

MAY 2026

MARKET INSIGHTS

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WELLINGTON-ALTUS



MASTERY AND THE TERROR PREMIUM:

How Epic Fury can deliver a peace dividend

Mastery of energy, again

Winston Churchill, as first lord of the Admiralty, tied Britain’s fate to Persian oil. United States President Donald Trump’s war in Iran, centred on Operation Epic Fury, could do the same for the West by removing Iran’s nuclear shadow, resetting oil toward US\$60, and finally unlocking a modern peace dividend.

“Mastery itself was the prize of the venture.” Winston Churchill’s 1912–13 case for converting the Royal Navy from coal to oil—enshrined in historian Daniel Yergin’s *The Prize: The Epic Quest for Oil, Money, and Power*—captured the brutal clarity of a great power energy strategy: accept dependence to command the seas. That wager framed the last century. In 2026, as Epic Fury grinds through the Gulf and Brent trades above US\$100, the question is no longer whether oil confers mastery, but who holds it: a revolutionary theocracy astride the Strait of Hormuz, or a West intent on stripping the terror and nuclear risk now priced into every barrel out of the energy system—finally collecting a long-deferred peace dividend.

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“ *Mastery itself was the prize of the venture.*

- Daniel Yergin, on Winston Churchill’s 1913 argument ”

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Churchill's shift bound Britain's prosperity to distant wells and narrow waterways, welding energy supply to national survival. He understood that control of energy was not an adjunct to power, it was the metric. In April 2026, with Hormuz contested and Iranian missiles demonstrating reach beyond the Middle East, the same dilemma confronts policymakers and markets. Does the West still want that prize, and what is it prepared to stake to reclaim it from a regime that has spent half a century turning oil, terror, and nuclear brinkmanship into interchangeable tools of coercion? Assume Trump's campaign does what it is now on course to do: not merely reopen a chokepoint, but neutralize a nascent tactical nuclear threat which, left intact, would hardwire a doomsday premium into global energy prices for a generation.

Iran's war with the West has done what decades of shocks, embargoes, and "maximum pressure" could not: it has made the hidden tax on energy legible even on a Bloomberg screen. Strip out the terror and nuclear-risk premiums in a post-Trump-Iran settlement, and Brent does not belong north of US\$100; it sits much closer to the US\$60 level implied by underlying supply and demand and pre-war bank research. The gap between where oil trades in a world held hostage by a nuclear-ambitious theocracy at Hormuz and where it would trade if flows were secure and de-weaponized is more than a volatility surface. It is the unclaimed peace dividend of globalization, the energy market analogue of the windfall that followed the end of the Cold War, when the removal of an existential nuclear standoff released capital, confidence, and capacity back into the real economy.

The choice now facing the West is whether to lock in that outcome. Ending the Cold War removed the Sword of Damocles that had hung over every investment decision for half a century; a successful conclusion to Iran's nuclear extortion would do something similar for the 21st-century economy, collapsing a structural risk premium that has quietly taxed households, corporates, and sovereigns alike. The question, as Churchill would have recognized, is whether the West is prepared not just to win on the battlefield but to consolidate that victory into a new era of energy mastery, and to treat the potential verified removal of Iran's enriched stockpile and fuel-cycle capabilities as a security gain on the scale of the 1987 Intermediate-Range Nuclear Forces Treaty or the dissolution of the Soviet arsenal.

For Europe, the stakes are not abstract. Iranian missiles and drones have already shown that European Union territory and NATO logistics hubs sit uncomfortably close to the new strike envelope, shattering the illusion

that Gulf risk could be quarantined to energy prices alone. The deeper reckoning is with Europe's own energy strategy. The choice by many Western governments to anchor industrial policy primarily on climate targets—while neglecting cheap and secure supply—is now coming home to roost. Prosperity in an artificial intelligence (AI)-driven economy rests on abundant, reliable energy rather than on cheap consumer imports, echoing Churchill's insight that mastery of energy is mastery of power. That logic points north as well as east: Canada—with its hydrocarbons, hydropower, and critical minerals—looks less like a peripheral supplier and more like a potential resource superpower if it can cut through regulatory thickets and build the infrastructure to deliver secure barrels, electrons, and metals to allied markets.

U.S. hard power, the security backstop European, Canadian, and the United Kingdom economies long treated as a law of nature, now looks more contingent, more politically conditional, and more thinly spread across theatres. One could easily imagine Washington reverting to a post-First World War stance, turning inward to rebuild its real economy, and no longer willing or able to offer security as a global public good. A successful Trump-led settlement that removes both the nuclear overhang and the Hormuz chokepoint as instruments of coercion would not only stabilize Atlantic world energy supply but also underwrite a more credible NATO deterrent at lower long-run cost—replacing the ersatz "peace dividend" of underfunded defence with a genuine one built on reduced threat rather than wishful budgeting.

