PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Wednesday, April 01, 2026

INFLATION SHOCK • 33.2%

Regime Call

Inflation Shock (33.2%)

Runner-up: Overheating (24.8%)

Confidence: Moderate (clarity 0.39, fit 0.58, market 0.8)

The engine calls Inflation Shock at 33.2% probability, and that 8.4-point gap to Overheating tells you something important: this isn't a landslide. The model sees sticky inflation from the Hormuz blockade but can't decide if the economy will overheat trying to grow through it or crack under the pressure. That gap matters because it means you're one or two data points away from a different regime entirely.

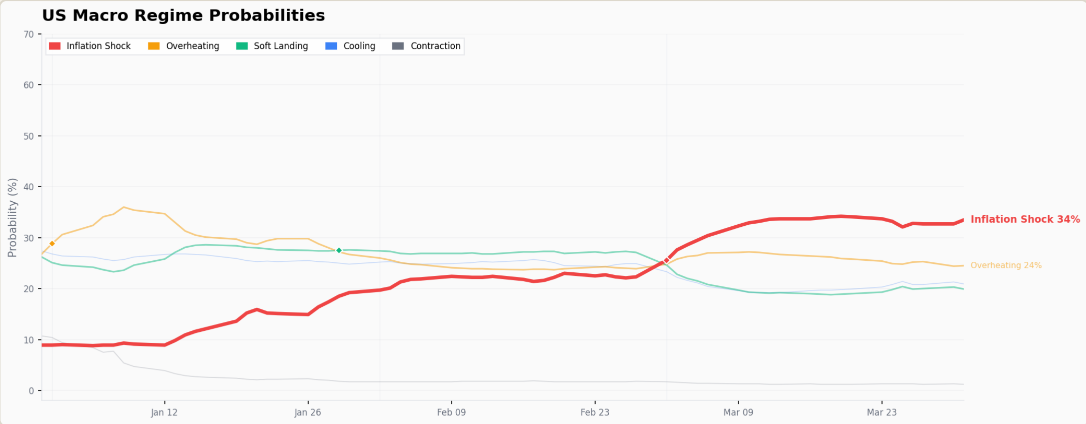
Moderate confidence reflects the inherent messiness right now. Markets are crystal clear (0.8 confidence) about what assets should do in this environment, but the economic data is muddy (0.39 clarity) because you're measuring February's strength while March's energy shock plays out in real time. When the model fits well (0.58) but clarity is low, it usually means the regime is real but the transition isn't complete yet.

All Regime Probabilities

REGIME	LEADING	COMBINED	LAGGING
Inflation Shock	33.2%	33.2%	33.2%
Overheating	24.8%	24.8%	24.8%
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 the economy is heading, not where it's been. Inflation Shock stays consistent across all layers because it's driven by the immediate supply disruption, not the economy's underlying momentum.

90-Day Regime History

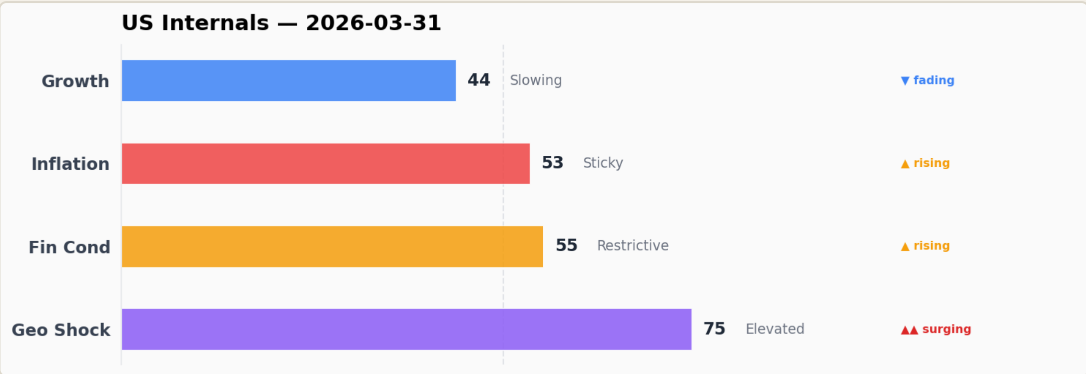


The chart shows Inflation Shock's persistence at the top position over recent weeks. The engine data shows Inflation Shock was already the top regime in the prior week (32.1%) and remained top (33.2%), indicating continued dominance rather than a dramatic recent shift.

