

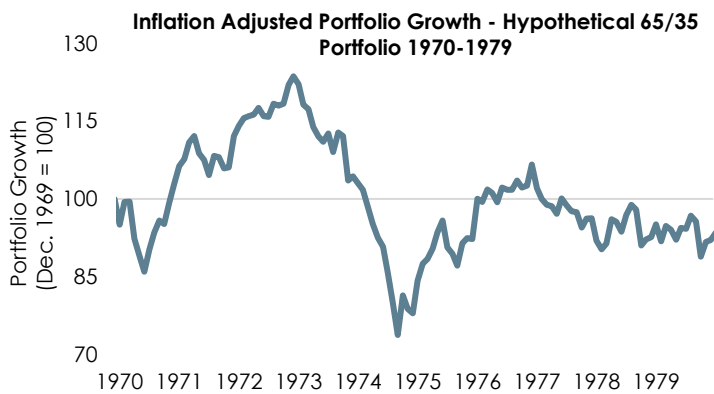
Stagflation: Déjà Vu All Over Again?

- **The Iran conflict has created substantial energy price spikes reminiscent of the “Lost Decade” of the 1970s**
- **A repeat of 1970s stagflation isn’t guaranteed; investors should monitor several key metrics going forward**
- **Investors concerned about stagflation should consider asset classes with enhanced inflation protection**

The 1970s Experience: A Decade of Disruption

“Stagflation” represents a rare intersection of stagnant growth, high unemployment, and high inflation. Historically synonymous with the 1970s, it dismantled the Keynesian belief that inflation and unemployment shared an inverse relationship. In 2026, the Iran conflict’s energy price shock has revived 1970s comparisons. While the catalysts are eerily similar, significant differences exist between the two eras.

The 1970s stagflation was ignited by two oil shocks (the 1973 OPEC embargo and the 1979 Iranian Revolution), which sent crude prices soaring and acted as a massive tax on consumers and businesses. For investors, the traditional 65/35 portfolio struggled as stocks and bonds fell simultaneously.



Sources: ACG Research, Bloomberg. Please see important disclosures on next page.

Equities suffered a “Lost Decade.” Real returns were often deeply negative, and high interest rates compressed P/E multiples. Fixed income earned the moniker “certificates of confiscation” as rising rates caused bond prices to fall. Commodities, particularly gold and silver, saw historic bull runs as investors sought stores of value.

2026 vs. The 1970s: What is Different?

The 2026 energy spike bears a striking resemblance to 1979, yet the modern economy is built differently:

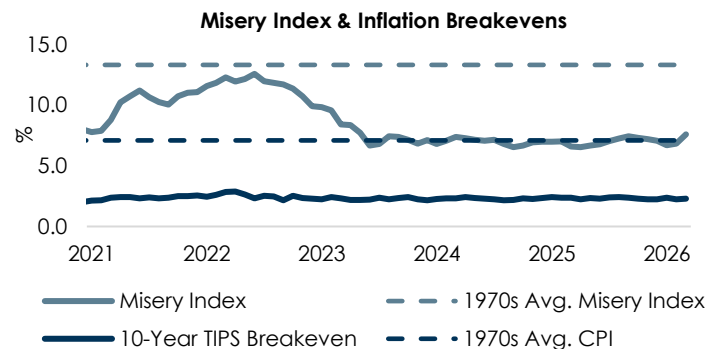
- **Labor Markets:** In the 1970s, unionized workforces had cost of living adjustments baked into contracts, creating a wage-price spiral. Today’s labor market is more flexible, though demographic shortages have introduced new wage pressures.
- **Energy Intensity:** The U.S. economy is significantly more energy-efficient today, requiring far less oil per dollar of GDP and potentially softening the blow of a price spike.
- **Monetary Credibility:** In the early 1970s, the Fed was hesitant to cause a recession. Today, central banks are more inflation-target focused, though they face conflicting data and political headwinds.

Portfolio: 65% S&P 500 Index, 35% Ibbotson Intermediate Gov’t (January 1970-December 1975)/Bloomberg U.S. Aggregate Index (January 1976-December 1979) Returns reflect monthly weighted averages using a 65/35 blend.

Potential Indicators of Imminent Stagflation

Investors should monitor several key metrics to determine if the 2026 energy crisis will solidify into a stagflationary environment.

- **The Yield Curve:** A persistent inversion followed by rising unemployment often signals the stagnation component is arriving.
- **Real Wage Growth:** If wages fail to keep pace with the Consumer Price Index (CPI), consumer discretionary spending often declines, contributing to an economic slowdown.
- **The Misery Index:** A sustained rise in both components of the Misery Index (unemployment rate and inflation rate) could indicate the economy is decoupling from standard cyclical behavior.
- **Inflation Expectations:** Investors should monitor breakeven inflation rates, which measure the implied inflation expectations in the bond market. Consumers and businesses often change their behavior in anticipation of rising prices, which can lead to a self-fulfilling inflationary cycle.



Sources: ACG Research, Bloomberg

Portfolio Positioning

Stagflation requires investors to re-examine current portfolio exposures, with particular attention to active management and asset classes that have historically provided inflation protection. Examples include commodities/energy, Treasury Inflation-Protected Securities (TIPs), value/high-quality equities, and short duration bonds. Commodities and energy act as a natural inflation hedge. TIPs protect purchasing power against rising CPI. Value/quality equities focus on companies with strong pricing power and low debt-to-equity ratios that can pass costs on to customers without losing volume. Short duration bonds provide dry powder, allowing reinvestment as rates rise while avoiding potential price collapses in long-dated bonds. Investors should recognize each of these asset classes carries its own risk, including volatility, sensitivity to real interest rates, broad market declines, and the potential for negative real returns, and none eliminates risk entirely.

ACG’s Position

The 2026 Iran conflict has introduced a volatility shock with parallels to the 1970s. While our modern economy is more efficient, the stagflation equation remains: when input costs rise faster than economic output, investors may wish to consider re-evaluating their portfolio positioning. While past performance is not indicative of future results, by focusing on inflation protection, real assets and quality balance sheets, investors have historically experienced beneficial diversification during a stagflation environment.

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CPI (Consumer Price Index): A measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services, published monthly by the Bureau of Labor Statistics (BLS). It is widely used as a gauge of overall inflation.

The misery index is an economic indicator created by Arthur Okun, calculated by adding the seasonally adjusted unemployment rate to the annual inflation rate. It measures economic distress felt by everyday people due to joblessness combined with an increasing cost of living.

The 10-Year TIPS/Treasury Breakeven Rate is a measure of expected inflation derived from the difference between the 10-Year nominal Treasury yield and the 10-Year TIPS (Treasury Inflation-Protected Securities) yield. It represents the inflation rate at which investments in both kinds of securities would produce equal returns. If actual inflation exceeds the breakeven rate, TIPS outperform; if it falls below, nominal Treasuries outperform.

The 65/35 portfolio reflects 65% S&P 500/35% Ibbotson Intermediate Government (January 1970–December 1975) and 65% S&P 500/35% Bloomberg US Aggregate (January 1976–December 1979). Returns are calculated using monthly weighted averages at the stated allocation. The blended index illustrations in this report are presented for educational purposes only and do not represent the actual or expected performance of any ACG-managed account or strategy. They reflect monthly weighted-average returns of published indices at a fixed 65/35 allocation and are subject to the inherent limitations of backward-looking analysis. The illustration does not reflect advisory fees, transaction costs, or taxes.

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