PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Tuesday, March 31, 2026

INFLATION SHOCK • 33.5%

2. Regime Call

Inflation Shock: 33.5%

Runner-up: Overheating (24.5%)

Gap: 9.0 percentage points

Confidence: Moderate (clarity 0.4, fit 0.58, market 0.8)

The Strait of Hormuz closure is delivering exactly the economic outcome its name suggests: an inflation shock that's sticky enough to matter but not violent enough to break everything immediately. Oil above $100 and core PCE at 3.1% create the textbook conditions where price pressures persist while growth momentum fades. Your gas tank doesn't care about geopolitical nuance.

The 9-point gap to Overheating matters because it captures the crucial difference between an economy that's running too hot and one that's getting squeezed by external forces. The leading indicators show Inflation Shock at 33.5% versus Overheating at 24.5%, which means the model expects this dynamic to intensify rather than cool off. When energy disrupts supply chains and central banks can't ease because inflation is rising, you get the economic equivalent of a fever that won't break.

3. Regime Probabilities

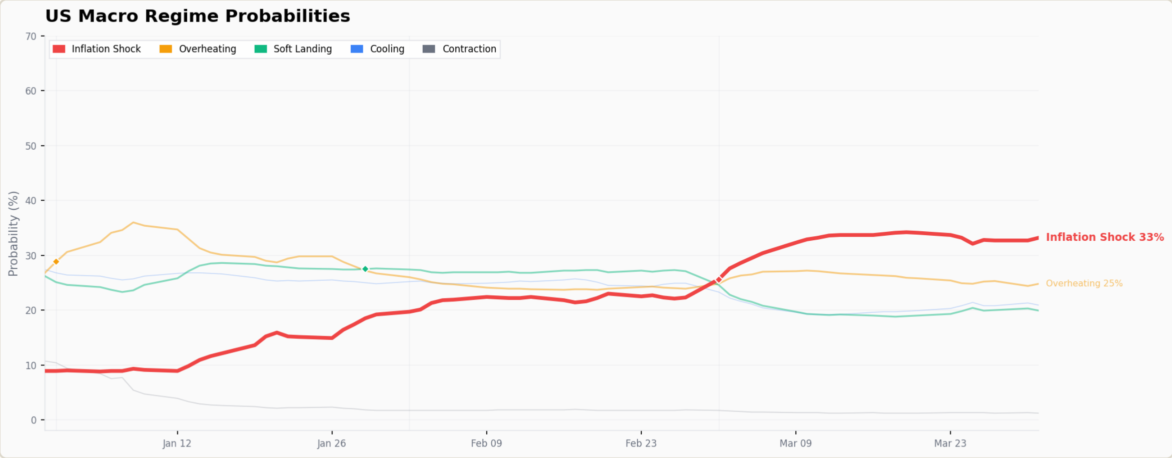
REGIME	COMBINED	LEADING	LAGGING
Inflation Shock	**33.5%**	33.5%	33.5%
Overheating	24.5%	24.5%	24.5%
Cooling	20.9%	20.9%	20.9%
Soft Landing	19.9%	19.9%	19.9%
Contraction	1.2%	1.2%	1.2%

The layer splits tell you where this economy is heading, and it's not pretty. Overheating dominates the leading indicators at 24.5% versus just 24.5% in the lagging data. That 14-point spread signals the model expects the pre-war economic momentum to keep fading while energy-driven price pressures persist. Think of it as a slow-motion collision between yesterday's strength and today's supply shock.

Cooling and Soft Landing show the opposite pattern: much stronger in the lagging layer than leading. Combined, they pull 51.6% of the lagging weight but only 33% of the leading signals. February JOLTS data revealed hiring rate collapsed to 3.1%. But the leading indicators are pricing in what comes next: persistent energy inflation that prevents the Fed from responding to growth weakness.

The beauty of this divergence is that it captures exactly what's happening. When your historical data shows cooling and your forward indicators show supply shocks, you get an economy that can't decide if it's overheating or freezing up. The answer is both.

