Personal Resource Center

Back

Share: Print:

People are also reading

Blueprint for Mid Career Savers: Building a Resilient Retirement Withdrawal Plan Now

What Is the 1/3, 1/3, 1/3 Investing Strategy?

Investing 101: What Is Rebalancing Your Portfolio?

Do you have questions or ideas?

Share your thoughts about this article or suggest a topic for a new one

What Is Stagflation?

As inflation remains stubbornly above target and economic expansion loses momentum, concerns about stagflation have resurfaced. Recent indicators in the summer showed that price pressures, especially in shelter and services, weren't cooling as quickly as officials hoped, even as growth forecasts were being trimmed.[1]

This combination is reviving conversations about a potential stagflation. Historically rare and difficult to combat, stagflation poses a unique challenge for both investors and policymakers. Learn more about what stagflation is, its history in the U.S., the warning signs you should watch for and how to prepare your portfolio.

What Stagflation Is and Why It's a Policy Headache

Stagflation occurs when three conditions converge: high inflation, stagnant or negative growth and high unemployment.[2] The key challenge is that traditional policy tools become ineffective.

Central banks can either[3] fight inflation by increasing interest rates, which risks deepening stagnation — or they can stimulate growth by lowering interest rates, which risks fueling even more inflation. That balancing act makes stagflation a serious economic quandary.

Lessons from the 1970s – The Classic Stagflation Case Study

The most well-known episode of stagflation in the U.S. occurred in the mid-1970s. The OPEC oil embargo caused oil prices to rise sharply leading to high inflation, and rising unemployment.[2] The annual U.S. inflation rate rose from less than 6% to 13.5% between 1970 and 1980,[4] while economic growth slowed and unemployment climbed.

Oil prices rose sharply because of the OPEC crisis, and because oil is crucial for transportation, manufacturing and energy, these price spikes rippled throughout the economy. As businesses raised their prices to cover increasing costs, workers demanded larger raises, creating a self-perpetuating cycle that pushed inflation ever higher.[2]

To confront this wage-price upward spiral and stay afloat, companies either had to reduce production, leading to layoffs, or increase prices again, boosting inflation. Some tried both, creating a toxic brew of rising unemployment and accelerating inflation that lasted throughout the 70s.[2]

Trying to lower inflation in the late 1970s, then-Fed Chair Paul Volcker raised interest rates to double digits – 21% by 1981 — to break the stagflation cycle. This cured inflation but triggered a deep recession, making the solution for stagflation as painful as the problem.[2]

However, drawing parallels to 1970s stagflation may be premature, according to a Fidelity viewpoint.

"With inflation persisting, a lot of people's expectations are gravitating toward the most negative outlook," says Bradford Pineault of Fidelity's Capital Markets Group. "Instead, we believe that while things aren't perfect, they're hardly bad, and the economy is still expanding."

Are There Currently Early Warning Signs of Stagflation?

While one Federal Reserve president thinks fears of stagflation are overblown,[5] a growing number of industry analysts caution that today's economic environment may be trending into stagflation territory again.

In June 2025, JPMorgan analysts warn that there was about a 40% chance[6] the U.S. could face a "stagflationary slowdown" later this year, with economic growth expected to fall. They attributed this weaker outlook to new tariffs and ongoing supply disruptions, which were making it harder for the economy to grow while also keeping prices high.[6]

Other experts warned that even if the U.S. managed to avoid a recession, ongoing tariffs and supply chain disruptions could still trigger stagflation.[7] In this scenario, the economy would experience both sluggish growth and elevated inflation, making it increasingly challenging for households and businesses to manage rising expenses.[7]

Warning Signals of Stagflation to Monitor

As stagflation concerns grew in 2025, investors and policymakers were watching several key economic signals. These indicators can help identify whether the U.S. is at risk of entering a period where inflation and stagnation occur together. Understanding these warning signs is crucial for anyone hoping to navigate this uncertain economic landscape.

1. **Inflation versus Growth Gap**

   When inflation stays above the Federal Reserve's 2% target while economic growth slows, the risk of stagflation increases.[8] But, in 2025, one top economist projects U.S. GDP growth at just 1.2%, while inflation expectations have [illegible] expansion, a classic warning sign of stagflation. However, as of October 15, the second quarter showed most recent official estimated for U.S. GDP growth as an annualized rate of 3.8%, according to the Bureau of Economic Analysis (BEA).

