to three rate cuts over the forthcoming eighteen months. That position was even more optimistic the day before the war started. Now traders expect no rate cuts this year – a dramatic about-turn.



LNG tankers depart from the Gulf and provide energy across the world, but especially to Europe and Asia. Disruption to supply is making prices surge.

These are short term consequences that the market reacts to every day. However, one must believe there are some longer-term implications as well. First amongst these is the global reliance on Middle Eastern energy. Can the world continue to rely on LNG from the Gulf? This war would appear to be another nail in the globalisation coffin. Onshoring will gain momentum as companies and countries diversify their suppliers and reduce their dependence on any one bottleneck.

Secondly, the composition of the world's energy might change too. We believe a natural beneficiary of the current turmoil in gas and oil markets – first Russia, then Qatar – is nuclear energy. Its cheap and reliable, and the advancement in small modular reactors makes it quicker and safer to rollout than before. Allied to this, demand from AI has not gone away – along with the need for reliable, plentiful and secure electricity.

Thirdly, risk is at the forefront of everyone's minds. Everyone is thinking about risk – what it means, how to mitigate it, and what that might cost. You can bet that insurers are thinking about this. Demand for insurance is likely to rise, but so too are risk premiums. A natural beneficiary is the insurance sector.

Away from markets, the other thing that exercises our grey matter is the interplay of global politics. Fifteen months into his second term, we can all appreciate that President Trump has a different approach to foreign policy. That might be putting it mildly. Last week, Trump called on NATO allies to help defend and protect the Strait of Hormuz. None answered. "It's not our war" was the common reply. Trump has been vociferous in his criticism of NATO – he has described it as a one-way street, for too long. How does this impact his attitude? Will Europe face fresh tariffs? Will NATO survive? What does that mean for European security and global geopolitics?

Longstanding clients will know that the US Dollar is the ultimate beneficiary in uncertain times. Investors flock to the Dollar for its safe-haven status. This crisis has been no different, and the Dollar found extra support thanks to changing interest

GOLD VS THE DOLLAR



Part of the rise in gold prices recently has been fuelled by a weaker US Dollar. That has temporarily reversed, but we believe the long-term trend of diversifying away from US assets remains in place.

rate expectations. A stronger Dollar in turn put pressure on commodity prices, especially gold. Looking ahead, has this war cemented America's dominance? Does another period of "US Exceptionalism" lie ahead? Or will the Dollar resume its weaker bias once the dust settles?

We don't know the answer to this question. Europe will certainly face challenges – from higher energy costs at least – and the pressure to increase defence spending will continue to rise. But this war has only reinforced the unpredictable nature

of US policy. Just look at the precarious situation in which Cuba finds itself to appreciate that no country will want to be beholden to the US. Too much is at stake. Consequently, we believe the current volatility offers an opportunity to continue to diversify into hard assets, including gold and other commodities.

Locally, we are frustrated and saddened. What was promising to be a year of rising momentum on the back of a solid Budget, lower inflation, and rising confidence has been dealt a blow. Like elsewhere, we are facing severe increases in fuel prices – that will trickle down to each and every citizen. We all know that prices are quick to rise and slow to fall – whether it be food, taxi fares or everything in-between. In February, it was almost guaranteed that the Reserve Bank would cut interest rates at their March meeting. That has now not materialised. Instead, we face a period of uncertainty. Growth will be revised down – by how much depends on the duration of the conflict and the trajectory of the Rand.

We have articulated our portfolio strategy at recent Insight seminars – a focus on "quality" – companies that will perform solidly in the good times, but that also have the cash flow and balance sheet strength to survive tougher times. We are evaluating portfolios in this light, and will make changes accordingly, but we are comforted by the fact that we are well into this journey. Like so many crises before, we strongly advise clients not to make knee-jerk decisions. As I alluded to in my opening remarks, it is futile to try and second-guess both markets and politicians.



Gold has sold off, partially due to US Dollar strength, which could present a buying opportunity.



Our next seminar will be held in June. As usual, we will review the first six months of the year and update our outlook for the remaining six months.



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Topic: 2026: The first six months

Natal Midlands

Date: 4 June 2026

Venue: Christ Church Howick, 23 Mare Street, Howick

Morning Time: 10am for 10.30am

Evening Time: 5.30pm for 6pm

Johannesburg

Date: 9 June 2026

Venue: Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham

Time: 7am for 7.30am

Cape Town

Date: 11 June 2026

Venue: Kelvin Grove Club, 144 Camp-ground Rd, Newlands, 7700

Time: 7.30am

Venue: Helderberg Village Lifestyle Estate, 63 Bakkerskloof Rd, Helderberg Village, Cape Town

Time: 5.30pm for 6pm



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Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager.

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