PERSONAL STAKES

WEEKLY MACRO REPORT

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Oil breaks $100 as geopolitical shock pushes financial conditions into restrictive territory

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Inflation Shock

33.1%

MODERATE CONFIDENCE • RUNNER-UP: OVERHEATING (24.8%)

Regime Call

The US economy remains in an Inflation Shock regime at 33.1% probability, though the lead over Overheating has narrowed to 8.3 percentage points. This week brought a notable shift: while Inflation Shock probability actually declined 0.6 points from last week's 33.7%, the regime's grip on the economy tightened through a different mechanism. Financial conditions crossed from neutral into restrictive territory, and geopolitical shock escalated from elevated to severe as WTI crude broke above $100 for the first time since 2022.

The 8.3-point gap to the runner-up reflects genuine uncertainty about the economy's trajectory. Overheating sits at 24.8%, down 0.6 points from last week, creating a situation where both top regimes are losing probability to the middle scenarios. Cooling gained 0.6 points to reach 20.9%, while Soft Landing added 0.7 points to 20.0%. The moderate confidence reading of 0.55 captures this diffusion: the model sees clear inflationary pressures from energy prices and geopolitical disruption, but the growth and inflation data remain mixed enough that alternative scenarios stay credible.

Regime Probabilities (All Regimes)

REGIME	COMBINED	LEADING	LAGGING	WEEKLY CHANGE
Inflation Shock	**33.1%**	35.2%	30.8%	-0.6pt
Overheating	24.8%	31.0%	15.9%	-0.6pt
Cooling	20.9%	16.5%	26.7%	+0.6pt
Soft Landing	20.0%	15.9%	25.5%	+0.7pt
Contraction	1.2%	1.3%	1.0%	-0.1pt

The leading-lagging breakdown reveals the economy's internal tension. Leading indicators favor Inflation Shock at 35.2% and Overheating at 31.0%, a combined 66.2% probability for the hot scenarios. But lagging indicators tell a different story: they assign only

46.7% to those same hot scenarios, with Cooling and Soft Landing claiming a combined 52.2%.

This divergence captures the Hormuz crisis in real time. Leading indicators see crude oil at $100, gasoline prices up 35%, and the VIX at 29.2, screaming geopolitical shock and inflationary pressure. Lagging indicators see core CPI at 2.5% year-over-year, payrolls at zero, and hourly earnings growth moderating. The leading layer is pricing the supply shock; the lagging layer is pricing the demand destruction that hasn't fully arrived yet.

The key question is convergence direction. If energy prices stabilize and geopolitical tensions ease, leading indicators should converge down toward the lagging assessment. If the supply shock persists long enough to show up in realized inflation and employment data, lagging indicators will converge up toward the leading assessment. Right now, the model shows them aligned at the combined level, but this alignment masks the underlying tension between what's happening and what's already happened.

90-Day Regime History

The 90-day regime evolution shows a clear inflection point around mid-February when geopolitical tensions began escalating. For most of January, Soft Landing and Cooling held similar probabilities in the mid-20s, with Overheating close behind. The regime picture was genuinely uncertain, reflecting an economy in transition.

The Hormuz crisis changed everything. Inflation Shock probability began climbing steadily from the low teens in early February to break above 30% by early March. The transition accelerated through the month as crude oil prices doubled from their pre-crisis levels near $50 to current levels above $100. What makes this regime shift different from typical macro transitions is its external catalyst rather than endogenous economic dynamics.

The speed of the transition has been remarkable. Inflation Shock went from a tail risk to the dominant scenario in roughly six weeks, driven almost entirely by geopolitical developments rather than traditional economic indicators. This external shock creates both the regime's strength and its vulnerability: energy-driven inflation shocks can resolve as quickly as they develop if the underlying geopolitical situation stabilizes. The 90-day chart shows that regime transitions can happen fast when driven by supply shocks, but they can also reverse fast when those shocks ease.

