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Macro Memo
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Real Matter Really Matters

Why This Matters to Investors

For much of the last 30 years, investors have lived in a world where capital was abundant, supply chains were reliable, and physical resources could be sourced globally with little friction. That assumption quietly shaped portfolios, corporate strategy, and even national policy.

That world is ending.

Today, access to real physical matter, such as energy, metals, industrial capacity, and infrastructure, has become a binding constraint. Nations that control these inputs gain strategic leverage, while those that do not face rising costs, longer delays, and growing vulnerability from limited access to critical materials.

The consequences are no longer theoretical. Last July CNN reported the U.S. used over 25% (roughly 100 to 150 interceptors) of its total Terminal High Altitude Area Defense (THAAD) anti-ballistic missile stockpile (pictured above) during the 11-day war between Israel and Iran.[1] It doesn't take advanced mathematics to see how quickly such inventories could be exhausted in a medium-intensity conflict.

For investors, this shift matters because capital is now being redirected by necessity, not preference. When national security and economic sovereignty are at stake, markets adjust in ways that are structural, long-lasting, and uneven across sectors. This memo explains why that shift is happening, what history can teach us about it, and how it may influence investment outcomes in the years ahead.

The Geopolitical Backdrop: From Infinite Materiality to Physical Scarcity

The post-Cold-War era was defined by what might be called infinite materiality, the belief that with enough capital and open trade routes, any material could be sourced, in any quantity, on demand. This belief enabled just-in-time inventory systems, extreme supply chain specialization, and financial optimization over physical redundancy.

That framework, however, depended upon geopolitical stability and unrestricted trade, conditions that no longer exist.

Today, control of physical supply chains, not financial capital, increasingly determines economic and geopolitical power. Credit can be created quickly. Mines, refineries, power grids and factories cannot.

A Useful History Lesson: Gorbachev and the Cost of Economic Imbalance

In March of 1985, Mikhail Gorbachev became General Secretary of the Soviet Union, inheriting an economy deeply out of balance. The Soviet system was exceptionally good at producing capital stock: heavy

machinery, weapons, and industrial output. But they were profoundly poor at producing consumer goods people actually wanted.

The result was chronic misallocation of capital, stagnation, and declining living standards. Gorbachev attempted to correct this through perestroika; a restructuring aimed at shifting the economy toward consumer production and greater efficiency. The effort failed.[2] The system could not adapt quickly enough, and on December 26, 1991, the Soviet Union dissolved. This history matters because economic systems that fail to rebalance around real constraints eventually break.

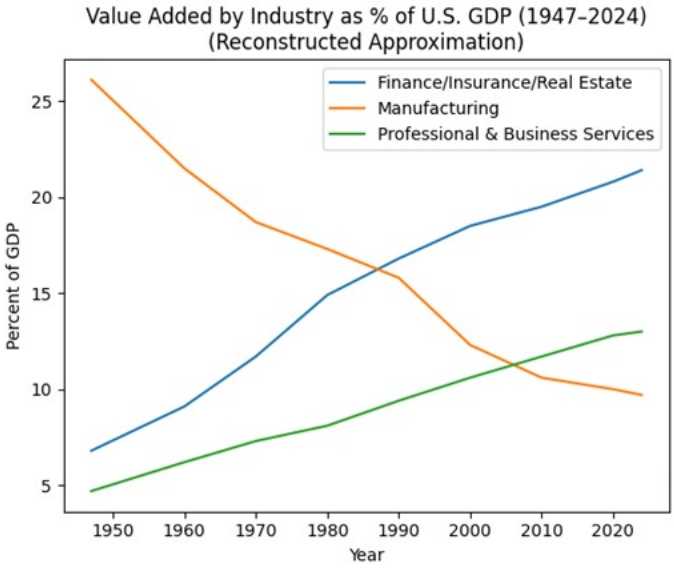
The Current-Day Parallel: America's Reverse Problem

In 2026, the United States faces a mirror image of the Soviet dilemma. Rather than overproducing capital stock, the US is over-optimized for consumption and financial efficiency while offshoring industrial capacity. Data from the US Bureau of Economic Analysis illustrates this clearly[3]: since WWII, manufacturing's share of the US economy has steadily declined while financialization and service sectors have expanded.

America stopped making the things required to sustain its status as a global superpower. Instead, it offshored production to reduce labor costs and then imported these things on credit. The result is an economy that consumes far more than it produces and increasingly depends on foreign supply chains for critical materials and manufacturing.

The Trump Administration has elevated re-industrialization and national security as explicit priorities, including proposals for significantly higher defense spending. But funding alone is not the core issue. The true constraint is capacity.

In plain English, the US needs a reverse perestroika, a structural shift away from consumption-first efficiency and toward rebuilding industrial, energy, and materials production at home. Whether that effort succeeds will shape economic outcomes for decades.