For investors, a decisive outcome in Iran would not just redraw maps in the Gulf; it would refashion term premia. As the nuclear and terror discounts bleed out of the curve, gilt yields and U.S. Treasuries alike would begin to reflect lower expected inflation and slimmer risk premia rather than recurring energy shocks. Credit spreads—particularly for energy-intensive sectors and fragile sovereigns—would compress as balance of payments and default risks ease. Equity markets would reprice in turn: structurally lower input costs and a thinner geopolitical risk layer would lift margins in manufacturing, transport, and consumer names, even as oil majors and defence stocks surrender some of their crisis rent. For the Square Mile and Wall Street, the real prize is not another trade on US\$120 Brent; it is the re-rating that comes when a structural doomsday premium is finally taken out of the system and the peace dividend—deferred since the end of the Cold War and repeatedly eroded by Iran—at last starts to be paid in cash flows rather than communiqués.

Churchill's ghost at Hormuz

On the first day of April 2026, as Brent traded just above US\$100, the world was relearning what Churchill meant when he called mastery the prize. As first lord of the Admiralty, he forced the Royal Navy off domestic coal and onto Persian oil, then secured that lifeblood by buying control of Anglo-Persian Oil. He knew the bargain: oil conferred speed and reach, but at the price of dependence on distant fields and fragile sea lanes. Hence his warning to Parliament in 1913 that “on no one quality, on no one process, on no one country, on no one route, and on no one field must we be dependent” and his insistence that safety and certainty in oil lay “in variety, and in variety alone.”

That decision created the modern energy system and placed Iran at its centre. Four decades later, as prime minister, Churchill confronted the second act of his own gamble when Iran's prime minister Mohammad Mossadegh nationalized Anglo-Iranian Oil Company's assets. The 1953 coup that restored the Shah was less a morality play than a confirmation that control over Iranian oil would be contested by empires, nationalists, and, eventually, revolutionaries. Churchill's instinct to secure supply at the source and to dominate the sea lanes that connected it to Britain established a strategic architecture with a simple premise: mastery of energy flows was indistinguishable from mastery of global power.

The twist came in 1979, when that architecture was seized by those it had previously constrained. The Iranian Revolution toppled the Shah and installed Ayatollah Khomeini's theocracy—a regime that viewed the U.S. as the “Great Satan,” embraced terrorism as statecraft, and sat astride the Strait of Hormuz. Oil workers struck, production collapsed, and prices more than doubled. The world discovered that the geographic fulcrum Churchill had chosen could just as easily be pulled by a revolutionary fist. From that moment, the markets began to price an Iran terror premium. It was distinct from OPEC's cartel pricing power or conventional war risk. It recognized that a state sponsor of terrorism—with a web of proxies and control over the narrow channel through which roughly a fifth of seaborne oil must pass—would periodically weaponize that position. Each tanker attack in the 1980s “Tanker War,” each Hezbollah bombing, each missile launched at a Gulf facility added a sliver to that premium. Over time, slivers hardened into a slab.

Churchill's maxim was inverted. Variety still existed geologically, with new barrels from the North Sea, Alaska, and deepwater, but strategically the system was again anchored on a single actor most willing to turn energy into a cudgel. Where Churchill had sought safety through variety, the world lived with uncertainty concentrated in one revolutionary capital. And where he had seen mastery as the prize of bold, deliberate ventures, mastery of energy risk quietly migrated to a regime that treated terror as an operating model.

How terror became a line item

The terror premium is no longer an academic calculation; it is a visible spread. In calmer phases of the cycle, geopolitical risk barely nudges price forecasts. In crisis, as in early 2026, the gap between pre-war expectations for oil and the levels seen when Hormuz is threatened yawns wider, and futures curves kink as traders try to price the possibility of disruption. Even if part of that is fear and temporality, the underlying message is obvious. There is a structural surcharge on every barrel to account for the probability that Tehran or one of its proxies will, at some point, take terrorist action.

That surcharge has a history. The 1973–74 oil embargo revealed how quickly geopolitics could quadruple prices, but Iran was then still an ally. The true discontinuity came with the 1979 revolution and the Iran-Iraq War. The Tanker War saw mines in the Gulf, neutral shipping attacked, and U.S. naval forces drawn in to reflag and escort tankers. Washington's 1984 decision to designate Iran a state sponsor of terrorism, off the back of Hezbollah's bombing of U.S. Marines in Beirut, made explicit what markets had intuited: one of the central suppliers to the system was also its most committed saboteur.

