Alger's Lens Through the Iran Conflict

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During moments of volatility there is often a strong psychological impulse to 'do something', but reactive trades in the early days of a geopolitical crisis have historically been a source of regret, not alpha. Portfolio Manager Ezra Samet shares his views on the recent U.S. conflict in Iran.

ALEX BERNSTEIN: Hello, I'm Alex Bernstein and you're listening to The Alger Podcast, Investing in Growth and Change. Over the past several days, escalating military strikes between the United States, Israel, and Iran have triggered volatility across global markets. To help put the situation into context, we reached out to Portfolio Manager Ezra Samet, to walk us through how we're thinking about the conflict and its potential investment implications. Ezra, thanks so much for joining me today.

EZRA SAMET: Thanks, Alex.

ALEX: Ezra, could you just walk us through what's going on right now, from your perspective.

EZRA: This is a serious and fast-moving situation, and anyone who tells you with certainty exactly how it will unfold is overconfident. Late last week, the United States and Israel launched coordinated military strikes against Iran, targeting its nuclear program, its missile infrastructure, and its military command structure. Iran has retaliated with missile and drone attacks across the region. The Strait of Hormuz, through which roughly twenty percent of the world's oil travels, has been severely disrupted. Oil prices have risen sharply, and global equity markets have been volatile.

We believe that what is happening in the Middle East is not simply a regional conflict, and investors who think of it that way may be missing the forest for the trees. The forest, in this case, is the ongoing competition between the United States and China for economic influence, technological leadership, and geopolitical primacy. We believe how this conflict resolves may have longer term implications that extend beyond the Middle East.

ALEX: You've put together a base case that rests on two key points. Can you explain those to me?

EZRA: First, we believe that history is on the side of patience. Historically, markets have consistently overreacted to geopolitical shocks in the near term and recovered as clarity emerged, and we believe that pattern may reward investors who stay disciplined.

Second, at this stage our sense is that this conflict is likely to be measured in days and weeks, not months or years. Iran's leadership has been severely disrupted, its economy was already fragile, and we think there are multiple actors with strong incentives to bring this to a close. We believe, in our base case, oil prices stabilize, the Strait gradually reopens, and the global economy absorbs the near-term inflation impact without tipping into recession.

ALEX: And you're also monitoring some risks to the base case. What do you see as the primary risks?

EZRA: The first risk to our base case is recession. We think that a prolonged conflict keeping energy markets disrupted for months rather than days could put sustained upward pressure on inflation, complicate the Federal Reserve and other global central banks' ability to cut interest rates, and weigh on economic growth. The historical evidence that markets recover after geopolitical shocks holds except when those shocks trigger a recession.

The second risk to the base case is broader regional escalation drawing in additional actors, a tail risk we view as unlikely but worth naming. We believe this could further disrupt global trade routes and supply chains and could require a more significant reassessment of portfolio positioning.

ALEX: And what changes, if any, have you made to your portfolios?

EZRA: First, we have not made dramatic changes to our portfolios. During moments of volatility there is often a strong psychological impulse to DO SOMETHING, but reactive trades in the early days of a geopolitical crisis have historically been a source of regret, not of alpha. To the extent that we do make defensive changes, they are likely to be at the margin where individual stocks have deteriorated or where key pillars of our thesis have changed.

Second, we are looking as much at playing offense as defense. Some of the world's most attractive businesses have corrected by as much as twenty percent, not because their underlying fundamentals have materially changed, but because global investors are repricing risk assets broadly.

ALEX: Ezra, despite everything that's going on, and a lot of near term anxiety, you believe there's reason for some long term optimism? Can you talk about that?

EZRA: Many of our clients have heard us use the term "capital friendliness" to describe a country's ability to attract global investment. In our view, the Iranian regime, for decades now, has been among the leading sources of instability in one of the world's most resource-rich regions, actively undermining the attractiveness of its regional neighbors. In our view, this is against a backdrop of these countries transforming themselves into increasingly compelling destinations for capital. We believe that if the Iranian regime is removed from the board, or fundamentally transformed, the unlocking of investment across the region could be profound. The Abraham Accords in 2020 gave us a brief glimpse of what regional normalization can do for capital flows, before being disrupted by Hamas' against Israel on October 7th, 2023. We believe that a more stable Middle East could represent one of the most significant emerging market opportunities of the next decade.

ALEX: Ezra, thanks so much for joining me this afternoon.

EZRA: Thanks, Alex. It's been great talking to you.

ALEX: And thank you for listening. For more information on Alger international investing and for more of our latest insights, please visit www.alger.com.

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