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In the first quarter of 2026, the Blue Tower Global Value composite gained 1.62% net (1.89% gross). We outperformed most global equity market benchmarks in what has been a very volatile quarter. Please refer to your individual account statements as they will differ slightly from the composite.

In this letter, I will walk through our approach in dealing with the consequences of the current conflict in the Persian Gulf, how it affects commodity markets in the short and long-term, and why I believe the consensus is still underestimating the duration and depth of the disruptions. We made several changes to our portfolio in March as we continue to adapt to the changing circumstances.

2026 Gulf War: Conflict of Historic Proportions

Beginning in late January 2026, the United States government initiated what observers described as the largest military buildup in the Middle East since the 2003 Iraq War. During the negotiations preceding the current conflict, some reported Iranian proposals included reiterating their opposition to developing nuclear weapons, shipping enriched uranium out of the country under international arrangements, accepting expanded IAEA inspections, and limiting uranium enrichment to levels compatible with civilian nuclear power (around 3.67%). Iran, however, resisted demands to abandon regional allies such as Hezbollah and Ansarallah, to dismantle its enrichment infrastructure (requiring it to rely entirely on imported nuclear fuel), or to accept broad limits on its missile and drone programs. On February 28th, before a further round of talks that had been planned for March 2nd, the United States and Israel launched a large-scale air and missile strike on Iran that severely damaged key elements of its conventional navy and air force and killed the Supreme Leader and several senior officials, along with many Iranian civilians.

Iran struck back more forcefully than predicted by US military planners, in part due to the mosaic military doctrine used by Iran. This allows their military units to function and make decisions independently even if command and control is disrupted. This counterattack not only damaged or destroyed all US military bases in the region, but also attacked civilian and economic infrastructure of all of the Gulf countries hosting US forces. As part of this military response, Iran's Islamic Revolutionary Guard Corps issued warnings forbidding passage through the Strait of Hormuz, launched confirmed attacks on merchant ships, and reportedly laid sea mines in the strait. This caused a sharp decline in maritime transit, with tanker traffic dropping first by approximately 70% before falling to nearly zero. The Strait of Hormuz crisis has been described by the International Energy Agency as the largest supply disruption in the history of the global oil market.

The disruption to oil supplies is much greater than the one caused by the 1973 Arab oil embargo. And while the 1973 crisis affected oil alone, this one is far broader.

Commodity disruption

I believe the market consensus is underestimating both the breadth and duration of commodity disruptions. This may be an instance of what behavioral economists call normalcy bias, a cognitive bias causing people to underestimate the possibility or impact of a disaster, believing that things will continue to function as they normally do, even in the face of obvious danger. This mental state leads to delayed reactions, complacency or inaction during emergencies

The closure of the Strait of Hormuz amounts to removing close to 20% of global oil supplies from the market, about 80% of which is shipped to Asia. Oil importers unable to access oil from the Persian Gulf have had to turn to other suppliers, putting upward pressure on oil prices worldwide.

The LNG (liquified natural gas) picture may ultimately be even more consequential than crude. Roughly 20% of global LNG flows through the Strait (mostly from Qatar) and global gas prices surged sharply after QatarEnergy halted output following an Iranian drone attack. Unlike oil, LNG is more difficult to redirect and production is more geographically concentrated, meaning there are no easy alternative routes to market. Europe entered this crisis with historically low gas storage, estimated at just 30% capacity following a harsh 2025-2026 winter, causing Dutch TTF¹ gas benchmarks to nearly double to over €60/MWh by mid-March.^{2 3}

Roughly one-third of global fertilizer trade transits the Strait of Hormuz, including large volumes of nitrogen exports. New Orleans fertilizer hub urea prices have already risen from \$475/metric ton to \$680/metric ton. With this disruption occurring during the spring planting window in the Midwest for soy and corn, the downstream risk to food prices is acute.

