MORGAN CREEK DIGITAL

ALTERNATIVE THINKING ABOUT INVESTMENTS

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The Shadow of Stagflation: A Macro Risk Re-Emerging—and What It Means for Bitcoin

As of mid-2025, the U.S. economy is walking a tightrope: inflation remains stubbornly above the Fed's 2% target, while economic growth is decelerating. Despite the unemployment rate remaining at 4.2% as of the April 2025 report (which has been trending in a narrow range of 4.0% to 4.2% since May 2024), consumer confidence, once buoyed by a resilient labor market, is eroding.[1] Fears of stagflation—a portmanteau of stagnation and inflation in which high inflation coincides with weak or negative growth and risk of rising unemployment—are again looming over the American economy. Federal Reserve Chairman Jerome Powell is tasked with achieving price stability and full employment, a dual mandate nobody would envy.[2] The Fed faces a precarious dilemma, Raising interest rates to curb inflation (tighten) may deepen a slowdown and cause job losses. However, cutting rates to spur growth (loosen) may reignite inflation and tip the economy into a recession.

Traditional monetary policy typically models inflation and unemployment as having an inverse relationship and does not effectively tackle both challenges simultaneously. The last major episode of stagflation in the U.S. occurred in the 1970s, spurred by oil price shocks and loose monetary policy. Today, the setup is familiar but driven by different forces, including persistent supply-side constraints, global de-risking from China, reshoring of manufacturing, and commodity volatility (especially in energy and semiconductors). Further, sticky inflation (especially in housing, education, and healthcare) remains elevated even as the Consumer Price Index has come down from its post-pandemic highs.

History does not always repeat itself but often rhymes.

Meanwhile, fiscal headwinds are adding pressure. According to Yale's Budget Lab, tariffs announced this year are expected to cost the average American household nearly $3,800, further squeezing consumer spending at a time when real wage growth is already negative.[3] And yet, we've literally seen this movie before. In the famous classroom scene in *Ferris Bueller's Day Off*, Ben Stein drones on: "In 1930, the Republican-controlled House of Representatives, in an effort to alleviate the effects of the... anyone? anyone?... the Great Depression, passed the... anyone? Smoot-Hawley Tariff Act..." Like in the 1930s, the intention was to increase external revenue by taxing imports and protectionism over domestic industries. But the effect was disastrous. Other nations retaliated with tariffs, global trade collapsed, and the Depression deepened. Fast-forward to today, and the echoes are deafening. The Trump administration's push for sweeping new tariffs was designed not just as economic policy but as a political weapon. The thinly veiled strategy was to pressure Jerome Powell into cutting interest rates—engineer a low-rate environment to juice the economy and replicate the late 2020-2021 economic stimulus. But unlike the 1930s, the world today holds receipts, U.S. Treasury bonds, to be exact.

