Ivory's Economic Outlook

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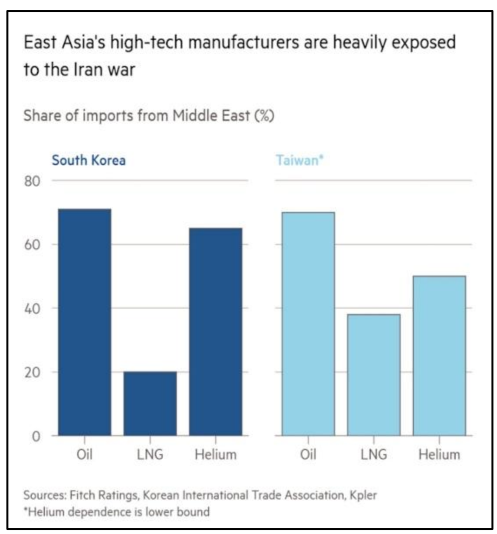
"Sometimes you're so smart you're stupid."
Ivory Johnson, Sr., Retired Accountant

I wrote an article for CNBC in November of 2011 when I was trying to make a name for myself. It was entitled "Is the European Union too Complicated to Fix?". In it, I described the EU as a body that believed nations who trade together stay together, preferring bottom lines to bombs. I was in my bag, explaining how the European Commission and Council of Ministries work, the difference between supra nationalism and intra-governmentalism after a discussion on the European Financial Stability Facility.

My dad was a retired CPA, not as smart as my mother or sister (who was brilliant), but sharp as a tack. If there was anyone who would appreciate my expertise, and my hustle, it would be him. I let pops read the article on a visit to Florida with my chest all poked out when he said, "I don't know if you're trying to communicate or just look smart, but nobody reading this will know what the hell you're talking about". And then he went to the refrigerator to make himself something to eat.

There are times when things need to be communicated and times when those things are complicated and these are one of those times. Fortunately, the current environment is easy to explain, and I'll do my best to use analogies and layman's terms, but stick with me because this is important. This is also nothing to hyperventilate about; it's just data to help us make better decisions. I'm not trying to predict outcomes; I just want to know the odds of different outcomes happening so the mistakes I know I will make hopefully won't be too big to overcome.

Let's start with the obvious: the war (or whatever they choose to call it) in Iran has economic consequences that are difficult to quantify because there are too many unknown variables. What we do know is that 20% of the world's oil, 20% of the liquified natural gas[i], 50% of nitrogen rich urea fertilizer[ii], 30% of the helium[iii] and 45% of the global sulfur[iv] is transported through the Hormuz strait, which as of this writing, is closed to most traffic. Each of these commodities is important for a variety of reasons, have different use cases and adhere to diverse timelines for different reasons as I will explain. Also, the commodity bottleneck tells only half the story.



Now for the first analogy: a construction company often needs a bond to obtain a license and secure work on large public projects. Its purpose is to guarantee that the company fulfills their contractual obligations, comply with laws, pays suppliers and provides financial protection for project owners. Without a bond, there is no avenue to secure a contract. Either you have it or you don't.

Cargo ships that travel through the Hormuz strait are required to have adequate insurance. I won't describe in detail the various layers of the global maritime insurance industry except to say that ships will not sail without suitable coverage because no port will accept them, no cargo owner will load them, no bank will finance the voyage, and no charter will contract them.

Please note that insurers withdrew war risk insurance entirely[v], which means the tankers became contractors with no bond and could no longer bid for a government contract.

The insurance market has not withdrawn war coverage because they think every vessel will be attacked. It has withdrawn because the cost to verify the chances that any particular vessel will survive any particular transit now exceeds the income from insuring that transit. When risk cannot be modeled, it cannot be priced. When it cannot be priced, coverage is withdrawn. When coverage is withdrawn, the system largely freezes whether the underlying risk has materialized for any specific vessel or not. The coverage that now becomes available does so at premiums so elevated that they make shipping unprofitable[vi].

The bombs could stop tomorrow, the ceasefire could be announced this evening, and most of the ships would still not sail without affordable reinsurance. The situation would require mine sweeping, the formal withdrawal of "high-risk" designations by the Joint War Committee in London and then a remodeling phase for each vessel before market normalization can take place. That likely takes more than a couple of months. This is not a military problem; it is an actuarial impasse. The world's most important energy chokepoint is not closed by force, it is closed by spreadsheet, and each drone attack, each siren, each boot on the ground is a new data point that restarts the clock on normalized traffic.

