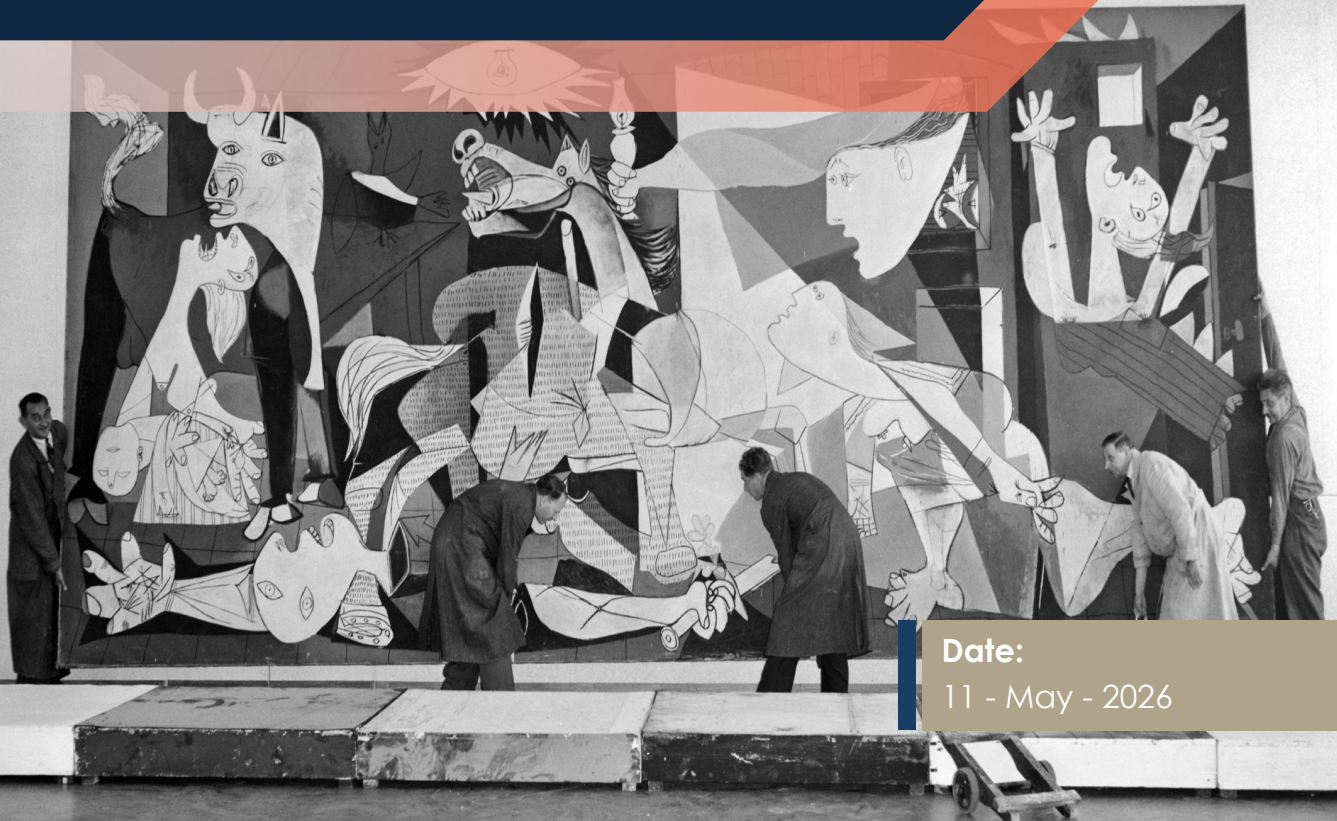




HEYÓKHA
BROTHERS

Reflection: An Appetite for Destruction

Q1 2026



Date:

11 - May - 2026



“The old world is dying,
And the new world struggles to be born”

– Antonio Gramsci,
philosopher and former Deputy of the Kingdom of Italy (1930)

“At the heart of capitalism is creative
destruction”

– Joseph Schumpeter,
political economist and former Finance Minister of German-Austria (1942)



The Story: An Appetite for Destruction

This was not a quiet quarter. A war broke out in the Middle East, oil futures jumped, and a number of small things happened around the dollar that, taken together, look bigger than any of them in isolation. We want to spend most of this letter on those small things.