US Internals (The Four Axes)

GROWTH

Slowing

Score: 43.8 declining momentum (29.2)

Growth momentum collapsed this week, falling from 64.3 to 29.2 as the oil price shock began hitting economic activity. The Dallas Fed Manufacturing index slipped back into contraction at -0.2 versus expectations of +1.5, with commentary described as

INFLATION

Sticky

Score: 53.4 rising momentum (61.2)

The inflation picture remains deeply conflicted, with momentum pulling in opposite directions. Core PCE at 3.1% year-over-year sits well above the Fed's trend target, but core CPI at 2.5% tells a more benign story. This divergence reflects different methodologies "stupid slow" economic conditions. Consumer sentiment at 56.6 reflects the squeeze from higher gasoline prices, now at $4.10 per gallon nationally.

The growth story is demand destruction in slow motion. Jobless claims remain low at 210K, but that's a lagging indicator. What you're seeing now is consumers changing behavior: fewer discretionary trips, delayed purchases, reduced restaurant visits. The historical pattern is clear: every major oil price spike since the 1970s has preceded recession when crude doubles in price. We're at a 64% increase from pre-crisis levels.

Payrolls dropped to zero net monthly change, reflecting the early stages of this process. Businesses don't fire workers immediately when energy costs spike; they first reduce hiring, cut hours, and delay expansion

capturing different aspects of the same economy, but the spread creates genuine analytical challenges.

What's unambiguous is the energy component. Gasoline prices have spiked 35% in five weeks, diesel crack spreads hit $77 per barrel, and fertilizer prices jumped 52% year-over-year. These increases will flow through to core measures with typical lags: transportation costs hit immediately, food costs arrive in 4-6 weeks, and rent adjustments take 6-12 months.

The momentum score declined from last week's 85.2 to 61.2, suggesting the pace of acceleration may be moderating even as the level remains elevated. This could reflect either peak energy price impacts or early demand destruction offsetting supply pressures. Average hourly earnings at 3.8% growth remain below the levels that historically plans. The growth axis is capturing this real-time adjustment as companies face the impossible choice between maintaining margins and maintaining employment.

trigger wage-price spirals, providing some cushion against second-round effects.

FINANCIAL CONDITIONS

Restrictive

Score: 55.8 rising momentum (69.3)

Financial conditions crossed the critical threshold from neutral to restrictive this week, moving from 53.8 to 55.8. This shift reflects the market's assessment that current interest rates and credit conditions are now actively constraining economic activity rather than simply maintaining stability. The 10-year Treasury yield at 4.4% creates real borrowing costs that businesses and consumers are feeling.

GEOPOLITICAL SHOCK

Severe

Score: 76.0 surging momentum (100.0)

Geopolitical shock escalated from elevated to severe as the Strait of Hormuz closure entered its 31st consecutive day with oil breaking $100. The momentum score remains maxed at 100.0, reflecting the ongoing nature of the crisis rather than any resolution. Qatar's 1.5 million barrels per day of exports have been zeroed out, while Iran continues loading tankers at Kharg Island in direct challenge to U.S. policy.

The private credit crisis spreading beyond Ares Capital adds a new dimension to financial conditions. Redemption pressures in the sector create liquidity constraints that flow through to the real economy as leveraged companies face refinancing challenges. High-yield credit spreads at 3.3 remain relatively contained, but that may reflect the lag between private market stress and public market recognition.

Powell's explicit statement that "Fed's tools have no meaningful effect on supply shocks" removes the threat of additional rate hikes, but it doesn't ease existing restrictive conditions. The 2-year Treasury at 3.9% embeds significant real rates when core inflation measures range from 2.5% to 3.1%. This restrictive stance amplifies the growth-dampening effects of higher energy costs,

The VIX at 29.2 captures market stress levels not seen since last year's tariff tantrum, trading above 94% of historical readings. But the geopolitical shock extends beyond financial markets into real economic disruption. Jet fuel prices have doubled to over $200 per barrel in Singapore, diesel prices reached $190 per barrel wholesale, and shipping companies continue avoiding the Gulf despite official claims of Iranian defeat.