2. **Persistent Supply Shocks**

   Ongoing tariffs, supply chain disruptions and spikes in energy costs were keeping price pressures high across the economy.[9] These shocks made it more expensive for businesses to operate and for consumers to buy goods, contributing to inflation even as growth temporarily slowed. Experts pointed to recent trade policy changes and geopolitical tensions as major drivers behind these persistent disruptions.

3. **Federal Reserve Policy Dilemmas:**

   The Federal Reserve faces a difficult balancing act: lowering interest rates could fuel even higher inflation, while raising rates risks further stalling economic growth.[10] This policy dilemma limits the central bank's ability to respond effectively to either problem. As a result, traditional tools may not be enough to steer the economy out of stagflationary danger. (Note: the Fed did cut the federal funds rate by 25 basis points this past September, bringing it to the 4.00-4.25% range).

4. **Investor Sentiment**

   A noticeable shift toward cash and safe-haven assets showed that investors were worried about stagflation.[9] If you notice a rise in demand for defensive investments, like gold and treasuries,[11] that may reflect growing uncertainty about both inflation and future growth. This cautious sentiment among investors can cause them to pull back, which can slow economic activity, reinforcing stagflation risk.

> JPMorgan analysts warn that there is about a 40% chance the U.S. could face a "stagflationary slowdown" in 2025, with economic growth expected to fall.

Together, these factors highlight an economic environment where inflation outpaces growth. That scenario fits the definition of stagflation and poses significant challenges for households, businesses and policymakers.

What Asset Classes Have Done Better During Stagflation?

During stagflation, some asset categories systematically underperform while others tend to stay strong.

Underperforming assets

These assets tend to struggle when inflation remains high and growth is stagnant. Historically, traditional stocks and bonds, as held in a typical 60/40 portfolio,[12] have suffered during stagflation. During those periods, stocks underperform because weak economic growth drags down corporate earnings, while bonds lose real value as high inflation erodes fixed interest payments.[13]

Stronger-performing assets

These may thrive during stagflation, even as other assets falter. They include real assets like gold, commodities and real estate,[14] which often shine when inflation persists. You can buy many of these through exchange traded funds (ETFs), but talk to your financial advisor about how to invest in them in a way that protects your portfolio.

What should your investment strategy be during stagflation?

Since stagflation can hurt returns from both stocks and bonds, it's important to diversify while staying calm and staying the course with your long term investment strategy.[15]

While they could be a sign of impending stagflation, defensive stocks can also be a hedge against stagflation, too, so consider adding them to your portfolio. Defensive stocks are shares of companies that offer essential products and services, like utilities, healthcare and consumer staples — tend to hold up better when the economy slows because demand for their goods and services remains steady.[16]

You may also want to focus on securities of high-quality companies with strong pricing power, which helps them maintain profits as costs rise.

Treasury Inflation-Protected Securities (TIPS)[17] can help shield retirement portfolios from inflation by adjusting their value based on changes in the Consumer Price Index.

To keep your investments consistent with your already established long-term investment strategy, make sure you discuss any potential diversification with your financial advisors.

Your Bottom Line

Stagflation remains an infrequent but severe economic outcome when the combination of policy and economic factors are present. Elements like persistent inflation, modest growth, supply chain disruptions and cautious investor behavior are what you should monitor to determine stagflation risk.

Then, you can decide how they affect your family finances, especially your investment portfolio, and collaborate with your financial advisors on wealth protection strategies.

Important disclosure information

This content is general in nature and does not constitute legal, tax, accounting, financial or investment advice. You are encouraged to consult with competent legal, tax, accounting, financial or investment professionals based on your specific circumstances. We do not make any warranties as to accuracy or completeness of this information, do not endorse any third-party companies, products, or services described here, and take no liability for your use of this information.

