

Markets Reawaken to Risk

“Confidence comes from being prepared”

– John Wooden, Legendary College Basketball Coach

Over the last several quarters, markets have increasingly been priced for near-perfect outcomes: expecting resilient growth, easing inflation, lower interest rates, and sustained earnings momentum—particularly from a narrow group of large technology companies. Our concern has not been that these outcomes were impossible, but that markets had become insensitive to disappointment, failing to discount a wide range of risks.

The Iran conflict causing supply chain disruptions and renewed inflation concerns, combined with growing scrutiny around artificial intelligence and private markets, marked a meaningful shift in market psychology. While financial markets rebounded quickly following a tentative ceasefire in early April, the episode reinforced a core theme we have emphasized since early 2022: we are no longer operating in the low-volatility, post-Cold-War regime that defined much of the past three decades.

A Multipolar World Reasserts Itself

The Iran conflict is less an isolated shock than a reminder of a multipolar world where economic leverage increasingly flows through supply chains, resources, and geopolitical chokepoints. Even without a prolonged disruption to the Strait of Hormuz, the episode exposed vulnerabilities that markets should not ignore. Higher geopolitical risk premiums—particularly around energy, trade, and inflation—are likely to persist.

Importantly, this shock arrives at a time when inflation had not fully reset, and growth appeared to already be slowing at the margin. Energy prices function as a tax on consumers and businesses, and history suggests their economic impact often unfolds with a lag. The greater risk is not a single headline, but duration—how long these pressures remain embedded in the economy.

AI: From Enthusiasm to Examination

Artificial intelligence has been a powerful market catalyst, but investors are increasingly grappling with harder questions around industry and workforce disruption as well as return on investment. In Q1, software companies came under pressure as markets assessed whether AI tools could commoditize portions of the software stack or weaken pricing power.

History offers perspective. Technological change is disruptive, but adaptation tends to matter more than obsolescence. Well-capitalized software and other technology leaders are more likely to leverage AI to reshape how value is delivered than disappear entirely. Adoption and transition take time, and while workforce disruption is inevitable, it is more likely to be evolutionary than sudden. With that said there will be losers as well as winners.

Private Markets: Separating Liquidity Management From Fundamentals

Private markets—particularly private credit—have drawn heightened media attention (in some cases, unwarranted) amid elevated redemption activity in some semi-liquid vehicles. Headlines have often blurred the distinction between liquidity mechanics (i.e. managers restricting redemptions, by design, to protect investors) and underlying fundamentals. To date, borrower data does not point to widespread stress: leverage remains manageable, default rates are below historical averages, and higher starting yields provide a meaningful cushion.

That said, investor behavior matters. Liquidity pressure in certain fund semi-liquid structures can cause volatility even when portfolio fundamentals remain sound. Also, the supply chain disruption caused by the Iran War has increased the risk of slower growth or even recession which would not only impact the private markets but risk assets more broadly. We considered these scenarios when we underwrote these semi-liquid exposures and are not surprised by them. With that said we are closely monitoring both investor flows, and, more importantly, the macroeconomic backdrop.

Portfolio Positioning: Prepared, Not Predictive

This environment reinforces the importance of preparation over prediction. We continue to emphasize broad, thoughtful diversification, discipline, and a mindset that considers the data but tunes out the noise. In a regime defined by higher volatility, geopolitical uncertainty, AI disruption, and inflation risk, portfolios must be built to withstand a range of outcomes rather than rely on a single prevailing narrative.

While markets recovered quickly after March's shock, the episode served as a reminder of how rapidly confidence can be tested. Our focus remains on building resilient portfolios designed for an increasingly complex and less forgiving world.

Concluding Remarks

Rather than viewing recent market developments as validation of any single call we made four years ago regarding regime change, we see them as reinforcing the importance of recognizing secular shifts when they emerge. These regime changes are infrequent, but when they do occur, they have the potential to alter the rules of engagement for investors in meaningful ways. Our objective has never been to predict specific events or time markets. History is clear that attempting to do so relies far more on luck than skill and rarely leads to repeatable and successful outcomes.

What we have sought to do—particularly over the past four years—is identify the broader forces reshaping the investment landscape and consider how portfolios may need to be positioned differently than in the prior regime. The escalation of the Iran conflict in March serves as a useful illustration. What began as a geopolitical shock quickly evolved into a broader test of inflation dynamics, growth durability, and long-held market assumptions—from the role of bonds as portfolio ballast to gold as a hedge against uncertainty. At the same time, enthusiasm around artificial intelligence gave way to more difficult questions about disruption, disintermediation, and employment, particularly in software-heavy segments of public and private markets.

To be clear, this is not an attempt to claim a market-timing win. The swift recovery in markets following the ceasefire only reinforces how impossible it is to know when—or how—risk will ultimately express itself. But the investor experience of March underscores why preparation matters. First-order shocks are often absorbed quickly; it is the second-order consequences that tend to surface over time and challenge portfolios built for a narrower set of potentially antiquated assumptions.

Our focus remains on preparing portfolios for a range of outcomes, even when that means positioning against prevailing market sentiment. Disciplined and broad diversification, a long-term perspective, discipline and thoughtful risk management have historically proven to be the most reliable defenses in periods of uncertainty. In a world shaped by regime change, geopolitical flare-ups, AI-driven disruption, and what is looking like a persistent inflation risk accompanied by slower growth, that approach may require a degree of creativity—but it remains grounded in the same principles that have served investors well over full market cycles.