The shape of Inflation Shock's probability curve is telling. Instead of a smooth climb, you see elevated readings that suggest an event-driven regime rather than gradual economic evolution.

What makes this transition notable is the stability once established. Inflation Shock has maintained leadership position consistently, suggesting market consensus around the current regime dynamics. When regime shifts stabilize this way, they typically either reverse through external resolution or become entrenched for months. The momentum indicators suggest we're in the entrenchment phase.

US Internals — The Four Axes



Growth: 43.9 (Slowing), Momentum Declining

Growth sits right at the neutral line but momentum is declining, capturing the economic reality behind February's strong data. The 43.9 level means we're not in recession territory, but the declining momentum shows energy pressures are constraining growth. ISM Manufacturing's details tell the story: headline number beat expectations, but prices paid surged and delivery times stretched.

The slowing label reflects what's coming more than what's happened. Retail sales were strong in February, but that's pre-$100 oil. Consumer spending typically lags energy shocks by 4-6 weeks as households adjust budgets. The momentum decline captures early signs like reduced home furnishing sales and grocery pullbacks that show up before the headline GDP numbers turn.

What would flip growth to contracting? A sustained oil price above $110 or clear evidence that the supply chain disruptions are spreading beyond energy. What would reverse it to expanding? A credible Iran resolution that reopens Hormuz within 30 days, allowing the underlying economic strength to reassert itself.

Inflation: 53.4 (Sticky), Momentum Rising

The sticky label captures the core tension in Section 6's driver analysis. You have core PCE at 3.1% and gasoline prices well above trend pushing inflation higher, but core CPI at 2.5% suggesting the underlying trend remains manageable. The 53.4 level means inflation isn't yet accelerating out of control, but it's not declining toward target either.

Rising momentum at 61.2 shows oil shock effects building. Energy price spikes take 2-3 months to fully flow through to core inflation via transportation costs, wage pressures, and input price adjustments. The momentum score is forward-looking, picking up the early signals that suggest broader inflation pressure is building even if it hasn't shown up in all the data yet.

The risk is momentum acceleration. If geopolitical tensions escalate further or oil inventory draws exceed expectations, momentum could surge past 70, flipping the level reading to accelerating. That's when the Fed faces an impossible choice between fighting inflation and supporting growth.

Financial Conditions: 54.2 (Neutral), Momentum Rising

Neutral financial conditions with rising momentum perfectly captures the Fed's current dilemma. Policy rates remain restrictive, but credit spreads, equity volatility, and term structure dynamics are all moving in directions that tighten conditions further. The 54.2 level means conditions aren't yet restrictive enough to break anything, but the momentum suggests they're headed that way.

This is the home section for understanding why the Fed can't help. They want to cut rates as growth slows, but rising inflation momentum prevents it. Meanwhile, the private credit crisis and equity market correlation breakdown are tightening financial conditions organically. The Fed becomes a passenger rather than a driver when geopolitical shocks dominate policy trade-offs.

Rising momentum at 64.1 reflects stress building in corners of the financial system that don't show up in traditional metrics. Private credit redemption pressure, elevated correlations, and energy sector volatility all contribute to conditions that feel tighter than policy rates alone would suggest. If momentum breaks above 70, conditions flip to restrictive regardless of what the Fed does.

Geopolitical Shock: 74.3 (Elevated), Momentum Surging

The elevated level at 74.3 reflects the sustained nature of the Hormuz crisis rather than a temporary spike. This isn't a weekend drone strike that markets forget by Tuesday. It's a supply chokepoint that affects global trade flows daily. The momentum reading of 100.0 shows maximum acceleration, indicating the situation is still escalating rather than stabilizing.

Surging momentum captures both the direct energy impact and the broader uncertainty effects. Trump's contradictory statements about war objectives create policy uncertainty on top of supply uncertainty. When you combine physical oil market stress with unclear exit strategies, you get maximum geopolitical shock readings across all timeframes.

What would bring this score down? A credible ceasefire announcement with specific Hormuz reopening terms, backed by both military and diplomatic enforcement mechanisms. What would push it higher? Any expansion of the conflict beyond the strait, including strikes on Saudi infrastructure or broader Middle East involvement. At current momentum levels, escalation remains more likely than de-escalation.