The old world has been dying for a while. Q1 2026 was the quarter it stopped pretending otherwise.

By “the old world” we mean something specific: the dollar-centric, US-led global system that has run the show since Bretton Woods in 1944, created the petrodollar in 1974, and depended on US Treasuries as the safe haven of last resort. Washington set the rules because Washington paid the bills. That arrangement is coming apart, slowly and almost bureaucratically, in ways you can see if you look.

We called the Story “Appetite for Destruction” because destruction of the old is usually the beginning of something new. Both of our epigraphs are about that: Gramsci on political orders that have collapsed before the next one is ready, Schumpeter on the churn that lets capitalism actually move forward. Different arguments, same old pattern: things end before new things begin. The investor’s job is to be well positioned while it happens.

We believe we are.

What follows is our attempt to explain, in three moves, why the destruction in Q1 2026 is not a tragedy to be mourned but a cycle to be recognized. First, *what broke* (Hormuz 2026, and the uncanny Suez 1956 parallel). Second, *why breaking is how systems renew* (the creative-destruction lens). And third, *where the portfolio is positioned* while the dust settles (the thesis, reaffirmed).



Hormuz 2026, Suez 1956: How Empires Run Out of Road

Oil is what everyone is watching. The story we find more interesting is the one that isn't getting enough headlines.

In the northern corridor of the Strait of Hormuz, the Islamic Revolutionary Guard Corps (IRGC) was reportedly charging a transit fee on tankers, roughly USD 1 per barrel of crude on board. For a Very Large Crude Carrier hauling 2 million barrels, that works out to a USD 2 million toll, payable before safe passage. Unremarkable as a number. The payment instructions, if the reporting is to be believed, were not.

According to multiple market reports, the fees were being settled in yuan, cleared through Kunlun Bank on CIPS (China's cross-border payment system, the deliberate alternative to SWIFT), and/or allegedly in Bitcoin and Tether, transferred to Iran-controlled wallets in real time. Once a transfer landed, the tanker captain reportedly received a VHF-broadcast passcode and was waved through. We use the word "alleged" here as one of the on the ground reports we follow reported their shipping sources in the Strait utilized a more diplomatic channel rather than fully paying in yuan. This is not fully verifiable from where we sit, but if the majority accounts hold up, the dollar was not involved at any stage. Neither, in any meaningful sense, was Washington.

If even part of this story is true, this is the quieter Q1 2026 event and yet probably the more important one; In the middle of a shooting war, a major oil producer appears to have built a working toll booth on the most important trade route in the world that skipped the dollar entirely.

The petrodollar arrangement (the 1974 deal between Washington and Riyadh that made the dollar the world's energy currency for fifty years) had been weakening for a while as Saudi Arabia had already walked away from dollar exclusivity two years ago. Iran simply struck a match near the kindling.

Ray Dalio, founder of Bridgewater Associates, one the world's largest hedge funds, has spent recent years arguing that we are living through the end of a long-term debt cycle, a transfer of reserve-currency power not unlike Britain's handover of the baton in the mid-20th century. He points, specifically, to 1956. So do we.

Figure 1: Newspaper headlines in 1956 vs now in 2026. The similarities are uncanny.



Source: The Manila Times, The Hill



In October 1956, Britain and France invaded Egypt to retake the Suez Canal after Nasser nationalised it. Militarily it went well. Financially it was a catastrophe. Washington, furious at not being consulted, threatened to dump its sterling reserves and collapse the pound. Prime Minister Eden was out within weeks.

