

Stagflation-light: A growing investment concern

Iran, energy markets, and the risk of re-accelerating inflation and slower growth

Collin Crossover PhD, FRM

Research Analyst, Asset Allocation Research

Jacob Weinstein, CFA®

Senior Vice President, Asset Allocation Research

Key takeaways

- Inflation risks are rising, driven primarily by energy supply disruptions tied to Iran and global geopolitics.
- The Fidelity AART team expects higher peak inflation than market consensus, and that inflation could rise above our assumptions if cost pressures broaden.
- History suggests secondary inflation waves are common after major peaks, particularly when supply shocks persist.
- AART research points to a higher risk of a “stagflation-light” environment, with a combination of moderately higher inflation and slower growth.

Inflation has cooled meaningfully from its 2022 peak, but history suggests the path back to low and stable inflation is rarely smooth. Recent developments—particularly in the Middle East and global energy markets—have increased the risk that inflation re-accelerates in 2026.

The Fidelity Asset Allocation Research team (AART) believes inflation is more likely to run higher than current market consensus—and that our current assumptions could prove conservative if cost pressures broaden.

Our research points to three principal factors: 1) Past energy supply shocks like the one in March 2026 have tended to be multi-month events; 2) secondary waves of inflation following a peak (like the one in 2022) have been common, and 3) we are seeing an increased number of inflationary signals.

A close look at past energy supply shocks

Historically, major inflation episodes tied to geopolitics have not started with strong consumer demand. They have begun with negative supply shocks, most often in energy.

Past episodes—from the 1970s oil embargo through more recent conflicts—show that when events disrupt the global energy supply, prices typically rise for months, not weeks. While it's possible that the geopolitical tensions with Iran ease and energy markets quickly come back down, this hasn't been the historical norm. Since 1973, major supply-driven energy shocks have played out over roughly six months, on average—often longer than initially expected.

Exhibit 1: The length of past supply-driven energy shocks

Event	Start	End	Duration
Arab Oil Embargo	10/17/1973	3/18/1974	@ 5 months
Iranian Revolution	11/1/1978	6/30/1979	@ 7 months
Iran–Iraq War	9/22/1980	3/31/1981	@ 6 months
Gulf Crisis/War	8/2/1990	2/29/1991	@ 7 months
Russia/Ukraine	2/24/2022	6/30/2022	@ 4 months
Average			@ 6 months

Source: James D. Hamilton, *Routledge Handbook of Major Events in Economic History* (2013); Lena Dräger & Klaus Gründler & Niklas Potrafke, (2025). "Peer Effects in Macroeconomic Expectations," *CESifo Working Paper Series* 11892, CESifo; Fidelity Investments, as of 4/1/26.

The economic impact of past supply shocks

How might the current supply shock affect the economy? Exhibit 2 shows peak-to-trough oil prices during past shocks since 1973, and the corresponding forward two-year effect on economic growth, headline inflation, and core inflation.

Exhibit 2: Growth and inflation impact of past energy supply shocks

Event	Start	End	Oil Price (start to peak)	Change in GDP growth*	Change in headline inflation*	Change in core inflation*
Arab Oil Embargo	10/17/1973	3/18/1974	135%	-4.9%	4.4%	5.3%
Iranian Revolution	11/1/1978	6/30/1979	156%	-5.0%	4.5%	3.6%
Iran–Iraq War	9/22/1980	3/31/1981	6%	0.0%	-3.9%	-2.3%
Gulf Crisis/War	8/2/1990	2/29/1991	132%	-1.7%	-1.0%	-0.3%
Russia/Ukraine	2/24/2022	6/30/2022	52%	-0.3%	0.7%	1.2%
Average			96%	-2.4%	0.9%	1.5%

Past performance is no guarantee of future results. *Changes in GDP, headline inflation and core inflation calculated for two years from the start of the shock vs. the two previous years. Source: U.S. Bureau of Labor Statistics (BLS), U.S. Bureau of Economic Analysis (BEA), Macrobond, and Fidelity Investments, as of 3/31/26.

