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Printed 3/18/2026

# The Battle of Hormuz

March, 2026

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And the *Fourth Turning* continues to turn.<sup>1</sup>

As you may recall from our previous notes, Neil Howe and William Strauss coined the term Fourth Turning to describe crisis periods throughout history. These periods tend to arise every 80 to 90 years, when the existing system no longer works for the majority of society. Historically, these crisis periods break apart aging structures to make way for new ones. The question, however, is always the same: **what will the new system look like?**<sup>2</sup>

This breakdown has become evident across nearly every aspect of society—political parties, global alliances, organized religions, civic organizations, the media, higher education, and both college and professional sports. In fact, it is difficult to find any part of our society that seems to be functioning more smoothly than it was 20 years ago. And despite an unprecedented number of technological advancements, many people still long for the “good old days,” when we debated our favorite sports teams or restaurants rather than politics and our place in the world.<sup>2</sup>

As a portfolio manager, my role is not to weigh in on what *should* or *shouldn't* happen, but rather to assess what is *likely* to happen and position accordingly.

With that in mind, it is not surprising that the United States has made a move on Iran as the Middle East has once again become central to global trade. Technology and compute are the oil and steel of the 21st century, and it has become clear that the West needs reliable partners in Asia and the Middle East to secure systemic assets such as semiconductors, critical minerals, and dependable energy routes. The Strait of Hormuz and the Red Sea are two of the most critical passages in the world—not just for oil, but for the future of technology.<sup>6</sup>

This is not a new phenomenon. Big Tech has been spending billions of dollars building infrastructure across the Middle East to connect Southern Asia through Europe and on to North America. This effort is now commonly referred to as the **India–Middle East–Europe Economic Corridor (IMEC)**, announced in 2023 as a strategic alternative to China's **Belt and Road Initiative (BRI)**.<sup>3</sup>

Furthermore, the **Pax Silica Alliance** began to take shape last December with the goal of securing critical technological supply chains and reducing reliance on China. To date, the US, Australia, Greece, India, Israel, Japan, Qatar, the Republic of Korea, Singapore, the UAE, and the United Kingdom have joined. Economic security has always been a form of national security, but technology—and artificial intelligence in particular—will play an increasingly dominant role, as evident by the nature of modern warfare surrounding Iran.<sup>5</sup>

Many commentators focus on regime change, nuclear threats, the legality of war, or whether Israel forced the United States' hand. In my assessment, these arguments miss the point. This conflict is fundamentally about the United States and China, and the AI arms race that will ultimately determine

the chief architect of the next global system. Iran and Israel are frontline proxies in a much larger contest. Iran's ability to disrupt the Strait of Hormuz represents a major security risk to IMEC and the broader Pax Silica framework.<sup>6</sup>

When China entered the World Trade Organization in 2001, its economy was approximately \$1.3 trillion, accounting for roughly 4% of global GDP. Today, it stands near \$20 trillion and represents about 17% of global GDP. At the time, Western leaders viewed China as an emerging economy and believed that WTO integration would lead to democratization and more reliable partnership. However, once Xi Jinping assumed power in 2013, it became clear that China was shifting back toward a more Maoist-era ideological posture.<sup>9</sup>

Despite this shift, the West continued to relocate critical supply chains to China, jeopardizing national security in exchange for cheaper labor.

Xi formally introduced the Belt and Road Initiative in 2013. Since then, it has become one of the largest infrastructure and investment projects in history, spanning more than 68 countries along historic land and maritime trade routes, with extensions into Africa, Latin America, and the Caribbean. China's strategy has been to finance infrastructure through loans, gaining access to new markets and expanding global influence in return. A notable example occurred in 2023, when Iran and China entered into a \$400 billion partnership that allowed China to purchase roughly 90% of Iran's oil, while supplying Iran with weapons systems and materials for ballistic missiles.<sup>10</sup>

While it is clear that Western nations have been asleep at the wheel for the past two decades as China executed this strategy, China does have a significant vulnerability that the United States does not. China imports roughly 70% of its oil, and approximately 40% of that supply passes through the Strait of Hormuz. As a result, control of Hormuz is a critical issue with long-lasting implications for both China and the United States.<sup>6</sup>

For years, thinkers such as Graham Allison have warned that World War III is inevitable, or that China will inevitably take over the United States as the dominant global power, following the historical pattern of fallen empires. Yet despite deep ideological differences, **neither power can afford a true great-power war**—one that would destroy the very technological and energy lifelines both sides are trying to secure.<sup>11</sup>

Instead, I believe both nations ultimately seek economic predictability, secure supply chains for critical resources, reduced trade imbalances, a fair international monetary system, and a dependable global reserve currency—the same objectives pursued by delegates eighty-two years ago when the Bretton Woods system was designed.<sup>12</sup>

As the Fourth Turning continues, I believe we are witnessing the emergence of a **bi-polar alignment**—not the globalization model of the 20th century, but a structured, dual-standard system in which both sides agree on the rules of the road for the age of artificial intelligence. Just as Bretton Woods provided a framework for a world weary of chaos, a new technological and monetary accord is likely to emerge—one that offers a healthier, more predictable, and more durable system than the one we are leaving behind.<sup>2</sup>

Please feel free to reach out if you have any specific questions.

All the Best,

Gray

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