The lesson here:

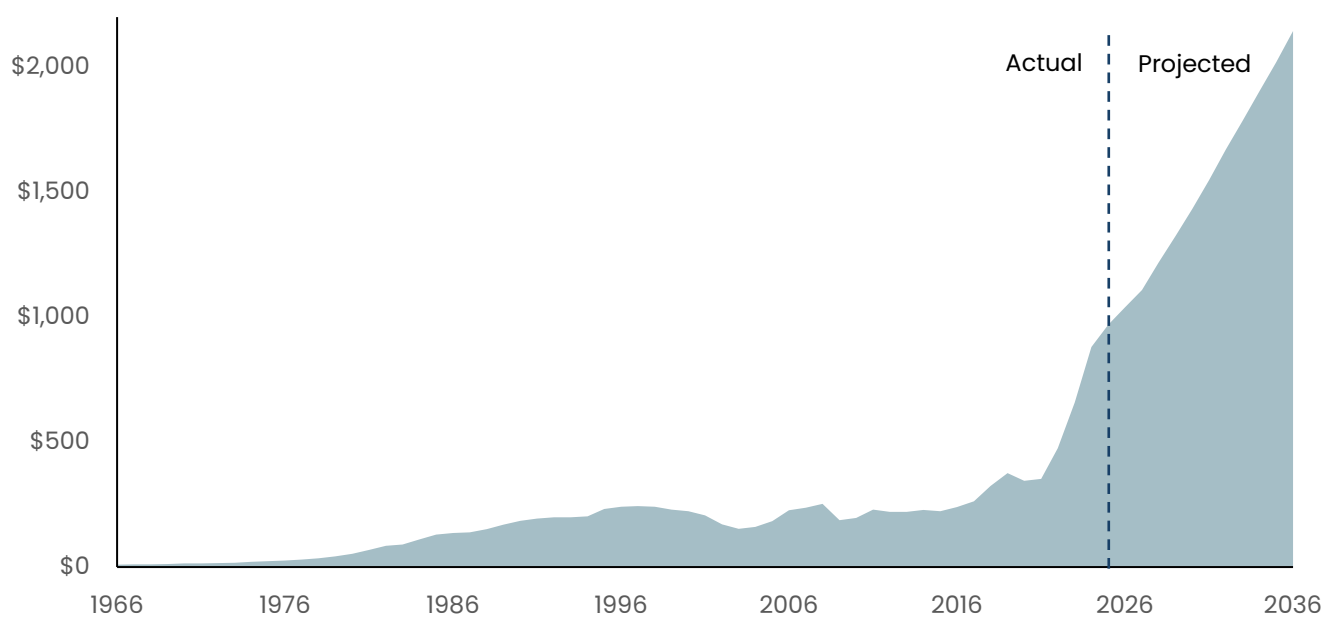
The moment your currency can be weaponised against you by your own allies, your empire is already over.

Here is what makes 2026 disquieting. In 1956, the United States was the creditor threatening the debtor. Today, the United States is the debtor.

Federal debt-to-GDP sits above 122%. Net interest payments will consume about a fifth of tax revenues this year, roughly a trillion dollars.

And the cost is steep. A USD 29 trillion Treasury market has to refinance roughly USD 9-10 trillion in the coming year. Huge chunks of that were issued in 2020-2022 at coupons of 0.5-1.75% and are now rolling over into a 4-4.5% market. A 3-8x increase in the coupon on the rolling portion is not sustainable by any reasonable arithmetic.

Figure 2: How will the U.S. pay all this? Interest costs on the national debt are rising to historic levels
Net interest in billions of USD



Source: Peter G. Peterson Foundation, CBO



On the ground: how are people reacting to the war?

About a month into the war, one of our analysts walked into a BYD dealership in South Jakarta to see whether any of the Hormuz anxiety had reached the ground.

He expected some people as it was a weekend, but the showroom was chock full.

Rivai the salesman told him customer traffic had surged since the fighting started, and that almost every customer cited the same reason: fuel costs and better comfort and value than Japanese ICE cars.

