

The Drill

with Mikkel Rosenvold

Steno Research

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Hormuz and Houthi endgame?

Witkoff and Kushner came home from Moscow with nothing, the Houthis are hitting Saudi refineries again, and the US Navy is running out of carriers to cover Iran and the Pacific at the same time. Below: the Russia trip, the Hormuz endgame, the Yemen escalation, and why the carrier gap points at one stock.

Whoa, what a week in geopolitics. The weekend saw a renewed effort at striking a peace deal between Ukraine and Russia and just yesterday, fighting in Yemen re-started, impacting both Saudi Arabia and global shipping lanes. Meanwhile, the US continues to claim control over the Strait of Hormuz with missiles and drones flying back and forth. Let's break it down one by one and round up with my geopolitical trade of the week.

Note: I've had a lot of requests for an updated analysis on European politics after the elections in Saxony-Anhalt, including our view on European investment thematics. I'm working on a separate piece for that for next week.

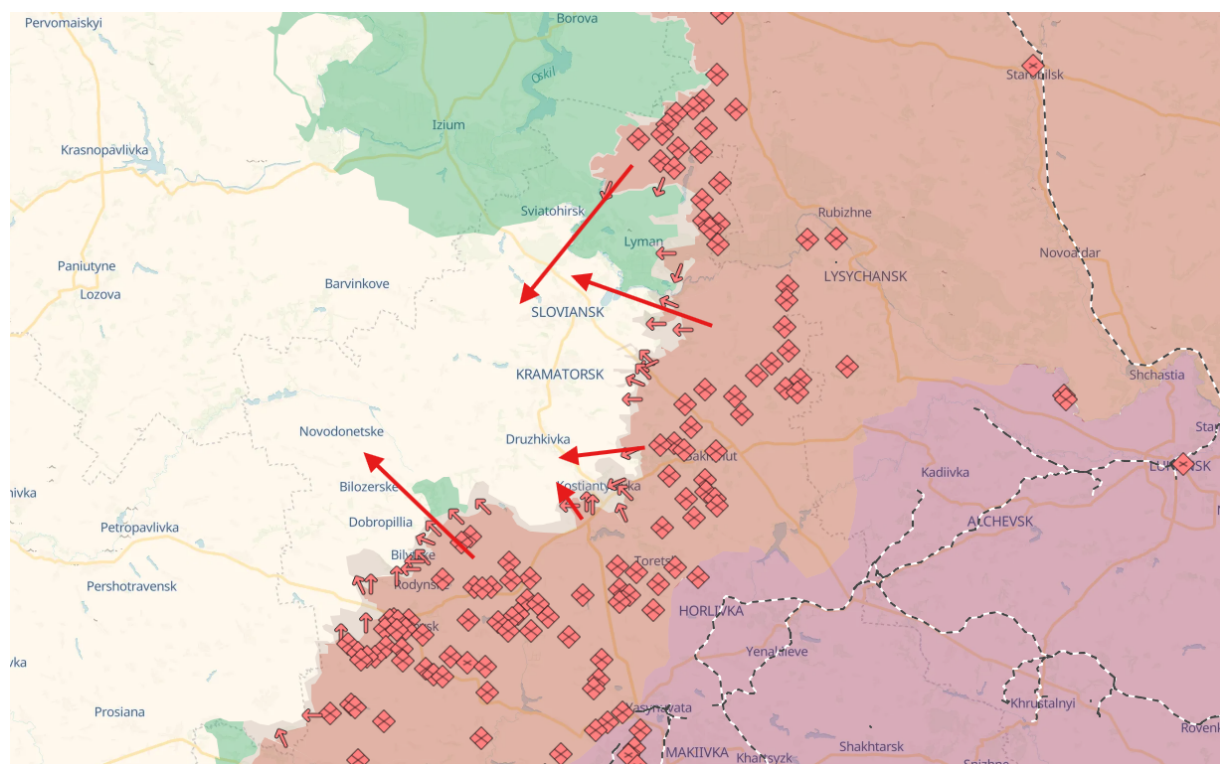
Steve and Jared go to Moscow

In a surprise move, Steve Witkoff and Jared Kushner went on a tour of Russia and Ukraine over the weekend, meeting both Vladimir Putin and Volodymyr Zelenskyy. They apparently brought with them an entirely new plan for the peace process between Russia and Ukraine with new ideas and solutions.