In the decades since, each escalation has ratcheted the premium higher. Iran's nuclear program, its investment in Hezbollah, Hamas, Iraqi militias, and the Houthis, its attacks on Saudi infrastructure in 2019, its role in Hamas's Oct. 7, 2023 massacre, and its sponsorship of Houthi strikes on Red Sea shipping have all translated into higher base prices and fatter risk tails. Each diplomatic attempt to park the problem—most notably the 2015 nuclear deal—shaved a little off temporarily but never eliminated the underlying risk. The slope of the long-run price path steepened even when nominal prices fell.

The February 2026 war crystallized what had previously been an accounting identity. The U.S. and Israeli strikes on Iran's nuclear and military infrastructure triggered Tehran's maximalist response: mines laid in Hormuz, anti-ship missiles fired, and swarming attacks on tankers. Overnight, a theoretical discount factor became a literal blockade. Brent jumped, futures curves bent out of shape, and importers from Asia to Europe scrambled for alternative supplies. The terror premium stepped out of the footnotes and onto the front page.

What is at stake in the Trump administration's Iran campaign, with Epic Fury at its core, is therefore not simply the fate of one regime or one waterway. It is whether this premium remains a permanent feature of the global economy, an invisible tax set in Tehran, or is finally stripped out by a deliberate act of policy. In Churchill's terms, it is whether mastery over energy risk belongs to those who built the system or to those who have learned to hijack it.

Trump, Hormuz, and the end of the free ride

For half a century, the controlling Western thesis on Gulf security has been simple. The U.S. guarantees open sea lanes in and around Hormuz, and everyone else structures their politics and budgets around that free insurance. Europe and the UK run down their militaries, build their energy systems on Russian gas and Gulf crude, and talk loftily about multilateral virtue. Asian powers, above all China, binge on imported hydrocarbons, including discounted barrels from sanctioned regimes. All assume that American carrier groups will materialize off the chokepoints when required.

Trump's antithesis is to withhold the automatic guarantee at the moment of maximum stress. The U.S. can break Iran's remaining ability to contest Hormuz; that is not in doubt. The point is not that America lacks the power; it is that, for the first time in decades, it is openly questioning whether it should deploy that power unconditionally. By allowing a closure or partial closure to bite, Trump ensures that the immediate pain is felt most acutely in exactly those jurisdictions—Europe and China—that have benefited most from cheap energy and U.S.-policed routes while contributing least to the underlying security.

His reported blunt message to European and British leaders—you need the oil out of the Strait more than we do, why not go and take it—is not a gaffe. It is the spoken form of a strategic pivot. It reverses the default assumption that U.S. hard power is an inexhaustible global public good to be drawn on by allies, adversaries, and free riders alike. It forces allies to confront a contradiction they have long ignored: their ability to denounce American “unilateralism” and underfund their own defences rests entirely on a U.S. security umbrella they neither fully finance nor politically respect.

In Hegelian terms, the refusal to solve Hormuz on cue is the necessary negative moment before a more honest order can emerge. A rapid, surgical clean-up would restore the status quo ante: Europe resumes underinvesting in defence, China continues to arbitrage discounted crude from rogue regimes, and the terror premium remains a permanent feature of the price strip. By delaying, by insisting that those who need the barrels most step up, Trump is forcing responsibilities and exposures into the open.

The strategic prize is not merely the reopening of a chokepoint. It is a reordered system in which the U.S.—no longer the unpaid global policeman—becomes the central arbitrageur of hydrocarbons. U.S.-aligned production in the Americas, combined with a discretionary capability to secure or decline to secure Hormuz and the Bab el-Mandeb, places Washington at the heart of the hydrocarbon chessboard. That is Churchill's logic, updated: mastery of the flows, not merely participation in them.

From Berlin to Epic Fury: two peace dividends

The template for how such a transition can work is found not in energy markets but in a concrete slab of history: the fall of the Berlin Wall. When the Wall came down and the Soviet Union dissolved, markets did something brutally rational. They stripped out the “nuclear Armageddon premium” embedded in every yield curve, every defence multiple, every corporate investment decision. The first peace dividend of 1989–91 was not gauzy sentiment in Berlin squares; it was finance ministers and chief financial officers reallocating capital from tanks and missile silos to fibre-optic cables, container ports, and early internet infrastructure.

The end of the Cold War did not abolish risk. Local wars continued, terrorism persisted, financial crises erupted. But the one structural threat that had framed every strategic choice since 1945—the possibility that a superpower miscalculation could end civilization in half an hour—was removed. Defence budgets fell as a share of GDP, the U.S. briefly flirted with fiscal balance, and Europe ploughed its savings into welfare states and integration. Globalization took off, buoyed by the combination of U.S.-guaranteed security and capital released from the hard requirements of nuclear competition.

Trump's Iran strategy is that logic applied to the world's energy arteries. The stated aim is not to manage Iran's behaviour at the margin, but to destroy the regime's capacity to hold Hormuz and the Bab el-Mandeb hostage—to decapitate the terror command, pulverize layered naval and missile defences, and shred the logistics that knit together Tehran and its proxies. Done properly, it is not a punitive raid; it is a structural change.