Buyers were doing the math in their heads after seeing the cost of gas go up and were signing off on electric cars right then and there.

As of this writing, EVs make up 15.9% of new car wholesales in Indonesia, compared to roughly 6.5% in the U.S.

Our analyst included. He is very happy with his purchase.



Barely any seats available for visitors to sit



This is what the buyers tally board looked like in just 12pm. Already so full.

The Fed's independence continues to be tested. Speaking at HSBC's Global Investment Summit in Hong Kong this quarter, former Fed Chair Janet Yellen was unusually blunt:



"How often does the President of a developed country express the view that interest rates should be set to reduce the debt service cost? This is what you hear in a banana republic.

"Managing interest rates for the sake of the government budget has led to "hyperinflation" in some countries"

Janet Yellen, former Federal Reserve Chair (2014 to 2018)



When the government leans on the central bank to print its way out of its own liabilities, the currency stops being the benchmark and starts being the variable. With three live conflicts at the same time (in Ukraine, the Middle East, and the slow-burning stand-off with China), all of them are reaching for some version of emergency finance. In that environment, private savings get mobilised to fund defence, and the return on capital becomes whatever is left over.

The parallel becomes clearer when you put the numbers next to each other. Britain, at the moment its empire ran out of road in 1956, looked uncomfortably like America does today.

Figure 3: Britain 1956 vs America 2026: Two Empires, Same Arithmetic

	UK, 1956	US, 2026
Public debt / GDP	145%	122%
Defence spending / GDP	7.6%	3.4%
Home currency share of global FX reserves	55% (down from 87% in 1947)	58% (down from 72% in 2001)
Simultaneous military commitments	Malaya, Kenya, Cyprus, Suez	Ukraine, Middle East, Indo-Pacific

Source: UK debt/GDP, OBR "300 Years of UK Public Finance Data" and OBR "Post-World War II debt reduction" (peak ~238-270% in 1947, 127pp of decline in the first post-war decade). UK defence spending, UK Parliament, "Defence Expenditure as a Percentage of GDP, 1955-2014." Sterling reserves, Avaro (2020), "Zombie International Currency: The Pound Sterling 1945-1971"; Eichengreen & Flandreau, NBER WP 14154. UK military commitments, UK Parliament Hansard, April 1956. UK vs US size, 1950, The Globalist, "Could Britain's Past Be America's Future?" US 2026 figures, U.S. Department of War, CBO, IMF COFER, SIPRI, Heyokha Research.

We don't think any of this is happening by design. There is no secret council and no grand ambition to bury the dollar order; the system is just running out of money. GDP cannot grow fast enough to repay the debts. It is simple math.