Both sides welcomed the pair and silenced major air strikes during their visit. It seemed like we finally had some momentum again. But alas. From what we can gather, Moscow flat out refused the Witkoff/Kushner plan and the Kyiv meetings were more of a show than anything else.

I don't want to belittle the effort done here. At least Witkoff/Kushner and the Trump administration are trying to end the war. And I don't buy the criticism of Witkoff's apparent grovelling attitude towards Putin. Witkoff didn't go to Moscow to discuss Putin's crimes and wrongs. He went to Moscow to open a path for negotiations and sometimes that's going to require some sweet-talking that leaves a bitter taste in your mouth. That's the way to get hard deals done. If you've ever tried to build your own business you know what I'm talking about.

Anyway, Moscow was having none of it. Frankly, the timing couldn't be worse. Moscow is preparing for the winter campaign with the hopes of enveloping the major local hubs of Kramatorsk and Sloviansk, essentially finalizing the conquest of the Donbas region. Clearly, Russia feels like it can create a stronger status quo on the battlefield before committing to a peace deal, and it seems very unlikely that we get anything done before mid-2027, I have to admit.



What's perhaps more interesting is the fact that Witkoff and Kushner brought along the US 'Sanctions Chief' Gene Lange, who met with Putin's top economic envoy Kirill Dmitriev. In other words, the US and Russia clearly discussed plans for trade normalization. The line is still (as confirmed by Bessent) that no relief or normalization is possible "until the war is over", but let's see. I'm not fully convinced. Remember that whenever the Ukraine war ends, Russia's biggest problem becomes how to untangle itself from Chinese tutelage, which the US should be very eager to help them do.

The final showdown for Hormuz

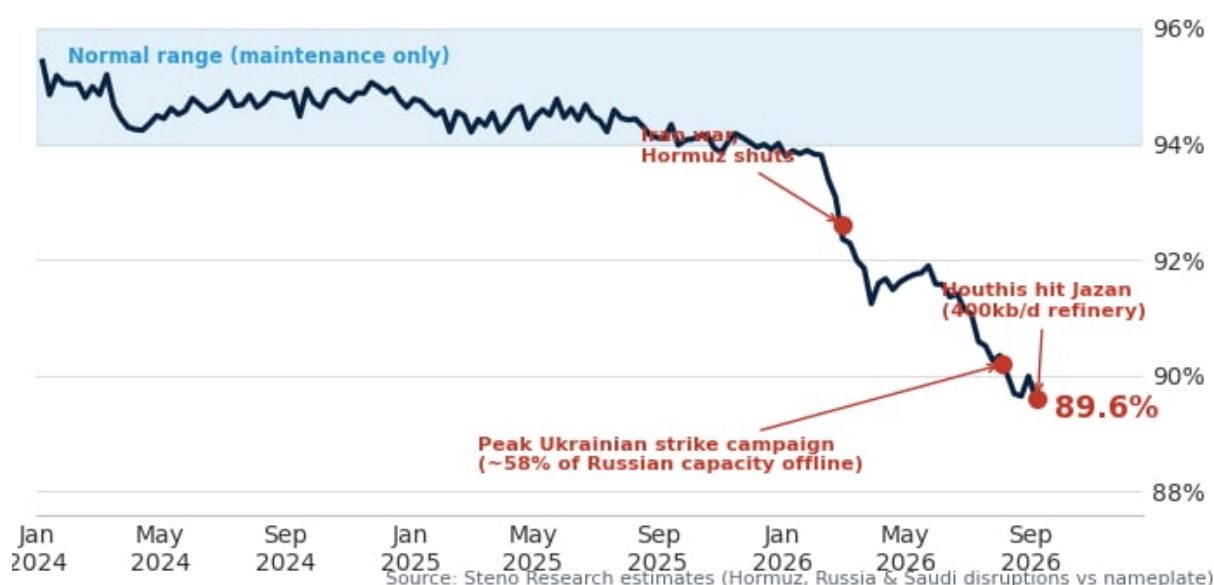
As discussed in previous weeks, we have entered the crucial phase of the battle for the Strait of Hormuz. Both the US and Iran claim to control the Strait, and they both do, in some way. Iran controls what goes into the Strait and the US controls what Iranian ships can exit the Strait. Both have become increasingly efficient at this, perhaps especially the US part.