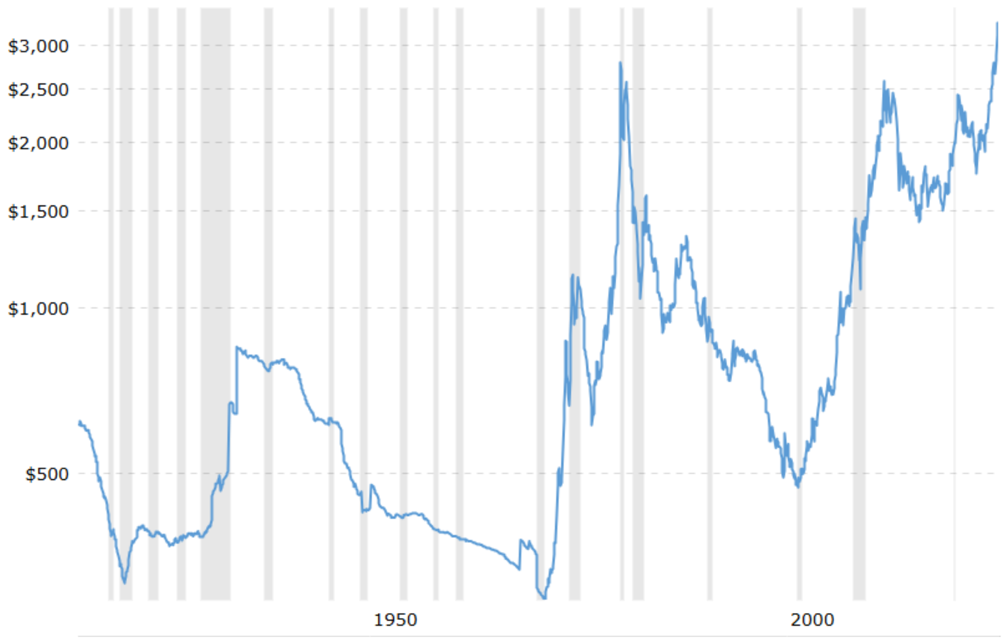
The largest foreign holders of U.S. debt did not exactly applaud the tariffs. Instead, reports emerged that they began significantly offloading U.S. treasuries, and others followed suit. The result was a sharp selloff in bonds, and the yields of the 10-year and 30-year bonds spiked as equity markets collapsed. The U.S., despite the tariff rhetoric and nationalist bluster, was forced to backpedal. The bond market voted, and it did not like what it saw. The truth was that America may not have the negotiating chips. These tariffs, designed to look like strength, instead may have revealed the fragility of U.S. fiscal strategy. Tariffs are not protection; they are provocation, and in a global economy built on debt, the provoked responded in kind.

What It Could Mean for Bitcoin

As promised, let us look at what this means for Bitcoin (BTC), which, in many ways, was designed for this exact type of moment in history. Born out of the 2008 financial crisis, Bitcoin was created to offer protection against the poor monetary and fiscal policy currently on display. It cannot be printed into oblivion, central bankers cannot manipulate it under political duress, and it certainly cannot be devalued by the whims of any single politician.

Amid stagflationary concerns, albeit a rare occurrence, BTC's role could evolve. First, it is increasingly seen as Digital Gold, a modern crisis hedge. Just as gold surged in the 1970s, Bitcoin, due to its fixed supply and decentralized nature, may become a preferred refuge for investors fleeing fiat debasement and negative real interest rates, with the added advantages of portability and auditability.[4] Second, traditional 60/40 portfolios would likely struggle in a stagflation environment as equities fall and bonds lose value. This may prompt institutional allocators to reevaluate their strategies, with BTC intended to be a less correlated asset in diversified portfolios. However, it's worth mentioning that BTC has recently moved with markets due to many factors, but partly due to the institutionalization and liquidity of BTC—i.e., the asset carry trade with neutral arbitrage or basis trade strategies emerging from owning the asset and shorting ETFs. Third, in a prolonged stagflationary scenario, central banks may resort to yield curve control or soft monetization of government debt, policies that could further erode trust in fiat currencies, accelerating capital flight to quality, BTC among them. Finally, stagflation breeds decentralization as a haven. If rising unemployment, inflation, and political instability continue, BTC can potentially offer a form of economic sovereignty, a refuge from populist politics and capital controls.

Figure 1: Gold Prices – 100-Year Historical Chart, *sourced by macrotrends.net*
This chart tracks inflation-adjusted gold prices per ounce dating back to 1915, using the Consumer Price Index with the latest month as the base. For hourly updates, visit https://www.macrotrends.net/1333/historical-gold-prices-100-year-chart. The current gold price as of May 1, 2025, is listed as $3,237.24 per ounce.



The takeaway: True stagflation is rare, having occurred in just four quarters over the past 55 years.[5] But even its partial emergence could change investors' calculus. Investors must rethink their hedges if policymakers are constrained and old playbooks no longer apply. Bitcoin could gain credibility as a macro tool, not because of the potential returns, but because it offers optionality in a world where few other assets do. Resilience is not about chasing yield; it's about protecting capital, retaining autonomy, and staying ahead of a system approaching its limits.

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[4] https://www.macrotrends.net/1333/historical-gold-prices-100-year-chart
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[5] https://www.businessinsider.com/america-economy-stagflation-recession-high-inflation-unemployment-stock-market-crash-2025-4

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