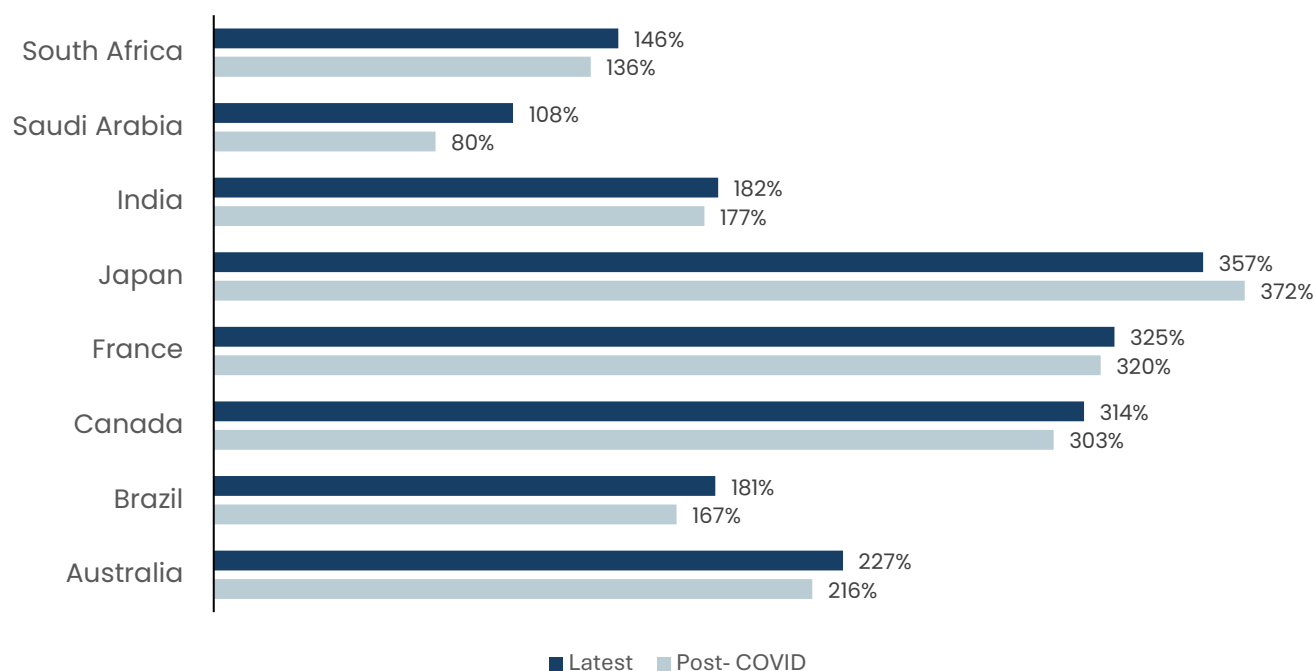
Financial repression (the engineering of negative real rates and the quiet commandeering of private savings to finance government debt) is what governments reach for when every other option has been exhausted. Japan's USD 5 trillion in overseas portfolio assets, accumulated over decades of current-account surpluses, is the kindling.

The Eurozone's offshore holdings sit in the same pile. A growth shock in Tokyo, already visible in the credit data, could repatriate capital at a scale that rewrites global markets almost overnight. And the dollar is not being abandoned in isolation.



The uncomfortable truth is that most of the world's major economies are in the same predicament America is. The US losing its footing is the headline; the balance sheets below are why no alternative sovereign story is particularly comforting either. We flag this as a risk to keep on the radar.

Figure 4: Total non-financial debt to GDP Most major economies sit at or above post-COVID lows
Post-COVID (2022 - 2024) vs latest available



Source: BIS, Heyokha Research

Note the latest data. For most of the world's major economies, non-financial debt sits at or above post-COVID lows. Several, including South Africa, are at all-time highs. This is not a cycle any of them can grow out of. It is one that has to be financed. And the only tools left for financing it are inflation (which erodes the real value of the debt over time) or financial repression (which pushes private savings into below-market sovereign paper). Neither is good for fiat money.

Iran taking renminbi for oil is part of a larger pattern. De-dollarization began with central banks holding fewer Treasuries and more gold. It has since broadened to trade itself, with oil allegedly settled in RMB, Bitcoin, and Tether.

The deeper problem is that most countries face the same problem: debt-to-GDP at multi-decade highs and central banks that may not be able to raise rates without pushing governments into financial distress. As trust in fiat erodes, the rotation will not stop at swapping one flag for another. It moves out of fiat altogether. That is de-fiatization. What happens next?



From Destruction, Something New

Joseph Schumpeter, a political economist, borrowed the phrase “creative destruction” from 1930s economic writing and made it his own in 1942.