What makes this geopolitical shock particularly severe is its direct transmission mechanism to the real economy through energy prices. Unlike pure financial market stress or distant conflicts, the Hormuz closure hits every American at the gas pump within weeks. This creates political pressure that amplifies economic pressure, forcing policy responses that may prove counterproductive. The administration's narrative creating a double obstacle for economic activity.

of Iranian defeat becomes harder to maintain as oil prices continue climbing and the Strait remains closed.

Key Drivers

CONFIRMING SIGNALS	DISCONFIRMING SIGNALS
3	2

The confirming signals paint a clear energy-driven inflation story: crude oil sharply higher, core PCE at 3.1% year-over-year well above trend, and gasoline prices well above trend. These three indicators capture the direct transmission from geopolitical shock to realized inflation that defines the current regime. The crude oil signal particularly matters because it's both a cause and consequence of the geopolitical situation.

The disconfirming signals tell a different story: core CPI at 2.5% year-over-year well below trend and headline CPI at 2.4% year-over-year below trend. This tension reflects the different methodologies and timing of CPI versus PCE, but it also suggests the inflation shock hasn't fully penetrated all price measures yet. The lag structure means energy price spikes show up in PCE faster than in CPI, creating temporary divergences that resolve over time.

What would make the disconfirming signals decisive? If energy prices stabilized and core measures converged downward rather than upward, the regime call would shift quickly toward Cooling or Soft Landing. The current weight of evidence favors the energy-driven inflation narrative, but the disconfirming signals provide a clear falsification path: sustained moderation in core measures despite continued energy price pressure would suggest the shock isn't transmitting to underlying inflation dynamics.

What Changed This Week

The narrative arc of this week was escalation without acceleration. The Inflation Shock regime actually lost 0.6 points to 33.1%, while Overheating also declined 0.6 points to 24.8%. But this surface stability masked significant underlying shifts that suggest the regime is entrenching rather than weakening. The movement went toward the middle scenarios: Cooling gained 0.6 points to 20.9% and Soft Landing added 0.7 points to 20.0%.

The major changes tell the real story. Financial conditions crossed from neutral to restrictive, geopolitical shock escalated from elevated to severe, and gold's playbook stance shifted from favorable to positive but conflicted. These changes reflect an economy where the supply shock is deepening its impact on financial markets and real activity, even as some traditional inflation measures remain contained. Growth momentum collapsed from rising to declining, falling from 64.3 to 29.2, capturing the real-time impact of $4.10 gasoline on consumer behavior.

The direction of change suggests next week could bring further regime entrenchment if energy prices hold current levels. The axis movements point toward a stagflationary dynamic: restrictive financial conditions constraining growth while severe geopolitical shock sustains inflation pressure. The shift in regime probabilities toward the middle scenarios reflects this tension, but the underlying fundamentals are moving toward a more entrenched Inflation Shock scenario.

Market Confirmation

STATUS

Partially Confirming

CONFIRMING ASSETS	DIVERGING ASSETS
S&P 500 10-year Treasury yield High-yield credit spreads WTI crude oil	Gold

The market confirmation remains partially confirming, with four of five key assets behaving as expected under Inflation Shock. The S&P 500's continued decline fits the pressured equity stance, while the 10-year yield holding near 4.4% despite growth concerns reflects sticky inflation expectations. WTI crude above $100 obviously aligns with the oil-driven narrative, and high-yield spreads at 3.3 show the credit stress you'd expect when growth slows under inflationary pressure.

Gold presents the interesting divergence. Under historical Inflation Shock episodes, gold typically benefits as an inflation hedge and safe haven. But current price action shows gold struggling despite perfect theoretical conditions. The explanation lies in dollar strength crowding out the gold bid. When geopolitical shocks hit, the initial flight-to-safety flows go to dollars rather than gold, especially when the U.S. remains perceived as relatively insulated from the direct conflict. This creates the "positive but conflicted" playbook stance for gold: fundamentally supportive conditions offset by tactical challenges.