It's still my belief that this battle for Hormuz is close to its peak even though it's hard to estimate precisely. But we are clearly entering the phase of the battle where the two sides are no longer only blockading each other. They are now actively attacking tankers and ships. The US wants to take out Iran's export fleet once and for all. There is a point where this is no longer sustainable for Iran and my best estimate is that we reach that zone during October.

Now, the big risk to the macro picture is obviously through energy inflation. And what's keeping energy inflation up right now is the shortage of refining capacity rather than the price of crude.

Refining capacity ONLINE is the lowest in modern history

Estimated effective refining capacity online, % of global nameplate (~104 mb/d)



We've seen reports of China trying to address this by raising refinery runs, but this means that China has to begin importing crude oil at larger volumes again.

To make matters worse, conflict has erupted between Saudi Arabia and the Houthi movement. This was instigated by the 'official' Yemeni government launching a major offensive against the Houthis with the aim of reconquering the capital of Sana'a and ending the decade-long Yemeni civil war. The government is doing this with full Saudi support (including air support), but even though the Houthis look like a bug waiting to be crushed underneath the Saudi boot, the Saudis are very hesitant to commit ground forces or to even sustain larger operations against the Houthis. They very clearly learned their lesson from 2021-22, where the Houthis defeated the Saudi intervention in the Yemeni civil war by targeting Saudi oil and port infrastructure. The Houthis are essentially trying a "re-run" of that strategy by targeting the Jazan refinery and other installations, and ultimately threatening to strike the Saudi prestige cities along the coast, first and foremost Jeddah.

For this reason, I expect the Saudis to call for peace and negotiations quickly. At the very least they will limit their own involvement and let the Yemeni government do the hard work alone. Taking Sana'a could take months of house-to-house fighting and the Saudis can't withstand months of attacks on Yanbu and Jeddah.