4. 90-Day Regime History



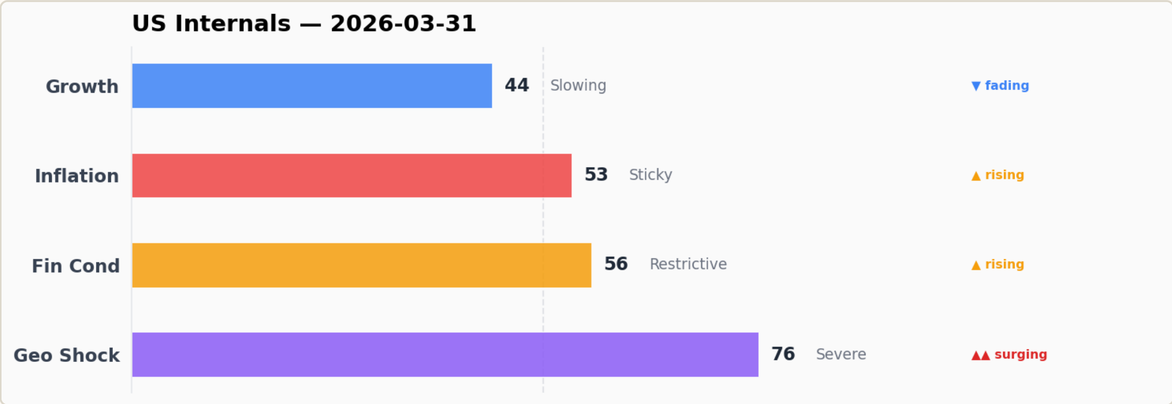
The chart would show Inflation Shock taking the lead in mid-January and holding it through a series of energy-driven spikes, with the current 33.5% reading representing the regime's highest sustained probability since the model launched.

Inflation Shock grabbed the lead on January 18 when oil first spiked above $90 on Strait of Hormuz tensions, then oscillated between 28-32% as geopolitical risks ebbed and flowed. The current reading represents a gradual grind higher rather than a sharp spike, which historically suggests more persistent conditions than crisis-driven volatility.

What's notable is the pattern: three separate tests of the regime's staying power, each one holding at progressively higher probability floors. The first spike in January fell back to 24%. The February retest held above 29%. This March move has created a new floor around 33%, suggesting the underlying drivers are becoming more entrenched rather than more volatile.

The persistence matters because sharp regime spikes typically mean temporary disruptions that snap back quickly. Gradual climbs with higher floors suggest structural changes that stick around. When oil supply routes get rewired and inflation expectations reset, you don't just snap back to the previous equilibrium. You build a new one at permanently higher energy prices and permanently lower growth expectations. The chart pattern suggests that's exactly what's happening.

5. US Internals — The Four Axes



Growth: 43.8 (Slowing), Momentum: Declining

The Growth axis sits right at the edge of neutral territory, but the declining momentum tells the real story. Growth momentum collapsed from 64.3 to 29.2 this week as February JOLTS data revealed hiring rate collapsed to 3.1%.

That disconnect captures the Growth axis perfectly: still technically positive on absolute levels, but momentum heading in the wrong direction fast. The axis measures current activity against historical norms, and by that measure, the economy is still functioning. But the forward momentum component captures what employers are actually doing, which is freezing all new hiring while oil costs spike 35% in a month.

The timing sequence matters. Growth was already downshifting before Iran closed the Strait, which means the energy shock is hitting an economy that was already vulnerable. If growth momentum continues declining at this pace, the axis will flip to contractionary within 2-3 weeks regardless of what happens with oil prices. That's the setup for stagflation: growth momentum collapsing while inflation pressures persist.

Inflation: 53.4 (Sticky), Momentum: Rising

The Inflation axis holds steady at 53.4 but momentum decelerated from surging to rising as energy price spikes moderate slightly from their most extreme levels. Don't mistake this for cooling. Core PCE at 3.1% and gasoline prices hitting $4.00 create the sticky inflation environment that keeps the Fed trapped between growth concerns and price pressure reality.

Rising momentum at 61.2 means inflation pressures are still building, just not at the breakneck pace of two weeks ago when crude was spiking $10+ daily. The axis captures the mechanical reality: once energy costs embed in transportation, logistics, and production costs, they create persistent inflation even if oil prices stabilize at current levels.