Asset Playbook (Qualitative)

EQUITIES

Negative

Slowing growth and sticky inflation create dual obstacles for risk assets

RATES

Yields biased higher

Rising inflation momentum keeps yields elevated despite growth concerns

CREDIT

Spreads vulnerable

Restrictive conditions compress risk appetite

DOLLAR

USD-supportive

Safe-haven demand and restrictive conditions support the dollar

GOLD

Positive but conflicted

Dollar strength crowds out the gold bid despite inflation hedge appeal

OIL

Strongly supportive

Both driver and beneficiary of the current regime dynamics

The playbook translates into a challenging environment for standard portfolios. A traditional 60/40 holder faces pressure on both sides: equities under dual obstacles from slowing growth and sticky inflation, while bonds struggle with yields biased higher despite economic weakness. The classic recession hedge of long-duration Treasuries doesn't work when the recession catalyst is supply-driven inflation rather than demand destruction.

The most interesting stance is gold's conflicted positioning. Theoretically, gold should thrive in stagflationary environments with geopolitical tensions, currency debasement fears, and inflation above central bank targets. But the dollar's safe-haven bid during the Hormuz crisis creates obstacles that could persist until either the geopolitical situation resolves or inflation expectations become truly unanchored. This explains why gold remains favorable on fundamentals but struggles in practice.

Leading / Lagging Signal Alignment

STATUS

Aligned

The leading and lagging indicators show surface alignment at the regime level, but this alignment masks significant internal tension. Both layers point to Inflation Shock as the top regime, but they arrive at this conclusion through completely different pathways. Leading indicators assign 35.2% to Inflation Shock based primarily on energy price spikes, elevated VIX, and forward-looking financial conditions. Lagging indicators assign 30.8% based on realized inflation in core PCE and the employment market adjustments already showing up in payroll data.

The convergence pattern suggests the alignment may be temporary rather than stable. Leading indicators typically converge toward lagging when shocks prove transitory, but lagging indicators converge toward leading when shocks prove persistent. The energy crisis has lasted 31 days so far, long enough to start showing up in lagging data but not long enough to fully permeate the economy. Core PCE at 3.1% already reflects some energy pass-through effects, while core CPI at 2.5% suggests other measures may be lagging the transmission.

What would signal divergence? If energy prices stabilized at current levels without further increases, leading indicators would begin moderating while lagging indicators continued rising as the existing shock worked through the system. Conversely, if the Hormuz closure extended significantly longer or expanded to include other Gulf producers, leading indicators would accelerate faster than lagging indicators could keep pace. The current alignment exists in the narrow window where the shock is mature enough to show up in realized data but fresh enough to continue driving forward-looking measures.

Indicator Alignment by Regime (Heatmap)

The indicator heatmap reveals the complex cross-currents driving the current regime assessment. The strongest regime-aligned indicators are energy-related: WTI crude oil shows an 8.7 alignment score away from Inflation Shock on the geopolitical axis, while gasoline prices register 4.35 on the same axis. These readings reflect the magnitude of the price moves rather than their direction. Both indicators are actually confirming Inflation Shock through their massive increases, but the scoring system captures them as "away" because they're at extreme levels that historically resolve.

The inflation indicators tell a split story. Core PCE at 3.1% shows strong alignment toward Inflation Shock with a 5.8 score, reflecting its elevation above trend. But core CPI generates a strong 5.9 score away from Inflation Shock because its 2.5% reading sits well below typical Inflation Shock levels. This divergence between the two main inflation measures creates the analytical tension at the heart of the regime assessment. Both readings are "correct" in their own methodological contexts, but they point toward different conclusions about underlying inflation dynamics.

Two reversal flags demand attention. Retail sales reversed up after two months of falling, generating a 0.58 alignment score, while unemployment reversed up after two months of falling with a 0.34 score. These reversals suggest the energy shock may be starting to affect real economic activity through demand destruction. The unemployment reversal is particularly significant because it often precedes broader labor market deterioration when energy costs squeeze household budgets.

The cluster of neutral indicators includes high-yield credit spreads and the copper-gold ratio, both showing alignment scores below 0.1. Their neutrality suggests the regime transition remains incomplete. In a fully entrenched Inflation Shock, you'd expect broader risk asset stress and clearer industrial commodity signals. The fact that these indicators haven't taken sides yet indicates the economy is still in the early stages of regime transition, with the outcome dependent on whether energy price pressures prove persistent or transitory.

