

ABOVE THE FRAY

Tariffs and Stagflation

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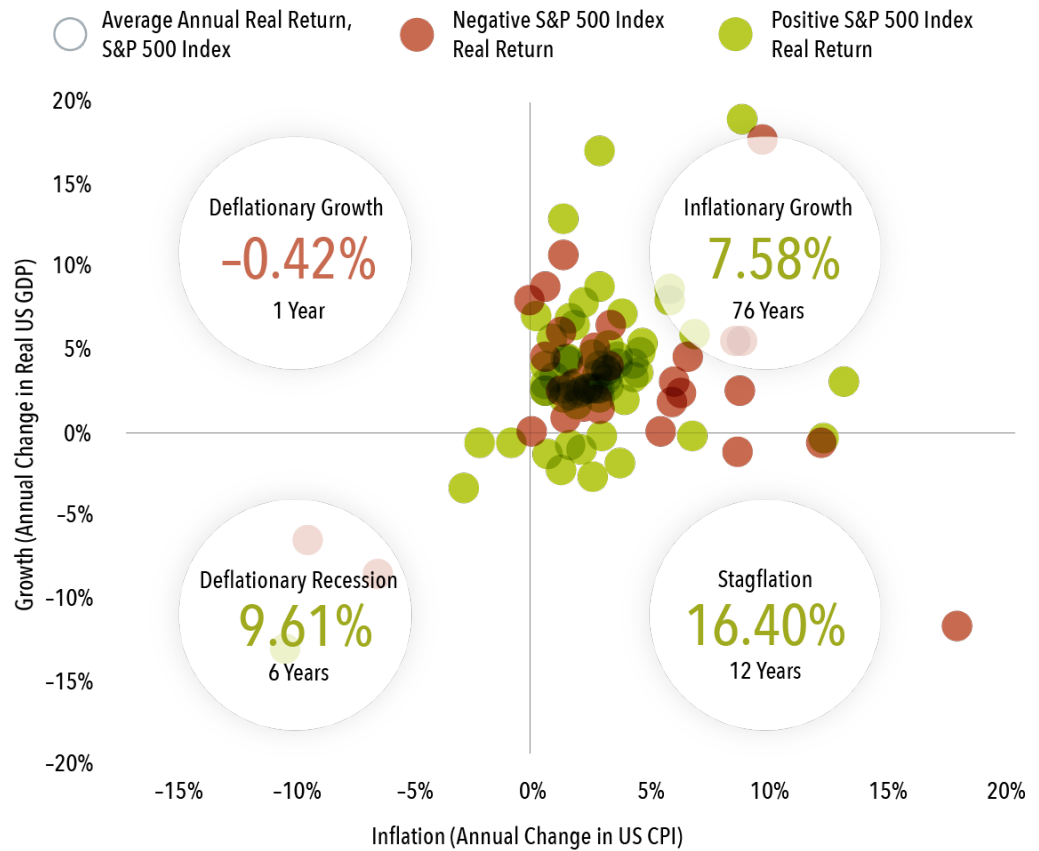
One of the concerns arising from tariff talks is the possibility of stagflation, or the combination of rising inflation and an economic contraction. But should investors act on this concern with their investments?

Since 1930, the US has seen 12 years when negative GDP growth coincided with positive changes in the consumer price index (CPI). The US stock market's real return—its return in excess of inflation—was positive in nine out of those 12. That hit rate is close to the frequency of positive real returns across all years between 1930 and 2024, which is 68%.

This is another example demonstrating how concerns over the economy [shouldn't drive portfolio decisions](#). Predictions about the direction of the economy are continuously forming, but the market itself remains the best predictor of the future. That means market prices are set to levels to deliver positive expected returns even amid concerns over future economic outcomes.

Exhibit 1

Annual Inflation, GDP Growth, and Real S&P 500 Index Returns
1930–2024



Past performance is not a guarantee of future results. Actual returns may be lower.

In USD. Sources: Bureau of Labor Statistics, US Bureau of Economic Analysis, S&P 500 Index: January 1990–Present, Standard & Poor's Index Services Group; January 1930–December 1989, Ibbotson data courtesy of © Stocks, Bonds, Bills, and Inflation Yearbook®, Ibbotson Associates, Chicago. S&P data © 2025 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. US inflation is the annual rate of change in the consumer price index for all urban consumers (CPI-U, not seasonally adjusted) from the Bureau of Labor Statistics. Annual GDP growth rates obtained from the US Bureau of Economic Analysis. GDP growth numbers are adjusted to 2012 USD terms to remove the effects of inflation. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

This article originally appeared in Above the Fray, a weekly newsletter for Dimensional clients.

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