The 1970s events provide specious comparisons, as the U.S. economy is less oil-intensive than 50 years ago. Also, domestic production and strategic reserves provide limited buffers that didn't exist in the 1970s.

The most similar past event to the present may be 2022—mild form of stagflation (slower growth and higher inflation), as opposed to a multi-quarter economic contraction. This time, however, the inflationary pressure might last longer than it did four years ago. Notably, oil prices have already risen more sharply than at the start of the Russia-Ukraine conflict.

What could mild stagflation mean for investors?

Even mild stagflation could present headwinds for stock and bond portfolios, especially if the movements of those assets were to become more correlated.

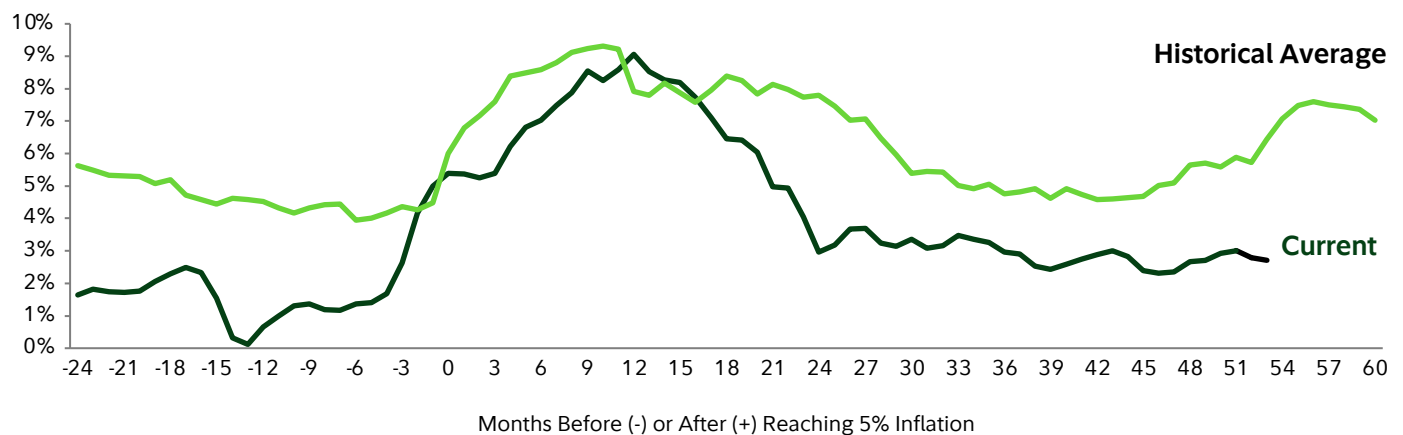
- Higher inflation could limit the Fed's flexibility more than modestly slower growth.
- U.S. and international equity markets could face the double headwind of reduced earnings and lower valuations.

Historical evidence of secondary inflation waves

Part of the reason we are concerned about inflation is the historical pattern: It's been common to see a second wave of inflation following a peak.

Exhibit 3 shows the long-term trend for U.S. inflation in the two years before and the five years after it rose to 5% (like it did in 2022). The exhibit tracks all six such instances since 1944. The typical path for these inflationary waves has been 1) rising inflation in the 12 months after reaching 5%, 2) followed by a roughly three-year downtrend, 3) then a second wave higher for roughly 18 months. We are now in the part of the cycle where a secondary inflation wave has historically been common.