The polymer supply chain is equally stressed. About 85% of polyethylene exports from the Middle East transit the Strait, and shortages and backlogs are raising the price of packaging, automotive components, and consumer goods. Around a third of global seaborne methanol trade (key chemical feedstock for resins, coatings, and plastics) also passes through the Strait, with knock-on effects across chemical supply chains. The situation is particularly significant for China, the world's largest methanol buyer.

Helium: This is a commodity few investors have considered, but its disruption carries real consequences for the technology sector. Qatar accounts for nearly one-third of the world's helium supply, produced as a byproduct of its natural gas processing. As supply tightens, the effects are already rippling through global technology supply chains, as helium plays a critical role in semiconductor manufacturing, supporting processes from ultra-low-temperature cooling to highly precise fabrication.

Sulfur and Aluminum: The Strait's near-total closure has caused a significant disruption in the global supply of sulfur, with Gulf countries accounting for roughly 45% of the global commodity, projecting spikes in fertilizer costs, metal leaching in the copper industry, and sulfuric acid production. The Middle East produces around 9% of global primary aluminum,

¹ TTF = Title Transfer Facility

² "Europe Wanted to Quit Russian Energy, Iran's War Just Complicated That." IAI - Istituto Affari Internazionali, 13 Mar. 2026, www.iai.it/en/publications/co5/europe-wanted-quit-russian-energy-irans-war-just-complicated.

³ "Iran War: A Turning Point for European Energy Transition Policies?" *IDDRI*, 2026, www.iddri.org/en/publications-and-events/blog-post/iran-war-turning-point-european-energy-transition-policies.

The market appears to be pricing these disruptions as brief in duration. Unfortunately, I believe that this disruption will probably persist longer than the current consensus.

Infrastructure Damage: Years, Not Months, to Repair

Beyond the supply shock itself lies a harder problem: the physical infrastructure that enables Persian Gulf energy production has been significantly damaged, and rebuilding it will take years regardless of when peace arrives. For example, following strikes by Iranian missiles on Qatar in mid-March, QatarEnergy's CEO and state minister for energy affairs told Reuters two of Qatar's 14 LNG trains and one of its two gas-to-liquids (GTL) facilities were damaged. The repairs will sideline 12.8 million tons per year of LNG for three to five years and knock out 17% of Qatar's liquefied natural gas (LNG) export capacity.⁴

This matters enormously for how investors should be thinking about the duration of commodity disruption. Even if a durable peace agreement were reached tomorrow, the timeline for restoration of full Persian Gulf production capacity is measured in years, not months.

Fragile Ceasefire

Iran's leadership is prioritizing regime survival and a better post-war regional order over a clear battlefield victory, which makes calibrated escalation attractive rather than a quick ceasefire on unfavorable terms. Analysts note Tehran is deliberately widening the arena (missiles, drones, Hormuz, Gulf energy infrastructure) to raise the long-run costs to the US, Israel, and Gulf states, not to win quickly, but to force concessions over time. This "horizontal escalation" strategy by Iran inherently lends itself to a drawn-out, episodic conflict—with pauses, flare-ups, and proxy activity—rather than a decisive end.

The Iranian regime has shown resilience in the face of US/Israel strikes. Despite the shock of Ayatollah Khamenei's killing, Iran's political system followed constitutional procedures, installed Mojtaba Khamenei, and kept core institutions intact, suggesting the regime is built to absorb severe shocks. A large, entrenched security state (IRGC, intelligence services, proxy networks) can continue low-level conflict and harassment even under heavy military pressure, which makes full capitulation or collapse less likely. Historically, Iran has shown capacity to operate under sanctions and economic strain, making it more willing to sustain a long conflict than its adversaries might expect.

Washington appears to want a limited campaign and is publicly signaling an expectation of "weeks, not months," but also lacks a clearly defined political end-state that Tehran would accept. Israel's leadership has suggested that seriously degrading Iran's long-term military and regional capabilities will require sustained operations, implying a longer horizon than the Trump administration's political messaging.