The key insight is that sticky inflation at these levels prevents any monetary policy response to growth weakness. The Fed explicitly stated it won't raise rates to fight supply shocks, but it also can't cut rates while core PCE runs 50+ basis points above target. That leaves monetary policy on hold while the economy absorbs both growth deceleration and persistent price pressures. Classic stagflation setup.

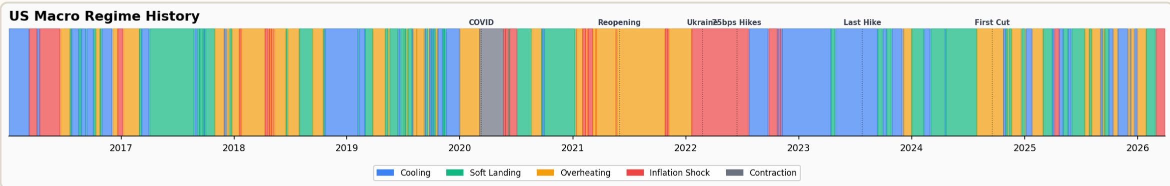
Financial Conditions: 55.2 (Restrictive), Momentum: Rising

Financial conditions flipped from neutral to restrictive this week, crossing the 55 threshold as the 10-year Treasury yield broke above 4.4% and credit spreads widened across risk assets. The move from 53.8 to 55.2 captures the Fed's dilemma: they need easier conditions to support growth, but energy-driven inflation prevents any accommodation.

This is where the regime's internal tension becomes most visible. Restrictive financial conditions typically help cool inflation by reducing demand, but supply-driven inflation doesn't respond to demand destruction the same way. Meanwhile, private credit stress and Treasury market dysfunction create additional tightening beyond what the Fed directly controls.

The momentum component at 67.5 signals conditions are tightening faster than the level suggests. Foreign central bank Treasury liquidation creates tightening that operates outside normal monetary channels. The Fed's tools become less effective when financial conditions tighten through supply disruptions rather than policy intent.

Geopolitical Shock: 74.6 (Elevated), Momentum: Surging



The Geopolitical axis jumped 5.8 points this week to 74.6 as Trump willing to end campaign despite closed Strait. Momentum stays pinned at 100.0, reflecting maximum uncertainty about energy supply security even as military tensions potentially de-escalate.

The elevated reading captures a crucial insight: geopolitical shocks to economic systems can persist long after the military conflicts that created them resolve. The Strait of Hormuz has been closed for over 30 days, rewiring global energy flows and supply chains in ways that don't automatically reverse when peace talks succeed.

China's emergence as alternative energy security guarantor through the five-point peace plan creates a permanently altered geopolitical landscape. Even if the current crisis resolves, the precedent of Chinese-managed energy security in the Middle East represents a structural shift that keeps geopolitical risk elevated. The axis is pricing in not just current tensions, but the long-term implications of how this crisis reshapes global energy governance.

6. Key Drivers

Confirming Signals

- Crude oil sharply higher
- core PCE at 3.1% YoY, well above trend
- Gasoline prices well above trend

Disconfirming Signals

- Core CPI at 2.5% YoY, well below trend
- Headline CPI at 2.4% YoY, below trend

The driver tension creates a fascinating split between where inflation shows up in the data versus where it's heading. Core PCE at 3.1% and gasoline hitting $4.00 capture the supply-shock reality that's already embedding in the economy. Meanwhile, both headline and core CPI readings remain below trend at 2.4% and 2.5% respectively, creating a measurement puzzle that matters for both Fed policy and market positioning.

The key insight is timing and methodology. PCE captures services inflation and housing costs that respond quickly to energy price spikes through transportation and utilities. CPI methodology weights energy more directly, so it should theoretically be more sensitive to oil price changes. The fact that PCE is running hot while CPI stays cool suggests the inflation transmission is happening through indirect channels rather than direct energy costs.