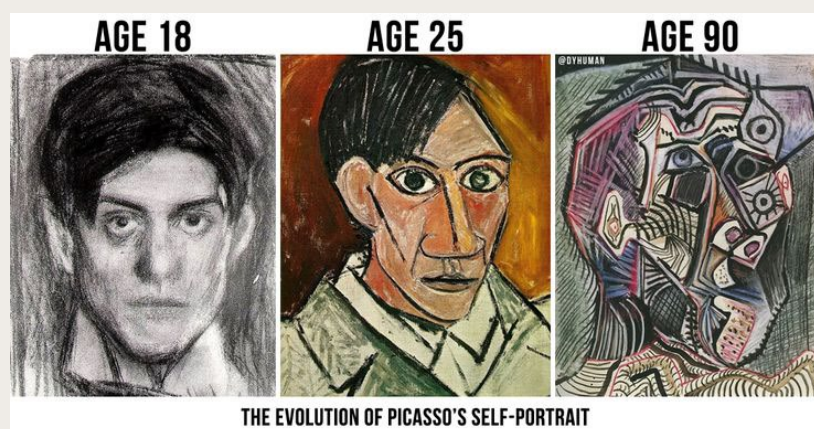
His argument was simple. Capitalism is not a steady state. It is a process. Old ideas, old firms, old technologies are constantly being pushed aside to make room for new ones. That isn't a bug in the system; it's how the system works.

Schumpeter was not comforted by the idea. He understood that destruction is genuinely destructive. The people and industries are not merely inconvenienced; they are displaced. But he also understood that the clearing is not optional. It is how renewal happens.

A small note on creation

“Every act of creation is first an act of destruction.”

Pablo Picasso



Picasso spent his early career mastering classical realism. By his teens he could paint anatomy and perspective as well as anyone alive. Then, around 1907, he threw most of it away.

Cubism broke the rules of Western perspective that had been held since the Renaissance. His paintings have since sold for well over USD 100 million at auction. Had he stuck with realism, he would be a footnote.

The investors who matter in any cycle are not the ones mourning what broke. They are the ones who saw, before anyone else, that the old form was already spent.



We write to you not just as commentators on what has broken, but as investors in what will be built next. That distinction matters. Destruction and opportunity are two sides of the same coin.

When the old monetary architecture fractures, capital does not disappear, it moves. When trust in fiat erodes, trust in physical assets firm up. When supply chains fragment, the assets that benefit are the ones the new order cannot avoid: energy, metals, real stores of wealth.

We have said this before. Our Q4 2024 letter laid out the death of the 60/40 portfolio and made the case for gold miners as the inflation trade. Our Q2 2025 Special Report on pricing power argued that the end of cheap-everything would re-price whole categories of real assets. Q1 2026 isn't a new theme; it's the same theme, compressed into eleven weeks.

If the last fifty years of markets have a single lesson for an investor, it is this: systems that run out of road always break, and the breaking always re-prices real assets. The pattern isn't mysterious or new. Four parallels worth keeping in mind, as a reminder rather than a forecast:

WHEN	WHAT BROKE	WHAT ROSE
August 1971 <i>Nixon closes the gold window</i>	Bretton Woods. The promise that the dollar was convertible into gold. The US simply could not afford to honour it any longer as its balance of payments deteriorated and allies began redeeming dollars for bullion.	Gold went from USD 35 to USD 850 an ounce over the decade. A 24-fold move. Not greed, not panic. The re-pricing of monetary trust is an accounting exercise that eventually completes itself.
November 1989 <i>The Berlin Wall falls</i>	The Soviet economic bloc collapsed under the weight of its own mis-managed, centrally planned economy. Not toppled from outside.	A decade-long boom in emerging markets. Capital poured into newly-opened economies, and commodity exporters in Asia and Latin America found the world coming to them.



WHEN	WHAT BROKE	WHAT ROSE
1997 – 1998 <i>The Asian Crisis and LCTM</i>	The Asian Financial Crisis tore through Thailand, Indonesia, Korea. Russia defaulted. LTCM, the supposedly bullet-proof hedge fund run by Nobel laureates, blew up. Faith in the post-Cold-War financial plumbing cracked.	Greenspan delivered the first true “Fed put.” Cheap dollars rushed back in and drove the Nasdaq to euphoric highs. When the Nasdaq crashed in 2000, the printing press did not stop, it accelerated, fueling the next two manias in parallel: the US property and subprime credit bubble at home, and a generational commodity supercycle abroad, led by China’s infrastructure build-out.
September 2008 <i>The global financial system fractures</i>	A generation’s worth of leverage, sold as safe. The “risk-free” wasn’t.	The Fed and the US Treasury threw a fortune at the financial system to stop the bleeding. The first asset class to run with the liquidity was not technology, as many now remember it, but commodities. Gold nearly tripled. Oil retraced and ran. China’s infrastructure machine kept the supercycle alive into 2011. Only later, once the commodity story tired, did the same flood of liquidity, then ZIRP and QE, suppress the cost of capital and inflate the record-setting technology bull run. The seeds of today’s inflation were planted in that same flood.

