Markets Shrug Off Geopolitics: Iran Tensions, Oil Volatility & the Power of the V-Shaped Recovery

This episode of the *Market Brief Podcast* features Doug Johnson and Dan Rinck discussing the evolving geopolitical situation involving Iran and its impact on financial markets, alongside broader reflections on market behavior, inflation risks, and investment positioning. The conversation blends macroeconomic insight with market history, ultimately emphasizing a disciplined, data-driven approach to investing amid uncertainty.

The discussion begins with an update on the Iranian conflict, which has now stretched roughly 45 days. A key development is what Doug describes as a "blockade being blockaded." In response to Iran's attempts to control traffic through a critical shipping strait, the U.S. has effectively shut down traffic altogether. This strategy appears aimed at exerting economic pressure on Iran by cutting off a major source of revenue—namely, fees and economic activity tied to maritime trade, particularly involving oil shipments. The implications are significant, as Iran reportedly has only a limited window—approximately two weeks—before storage constraints force difficult decisions, such as shutting down oil wells. Importantly, shutting down wells is not easily reversible and could lead to long-term production damage, raising the stakes for Iran to either negotiate or find alternative solutions.

Doug and Dan also briefly touch on the legal ambiguity of such actions. While both the U.S. blockade and Iran's interference with shipping lanes may technically violate maritime law, enforcement mechanisms in such geopolitical conflicts are unclear. This highlights a broader reality: in times of conflict, legal frameworks often take a back seat to strategic and economic objectives.

From there, the conversation shifts to market reactions—starting with energy. Oil prices have been volatile but largely contained within a range of roughly $95 to $110 per barrel, with occasional spikes that quickly fade. Importantly, the futures and options markets suggest that traders view the situation as temporary. Future oil prices are not significantly elevated, implying expectations of normalization rather than a prolonged supply shock. Energy equities reflect this sentiment as well, having peaked and begun to decline, signaling that investors do not expect sustained upside from the conflict.

In contrast, the broader equity market appears remarkably resilient. Despite widespread fears earlier in the conflict—ranging from recession concerns to World War III scenarios—markets have nearly erased all losses tied to the event. Doug notes that within a matter of days, equities experienced a sharp decline followed by an equally rapid recovery, returning to near all-time highs. This “V-shaped” recovery pattern has become increasingly common in recent years, conditioning investors to expect quick rebounds aftershocks.

However, both strategists caution that this pattern is not historically typical. They compare current conditions to past market environments, particularly 2022, when inflation-driven volatility led to multiple waves of declines and rallies over several months. In those environments, initial recoveries often proved to be temporary, followed by deeper drawdowns. This serves as a reminder that markets can exhibit significant volatility in both directions during more prolonged downturns.

The current rally, while strong in terms of price, is described as “moderately strong” when considering market breadth and underlying indicators. Breadth—the degree to which different sectors and stocks participate in a rally—has been solid, which is a positive sign. Key areas such as semiconductors and large-cap technology stocks are showing strength, and some indices are approaching or reaching all-time highs. However, the rally has not yet demonstrated the kind of powerful “breadth thrust” that typically signals a sustained bullish trend. As a result, the market is at a critical juncture: it could either consolidate and move higher or lose momentum and stall.

A major factor influencing this outlook is inflation. While recent energy price increases could lead to a short-term uptick in inflation data, Doug and Dan argue that it is unlikely to produce a sustained inflationary surge comparable to 2022. That period was driven by a unique combination of factors, including massive fiscal and monetary stimulus, supply chain disruptions, and unprecedented demand shifts during the pandemic. In contrast, today’s environment lacks those extreme conditions. Additionally, any sharp rise in oil prices could ultimately dampen demand, creating a deflationary counterbalance.

Interest rates also play a crucial role. The 10-year Treasury yield, currently around 4.25%, remains within a range that markets have largely absorbed without issue. Unlike in 2022, when yields rose dramatically from historically low levels, today’s starting point is much higher, making similar shocks less likely. Doug suggests that yields would need to rise significantly further—potentially to 7% or higher—to create comparable disruptions in bond markets.

Beyond macroeconomic factors, the conversation touches on developments in private credit markets. Recent headlines about redemption pressures and liquidity constraints have raised concerns, but these appear to be stabilizing. The issue largely stems from a mismatch between investor expectations and the underlying illiquidity of these assets. Some investors have treated private credit funds as if they offer daily liquidity, despite structural limitations. While this has led to stress in certain cases, broader credit markets show little sign of systemic risk, with public credit spreads remaining tight.

Doug draws parallels to the non-traded REIT market during the 2008 financial crisis, where pricing and liquidity issues led to sudden losses and investor panic. However, both strategists emphasize that illiquidity is not inherently a flaw—it is a trade-off for higher potential returns. Investors must understand and accept these trade-offs rather than expecting equity-like liquidity from illiquid investments.

As the discussion wraps up, Doug outlines the firm's current investment stance. Portfolios are positioned neutrally, reflecting a balance between participating in the ongoing rally and maintaining caution amid uncertainty. The team is closely monitoring market signals—particularly breadth and earnings trends—to determine whether to increase equity exposure or remain defensive. Earnings, which have been revised higher, currently provide a supportive backdrop, but inflation remains the key risk that could disrupt the outlook.

The episode concludes on a lighter note, with Doug celebrating the Philadelphia Flyers' return to the NHL playoffs for the first time since the 2019–2020 season. This serves as a reminder that even in complex and uncertain market environments, moments of optimism and enthusiasm still have a place.

Overall, the key takeaway from this discussion is that markets are demonstrating resilience in the face of geopolitical uncertainty, but investors should remain cautious. While short-term risks appear manageable and the macro backdrop is supportive, history suggests that volatility can persist and that not all recoveries are sustainable. A disciplined, data-driven approach—rather than emotional or reactionary decision-making—remains essential in navigating the current landscape.