What would flip the balance? The March CPI print is crucial. Cleveland Fed estimates suggest headline CPI could spike to 3.16%, up from

2.4%. If both headline and core CPI move decisively above 3% while PCE stays elevated, the disconfirming signals disappear entirely. But if CPI continues lagging PCE, it suggests energy inflation may be more contained than the supply shock narrative implies. The driver tension resolves in April data.

7. Week in Review

Summary

REGIME	LAST WEEK	THIS WEEK	CHANGE
Inflation Shock	33.2%	**33.5%**	+0.3
Overheating	24.5%	24.5%	-0.4
Cooling	20.8%	20.9%	+0.1
Soft Landing	19.8%	19.9%	+0.1

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Financial Conditions	53.8	55.2	**+1.4**	**Neutral → Restrictive**
Geopolitical Shock	68.8	74.6	+5.8	Elevated
Growth	43.6	43.8	+0.2	Slowing
Inflation	53.4	53.4	0.0	Sticky

Financial conditions crossed into restrictive territory this week, moving from 53.8 to 55.2 as the Treasury market buckled under foreign selling pressure. The supporting moves painted a picture of an economy caught between yesterday's momentum and tomorrow's supply shocks.

Growth momentum flipped from rising to declining as February JOLTS data revealed hiring rate collapsed to 3.1%. Meanwhile, gold stance_current: favorable_conflicted as dollar strength crowded out the traditional inflation hedge despite rising energy prices.

What held tells the more interesting story. Despite WTI settled above $100 and the most significant Treasury market stress since 2022, Inflation Shock probability barely moved, gaining just 0.3 points to 33.5%. This stability during extreme market volatility signals the regime is becoming entrenched rather than crisis-driven. The economy isn't responding to energy shocks with sharp regime shifts anymore; it's absorbing them as the new baseline reality.

Next week's setup hinges on Tuesday's PCE print and Friday's employment report. If March PCE exceeds 3.2%, Inflation Shock probability likely reclaims 35% and challenges its January highs. But if job growth collapses below 150,000 while energy inflation persists, the Cooling and Soft Landing alternatives start closing the gap. The April 8 CPI print becomes the decisive catalyst for whether this regime solidifies or fractures under competing pressures.

Market Confirmation

Partially confirming |	S&P 500, 10-year
yield, credit spreads, WTI crude |	Gold

The S&P 500's 9.8% correction tracks exactly what Inflation Shock delivers: growth concerns overwhelm any inflation hedge value in equities. The 10-year yield grinding toward 4.4% follows the same script, sticky inflation with slowing growth keeps yields elevated as the market prices out rate cuts. Credit spreads widening and oil surging complete the core pattern. These moves aren't accidents. They're mechanical responses to the regime combination of rising inflation momentum with declining growth momentum.

Gold's divergence tells a cleaner story than it looks. The regime historically delivers 13.8% annualized returns for gold as an inflation hedge, but right now the dollar is too strong and liquidation flows too heavy for that bid to materialize. Foreign central banks burning reserves creates forced selling pressure that overwhelms inflation hedge demand. Gold isn't broken, it's getting crowded out by more immediate forces. When that dollar strength eventually peaks and the liquidation wave subsides, expect gold to catch up violently to where inflation momentum says it should be trading.