Johnson & Johnson's baby powder is essentially talcum powder that smells good. Most talc mines are close to the surface so miners can drill holes, place charges in them and scoop up the resulting ruble. Talc and asbestos mines, however, are so chemically, geologically and structurally similar that the veins of one another are often sandwiched between or ribboned with the other. Once intermingled, talc and asbestos are impossible to separate.

According to "No More Tears", Johnson & Johnson operated a talc mine a few hundred yards from an asbestos mine operated by Vermont Asbestos Group, three miles from what was once the largest chrysotile asbestos mine in the United States and the two minerals became entangled. Nevertheless, year after year, the company denied the presence of asbestos, lied to regulators and created false studies. Over 90,000 Johnson & Johnson talc lawsuits have been filed nationwide and J&J's proposed $8 billion ovarian cancer settlement was rejected by a bankruptcy judge in March 2025, the company's third failed attempt at using bankruptcy to avoid talcum powder lawsuits. To date, nobody has gone to jail; several named executives received promotions.

It is hard to unscramble scrambled eggs, but I am optimistic that a solution is available. The United States responded to the Hormuz bottleneck by offering to escort tankers with navy vessels. First, it'll take a few weeks from this writing to begin, second, it does nothing to solve the lack of insurance. The administration addressed the latter concern with a $20 billion commitment through the Development Finance Corp (DFC)[vii], but they don't cover the loss of life or environmental cleanup costs that would threaten a transporter's solvency if an oil spill affected a desalinization plants and shorelines. This is a band aid on a stab wound, and it does us no good to argue about who is holding the knife. We might subscribe to different religions, but we're all praying for the same things now.

Still, there are other ways to resolve the bottleneck. For starters, the gulf states can buy drone defense technology from Ukraine, Treasury Sec. Scott Bessent is brilliant, and other options will eventually emerge to backstop the reinsurance market. One possibility is the Terrorism Risk Insurance Act (2002) that protects consumers by ensuring the availability of insurance after 9/11 for a certified act of terrorism. Insurers pay deductibles, with the federal government covering 80% of losses above that, up to a $42.7 billion threshold. There are the Arab War Risk Insurance Syndicate and Omani Security Corridors which can be expanded to solve the problem. The United States might also enlist a third-party country to facilitate a ceasefire.

TSA employees would tell me to temper my expectations that governments will come to the rescue, but Treasury Sec. Scott Bessent is undoubtedly explaining to Capitol Hill what we're facing right now. Forget oil prices for a moment. It is estimated that 30% of the world's helium is produced in Qatar as a byproduct of their gas production. Helium is used to cool the wafers in the chip manufacturing factories. Every AI chip, every smartphone processor, every data center GPU in the current generation traces its manufacturing lineage through a helium-cooled process. If fabs run dry, the production lines stop. Not slow. Stop. MRI's and aerospace systems also need helium to function. In a perfect world we would stockpile helium, except helium cannot be stockpiled because it evaporates.

Time is not on anybody's side. Why? Because 30-50% of all fertilizer in some form passes through Hormuz and it is planting season. Politicians aren't a problem here; it's the calendar. If the fertilizer doesn't arrive during planting season, the food will not grow, if the food does not grow, developing countries who cannot pay the higher fertilizer prices will not have food and the developed nations that have access to subsidies and capital will pass those costs to consumers. In this instance, food prices may skyrocket for the fortunate and create food insecurity for people with no money.

AI is also connected to the Middle East because South Korea and Taiwan receive over 70% of their energy from the Hormuz Strait[viii] and the world has 400 barrels of oil in reserve that is being released to cover approximately 28 days until that cushion is depleted[ix]. South Korea produces 60% of the memory chips[x]. Taiwan produces 90% of the GPU chips[xi]. Their factories run 24 hours a day and if they stop running for any reason there is no cold start. Instead, it would destroy those in-process wafers worth hundreds of millions of dollars and create restart timelines measured in weeks, not hours.