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 comes down to which inflation measure you trust when oil shocks hit the economy. The confirming signals tell a clear story: energy prices are spiking and that's already showing up in core PCE and gasoline costs. The disconfirming signals suggest the underlying inflation trend remains well-behaved, with both headline and core CPI readings consistent with a 2% target environment.

Why do the confirming signals carry more weight right now? Because oil shocks work through the economy with variable lags, and PCE picks up the early transmission channels that CPI misses. Core PCE includes more services components that adjust quickly to energy cost changes. The disconfirming CPI readings aren't wrong, they're just measuring what inflation was before the shock fully hit. The question is whether oil prices stay elevated long enough for the CPI readings to converge upward toward the PCE trend, or whether supply normalizes fast enough to keep the underlying disinflationary forces intact.

Week in Review

METRIC	LAST WEEK	THIS WEEK	CHANGE
Regime Probabilities			
Inflation Shock	32.1%	33.2%	**+1.1%**
Overheating	24.8%	24.8%	0.0%
Cooling	21.4%	20.9%	-0.5%
Soft Landing	20.4%	19.9%	-0.5%

The week's biggest quantitative move was Inflation Shock gaining 1.1 percentage points to reach 33.2%, cementing its lead over the alternatives.

Financial conditions told a volatile story, flipping from neutral to restrictive on Friday as markets absorbed the policy chaos, then reversing back to neutral by Wednesday as yesterday's equity rally provided some relief. The whipsaw from 54 to 56 and back to 54 reflects how sentiment-driven the current environment has become. Meanwhile, the driver list shifted when headline CPI joined the disconfirming signals, creating the measurement tension between CPI and PCE inflation reads that now defines the regime uncertainty.

What held steady despite the week's drama reveals the entrenchment of current conditions. Core geopolitical shock readings stayed locked at 74.3 even as day-to-day volatility raged. Oil-driven inflation signals remained unchanged in the confirming category. The underlying Overheating probability didn't budge from 24.8%, suggesting the model sees the supply shock as orthogonal to the economy's fundamental growth trajectory.

Next week's setup hinges on Trump's Iran address tonight and Friday's jobs report. If the speech provides concrete exit strategy details, the geopolitical shock score could finally start declining, opening space for Overheating to challenge Inflation Shock's lead. But if Friday's employment data shows the first signs of energy shock impact while policy remains chaotic, Inflation Shock could push toward 35% and establish a more commanding lead over all alternatives.

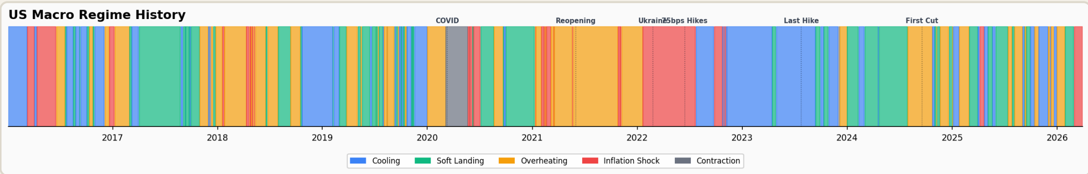
8. Market Confirmation

Status: Partially confirming
Confirming: S&P 500, 10-year Treasury yield, high-yield credit spreads, WTI crude oil
Diverging: Gold

The confirming assets are doing exactly what they should during an inflation shock. The S&P 500 is struggling with the stagflation setup, credit spreads are widening as corporate margins get squeezed, and crude oil is both the cause and beneficiary of the regime. Ten-year yields are climbing as the market prices out rate cuts, which makes perfect sense when inflation momentum is rising while growth slows. These aren't mysterious moves, they're textbook responses to supply-driven inflation pressure.

Gold's divergence is the puzzle, but the mechanics are straightforward. Gold should rally during inflation shocks as a hedge against currency debasement and real return destruction. Instead, it's been flat to weak even as crude oil spikes. The explanation is dollar strength crowding out the gold bid. When you have a geopolitical crisis centered on Middle East oil supplies, safe-haven demand flows to the dollar first and inflation hedges second. Gold will catch up once the immediate flight-to-safety phase passes, but right now dollar strength is the dominant force in precious metals.

