

Stagflation Risks: Why Retirees Need to Reassess Their Portfolios Now

Admin User · January 7, 2026

Explore the economic dangers of stagflation and its effects on purchasing power and investment returns. Discover practical tips for diversifying your retirement portfolio and minimizing risk.

By David Marra

It's a term we're hearing more and more these days, yet something that hasn't been a feature of the U.S. economy in fifty years, since the 1970s: stagflation. Unfortunately, a whiff of stagflation is in the air again and those nearing retirement and in retirement should pay attention.

Many of today's retirees will remember that economically painful decade. For those who either weren't alive yet, were too young to remember or for those who need a refresher (pretty much everyone), it's worth devoting some time to understanding what stagflation is and what it means for investors.

The word stagflation comes from combining the words "stagnation" and "inflation." All of us have become familiar with inflation from the experience of the past few years – a sustained increase in the general price level of goods and services in an economy. Generally, when inflation is high it is because the economy is overheated relative to its capacity. That is why inflation is most often associated with a robust, growing economy, like we've had the past few years.

When inflation stays high while growth slows and unemployment increases, we call this unfavorable economic picture "stagflation." It's nasty stuff for investors generally and retirement investors in particular because inflation without growth is so detrimental to the typical income-oriented retirement portfolio. While the U.S. economy is not in a stagflationary period just yet, the extreme uncertainty we're experiencing with tariffs and

the global trade picture is already having a negative effect on GDP growth while elevating inflation and undermining the health of the job market.

How did we get here? A series of rapid tariff policy pronouncements by the new administration, resulting in the highest average U.S. tariff rate since 1946.

As a fund manager, trying to keep a pulse on what are often overnight changes in trade policy, has made for some of the busiest weeks of my career. For consumers and business executives, the feeling might be close to that of a deer in the headlights. It's tough for businesses to plan for the future when they don't know what the rules of import and export are going to be and it's tough for consumers to make purchase decisions when they're not sure what a car or a bottle of wine is going to cost next month.

The best course of action for concerned investors is to first understand both the historical risks of stagflation and second, learn how you can safeguard your retirement portfolio should stagflation materialize. I discuss both below.

The Effects of Stagflation

1. Stagflation erodes consumer purchasing power

At the most basic level, high inflation means that the cost of goods and services rises substantially over time. If your retirement savings and investment returns don't keep pace with inflation, the real value of your nest egg diminishes, meaning you can afford less. This is particularly concerning given rising health care costs and longer life expectancies.

Since 1970, the average retirement length has increased significantly, from 12.8 to 18.6 years for men and from 16.6 to 21.3 years for women (or about 36% overall). With many retirees outliving their initial financial plans, the gap between expected and actual retirement length makes managing inflation risk even more urgent today.

2. Stagflation stifles corporate growth, resulting in lower equity returns

The combination of low economic growth and high inflation creates an especially challenging environment for businesses. The same way consumers face higher prices, so too do producers in their input costs like labor and raw materials.

On the growth front, as consumers tighten their belts, demand for goods falls. Producers are left with less capital to hire or invest. A low-growth, low-productivity environment can also arise as a direct result of tariffs – as protectionist measures force more goods to be produced in sectors where U.S. production is less efficient, resulting in a slower growing

and less efficient economy.

This dynamic tends to put downward pressure on corporate profitability and earnings and, ultimately for investors, produces lower returns. For example, in a period of less than 30 days from mid-February to early March 2025, fears of a tariff-induced economic downturn drove a stock market sell-off that wiped out roughly \$4 trillion from the S&P 500.

The experience of the 1970s and 1980s is also instructive. In 1982, just as the last bout of stagflation was coming to an end, the S&P 500's inflation-adjusted 10-year return sat at -57%. Today, a persistent downturn would have serious consequences, especially for retirees with lots of passive equity exposure.

3. Stagflation complicates fixed income investing

Typically thought of as a safe haven in times of economic uncertainty, fixed income investing becomes more complex in stagflationary periods. In the same way that inflation erodes consumer purchasing power, it also erodes the value of bond dividend payments. If a bond yields, for example, 3% annually, but inflation is running at 5%, the real return is -2%, meaning the purchasing power of the investment is actually decreasing by 2% each year. That's concerning for retirees where fixed income assets make up a significant portion of their portfolios.