Finally, 45% of all sulfur passes through the strait and you cannot produce fertilizer, copper or silver without sulfur and you cannot build an AI data plant without copper or silver. The artificial intelligence industry has collectively invested $2 trillion[xii] in the infrastructure. The AI data centers need copper and silver. The energy grid will need to be upgraded to accommodate the demand. The grids will also need copper and silver. I know what you're thinking: what happens to the AI industry without enough sulfur or if they can't get computer chips because the factories in South Korea and Taiwan don't get enough helium or energy in time? Answer: I don't know. The point I'm trying to make is that there is nothing more important than opening the Hormuz Strait, and while it's complicated, smart people can fix this.

This is where I'd like to land the plane, trust me, but if it's not one thing it's fifty. The petro dollar arrangement essentially means the gulf states sell oil in U.S. dollars so there is a systemic demand for our currency. That's why we can print money and run up $39 trillion in debt. The gulf states also use their oil profits to buy U.S. financial assets. The Saudis, for example, have $1 trillion of our stocks and bonds[xiii]. The only deliverable on our part was to protect them and we're not doing such a swell job of that right now.

Hormuz strait traffic has collapsed by 70 to 80 percent, but a handful of tankers from non-U.S. or Israeli interests transit each day with Iranian clearance, paid in the Chinese yuan or a stable coin known as Tether, at $2 million to $4 million per vessel. In that sense, Iran isn't fighting a military war, they're attacking the petro dollar. They never closed the strait. What Iran did is convert 21 miles of international waterway into a permissioned gate with a $2 million toll booth, a vetting process, and a guest list[xiv].

Lloyd's of London and the international insurance market have withdrawn standard hull and machinery coverage for Hormuz transits. Today's war-risk policies carry exorbitant premiums, but the actuarial models that price those premiums now incorporate Iran's vetting status as a risk-reduction variable. If a vessel can prove it has paid the toll and received clearance, the probability of loss drops from above 20 percent to below 5 percent. The same models that price hurricane risk and earthquake exposure are now pricing compliance with Iran as a safety factor. The insurance industry has formalized Iran's authority over the strait in actuarial mathematics priced in another currency. As the youngsters like to say: it just got real.

How do you allocate capital in this environment? It's hard, anything can happen, and guess what, you can't put your head in the sand and wait for the boogey man to go away with this many potential outcomes. Yes, we are trying to put the toothpaste back in the tube in the Middle East, but that doesn't mean we have to get cavities. A few ways to hedge these potential events are to buy gold and ride out the volatility. You can also buy commodities, reduce your tech position and hold enough stocks to participate in the rebound. The best performing asset class since the war is bitcoin. I can't call it. Every 15 minutes there's new information that changes the dynamics.

My father peacefully passed away on March 13th at home surrounded by family. My guess is he wouldn't like this newsletter very much because he thought life was much simpler than the way I sometimes make it out to be. In fact, if he were around, he would have told the White House that every closed eye ain't sleep.

And then he would have walked away,

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[ii] *Iran war-induced fertilizer shortage threatens Republicans in farm states ahead of midterms; CNBC; 3/19/2026*
[iii] *The Iran war is threatening supply of a little-thought-of resource — helium. What it means for markets; CNBC; 3/19/2026*
[iv] *These Crucial Non-Energy Commodities Also Face a Hormuz Squeeze; Wall Street Journal; 3/9/2026*
[v] *Maritime insurers cancel war risk cover in Gulf as Iran conflict disrupts shipping; The Guardian; 3/2/2026*
[vi] *Insurers to cancel policies and raise prices for ships in Gulf and Strait of Hormuz; Financial Times; 2/28/2026*
[vii] *Trump's War Insurance Decree Meets Reality; CATO Institute; 3/17/2026*
[viii] *The Strait of Hormuz is facing a blockade. These countries will be most impacted; CNBC; 3/3/2026*
[ix] *IEA Member countries to carry out largest ever oil stock release amid market disruptions from Middle East conflict; IEA; 3/11/2026*
[x] *The $9 Billion Chip Plant Stuck in Limbo of US-China Rivalry; Bloomberg; 1/22/2024*
[xi] *Nvidia Stock's $5 Trillion Taiwan Risk; Forbes; 11/24/2024*
[xii] *Dust to data centers: The year AI tech giants, and billions in debt, began remaking the American landscape; CNBC; 12/31/2025*
[xiii] *What's behind the $8 billion hit to Saudi Arabia's massive wealth fund; CNBC; 8/14/2025*
[xiv] *Iran's $2 Million 'Pay-to-Pass' Fees Reportedly Emerge in Strait of Hormuz; Yahoo News; 3/24/2026*