Exhibit 3: Inflation after reaching 5% (1944 to present)

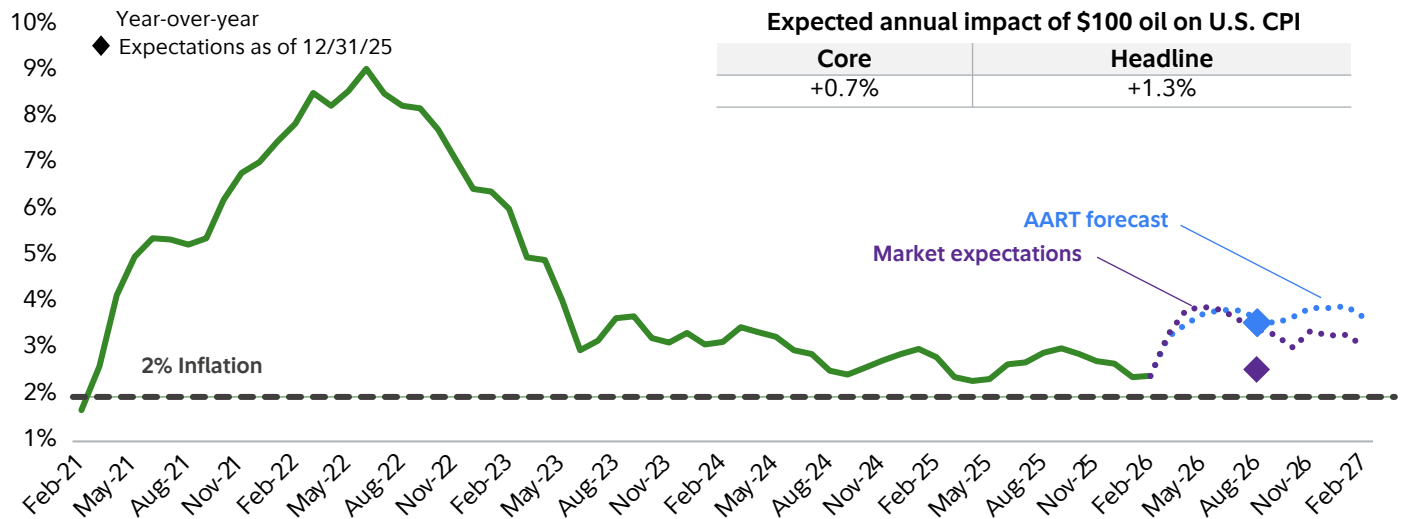


Current represents headline CPI starting in June 2021. Historical average is an average of the six periods after 1944 where inflation exceeded 5%. Source: Bureau of Labor Statistics, Macrobond, Fidelity Investments (AART) as of 2/28/26.

AART inflation outlook

Based on current assumptions, AART expects CPI inflation could rise toward 4% over the next 9 to 12 months. In comparison, market expectations based on inflation swaps call for an inflation rate closer to 3% in the same period (Exhibit 4).

Exhibit 4: AART inflation forecast vs. market expectations



CPI: Consumer Price Index. Market expectations based on pricing of inflation swaps. Source: Bureau of Labor Statistics, Bloomberg, Macrobond, Fidelity Investments (AART), as of 2/28/26. TABLE: AART estimates as of 3/31/26.

Importantly, we see a balance of inflation risks that makes us wary of rising inflation:

- More than 60% of the inflation indicators tracked by AART point toward higher inflation
- Fewer than 10% point clearly toward lower inflation

Several forces could push inflation higher than our expectation:

- Gasoline prices rose sharply in March, adding roughly 0.7% to CPI
- Large and widening global fiscal deficits continue
- Inflationary pressures have appeared in unexpected places (Germany and Japan)
- Many business contracts could reset at higher prices

The largest uncertainty is still the Iran conflict. A prolonged disruption could spill over into food, transportation, and other categories, broadening inflation beyond energy.

Looking at the slightly longer term, peak globalization, which has made goods and labor more expensive, and increased friction among global trading partners, present upside risks to inflation as well. Also, the Fed may have a higher tolerance for inflation, given high deficits and rising debt service (interest) costs.

Conclusion

The probability of persistently higher and more volatile inflation has increased. If this were to happen, we would expect a “stagflation-light” environment, as opposed to a recession.

For investors, this argues for preparedness—not panic. Staying diversified and considering inflation-resistant asset classes can help protect investors from this potential scenario.

Based on the AART team’s research, exposure to commodities, real estate, and inflation-aware fixed income (including limited-term bonds and Treasury Inflation-Protected Securities) have performed well in past stagflationary-light environments. Certain alternative investments may also add diversification and a degree of inflation resistance.

