

Ask the Experts: Stagflation

Q: I have been hearing about stagflation. What is it, and is it something to be concerned about?

A: Stagflation is about as fun as it sounds, especially if you remember the 1970s, with its steep oil prices, runaway inflation, and terrible joblessness. No investor wants to suffer through that again, but the Federal Reserveâ??s coming actions to curb inflation thatâ??s the highest itâ??s been in many years are causing some anxiety about the potential for stagflation.

The Fed has signaled that it will act aggressively by raising interest rates to get control over inflation, which has been over 8 percent over the past 12 months. Its goal is to raise rates just the right amount to shrink consumer demand somewhat, gently tapping the brakes on the economy and tamping down inflation. But this maneuver will be hard to get perfect. If the Fed overshoots and cools the economy too much, it could trigger a recession and many lost jobs.

With the blunt instruments it has, the Fed can only try to rein in demand; it has no tools available to increase the supply side of the equation. A series of external blowsâ??COVID-19 lockdowns, global supply chain problems, and the war in Ukraineâ??have severely limited the supply of some goods, which is why prices are going up. Unfortunately, the Fed canâ??t control whether any more supply-side shocks, like more pandemic lockdowns, are still to come. Further supply-side problems could cause prices to continue to rise and trigger stagflation.

However, we are not in a period of stagflation yet. The technical definition of stagflation involves the triple threat of:

- elevated inflation;
- slowing economic growth; and
- high unemployment.

Unemployment currently is nowhere near high. In fact, the opposite is true. Because of the extraordinarily tight labor market, the current economy doesnâ??t meet the criteria for stagflation. Companies everywhere are having great difficulty hiring enough workers, as evidenced by the Great Resignation and rising wages.

The fact that there are unfilled jobs in the system gives the Fed some latitude. The perfect scenario would be for the Fed to slow the economy at just the right pace to remove six million excess jobs, relieving wage inflation, and bringing down price inflation. The danger is, if Fed actions remove too many jobs, rising unemployment could result.

These uncertainties have driven the stock market down some 15 to 30 percent in various sectors. For investors, itâ??s certainly challenging to position your portfolio for stagflation. The best approach is to make sure youâ??ve got ample liquidity to let the market work through this period of volatility. The key to success is to buy enough time with your liquidity bucket to ensure that you are not forced to turn a temporary decline into a permanent loss. You donâ??t want to have to sell until you identify a good time to exit.

As always, diversification is your friend. Stay patient and try to keep emotion out of your investment decisions. Reactive emotional decisions can erase decades of good decisions, wreaking havoc on a sound financial plan.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or schedule an appointment with a retirement counselor today.

Legal Notice
This document is intended to be informational only. CAPTRUST does not render legal, accounting, or tax advice. Please consult the appropriate legal, accounting, or tax advisor if you require such advice. The opinions expressed in this report are subject to change without notice. This material has been prepared or is distributed solely for informational purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. The information and statistics in this report are from sources believed to be reliable but are not warranted by CAPTRUST Financial Advisors to be accurate or complete. All publication rights reserved. None of the material in this publication may be reproduced in any form without the express written permission of CAPTRUST: 919.870.6822.

Â© 2026 CAPTRUST Financial Advisors