1. Bureau of Labor Statistics, "Economic News Release: Consumer Price Index Summary", June 11, 2025. Accessed October 15, 2025. Back
2. Peter Gratton, "What Is Stagflation, What Causes It, and Why Is It Bad?" Investopedia, April 7 2025. Accessed October 15, 2025. Back
3. Christopher Rugaber, "Stagflation' risk puts Federal Reserve in tricky spot as it meets this week," AP, March 17, 2025. Accessed October 8, 2025. Back
4. John Letting, "Stagflation forced us to rethink how we manage economies. Will it make a comeback?", World Economic Forum, March 18, 2025. Accessed October 14, 2025. Back
5. Katherine Li, "A Federal Reserve president thinks fears of a 1970s-style stagflation are overblown," June 30, 2025. Accessed October 14, 2025. Back
6. Davide Barbuscia, "JPMorgan sees tariff-induced US 'stagflationary' slowdown in 2025," Reuters, June 25, 2025. Accessed October 14, 2025. Back
7. Dicon Hyatt, "If The Economy Avoids A Recession, It's Not Out Of The Woods," Investopedia, April 17, 2025. Accessed October 8, 2025. Back
8. Daniel Liberto, "Why Is Stagflation Bad for the Economy?", Investopedia, March 18, 2025, accessed October 8, 2025. Back
9. Jennifer Sor, "The US is staring down a fate worse than recession, and 4 other bold forecasts from a top economist," Business Insider, June 25, 2025, Accessed September 15, 2025. Back
10. Howard Schneider, "Fed split on whether to hedge on inflation, or proceed with cuts," Reuters, June 20, 2025. Accessed October 15, 2025. Back
11. William Edwards, "Trump's tariffs are challenging time-tested 60/40 investing strategies," April 20, 2025. Accessed October 15, 2025. Back
12. Coryanne Hicks, "Want To Beat Stagflation? Invest Like It's the 1970s," Kiplinger, June 10, 2024. Accessed October 15, 2025. Back
13. Reuters, "The safe-haven play: Economists' holdings of gold vs Treasuries," April 22, 2025, accessed October 8, 2025. Back
14. Coryanne Hicks, "What Is Stagflation and How Can Investors Prepare?," Kiplinger, March 5, 2025, accessed September 5, 2025. Back
15. James Chen, "Understanding Defensive Stocks, Pros & Cons, and Examples," Investopedia, May 2, 2024. Accessed October 7, 2025. Back
16. Treasury Direct, "Treasury Inflation Protected Securities (TIPS)," accessed October 7, 2025. Back

Banking products are provided by Synovus Bank, Member FDIC. Synovus Bank, NMLS #408543, is an Equal Housing Lender.

Synovus Bank, Member FDIC, is an Equal Housing Lender and lends in the states of Alabama, Georgia, Florida, Tennessee, North Carolina, and South Carolina. This communication is directed to prospective customers in those states. Loans subject to approval including credit approval. Synovus Bank, NMLS #408543.

If you would like to assert there has been an error made with the servicing of your consumer mortgage loan, or if you would like to request information about your consumer mortgage loan, and if you would like your request or complaint to be treated in accordance with the procedures provided in 12 C.F.R. Parts 1024.35 and 1024.36, then you must send written notice to us at Synovus Bank, Attention Mortgage Customer Service, 800 Shades Creek Parkway, MS 130, Birmingham, AL 35209. Otherwise, we will treat your assertion or request per our standard policies and procedures.

You have certain rights under Federal law related to resolving errors and requesting information about your mortgage account, and you may learn more about your rights by contacting Synovus Bank, or by visiting http://www.usa.gov/mortgage-and-housing-assistance.

Investment products and services provided by Synovus are offered through Synovus Securities, Inc. (SSI) a registered Broker-Dealer, member FINRA/SIPC and SEC registered Investment Advisor, Synovus Trust Company, N.A. (STC) and Creative Financial Group, a division of STC. Trust services for Synovus are provided by STC.

NOT FDIC INSURED	NO BANK GUARANTEE	MAY LOSE VALUE

SSI is a subsidiary of Synovus Financial Corp. and an affiliate of Synovus Bank, and STC is a subsidiary of Synovus Bank. You can obtain more information about SSI and its Registered Representatives by accessing BrokerCheck.

Approval of any bank product or service is not contingent upon purchasing insurance from Synovus Bank. Insurance products marketed through Synovus and its affiliated companies are underwritten by insurance companies not affiliated with Synovus.

My Money Program

© 2025 Synovus Financial Corp. All rights reserved.