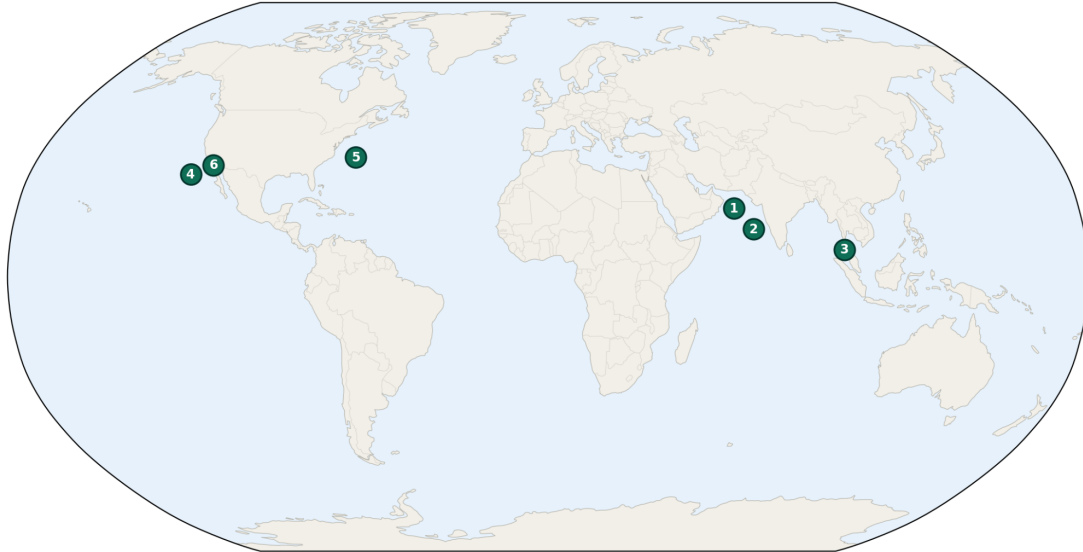
The US lacks carriers

Now, let's look a bit beyond oil and energy inflation. You probably all saw the pictures of the USS Abraham Lincoln entering Laem Chabang close to Pattaya, Thailand. After an incredible 9-month tour, the crew is exhausted and needs a break. This laid bare a critical shortcoming in the US global strategic setup.



First of all, the Middle East is draining US military and political resources right now even though the Middle East was supposed to play a smaller and smaller part in the geopolitical game for the US — especially with the US increasingly engaged in an all-encompassing AI race with China.

Current US carrier deployment



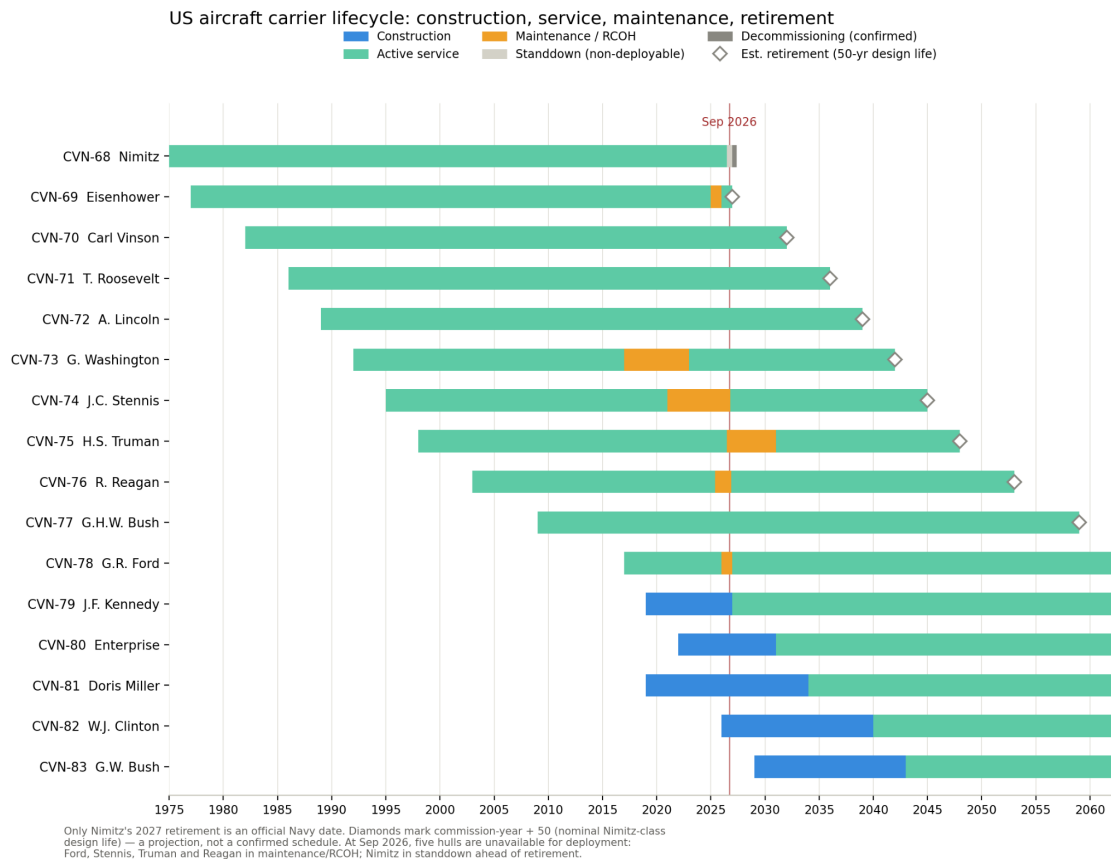
- 1 George Washington (CVN-73) — Arabian Sea — deployed
- 2 George H.W. Bush (CVN-77) — Arabian Sea — deployed
- 3 Abraham Lincoln (CVN-72) — Andaman Sea — transiting home
- 4 Carl Vinson (CVN-70) — E. Pacific — underway, training
- 5 Dwight D. Eisenhower (CVN-69) — W. Atlantic — underway, training
- 6 Theodore Roosevelt (CVN-71) — San Diego — pierside, preparing to deploy

