



Geopolitics, Oil Shocks & Private Credit Fears — What’s Really Driving Markets in 2026

This HCM Market Brief features Doug Johnson and Dan Rinck discussing two dominant forces shaping markets in early 2026: geopolitical tensions involving Iran and growing concerns around private credit and private equity. The conversation provides a grounded, data-driven perspective, emphasizing that while headlines appear alarming, the underlying fundamentals and market behavior remain more measured.

The discussion begins with the evolving situation in Iran, where both strategists highlight the difficulty of obtaining reliable, real-time information. Conflicting reports and what they describe as a “propaganda war” make it challenging to assess the true scope of events. Rather than focusing on sensational headlines, they stress that the most critical factor for markets is the stability of the Strait of Hormuz, a key global oil transit route. Importantly, they clarify that the Strait cannot simply be “closed” in a literal sense; instead, the real risk lies in the threat of military action that could deter ships from passing through, even if passage is technically allowed.

This distinction matters because the perceived risk to shipping—not just actual disruptions—can significantly influence oil prices. While some reports suggest shipping continues with limitations, even the possibility of danger can reduce traffic as companies prioritize safety. This dynamic has already contributed to sharp volatility in energy markets, with oil prices briefly spiking as high as \$125–\$130 per barrel before settling closer to \$95. Daily swings of \$15–\$20 highlight the uncertainty and rapid repricing taking place.

From a macroeconomic perspective, the key concern is duration. The strategists emphasize that short-term spikes in oil prices are unlikely to materially impact the U.S. economy. However, if elevated energy prices persist, they could act as a tax on consumers and businesses alike, raising input costs and reducing discretionary spending. This, in turn, could reintroduce inflationary pressures just as inflation had been trending downward. A prolonged energy shock raises the risk of stagflation—a combination of slowing growth and rising prices—which is widely viewed as one of the most challenging economic environments.

Markets are already beginning to reflect these concerns. Expectations for Federal Reserve policy have shifted meaningfully in a short period. Where investors previously anticipated

multiple rate cuts in 2026, those expectations have largely been pushed out, with some projections now suggesting no cuts this year. While the strategists see little likelihood of rate hikes, they acknowledge that the Fed may need to proceed more cautiously to avoid reigniting inflation. Still, they maintain that the broader trajectory of inflation over the next one to two years is likely downward, despite near-term volatility.

Equity markets have also responded to geopolitical uncertainty with notable shifts in leadership. A previously strong rotation into value, small-cap, and international stocks has stalled or reversed, while large-cap U.S. technology companies have begun to act as defensive assets. This is a notable development, as tech—traditionally viewed as growth-oriented—has increasingly been treated as a safe haven due to its scale, global reach, and strong cash flows. At the same time, international markets have been more negatively impacted, given their greater exposure to energy disruptions.

Interestingly, despite recent price declines, the strategists point out that the fundamentals of the technology and software sectors remain intact. Earnings, revenue growth, and free cash flow continue to hold up, and demand for software engineers is rebounding after earlier fears that artificial intelligence would significantly reduce hiring needs. Instead, AI appears to be enhancing productivity, enabling companies to scale output more efficiently rather than eliminating jobs outright. This suggests that recent weakness in tech valuations may be more sentiment-driven than fundamentally justified.

Beyond equities, fixed income markets have shown relatively modest movement. Yields have risen slightly, and the yield curve has steepened, reflecting concerns about future inflation. However, credit markets remain stable, with high-yield spreads well within historical norms. This stability is an important signal, as credit markets often serve as an early warning system for broader financial stress.

One of the more striking observations in the discussion is the level of investor caution relative to the actual market decline. Despite a drawdown of only about 3.5% from recent highs, there has been a surge in hedging activity, including significant put buying and elevated cash allocations. In fact, cash levels among investment managers are reportedly near their highest since 2020. This suggests that investors may be overestimating the risks or reacting to worst-case scenarios that have not yet materialized.

The second major topic shifts to private credit and private equity, where media coverage has intensified in recent weeks. The strategists explain that these asset classes, once largely confined to institutions and ultra-high-net-worth investors, have increasingly been packaged and sold to retail investors. While these investments have historically offered

higher returns and lower reported volatility, they come with important trade-offs—most notably, limited liquidity.

Recent headlines have focused on issues such as fund “gating,” where managers restrict redemptions, and investor frustration over being unable to access their capital. However, the strategists emphasize that these features are not new; they are explicitly outlined in fund structures and are designed to prevent forced selling at distressed prices. In many cases, gating may actually protect investors by avoiding fire-sale conditions.

That said, there are legitimate concerns within the private credit space. Instances of credit stress, such as company bankruptcies and questionable accounting practices, have drawn increased scrutiny. Additionally, the rapid growth of the sector has led to potential mismatches between illiquid assets and investor expectations for liquidity. Many funds also have concentrated exposure to sectors like software, which may have been overvalued during periods of low interest rates.

A key risk is whether problems in private markets could spill over into the broader financial system. Comparisons to the 2008 financial crisis have emerged, particularly around questions of asset valuation and transparency. However, the strategists note that, so far, there is little evidence of systemic risk. Credit spreads remain contained, and there has not been widespread repricing of net asset values (NAVs) in private funds. They suggest that more significant concern would arise if spreads widen materially or if large-scale write-downs begin to occur.

Ultimately, their stance is measured. While acknowledging uncertainty in both geopolitical developments and private markets, they do not see immediate cause for drastic portfolio changes. Instead, they emphasize a disciplined approach—monitoring data, maintaining diversification, and adjusting risk only if conditions materially deteriorate.

They conclude by noting that volatility and uncertainty often create opportunities, particularly if weaker assets are flushed out of the system. However, any allocation to private markets must be carefully matched to an investor’s time horizon, liquidity needs, and risk tolerance.

Overall, the key takeaway is that while headlines are dramatic, markets are functioning relatively normally. The Iran situation bears watching primarily through its impact on energy prices, and private credit concerns remain largely contained for now. Investors, in their view, should focus less on short-term noise and more on long-term fundamentals, maintaining a steady, process-driven approach in an uncertain environment.