Success in this campaign would be—for oil and for nuclear risk in the Middle East—what the fall of the Wall was for superpower confrontation. Whereas 1989–91 allowed markets to stop discounting an annual probability of superpower annihilation, a genuinely de-weaponized Hormuz—and an Iran that has surrendered enrichment and seen its buried stockpiles removed—would finally allow traders and central banks to stop discounting a chronic probability of terror-driven supply shock and nuclear breakout. Just as the first peace dividend financed the first internet age and a decade of globalization, this second, energy-centred peace dividend could finance an AI-driven productivity boom and the repair of Western balance sheets.

The exact numbers will always be contestable. Forecasts for Brent before the war in 2026 clustered around levels that implied a much calmer geopolitical backdrop. Today's prices—inflated by mines in Hormuz and missile salvos across the Gulf—sit far higher. Bring supply security back closer to that earlier world, with more routes, more non-OPEC barrels, and fewer armed actors using sea lanes as leverage, and the path back toward a US\$60-type equilibrium is not utopian. It is the logical outcome of removing a chronic fear factor from every barrel. The first peace dividend took the nuclear threat off the table. The second would take the Iranian Revolutionary Guard Corp's finger off the energy trigger and its hand off the centrifuge switch.

China's lost arbitrage, Europe's reckoning

Not every major power benefits from this shift. For two decades, China has quietly exploited the gap between Western scruples and Western guarantees. It has built a growth model that leans heavily on imported hydrocarbons, often sourced at discount from sanctioned or unstable producers such as Iran, Venezuela, and Russia, and shipped through chokepoints policed by a navy it did not pay for. It enjoyed a double arbitrage: cheap barrels from rogue regimes and free security from the very order it denounced as hegemonic.

An Iran outcome that genuinely breaks Tehran's capacity to weaponize Hormuz and a political transition that removes Venezuela from the ranks of criminalized petro-states would shrink that arbitrage dramatically. Discounted barrels from rogue regimes become scarcer and more conditional. Access to secure sea lanes becomes more explicitly linked to political behaviour. Beijing still has options, from domestic coal to growing renewables and a formidable industrial base, but the era of quietly pocketing a terror-premium-fattened discount while someone else patrols the sea lanes is over.

Europe faces a different reckoning. It built its post-Cold War model on three assumptions: cheap Russian gas, cheap Gulf crude, and a permanent American security umbrella. All three have been shattered or strained. The invasion of Ukraine forced a painful divorce from Gazprom. The Hormuz crisis exposes the vulnerability of European industry to disruptions in seaborne oil and liquified natural gas (LNG). Trump's pointed suggestion that Europe should go and take the oil it needs confronts a political class that has confused soft power and climate virtue with strategy.

This could be Europe's Churchillian moment—a belated recognition that mastery, or even basic security, is never free. That would mean serious rearmament, investment in naval and air capabilities, and hard choices on domestic energy production and infrastructure. Or Europe can continue to moralize, hoping that Washington quietly resumes its role as global policeman while Europe itself resolves to be even more righteous. In that case, it will discover that the distribution of any energy peace dividend is not symmetrical. Those who pay for mastery tend to keep a larger share of the prize.

The myth of decline, reversed

The myth of American decline has always been a story told by people who mistake a change in role for a loss of power. The United States is not a spent force. It still commands roughly half of the world's usable military power, hosts the core of the global innovation system, and sits atop an unmatched resource base. What has changed is that it can no longer afford to be the world's security contractor, subsidizing allies and adversaries alike, while also underwriting an ever-expanding domestic state and pretending its debt is costless.

The path now opening through Hormuz and Tehran is the path back to alignment between commitments and capabilities. Resolve the Iran crisis on terms that secure the free flow of oil, consolidate political change in Caracas, strip out the terror premium, constrain China's access to cheap, weaponized variety, and stabilize a more moderate Iran within a peaceful regional order—and 2026 will not join 1973 and 1979 as another grim entry in the chronicle of oil shocks. It will be remembered as the year the world finally honoured Churchill's insight that safety and certainty in oil lie in variety, and reclaimed the mastery he knew was the real prize of the venture.

The fall of the Berlin Wall closed the book on the nuclear superpower confrontation and released a peace dividend that financed globalization and the first internet age. Success in Trump's Iran gamble can close the book on the terror-driven energy and nuclear order that began in 1979 and release a second dividend: a US\$60-oil world that finances an AI-driven productivity boom and a rebuilding of Western power on safer foundations. The question is no longer whether that dividend exists or whether mastery over energy and nuclear risk in the Gulf is up for grabs. It is whether, this time, the West has the will to take the prize.

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