



Market Volatility, Iran Tensions & Investor Strategy: Navigating Uncertainty Without Panic

This episode of the HCM Market Brief brings together Doug Johnson, Dan Rinck, and guest advisor Greg Middendorf to address growing client concerns around recent market volatility, largely driven by geopolitical tensions involving Iran. The conversation blends real-time market analysis with practical portfolio strategy and client-focused guidance, aiming to separate emotional reactions from disciplined investment thinking.

The discussion begins with a lighthearted exchange before quickly shifting to the core issue: whether investors should be worried about current events. The team acknowledges that concern is natural, particularly given visible impacts like rising gas prices and declining portfolio values. However, they emphasize that while volatility is uncomfortable, it is not unusual. Markets are reacting to uncertainty, not necessarily to a confirmed long-term economic deterioration.

A key theme throughout the conversation is the difference between perception and reality. While headlines may suggest extreme danger, the actual market decline at the time—roughly 10% from peak levels—falls within normal correction territory. Historically, such corrections occur about once a year, reinforcing the idea that current conditions, while unsettling, are not unprecedented.

One of the more nuanced insights discussed is how investor behavior has evolved. Rather than aggressively selling risk assets, many investors are choosing to hedge using options or other strategies. This reflects a broader shift in market psychology shaped by recent experiences, particularly rapid declines followed by equally rapid recoveries. Investors are increasingly wary of exiting the market too quickly, fearing they may miss a sharp rebound triggered by a single positive headline, such as a ceasefire or diplomatic breakthrough.

The conversation then explores whether the current situation represents a risk or an opportunity. The answer, as framed by the team, depends heavily on how the situation develops. The longer the geopolitical conflict persists, the greater the potential for negative outcomes—particularly if elevated energy prices begin to impact the broader economy. However, paradoxically, the longer the conflict continues, the closer it may also be to resolution. This creates a complex environment with multiple possible scenarios.

A critical risk identified is the potential for geopolitical stress to merge with existing economic vulnerabilities. Specifically, sustained high oil prices could act as a drag on

economic growth by increasing costs for businesses and consumers. Historically, elevated energy prices have preceded several major bear markets, including the 2008 financial crisis. If oil prices remain high long enough, they could contribute to inflationary pressures and reduce consumer spending, potentially tipping the economy toward recession.

The team outlines a worst-case scenario in which prolonged conflict leads to persistently high oil prices, supply chain disruptions, and rising inflation. In such a case, the Federal Reserve could face a difficult dilemma. While inflation might suggest the need for higher interest rates, weakening economic growth would argue against tightening policy. This tension could result in a stagflationary environment—characterized by slow growth and rising prices—similar to conditions seen in 2022.

However, the speakers also highlight an important counterpoint: extremely high oil prices can ultimately become deflationary. If energy costs rise too far, they can destroy demand by making economic activity unsustainable. This dynamic was observed in 2008, when oil prices surged before collapsing as the global economy contracted. As a result, the Federal Reserve's response will depend heavily on how the situation evolves, and policymakers are likely to remain cautious in their communication.

From a portfolio management perspective, the team emphasizes the importance of a structured, disciplined approach. Rather than making reactive decisions, they rely on a framework that evaluates changing probabilities and adjusts risk exposure accordingly. At the time of the discussion, they had begun modestly de-risking portfolios by trimming overweight equity positions and taking profits, rather than making drastic shifts to cash.

A key insight is that not all market declines evolve into major bear markets. While every large downturn begins with a smaller pullback, most corrections do not escalate. This reinforces the importance of measured responses rather than extreme actions. The team also notes that market declines rarely occur in a straight line. Instead, they tend to follow a “sawtooth” pattern, with intermittent rallies that can be substantial. These rallies can mislead investors into thinking the worst is over, underscoring the value of a disciplined strategy.

Diversification plays a central role in their approach. The portfolios discussed include a mix of U.S. equities, small-cap stocks, fixed income, commodities, gold, and alternative strategies such as long-short and global macro funds. This broad exposure has helped cushion the impact of recent volatility, with certain assets—particularly commodities—benefiting from rising energy prices.

The role of bonds is also revisited, especially in light of their poor performance in 2022. The team explains that bonds still serve two primary purposes: providing income and

acting as a hedge against equity volatility. While these benefits were diminished in a rising rate environment, higher starting yields today improve their outlook. Additionally, the use of defined maturity products allows for greater certainty of returns, even if market prices fluctuate.

Gold is discussed as a more nuanced allocation. While often perceived as a safe haven, it does not always perform well during true risk-off environments. Instead, the team views gold primarily as a long-term hedge against currency debasement and rising debt levels. They remain committed to their existing position but are cautious about increasing exposure without a clear opportunity.

Another important takeaway is the emphasis on filtering out noise. With an overwhelming volume of news and information, the team advises focusing less on headlines and more on market signals, particularly in areas like oil prices. Market behavior often provides a clearer and more immediate reflection of underlying conditions than media narratives.

Looking ahead, the team expects continued volatility, particularly if the conflict remains unresolved. However, they also note the potential for sharp rallies if a meaningful resolution is achieved. Importantly, they caution against overreacting to short-term movements, as markets can shift quickly in either direction.

The discussion also touches on international markets, which are seen as more vulnerable to the current situation due to their reliance on global energy supply chains and sensitivity to currency fluctuations. A strengthening U.S. dollar further compounds these challenges. However, these markets may also offer significant upside in the event of a positive resolution.

Ultimately, the central message to clients is one of reassurance and discipline. Market volatility, even when driven by geopolitical events, is a normal part of investing. A well-constructed financial plan already accounts for such scenarios, and emotional decision-making is often more damaging than the events themselves.

From a planning perspective, the advisors emphasize the importance of stress-testing portfolios against various market conditions and maintaining sufficient liquidity to meet near-term needs. This reduces the likelihood of being forced to sell assets during downturns. They also encourage ongoing conversations about risk tolerance, particularly during periods of market stress, as these moments often reveal whether a portfolio's risk level aligns with an investor's comfort.

In closing, the episode reinforces the value of having a structured investment process and a long-term perspective. While uncertainty remains high, the combination of

disciplined portfolio management, diversification, and thoughtful financial planning provides a strong foundation for navigating turbulent markets.