Authors

Collin Crowover PhD, FRM

Research Analyst, Asset Allocation Research

Collin is a member of the Asset Allocation Research Team, leading research on inflation, foreign exchange, and international trade. He holds the Financial Risk Manager (FRM) designation and has been in the financial industry since 1996.

Jacob Weinstein, CFA®

Senior Vice President, Asset Allocation Research

Jacob is senior vice president of asset allocation research in the Global Asset Allocation division at Fidelity Investments. He is responsible for conducting fundamental and quantitative research to develop asset allocation recommendations for Fidelity’s portfolio managers and investment teams, as a member of the Asset Allocation Research Team. He has been in the financial industry since 1999.



Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or a solicitation to buy or sell any securities. Views expressed are as of 4/1/26, based on the information available at that time, and may change based on market and other conditions. Unless otherwise noted, the opinions provided are those of the authors and not necessarily those of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information.

Unless otherwise expressly disclosed to you in writing, the information provided in this material is for educational purposes only. Any viewpoints expressed by Fidelity are not intended to be used as a primary basis for your investment decisions, and are based on facts and circumstances at the point in time they are made and are not particular to you. Accordingly, nothing in this material constitutes impartial investment advice or advice in a fiduciary capacity, as defined under the Employee Retirement Income Security Act of 1974 or the Internal Revenue Code of 1986, both as amended. Fidelity and its representatives may have a conflict of interest in the products or services mentioned in this material because they have a financial interest in the products or services and may receive compensation, directly or indirectly, in connection with the management, distribution, and/or servicing of these products or services, including Fidelity funds, certain third-party funds and products, and certain investment services. Before making any investment decisions, you should take into account all of the particular facts and circumstances of your or your client's individual situation and reach out to an investment professional, if applicable.

This content contains statements that are "forward-looking statements," which are based upon certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize, or that actual results will not be materially different from those presented.

Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or a solicitation to buy or sell any securities. Views expressed are as of the date indicated, based on the information available at that time, and may change based on market and other conditions. Unless otherwise noted, the opinions provided are those of the authors and not necessarily those of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information.

Past performance is no guarantee of future results.

Investing involves risk, including risk of loss.

Diversification and asset allocation do not ensure a profit or guarantee against loss.

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets. Alternative investments are investment products other than the traditional investments of stocks, bond, mutual funds, or ETFs. Examples of alternative investments are limited partnerships, limited liability companies, hedge funds, private equity, private debt, commodities, real estate, and promissory notes. Some of the risks associated with alternative investments are: Alternative investments may be relatively illiquid. It may be difficult to determine the current market value of the asset. There may be limited historical risk and return data. A high degree of investment analysis may be required before buying. Costs of purchase and sale may be relatively high.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so avoiding losses caused by price volatility by holding them until maturity is not possible. Lower-quality bonds can be more volatile and have greater risk of default than higher-quality bonds. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets. Leverage can increase market exposure and magnify investment risk.

All indexes are unmanaged. You cannot invest directly in an index. Index or benchmark performance presented in this document does not reflect the deduction of advisory fees, transaction charges, and other expenses, which would reduce performance.

Third-party marks are the property of their respective owners; all other marks are the property of FMR LLC.

The Chartered Financial Analyst® (CFA®) designation is offered by CFA Institute. To obtain the CFA charter, candidates must pass three exams demonstrating their competence, integrity, and extensive knowledge in accounting, ethical and professional standards, economics, portfolio management, and security analysis, and must also have at least 4,000 hours of qualifying work experience completed in a minimum of 36 months, among other requirements. CFA® is a trademark owned by CFA Institute.

In the U.S., Fidelity Investments provides investment products through Fidelity Distributors Company LLC and clearing, custody, or other brokerage services through National Financial Services LLC or Fidelity Brokerage Services LLC (Members NYSE, SIPC).

© 2026 FMR LLC. All rights reserved.