Market Update: Oil Spikes, Volatility Rises, and What Investors Should Watch

The March 2026 market update from HCM Wealth Advisors, presented by Senior Investment Strategist Doug Johnson, focuses primarily on the developing geopolitical tensions involving Iran and how those events may influence financial markets. While acknowledging the human consequences of military conflict, the discussion centers on the potential economic and market implications, particularly through the lens of global energy markets, investor sentiment, inflation expectations, and historical precedents. The presentation aims to provide investors with perspective during a period of uncertainty while emphasizing disciplined portfolio management rather than emotional reactions.

A central theme of the update is the strategic importance of the Strait of Hormuz, a narrow waterway that serves as one of the world's most critical energy transit routes. Roughly 20 million barrels of oil per day move through this channel, along with approximately 290 million cubic meters of liquefied natural gas. This represents around 30% of global oil trade and roughly 20% of the global LNG market. Any disruption in this passage—whether through direct military conflict, blockades, or threats to shipping—has the potential to create significant supply shocks in global energy markets. While the United States receives relatively little direct energy supply from this route, much of the oil and LNG transported through the strait flows to Asia and Europe. As a result, those regions may be more economically vulnerable to disruptions, which helps explain why international markets have reacted more negatively to the conflict than U.S. markets.

Commodity markets, especially oil, tend to respond quickly to geopolitical risks that threaten supply. Even the potential for disruption can cause sharp price increases. The presentation examines the behavior of Brent crude oil futures, noting a recent spike in prices from roughly $70 per barrel to as high as $125, then settling around the mid-$80 range at the time of the presentation. However, an important insight comes from the structure of the oil futures curve. The market is currently in what is known as backwardation, meaning near-term oil contracts are priced higher than those for delivery later in the year. This indicates strong immediate demand or supply concern but suggests the market expects the disruption to be temporary. For example, contracts later in the year trade significantly lower than current prices, implying that traders do not yet believe the supply shock will be long-lasting.

This market signal is reinforced by the behavior of energy equities. While oil prices rose sharply during the initial phase of the conflict, stocks in the energy sector did not rally to the same degree. This divergence may indicate that equity investors are skeptical that elevated oil prices will persist long enough to materially improve long-term profits for energy companies. Historically, extremely high oil prices can also lead to demand destruction—when higher costs reduce consumption, eventually pushing prices lower again. Previous episodes, such as oil spikes during the 2008 Global Financial Crisis and the early stages of the Russian invasion of Ukraine in 2022, demonstrate how energy markets can rapidly reverse after sharp surges.

The update also examines how different asset classes and sectors have responded since the beginning of the conflict. Over the past six months, major equity indices—including the S&P 500—had been trading within a relatively tight range. Early in 2026, however, the market began showing greater dispersion in performance across styles and regions. Value stocks and international equities initially outperformed growth stocks at the beginning of the year. Yet once tensions escalated in the Middle East, that trend reversed. International markets in particular experienced sharper declines, reflecting their greater reliance on energy flows from the Gulf region. At the same time, the U.S. dollar strengthened as investors sought safe-haven assets, which typically puts additional pressure on international markets.

Interestingly, the performance of certain sectors has been somewhat unusual for a typical risk-off environment. Traditionally, defensive sectors such as consumer staples tend to outperform during periods of uncertainty. However, during the recent volatility, technology stocks have actually held up better than consumer staples. One possible explanation is that staples had already performed strongly earlier in the year and may have been due for a period of consolidation. Regardless, the pattern highlights how market reactions to geopolitical events are not always perfectly aligned with historical expectations.

Another factor contributing to market uncertainty is the internal condition of the equity market itself. One indicator discussed in the update is the "high-low logic index," which measures how many stocks are simultaneously making new 52-week highs and new 52-week lows. A high reading indicates a divided market in which different sectors are moving in opposite directions. Historically, spikes in this indicator have sometimes preceded market downturns because they signal a lack of consistent leadership. However, this signal existed before the current geopolitical tensions emerged, suggesting that the market was already searching for direction.

Despite these crosscurrents, the broader market has remained relatively stable. The S&P 500 is only modestly negative for the year, indicating that strength in certain sectors has offset weakness in others. For the bull market to continue, however, leadership may need to broaden beyond mega-cap technology companies. Increased participation from value stocks, small-cap companies, and international markets could help sustain upward momentum. The geopolitical situation, particularly if it disproportionately impacts overseas economies, could complicate that transition.

Inflation is another potential risk discussed in the update. Rising energy prices can contribute to broader inflation pressures by increasing transportation and production costs throughout the economy. Bond markets have reacted modestly to these concerns, with yields on both short-term and long-term Treasury securities moving slightly higher. However, inflation expectations implied by bond markets remain below the levels seen during previous inflation scares, such as those associated with trade tariffs in the prior year. Market-based measures such as inflation swaps have increased somewhat, but they do not yet signal a sustained inflation surge.

For inflation to become a major issue, oil prices would likely need to remain elevated for an extended period. A short-lived spike caused by temporary geopolitical tension is less likely to produce lasting inflationary pressure. As a result, the situation remains highly dependent on whether the conflict escalates or stabilizes in the coming weeks.

The presentation also reviews historical market performance during geopolitical conflicts. Surprisingly, markets have often performed better than many investors expect during wartime or military crises. Looking at conflicts dating back to the late 1940s, equity markets have typically recovered within months, and many events were followed by positive returns six months later. One of the most notable exceptions occurred during the Yom Kippur War in 1973, which coincided with a severe oil shock and prolonged inflation. That episode represents something of a worst-case scenario for markets, combining energy shortages with stagflation. In contrast, more recent conflicts—such as the Gulf War and the Iraq War—were followed by relatively strong market recoveries.

In addition to geopolitical risks, economic data has shown some signs of softness. Recent employment figures came in weaker than expected, with job growth turning negative and the three-month average hovering near zero. A weakening labor market could signal slower economic momentum. However, weaker employment data can also reduce inflation pressures because slower growth tends to dampen demand. The combination of rising energy prices and slowing growth raises the possibility—though not the likelihood—of stagflation, a scenario characterized by high inflation and weak economic growth. While the presentation acknowledges this possibility, it emphasizes that current conditions remain far from the stagflationary environment of the 1970s.

From a portfolio management perspective, the firm's investment committee has not yet made any allocation changes in response to the conflict. Instead, they are continuing to monitor developments closely while analyzing incoming data. Their approach is to avoid emotional decision-making and allow more information to emerge before taking action. If probabilities shift or new risks become clearer, portfolio adjustments may be considered. This measured approach reflects the firm's broader philosophy of responding to changing conditions rather than attempting to predict unpredictable geopolitical outcomes.

Finally, the update offers a historically encouraging perspective regarding market volatility. When the VIX Volatility Index spikes sharply while the S&P 500 remains near all-time highs, history suggests that the following six months often produce positive returns. In fact, historical data shows that markets have risen roughly 91% of the time over the six months following similar volatility spikes. While this pattern does not guarantee future results, it indicates that sudden increases in volatility are not always precursors to major market declines.

In conclusion, the March 2026 market update presents a balanced assessment of the risks associated with the Iran conflict while emphasizing the importance of perspective. The key variable to watch is whether energy flows through the Strait of Hormuz remain uninterrupted. A prolonged disruption could lead to sustained oil price increases, higher inflation, and slower economic growth. However, current market signals suggest investors expect the situation to be temporary. Historical experience also shows that markets often recover quickly after geopolitical shocks. For now, the recommended strategy is patience, careful monitoring of data, and disciplined portfolio management rather than reacting impulsively to short-term headlines.