Iran has spent years cultivating non-state actors, creating multiple fronts that can be activated or dialed down independently of any formal truce. This proxy architecture makes de-escalation more

⁴ Dahan, Maha El, et al. "Exclusive: Iran Attacks Wipe out 17% of Qatar's LNG Capacity for up to Five Years, QatarEnergy CEO Says." *Reuters*, 19 Mar. 2026, www.reuters.com/business/energy/iran-attack-damage-wipes-out-17-qatars-lng-capacity-three-five-years-qatarenergy-2026-03-19/.

complex, as you need not only Tehran's buy-in, but also varying degrees of compliance from semi-autonomous local actors.

Tehran is now explicitly demanding a new Gulf security architecture and recognition of its interests in Hormuz and the region; that is far beyond what Washington, Israel, or many Gulf states are currently willing to concede. Without a realistic political formula that addresses these structural issues, military operations can pause under temporary ceasefires, but the underlying confrontation is likely to persist in various forms.

Long-Term Effects and Adaptations

History shows us that human ingenuity and capital reallocation routinely exceed the pessimistic scenarios that prevail during crises. The 1973 oil shock did not produce permanent energy scarcity. It produced a decade of the most rapid gains in energy efficiency and alternative fuel investment the world had ever seen. The largest reduction in fossil fuel use as a share of the economy came in the decade after the Arab oil embargo, not in the decade after the Paris Agreement. National and economic security concerns are often stronger motivators for policy change than environmental ones.

One of the outcomes of this crisis will likely be a growth in solar and wind power as they are domestic energy sources that are not subject to the geopolitical risk of maritime chokepoints. The increasing renewables share will also necessitate an increase in grid battery storage.

Renewables now make up a record 49.4% of the world's energy capacity, up from 46.3% in 2024, led by plummeting costs for solar and wind. Over 90% of new renewable energy projects are now cheaper than alternative fossil-fuel-dependent sources.⁵

Additionally, high commodity prices will push chemical production, energy exploration, and LNG infrastructure to expand in new geographies, eventually reducing those commodity prices. The cure to high prices is high prices.

Portfolio Changes

In March, we reacted to this crisis by selling off the positions that appeared to be most exposed to input cost increases or demand disruption due to larger macroeconomic headwinds. This included Air Canada (ACDVF), Core Molding Technology (CMT), and TFI International (TFII). We also reduced our exposure to Japanese equities and sold some of our Georgia Capital (CGEO) holding which had grown significantly.

We added two new companies to the portfolio, Petróleo Brasileiro, better known as Petrobras, (PBR) and SM Energy (SM). Although we have invested in other types of energy sector companies in the past, this is the first time that Blue Tower has invested in oil and gas exploration and production stocks. We typically do not invest in these commodity stocks as we prefer to invest in companies with strong barriers to entry, higher earnings quality, and lower maintenance capital expenditure requirements. Given the idiosyncratic strengths of these two companies and current

⁵ Bove, Tristan. "After Renewable Power's Record-Smashing 2025, the Iran War Could Accelerate the Shift as Countries Seek "Structurally More Resilient" Energy, UN Says." *Fortune*, 2 Apr. 2026, fortune.com/2026/04/02/high-energy-prices-iran-accelerates-renewable-transition-un-says/. Accessed 12 Apr. 2026.

prices, we believe they are attractive opportunities and also help balance out the risk exposures in the rest of the Global Value portfolio.

Many investors appear to be suffering from an assumption that commodity markets will quickly revert to pre-conflict conditions. This bias represents the kind of mispricing that shrewd and fundamentals-focused investors serve to correct.

As always, I am grateful for your continued confidence in Blue Tower. The road ahead will not be smooth, but I will do everything I can to navigate us through it. Please contact me with any questions you have.

Sincerely,

Andrew Oskoui, CFA

Portfolio Manager

Disclaimer: This commentary does not represent a recommendation to trade any particular security, but is intended to illustrate Blue Tower's investment approach. These opinions are current as of the date of this commentary but are subject to change. The information contained herein has been obtained from sources believed to be reliable but the accuracy of the information cannot be guaranteed. Past performance is no guarantee of future results.