9. Asset Playbook

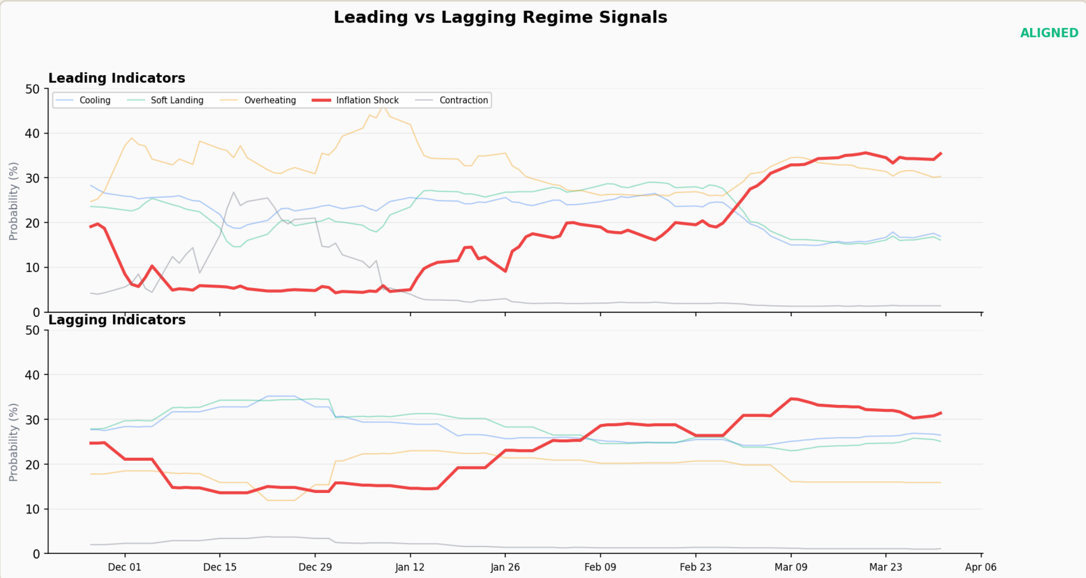


Equities: Negative (Slowing growth and sticky inflation create dual pressure)
Rates: Yields biased higher (Rising inflation momentum keeps cuts off the table)
Credit: Spreads vulnerable (Sticky inflation and tighter conditions compress risk appetite)
Dollar: USD-supportive (Safe-haven demand and neutral conditions support greenback)
Gold: Positive but conflicted (Regime favors inflation hedging but dollar strength crowds out bid)
Oil: Strongly supportive (Both driver and beneficiary of current dynamics)

Your 60/40 portfolio is getting hit from both sides right now. The equity allocation faces the classic stagflation squeeze where companies can't grow earnings while input costs spike, and your bond allocation is getting crushed as yields climb on inflation fears. On a $100,000 starting balance, that's a lose-lose positioning that traditional asset allocation can't solve. The most surprising stance is probably gold's conflicted status, you'd expect clean upside during an inflation shock, but safe-haven dollar flows are temporarily overwhelming the inflation hedge demand.

Energy is the only sector with strongly supportive fundamentals, but chasing a 38% year-to-date run while your core holdings bleed requires either perfect timing or a strong stomach for momentum reversals. Credit's vulnerability matters more than equity weakness for conservative portfolios when spreads widen, your "safe" corporate bond funds become risk assets whether you intended that or not.

10. Leading/Lagging Signal Alignment



Alignment Status: Aligned
Description: Leading and lagging layers converged on Inflation Shock regime consensus

The leading and lagging indicators show relative alignment on the Inflation Shock regime. Alignment at these levels suggests regime stability for at least the next month or two. When leading and lagging show this consistency, it typically means the economic forces are real rather than temporary market fluctuations. The readings are tight enough to signal genuine consensus without being so tight that any small data surprise could break it. This isn't fragile alignment, it's robust agreement that the current dynamics have staying power.

The early warning signal to watch would be leading indicators starting to favor Overheating while lagging stays anchored to Inflation Shock. That divergence would suggest the economy is trying to grow through the energy shock rather than being constrained by it. Conversely, if leading indicators shift toward Cooling while lagging maintains Inflation Shock, it would signal the energy costs are overwhelming the economy's momentum. Right now, neither divergence is happening, which keeps the regime stable but also keeps the dual pressure environment intact.