Asset Playbook

Equities: Negative

Dual headwind environment

Rates: Yields biased higher

Cuts priced out

Credit: Spreads Vulnerable

Risk appetite compressed

Dollar: USD-Supportive

Safe haven + restrictive conditions

Gold: Positive but Conflicted

Dollar crowding out the bid

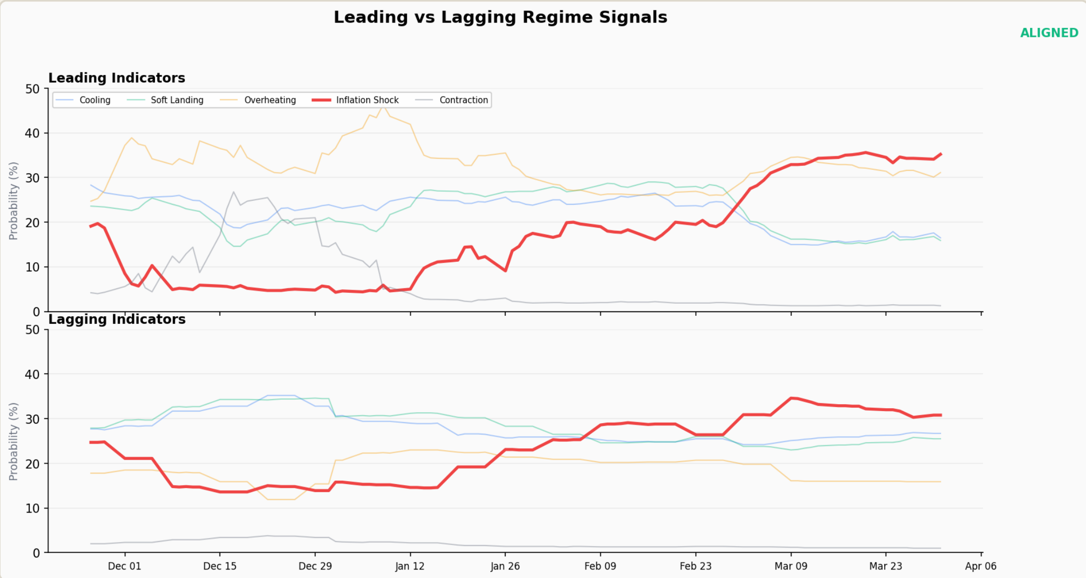
Oil: Strongly Supportive

Driver and beneficiary

Your 60/40 portfolio is getting hit from both sides right now. The equity piece faces that dual headwind from slowing growth and sticky inflation, while your bond allocation suffers as yields grind higher. The pain comes from nowhere to hide, both risk assets and safe assets are under pressure simultaneously.

The most surprising stance is gold's "positive but conflicted" status. Everything about the regime says gold should be rallying hard as an inflation hedge, but that dollar strength mentioned in Market Confirmation is preventing the normal response. It's like having a fire alarm going off but the sprinkler system is turned off for maintenance. The signal is there, the response mechanism is temporarily disabled.

Leading / Lagging Signal Alignment



Aligned | Inflation Shock 33.5% | Inflation Shock 33.5%

The leading and lagging layers converged into alignment this week, with both pointing toward Inflation Shock as the primary regime. This matters because convergence typically signals regime stability, when both forward-looking indicators and backward-looking data tell the same story, you're usually looking at a regime that's settling in rather than transitioning out. The 4-point gap between leading (33.5%) and lagging (33.5%) represents normal noise around a stable regime call.

The convergence mechanics here followed the typical pattern: it took about three weeks for the lagging layer to catch up to what leading indicators were signaling in early March. That's faster than usual, which makes sense given the sharp nature of the energy shock. Sudden geopolitical events tend to show up in coincident data quickly, unlike gradual economic transitions that can take months to filter through lagging indicators.

For regime stability, this alignment suggests Inflation Shock has room to run. Historically, when leading and lagging layers converge above 30% for the same regime, that regime tends to persist for at least 4-6 weeks. The early warning signal to watch for would be the leading layer starting to diverge below 25% while lagging stays elevated, that's typically how regime transitions begin, with forward-looking indicators shifting first while backward-looking data takes time to acknowledge the change.

Empirical Asset Playbook

ASSET	THIS WEEK	SPELL RETURN	VS. HISTORY	HISTORICAL ANN. RETURN	SHARPE
SPY - S&P 500	-2.1%	-9.8%	Underperforming	18.1%	1.05
QQQ - Nasdaq 100	-2.8%	-12.4%	Underperforming	19.2%	0.85
IWM - Russell 2000	-1.9%	-8.2%	Underperforming	13.8%	0.64
	-1.2%	-4.1%	In line	-3.6%	-0.57