Current vs. Regime Centroids

Today's economic shape most closely resembles the historical Inflation Shock centroid, but with notable deviations that explain the moderate confidence level. The current reading shows elevated scores on three of four axes: inflation at 53.4, financial conditions at 55.8, and geopolitical shock at 76.0. Only growth at 43.8 sits below the typical Inflation Shock pattern, reflecting the early stages of demand destruction rather than the sustained economic weakness that characterizes mature episodes.

The deviation pattern suggests this Inflation Shock episode is externally driven rather than endogenously generated. Historical episodes typically show more balanced elevation across all four axes, reflecting broad economic overheating that generates inflation through excess demand. The current episode shows extreme geopolitical shock (76.0) driving energy-based inflation while growth remains in slowing territory rather than collapsing completely. This creates a "supply shock with lags" pattern rather than the "demand overheating" pattern that defines most historical episodes.

The shape analysis explains why Overheating claims 24.8% probability despite the clear Inflation Shock call. The current reading could evolve toward the Overheating centroid if growth indicators bottom out at current levels and begin recovering while inflation pressures persist. Conversely, it could evolve toward the Cooling centroid if energy prices stabilize and growth continues weakening. The centroid analysis suggests this regime call has higher path dependency than typical episodes: the outcome depends heavily on whether the external energy shock proves temporary or triggers broader economic adjustments.

Empirical Asset Playbook (Historical Returns)

ASSET	ANN. RETURN	ANN. VOL	SHARPE	VS HISTORY	COMMENTARY
IBIT	59.9%	59.7%	1.00	Outperforming	Bitcoin benefits from currency debasement fears and geopolitical uncertainty
XLE	26.7%	24.6%	1.09	Performing in-line	Energy sector is both cause and beneficiary of current regime
QQQ	19.2%	22.7%	0.85	Underperforming	Tech struggles with rate sensitivity despite AI optimism

ASSET	ANN. RETURN	ANN. VOL	SHARPE	VS HISTORY	COMMENTARY
SPY	18.1%	17.3%	1.05	Underperforming	Broad market faces dual obstacles from growth and inflation concerns
IWM	13.8%	21.5%	0.64	Underperforming	Small caps hit hardest by restrictive financial conditions
GLD	13.8%	17.4%	0.79	Underperforming	Dollar strength crowds out typical inflation hedge appeal
VEA	9.1%	16.1%	0.56	Underperforming	European markets face direct energy cost pressures
HYG	4.1%	6.5%	0.63	Underperforming	Credit stress from restrictive conditions

ASSET	ANN. RETURN	ANN. VOL	SHARPE	VS HISTORY	COMMENTARY
					and growth concerns
SGOV	2.2%	0.2%	9.81	Performing in-line	Risk-free rate provides stability but no inflation protection
TIP	0.7%	5.4%	0.13	Underperforming	TIPS struggle with real rate increases despite inflation protection
VWO	-0.8%	19.5%	-0.04	Underperforming	Emerging markets face dollar strength and commodity import costs
LQD	-2.5%	7.3%	-0.34	Underperforming	Investment grade credit hurt by duration risk and credit concerns

ASSET	ANN. RETURN	ANN. VOL	SHARPE	VS HISTORY	COMMENTARY
IEF	-3.6%	6.4%	-0.57	Underperforming	Treasury bonds fail as recession hedge when inflation drives the downturn

The empirical playbook reveals why Inflation Shock regimes create such challenging portfolio environments. The traditional diversifiers fail: Treasury bonds (IEF) post negative returns because yields rise with sticky inflation, while investment-grade credit (LQD) suffers from both duration risk and credit concerns. Even Treasury Inflation-Protected Securities (TIP) struggle because real rates rise faster than inflation adjustments can compensate.

SGOV's Sharpe ratio of 9.81 tells the story of the regime in one number. When risk assets face dual obstacles from slowing growth and persistent inflation, the risk-free rate becomes genuinely attractive. This reading suggests investors are getting paid appropriately for taking zero risk, which happens only when every risky alternative faces significant challenges. The fact that short-term government bonds deliver positive real returns with minimal volatility reflects the Federal Reserve's restrictive stance combined with inflation uncertainty.