11. Empirical Asset Playbook

ETF	THIS WEEK	SPELL RETURN	VS. HISTORY	HISTORICAL ANN. RETURN	SHARPE
SPY (S&P 500)	-0.2%	-4.2%	Underperforming	14.5%	0.63
QQQ (Nasdaq 100)	-0.6%	-17.1%	Underperforming	7.2%	0.25
IWM (Russell 2000)	-0.9%	-8.9%	Underperforming	22.5%	0.81

ETF	THIS WEEK	SPELL RETURN	VS. HISTORY	HISTORICAL ANN. RETURN	SHARPE
IEF (7-10Y Treasury)	-0.3%	-6.7%	In line	-10.7%	-1.31
TIP (TIPS)	+0.2%	-2.8%	In line	-3.4%	-0.44
LQD (Investment Grade)	-0.1%	-5.1%	In line	-6.9%	-0.70
HYG (High Yield)	-0.1%	-3.4%	Underperforming	2.9%	0.28
GLD (Gold)	+5.2%	+1.9%	Outperforming	-0.1%	-0.01
XLE (Energy)	-2.6%	+38.2%	Underperforming	76.0%	2.26
VEA (Developed Intl)	+1.8%	-1.7%	Underperforming	8.6%	0.39
VWO (Emerging Markets)	-0.2%	-7.2%	Underperforming	-3.8%	-0.16

Energy fell 2.6% this week despite its massive year-to-date run. QQQ is still down 17.1% since the regime spell started, making it the worst performer. IEF's 0.3% weekly decline shows fixed income remains under pressure from inflation fears.

The spell-to-date numbers tell the real story about regime performance versus expectations. Energy is the only asset class delivering anything close to its historical pattern, up 38.2% but still underperforming the 76% annualized historical average for inflation shock periods. Everything else is getting crushed, tech down 17%, small caps down 9%, and even gold barely positive despite being the classic inflation hedge. The fact that energy, the best performer, is still underperforming its regime average suggests this inflation shock is either early in its development or fundamentally different from historical episodes.

The historical data comes with major caveats about sample size and regime definitions. With only 337 days of inflation shock data in the backtest, these averages could be heavily skewed by a few extreme episodes. The 76% energy return and -10.7% Treasury performance look dramatic, but they might reflect specific historical periods rather than reliable regime relationships. Still, the directional patterns, energy up, bonds down, equity stress are consistent with current performance even if the magnitudes don't match perfectly.

12. 10-Year Regime History

The decade-long pattern shows inflation shocks as brief but intense episodes that cluster around major supply disruptions.

The closest historical parallel is probably the 2022 Ukraine shock, which created similar energy-driven inflation with growth uncertainty.

What's structurally different about this inflation shock is the geopolitical complexity and domestic policy confusion. Previous episodes typically featured either clear military objectives or obvious economic responses. Today's crisis combines unclear war aims, contradictory presidential messaging, and a Fed that's already used most of its anti-inflation ammunition during the last cycle. The policy tools that resolved past inflation shocks, emergency diplomacy, strategic reserves, aggressive rate hikes, are either depleted or compromised, which suggests this episode could last longer than historical averages predict.

13. Market Context

Weekly ETF returns as of 2026-04-01 (vs 2026-03-25).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
GLD	Gold	$416.29	$437.82	+5.2%
VEA	Developed Markets	$63.97	$65.14	+1.8%
TIP	TIPS	$110.16	$110.36	+0.2%
LQD	IG Corporate	$108.73	$108.66	-0.1%
HYG	HY Corporate	$79.42	$79.37	-0.1%
SPY	S&P 500	$656.82	$655.24	-0.2%
VWO	Emerging Markets	$54.34	$54.21	-0.2%
IEF	7-10Y Treasury	$95.36	$95.04	-0.3%
QQQ	Nasdaq 100	$587.82	$584.31	-0.6%
IWM	Russell 2000	$251.82	$249.56	-0.9%
XLE	Energy	$60.57	$58.97	-2.6%