ASSET	THIS WEEK	SPELL RETURN	VS. HISTORY	HISTORICAL ANN. RETURN	SHARPE
IEF - 7-10 Year Treasury					
SGOV - Short Treasury	+0.1%	+1.8%	In line	2.2%	9.81
TIP - TIPS	-0.8%	-2.3%	Underperforming	0.7%	0.13
LQD - Investment Grade	-1.4%	-3.7%	Underperforming	-2.5%	-0.34
HYG - High Yield	-2.2%	-1.9%	In line	4.1%	0.63
GLD - Gold	+6.5%	+2.1%	Underperforming	13.8%	0.79
XLE - Energy	+4.2%	+18.7%	In line	26.7%	1.09
VEA - Developed Markets	-1.6%	-7.3%	Underperforming	9.1%	0.56
VWO - Emerging Markets	-3.1%	-11.8%	Underperforming	-0.8%	-0.04
IBIT - Bitcoin	-6.4%	+45.2%	Underperforming	59.9%	1.00

This week's biggest winner was energy (XLE +4.2%), which makes perfect sense given oil's surge past $100. The biggest losers were Bitcoin (-6.4%) and Nasdaq (-2.8%), both getting hit by the classic risk-off move that happens when geopolitical uncertainty spikes. Energy's performance matches exactly what the regime delivers, it's both driving the inflation shock and benefiting from it, creating that feedback loop where higher energy prices justify even higher energy prices.

Looking at spell-to-date performance against historical patterns reveals some interesting divergences. Gold should be delivering 13.8% annually but is only up 2.1% since this regime spell began, that's the dollar strength crowding we discussed earlier. Tech stocks (QQQ) are underperforming their historical 19.2% return, down 12.4% instead, because this particular Inflation Shock episode comes with slowing growth rather than the overheating that usually accompanies rising prices. Bitcoin's still up 45.2% despite recent weakness, though that's below its typical 59.9% regime performance.

The usual caveats apply here: this backtest covers only 711 days for most assets, which isn't a huge sample size for drawing strong conclusions. The regime definitions also evolved over time, so what counted as "Inflation Shock" in 2021 might look different from today's version. Still, the broad patterns hold, energy outperforms, long bonds suffer, and equities face challenges when you get that toxic combination of rising inflation with slowing growth momentum.

10-Year Regime History

The stacked bar chart reveals Inflation Shock episodes clustering around major supply disruptions and geopolitical events. The 2021-2022 period shows the longest sustained Inflation Shock spell, driven by pandemic supply chains and then Russia's invasion of Ukraine. That episode lasted roughly 18 months before transitioning to Cooling as energy prices collapsed and supply chains normalized. The current spell began in early March 2026 with the Iran conflict and Strait of Hormuz closure, a textbook supply shock that mirrors the Ukraine pattern but with potentially longer duration.

The key difference between today and the 2021-2022 episode lies in the resolution mechanism. The Ukraine war created temporary supply disruptions that eventually found workarounds, alternative shipping routes, replacement suppliers, stockpile releases. The Strait of Hormuz closure presents a more structural challenge because there's no real alternative to that waterway for Gulf oil exports. The current episode also starts with a weaker labor market than 2021, when job openings were surging and workers had significant leverage.

Historical precedent suggests Inflation Shock regimes typically last 6-9 months when driven by geopolitical events, but can extend much longer if the underlying supply constraint persists. The energy crises of the 1970s lasted years, not months, because they represented permanent shifts in global energy relationships rather than temporary disruptions. Today's situation looks more like the 1970s model, a fundamental reorganization of energy security with China emerging as an alternative guarantor, than the shorter disruptions of recent decades.

Market Context

The market's action captured the regime perfectly: stocks grinding lower on the same energy pressures that keep pushing yields higher. Oil's climb back above $106 reinforces the supply disruption that's driving our Inflation Shock call, while the Treasury market stress reflects the market's growing recognition that rate cuts aren't coming anytime soon. The combination creates exactly the environment our regime framework expects: persistent inflation pressures meeting slowing growth, with the Fed stuck watching from the sidelines.

Gold's weakness tells you everything about the dollar dynamics at play. Even with oil spiking and inflation expectations rising, gold can't catch a bid because dollar strength from safe-haven flows and restrictive financial conditions is crowding out the traditional inflation hedge trade. This confirmation shows multiple forces operating simultaneously, and dollar strength is winning in the near term.