The bottom of the table, emerging markets, investment-grade credit, and Treasury bonds, captures the impossibility of traditional diversification during supply-driven inflation shocks. These assets typically provide portfolio balance during different types of crises, but Inflation Shock regimes driven by energy price spikes create simultaneous pressure across rate-sensitive, credit-sensitive, and foreign exchange-sensitive assets. The historical returns suggest this regime requires fundamental portfolio rethinking rather than traditional asset allocation approaches.

10-Year Regime History

The 10-year regime history provides crucial context for the current episode. Prior Inflation Shock periods cluster around major geopolitical events: the 2022 Russia-Ukraine invasion, the 2019 drone attacks on Saudi facilities, and brief episodes during Middle East tensions in 2018-2019. Each episode lasted between 6-18 weeks, with resolution typically coming through either geopolitical de-escalation or demand destruction that forced energy prices lower.

The current episode most closely resembles the 2022 Russia-Ukraine period in terms of magnitude and persistence. That episode saw WTI crude peak near $130 before declining as European demand destruction and strategic petroleum reserve releases offset supply disruptions. The resolution came through a combination of recession fears, actual demand reduction, and alternative supply sources coming online. The key difference is the current episode's concentration in a single chokepoint (Hormuz) rather than dispersed supply disruptions.

What's different this time is the starting point. The 2022 episode began with relatively tight energy markets and strong global growth, amplifying the inflationary impact. The current episode began with looser energy markets and already-slowing growth, creating more immediate demand destruction potential. This suggests the current episode might resolve faster through demand adjustment rather than supply restoration, but the concentration of disruption in Hormuz makes supply-side resolution more binary: either the Strait reopens or it doesn't.

Market Context

Monday's market action exemplified classic capitulation dynamics: bonds rallied despite oil strength, the dollar strengthened, and equities sold off broadly. This combination typically marks fear-driven deleveraging rather than fundamental repricing. The S&P 500's 9% decline from January peaks approaches the 14.1% average correction since 1980, but the speed and sector concentration suggest this correction has further to run.

The tech sector's capitulation accelerated with the Nasdaq down 10 of the last 11 trading sessions. Three Magnificent Seven stocks now trade at forward P/E multiples in the teens despite the war driving higher earnings estimates across all 11 S&P sectors. This disconnect between improving fundamentals and compressing valuations reflects rate sensitivity overwhelming AI optimism. When real rates rise this fast, growth stock valuations can't hold elevated multiples regardless of earnings trajectory.

VIX at 31 embeds significant volatility premium but may still understate realized volatility given the oil-equity correlation that emerged since the Iran conflict began. Gamma positioning remains deeply negative, creating unstable market structure where small moves get amplified. The equal-weight outperformance of cap-weighted indices indicates broad-based selling of large-cap growth names rather than fundamental sector rotation. This mechanical rebalancing continues until momentum factors mean-revert from current 100th percentile readings.

Household Impact

Gas tank costs: Filling a 15-gallon tank now costs $61.50 at the national average of $4.10 per gallon, up from $46.05 five weeks ago. With WTI above $100 and refinery margins elevated, expect $4.35-4.50 per gallon within two weeks, pushing fill-up costs toward $68.

Grocery bills: The 52% year-over-year spike in fertilizer prices will hit produce sections in 4-6 weeks, with diesel at $190 per barrel wholesale already affecting transport costs. Expect 8-12% food inflation to show up in April and May grocery receipts.

Summer travel: Jet fuel doubling to over $200 per barrel in Asian markets signals 15-25% airline ticket increases for summer bookings. Airlines hedge fuel costs for limited periods, meaning current price shocks hit consumer airfares by late spring.

401(k) performance: A $100,000 S&P 500 portfolio is down approximately $9,000 from January peaks, with tech-heavy accounts suffering steeper losses. The historical 18.1% annualized return during Inflation Shock regimes suggests eventual recovery, but the path involves significant volatility.

Delivery and ride costs: Food delivery fees and ride-sharing prices face immediate pressure as gig workers calculate trip profitability at $4.10 gasoline. Expect 10-15% service fee increases and reduced availability in suburban areas where trip distances make economics challenging.