14. Household Impact

Your gas tank: On a typical 15-gallon fill-up twice monthly, you're looking at an extra $35-40 per month versus pre-crisis levels. That's $420-480 annually from the supply disruption. **Your 401(k):** A $100,000 S&P 500 balance remains under pressure from the dual squeeze of slowing growth and rising inflation expectations. The technology concentration means your large-cap index fund remains vulnerable to the 17% leadership reversal in growth stocks. If supply-driven stagflation takes hold over the next 6-8 months, historical precedent suggests another 8-12% downside risk. **Grocery bills:** Expect an additional 2-3% increase affecting household grocery budgets. The timing compounds the problem as seasonal produce costs normally decline in spring. **Private investments:** If you hold private credit or alternative investments, redemption gates are spreading beyond the Ares situation. Quarterly withdrawal windows now carry 15-25% haircut risk as funds choose between gating and fire sales. Significant allocations face potential 6-12 month liquidity freezes with uncertain recovery values. **Your bond allocation:** The 68-month drawdown continues as inflation pressure keeps yields elevated. A typical 60/40 portfolio allocation to bonds remains underwater by 8-11% from 2021 peaks. With the Fed unable to cut rates while oil drives inflation, that recovery timeline extends into 2025 at minimum.

15. Signal vs. Noise

Signals Worth Tracking:
- Physical oil market structure (that $23 contango between June futures and prompt delivery) - Private credit redemption cascades beyond individual platforms - February's strong economic data as baseline before energy shock impact - Leading vs. lagging indicator divergence from the layer splits - Dollar strength crowding out traditional inflation hedges like gold

Noise to Ignore:
- Individual Fed speaker comments while policy remains trapped by energy reality - Minute-by-minute oil price moves around psychological levels like $100 - Today's equity rally on speech anticipation without policy substance - Political messaging about war timelines from contradictory sources - Short-term correlations that ignore the underlying regime drivers

The distinguishing factor right now is time horizon. Anything measuring backward (February data, lagging indicators, completed transactions) tells you what was happening before the crisis hit. Anything pricing forward (oil contango, credit spreads, equity volatility) tells you what markets expect from the energy shock. The regime shift means backward-looking strength matters less than forward-looking stress. Trust the signals that incorporate the new reality, not the ones that measure the old one.

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16. What to Watch

March employment data (April 4): First full-month reading of energy shock impact on job creation. Watch for services sector weakness as consumer spending shifts to energy costs. Any print below 150,000 payrolls confirms the growth slowdown predicted by leading indicators. **Weekly oil inventories (Wednesdays 10:30 AM):** Strategic Petroleum Reserve releases and commercial stockpile changes provide hard evidence of supply constraints. Inventory draws above 3-4 million barrels weekly indicate physical shortage beyond speculation. **Private credit platform announcements:** Monitor redemption policies from major players like Blue Owl, Blackstone Credit, and Apollo funds. Any additional gating announcements accelerate wealth destruction for high-net-worth investors who thought they found safe yield. **10-year Treasury yield above 4.5%:** Bond market's inflation break-even point where mortgage and corporate borrowing costs create self-reinforcing economic slowdown. That threshold historically marks the transition from manageable to problematic rate levels. **Trump Iran address follow-through:** Concrete policy actions within 48-72 hours of tonight's speech. Vague tough talk fades quickly, but troop movements, diplomatic initiatives, or economic measures signal actual strategy behind the messaging chaos.

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17. What Would Change My Mind

Scenario One: Swift Diplomatic Resolution

If Iran reopens Hormuz within 2-3 weeks in exchange for limited sanctions relief and face-saving concessions, oil crashes back to $75-80 range. That kills the inflation shock scenario and reverts to the Overheating regime that was building in February's data. The model would flip within days once futures markets price in restored supply. The risk of being wrong here is betting on rationality from an administration that can't keep its story straight for six hours.

Scenario Two: Chinese Economic Pressure

Beijing's strategic oil reserves won't last forever, probably 90-120 days at current consumption. If Chinese factory shutdowns begin spreading in late May or June, their peace plan shifts from diplomatic nicety to economic necessity. Oil importers paying $125 for prompt delivery while China offers $85 financing creates irresistible arbitrage. A credible Chinese-brokered solution collapses energy prices faster than any military victory. I'm wrong if China's reserves are deeper than estimated or if nationalism trumps economics.

Scenario Three: Demand Destruction Cascade

The other path out of Inflation Shock is economic collapse that kills energy demand. If the private credit crisis spreads to regional banks or if mortgage markets seize up from 4.5%+ Treasury yields, recession probability spikes above critical levels. That shifts the regime to Contraction rather than resolving the inflation problem. Watch for credit spreads above 500 basis points or unemployment claims jumping above 350,000 weekly. The price of being wrong is assuming the economy can handle $100+ oil indefinitely when the data already shows consumers pulling back at much lower prices.