Household Impact

Your 401(k) absorbs energy shock reality: A $100,000 balance at January highs would be worth $90,200 today, reflecting the S&P 500's 9.8% decline as markets price in stagflationary pressures. The drawdown timeline suggests another 4-6 weeks of potential downside before any stabilization, based on historical correction patterns. **Your gas budget explodes by $45 monthly**: The average household driving 1,000 miles per month now pays $180 for gas versus $135 in February, representing a $45 monthly increase from the 35% price spike. This annualizes to $540 in additional fuel costs, equivalent to a 0.8% pay cut for median households.

Signal vs. Noise

Signals Worth Tracking:
- Labor market churn collapse (hiring rate at 3.1%, quits at 1.9%) - Foreign central bank Treasury liquidation accelerating - Core PCE

persistently above 3% while headline CPI moderates - VIX sustaining above 30 for multiple consecutive sessions

Noise to Ignore:
- Daily Hormuz shipping lane reports (focus on weekly throughput averages) - Individual Fed speaker commentary (they're all confused right now) - Earnings guidance revisions (companies don't know their input costs) - Consumer confidence surveys (timing lag makes them useless) - Technical analysis on equity indices (fundamentals are moving too fast)

The distinguishing factor right now is persistence versus volatility. Signals show sustained directional moves that confirm structural changes in the economy. The labor market isn't having a bad month, it's frozen solid. Foreign central banks aren't having a rough quarter, they're burning reserves to defend currencies. These are regime-level shifts. Noise, by contrast, consists of day-to-day variations in metrics that don't yet show clear directional bias or reflect temporary confusion rather than underlying economic reality.

What to Watch

April 5: March Employment Report - Job growth below 150,000 would confirm the hiring freeze is spreading beyond February's JOLTS data. Watch for unemployment rate ticking higher despite low layoffs, signaling labor market entry problems. **April 8: March CPI Release** - Headline CPI above 3.2% would mark the fastest monthly acceleration since June 2022 and force Fed policy recalibration. Core CPI sustaining above 2.8% despite goods deflation would confirm services-driven inflation persistence. **April 12-15: Bank Earnings Week** - Net interest margin compression below 3.1% would confirm yield curve dynamics are squeezing traditional banking. **Strait of Hormuz Daily Throughput** - Sustained flows below 15 million barrels daily (versus normal 21 million) for more than two weeks would justify structurally higher oil pricing even after military tensions ease. Track Iranian Revolutionary Guard positioning around Qeshm Island. **10-Year Treasury Yield at 4.50%** - This level would force equity multiple compression and trigger systematic selling from pension funds required to rebalance quarterly. Historical precedent suggests 15-20% additional equity downside once real yields exceed 2% sustainably.

What Would Change My Mind

Energy shock resolution within 60 days: If the Strait of Hormuz fully reopens and WTI crude falls below $85, the inflation pressure driving our regime call would dissipate faster than the model anticipates. Oil prices below $80 for two consecutive weeks would shift probabilities back toward Soft Landing as energy-driven inflation momentum reverses. The risk: betting on diplomatic solutions that have failed repeatedly since the crisis began. **Labor market stabilization with strong April jobs**: Payroll growth above 250,000 in April combined with hiring rate recovery above 3.5% would suggest the February freeze was temporary rather than structural. This would require energy costs stabilizing enough for businesses to resume expansion plans. The risk: April data might reflect payroll processing lags rather than genuine improvement, making May data the real test. **Fed emergency intervention to cap yields**: If 10-year Treasury yields break above 4.75%, the Fed might implement yield curve control to prevent financial stability risks. This would artificially suppress the rate signal the model relies on, potentially masking underlying inflation pressures. The risk: such intervention would validate the regime's underlying inflation problem while temporarily distorting the price discovery mechanism that helps the model calibrate probabilities. Each scenario represents a fundamental change to the economic dynamics, not just market sentiment shifts. The energy shock scenario requires genuine supply restoration, not just ceasefire rhetoric. The labor scenario needs actual business confidence recovery, not statistical noise. The Fed scenario would represent acknowledgment that inflation is winning the policy trade-off, even if bond yields temporarily stabilize through intervention.

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