Each of these periods looks inevitable in hindsight but none were widely anticipated in advance. Yet the investors who positioned correctly weren’t clairvoyant. What they had in common was a willingness to look at the imbalances honestly and sit on positions through the noise. The sitting is the part that never gets easier.



The Portfolio Was Built for This



“Some people get rich studying artificial intelligence. Me, I make my money studying natural stupidity.”

Carl Icahn, Founder of Icahn Capital Management

This is a useful frame for what follows. We don't think we have a particular edge on AI, geopolitics, or on the next central-bank decision. What we think we have an edge on is noticing when an arrangement has run out of road. For close to six years, two forces have guided our allocation (which we covered in earlier reports, but bears repeating):

- De-fiatization:

The logical endpoint of de-dollarization. Bypassing the world's reserve currency is the first step; eroding confidence in paper money more broadly is the next. The result is a rotation of capital out of fiat and back into hard assets.

- De-globalisation:

Supply chains are fragmenting as energy, critical materials, and AI infrastructure become strategic assets rather than market inputs.

Q1 2026 accelerated these forces. The Iran war is inflationary in nearly every asset class it touched: oil and gas, freight, sulphuric acid, fertiliser, fuel for mining, fuel for everything. Tariffs sit on top of that as a direct consumer tax. And the dollar's eroding reserve status takes away one of America's greatest privileges: for decades, foreign central banks used their dollar reserves to buy US Treasuries. This helped absorb the extra dollars created by the US, keeping some of that money outside the domestic economy.

But if global demand for dollars and Treasuries declines, that buffer weakens. More of the excess money stays within the US, increasing the risk of inflation at home. The implication is clear: assets that cannot be printed easily become more valuable. That points toward real assets, hard money, and the companies that produce them.

Gold crossed USD 5,500 per ounce in January before the war and then sold off sharply when the conflict broke out. Counter-intuitive at first glance, but margin calls force people to sell what they can rather than what they want. The thesis is unchanged.



Russell Napier, one of our favorite financial historians and strategists, pointed out something that has stayed with us: "it will be the three new wars, in Europe/Ukraine, in the Middle East, and the Cold War with China, that will be the accelerant." His conclusion is the one we hold most tightly: "the money that government cannot control the supply of, gold being *primus inter pares*, will rise in value."

One war is enough to bend a central banker's spine. With three running at once, we struggle to picture the central banker brave enough to look his own government in the eye and raise rates into a war-time economy. That is not the kind of decision the people running modern central banks make. The path of least resistance is to accommodate, to print, and to apologize for inflation later. That path argues for hard assets over paper claims. The gold bull market has more structural fuel than consensus is willing to price.

Copper, silver, and the metals of the electrified future are under different pressures. Tariff-driven demand uncertainty on one hand, structural supply deficits on the other. The de-globalization trade does not cancel the electrification trade, it complicates it. Project timelines lengthen, and the result is higher prices paid sooner rather than less metal needed. On top of which, Western rearmament is its own copper cycle: missile systems, drone factories, hardened data centres all run on the same wire that EVs and the grid already need.

The resolution of that tension will take time. We are invested in the resolution, not the noise.

Our portfolio was not built in reaction to Q1 2026. It was built in anticipation of a world where the old order could no longer hold itself up. That world arrived this quarter.

We think the more interesting part is still ahead.

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