Hard Evidence: Where the Bottlenecks Are Showing

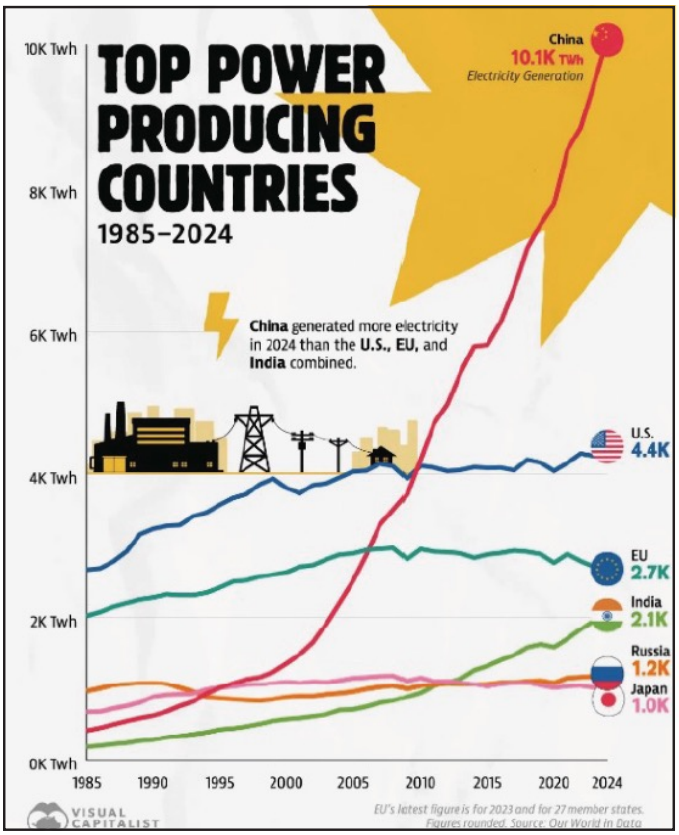
Copper provides a clear example. It is foundational to electrification, data centers, energy infrastructure, and defense systems. Robert Friedland, Ivanhoe Mines founder, spotlighted that sustaining global GDP growth of roughly 3%, the world would require producing as much copper by 2045 as humanity has mined over the past 10,000 years, before accounting for AI, electric vehicles, or grid expansion [4].

Even that estimate may prove conservative.

US electricity production has effectively flatlined for the last 20 years, while China's has more than doubled (as

shown in the graphic below).[5] This second-order effect of decades of offshoring becomes critically problematic when reshoring industrial capacity becomes a national imperative.

Mining, however, is only the first step. Supply chains span upstream extraction, midstream processing and refining, and downstream end-use applications. While the US has retained much of its downstream innovation, it has ceded large portions of the midstream, particularly refining and smelting, to China.



That control was a strategic objective. It is now being weaponized through export restrictions.[6]

The consequences are increasingly visible. In the United States, electrical transformer backlogs now exceed two years, while comparable wait times in China range from three to six months. Similar delays appear across multiple commercial and military supply chains, weakening US economic resilience.

Why This Is Structural, Not Cyclical

These dynamics are not normal market cycles that resolve on their own. They reflect structural constraints, i.e. physical limits that force capital to move regardless of valuation, sentiment, or monetary policy.

When an input becomes essential to national security, it moves from "nice to have" to "must have". This is not a consumer-driven transition. It is a state-driven reordering of priorities.

As Alexander Hamilton argued in Federalist No. 11, national security and economic sovereignty depend on a strong industrial base. That principle is being rediscovered out of necessity.

Investment Implications: Real Assets in a Real World

In a world where physical constraints matter more than financial engineering, portfolios overconcentrated in abstract or asset-light growth may face headwinds. We continue to believe the coming era will favor hard assets and real resources, infrastructure development, and industrial and materials companies aligned with national priorities.

These themes do not eliminate risk. They reflect where capital is most likely to flow when matter, not money, is the binding constraint.

If you would like to discuss how these dynamics may fit within your broader investment strategy, we are always available to explore the opportunities and risks in greater detail.

Moral of the Story

Economic systems fail when they ignore reality for too long. Markets adapt when reality reasserts itself.

In today's world, real matter really matters.

[1] *Glanluca Mexxofiore, Tamara Qlblawl, and Madalena Araujo, "US used about a quarter of its high-end missile interceptors in Israel-Iran war, exposing supply gap," CNN, July 31, 2025, https://www.cnn.com/2025/07/28/middleeast/us-thaad-missile-interceptor-shortage-intl-invs*

[2] *One reason being command, or centrally planned economies, lack market pricing signals.*

[3] *BEA Web site (www.bea.gov)*

[4] *https://www.youtube.com/watch?v=rOqpy2tdn1c*

[5] *Pallavi Rao and Sabrina Lam (2025) – "Ranked: Top Countries by Annual Electricity Production (1985–2024)" Published online at VisualCapitalist.com. Retrieved from: 'https://www.visualcapitalist.com/ranked-top-countries-by-annual-electricity-production-1985-2024/' [Online Resource].*

[6] *In April 2025, China introduced export controls on rare earth elements, followed by stricter licensing requirements in October that effectively prohibit exports for military use.*

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