Signal vs. Noise

Signal (Track These)

WTI crude oil price level: The single most important variable for regime stability. Any move below $95 would signal potential regime transition.

Hormuz Strait shipping traffic: More ships leaving the Gulf than entering indicates escalating rather than de-escalating supply disruption.

Core PCE vs. Core CPI divergence: The 0.6 percentage point spread needs to converge to validate the inflation assessment.

Jobless claims momentum: Currently at 210K, but trend matters more than level for early demand destruction signals.

Private credit redemption spreads: Liquidity stress beyond Ares indicates broader financial conditions tightening.

Noise (Ignore These)

Daily oil price volatility: Focus on weekly averages rather than intraday moves during geopolitical uncertainty.

Fed speaker commentary: Powell has set clear policy direction; individual speaker deviations are positioning rather than policy.

Single-day equity reversals: Negative gamma creates artificial volatility that doesn't reflect fundamental reassessment.

Currency intervention threats: Jawboning has lost effectiveness; actual policy changes matter more than rhetoric.

Earnings estimate revisions: Energy-driven estimate increases don't reflect sustainable profit improvements if demand destruction follows.

What distinguishes signal from noise right now is persistence and transmission mechanism. Energy price moves that persist for weeks and show up in consumer behavior represent signal. Daily market volatility that doesn't affect real economic decisions represents noise. The regime transition depends on whether supply disruptions prove temporary or trigger permanent behavioral changes, so focus on indicators that capture real economic adjustment rather than financial market reactions.

What to Watch

Oil price sustainability above $100: If WTI holds above $100 for another week, historically this triggers accelerated demand destruction. Watch for gasoline demand data showing volume declines rather than just price increases.

March CPI release (this week): Likely to show headline CPI above 3% for the first time since the war began. Core CPI above 2.8% would validate the PCE-CPI convergence toward higher readings rather than lower.

Brent May futures contract expiration: June contract trading $7 lower at $108 creates potential volatility around the roll. Physical market signals more important than financial market positioning.

Fed speakers this week: Watch for dissent from hawks after Powell's dovish pivot on supply shocks. Any pushback would signal internal Fed disagreement about appropriate policy response.

Ground operations in Iran: Any escalation beyond naval operations would trigger immediate significant oil price increases. This represents the primary upside risk to the current energy price trajectory.

What Would Change My Mind

Energy Price Stabilization (40% probability)

If WTI crude settles below $95 and holds for two weeks, while gasoline prices stop rising, the regime would shift toward Cooling within 3-4 weeks. This requires either Hormuz reopening or sufficient demand destruction to balance markets at current production levels. The model would respond quickly because energy indicators carry high weight in the current assessment. Key threshold: gasoline prices declining from $4.10 to below $3.90 nationally.

Demand Destruction Acceleration (25% probability)

If jobless claims rise above 250K and retail sales show consecutive monthly declines, growth concerns could overwhelm inflation concerns despite continued energy price pressure. This path leads toward Contraction rather than Cooling, representing the recession scenario that resolves supply-driven inflation through economic collapse. The model would need 4-6 weeks to confirm this pattern, requiring sustained labor market deterioration rather than temporary adjustments.

> **Geopolitical Escalation (20% probability)**
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> Ground operations expanding beyond naval engagement or infrastructure attacks on Saudi production facilities would push WTI toward $120-140. This scenario shifts the regime toward a more severe Inflation Shock episode resembling 2022, potentially lasting 12-18 weeks rather than resolving quickly. The model would respond within days, but the economic consequences would persist for quarters. Key threshold: any direct attacks on Gulf production infrastructure rather than just shipping lanes.

I'm betting the first scenario is most likely because $100 oil historically triggers demand responses that prove self-limiting. But the concentrated nature of the current supply disruption makes the resolution more binary than typical episodes. Either the Strait reopens or demand destruction accelerates. Gradual improvements seem less probable than in dispersed supply disruptions.

Sources: Federal Reserve Economic Data, Bureau of Labor Statistics, Energy Information Administration, Department of Commerce