The Federal Reserve, which sets short-term interest rates through the federal funds rate, is also in a very difficult situation. In a healthy, growing economy, like the post-COVID-19 years, the Fed would normally raise interest rates to combat inflation. But in an environment where tariffs are putting economic growth at risk, raising rates would risk further economic slowdown and higher unemployment. On the other hand, if the Fed keeps rates too low, this could allow for inflation to ratchet higher (as was the case in the early 70s and in the immediate aftermath of the pandemic).

In other words, the Fed cannot come to the rescue as cleanly as it did after the pandemic, when it raised rates and lowered inflation without incurring a hit to GDP growth. Were stagflation to meaningfully materialize today, the Fed would either have to prioritize getting inflation down at the cost of a recession or getting growth up at the cost of higher inflation.

4. Stagflation results in something resembling recession or low consumer confidence

In the worst-case scenario, stagflation can lead to recession. After the Fed struggled to find the correct monetary policy response in the 1970s, the U.S. faced a crushing recession from 1981-1982, with unemployment climbing as high as 10%.

Yet even if a full-blown recession is avoided, even a whiff of stagflation can increase investor risks in a material way. The stock market sell-off I mentioned above isn't the only risk indicator. The CBOE's VIX index, a popular measure of the stock market's expectation of volatility (often referred to as the "fear index"), has seen spikes of more than 80% since the inauguration. The Conference Board's Consumer Confidence Index has fallen now four months in a row. The Expectation Index dipped even further to its lowest reading in 12 years. Sour consumer sentiment in a consumer-driven economy can keep it from growing in a very real way.

How to Protect Your Retirement Savings

Though stagflation does pose significant risks to both retirement portfolios and the economy in general, it's important to remember that we're not there yet. While the hope is that we learn from history and avoid another tango with stagflation, it's an important time for retirement investors to be looking for investment opportunities that can protect against that downside risk.

Here are a few things to be thinking about and discussing with your financial advisor if you have one:

1. Prioritize inflation-resistant assets

Look for funds and strategies that incorporate commodities—think oil, metals, gold and agriculture. These tend to perform well in inflationary environments, as they benefit from rising input costs.

Defensive sectors like utilities, pharmaceuticals and consumer staples—in other words, necessities that offer high pricing power—are another way to fortify against inflationary pressures. High quality companies that pay solid dividends are often found in the sectors just listed. Inflation-protected bonds, like Treasury Inflation-Protected Securities (TIPS), that increase dividends based on changes in CPI can offer another line of defense against rising prices.

Diversifying your portfolio with high-quality international investments, both stocks and bonds, can be another way to avoid U.S. stagflationary economic effects. Although U.S. tariffs are affecting global trade, the effects will not be born equally by all countries.

2. Reduce exposure to cyclically vulnerable sectors

Just as important as being invested in certain areas is avoiding others. Stay away from sectors like consumer discretionary—where stocks tend to struggle as high inflation forces consumers to prioritize spending on essentials—and semiconductors and hardware—which

typically get hit hard as rising costs delay timelines for investing in new technology.

Financials & regional banks are often another area to underweight, as higher inflation and potential stagflation-driven policy changes can pressure lending margins, increase credit risk and reduce M&A activity.

3. Consider alternative investments

Though these types of opportunities typically come with larger capital requirements, investing in hedge funds and real estate can serve as other ways to diversify one's portfolio, reduce downside exposure and potentially even profit from stagflationary dynamics. SMA strategies with hedging components—which I manage in addition to traditional hedge funds—can offer similar diversification and protection benefits with a lower minimum investment requirement.

Stagflation isn't a reality anyone wants to face, certainly not investors who have worked hard to build a nest egg to carry themselves through an enjoyable and well-deserved retirement. After all, we've seen this film before—elevated inflation, rising unemployment, stagnant growth—and it aged about as well as disco. With luck, we won't have to experience that again (even though some fond disco memories do linger). But when a wide variety of experts like former Treasury secretaries, long-time fund managers and market experts are warning of the possibility of its re-emergence, it's an opportune time to be thinking about adding resilience to your portfolio.

While the tips above are a helpful starting place, my best recommendation, as always, is to seek guidance from a reputable adviser you trust, who can point you in the right direction, whether that's towards specific investment products or funds managed by experienced managers like myself.

About the author: David Marra

[David Marra](#) is the co-founder and chief investment officer at [Markin Asset Management](#). He specializes in building and managing investment strategies and funds for individuals in the retirement, near-retirement and accumulation phases of their lives. David works with advisers, employers, families and individuals across the United States to align their investment strategies with their goals, helping them increase their income and the value of their assets.