In port / undergoing maintenance

USS Nimitz (CVN-68)	Norfolk, VA — training carrier ahead of March 2027 decommissioning
USS Ronald Reagan (CVN-76)	Puget Sound Naval Shipyard, WA — incremental maintenance, wrapping up 2026
USS Gerald R. Ford (CVN-78)	Norfolk Naval Shipyard, VA — planned maintenance after 326-day deployment
USS John C. Stennis (CVN-74)	Newport News, VA — RCOH, nearing Oct 2026 completion
USS Harry S. Truman (CVN-75)	Newport News, VA — RCOH begun June 2026, expected into 2031

Currently, two US aircraft carriers are tied up in the Middle East with the USS Theodore Roosevelt getting ready to relieve the USS George Washington. This leaves precisely ZERO aircraft carriers in the Pacific. This is an incredible and unacceptable weakness for the US. The solution is obviously both to disengage from the Middle East, but also to look at the numbers of active carriers available.

The political establishment in Washington is beginning to realise this and is talking both about how to accelerate the ships currently in maintenance and training, but also looking at the pipeline for future carriers.



The US has kept a good pace of retiring and deploying new carriers, but the problem is that this cadence is not enough anymore.

We are increasingly seeing geopolitics revolve around shipping lanes and control of the seas. The main rivalry (China) and main potential flashpoint (Taiwan) are expected to be very naval-oriented compared to the Cold War where the US prepared for a ground war in Europe. And unlike every other piece of military hardware, there is really no way of replacing aircraft carriers with drones. We will absolutely see drones based on and launching from aircraft carriers, but the carrier itself is still completely indispensable to US power projection.

All in all, the political and geo-strategic setup is clear. The US needs more carriers. I'm confident that we will see movements towards this goal already within Trump's presidency, and this only points towards one company: HII.

Huntington Ingalls: the one stock that owns this thesis

Huntington Ingalls Industries (HII) is the only company in America that builds nuclear-powered aircraft carriers. Newport News Shipbuilding, its crown jewel, has held that monopoly since the 1960s, and nothing currently on the table (foreign shipyard waivers included) changes that within any investable time horizon.

The stock has had a rough run measured against its own fundamentals. Q2 revenue came in at \$3.4bn, shipbuilding sales up 16% year on year, and management raised full-year shipbuilding guidance to \$10.2-10.4bn. Backlog sits at \$57.3bn. And yet HII trades roughly 35% below its 52-week high, dragged down by margin pressure in carrier construction and a market that has grown skeptical of execution after years of Ford-class delays.

That gap is the setup. The political mood in Washington, the White House shipbuilding memo, the fifth shipyard push, the very carrier shortage we have just walked through, all point toward more money flowing into this pipeline. None of it has yet converted into an actual new hull order.

My take: the stock is currently pricing the execution risk and very little of the “the US needs more carriers” story. If that story starts showing up in contract awards rather than speeches, HII is the only realistic vehicle for it.



Mikkel Rosenvold

Mikkel is the core geopolitical analyst in Steno Research and host of 'Macro Mondays'. Mikkel hosts geopolitical talks and provides weekly geopolitical analysis in the 'The Drill' article format. Whenever things go down in the realm of warfare, conflict and international affairs, Mikkel has the eye for how developments will impact the market and what the immediate and long-term outlook is.

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