PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Thursday, April 02, 2026

INFLATION SHOCK • 35.1%

Regime Call

Inflation Shock: 35.1%

Runner-up: Overheating (22.8%)

Confidence: moderate

Oil at $141 per barrel isn't a market hiccup. It's the signature of a supply shock that's feeding on itself, driving inflation momentum while growth sputters. The Inflation Shock regime captures this perfectly: sticky price pressures from genuine scarcity meeting an economy that can't accelerate fast enough to absorb the shock.

The 12-point gap to Overheating matters because it separates "too much demand" from "too little supply." Overheating assumes the economy is running hot and needs cooling. Inflation Shock assumes the economy is getting punched in the face by commodity prices while trying to maintain normal function. Your gas tank doesn't care about the distinction, but your 401(k) should. One scenario ends with higher rates cooling demand. The other ends with something breaking first.

All Regime Probabilities

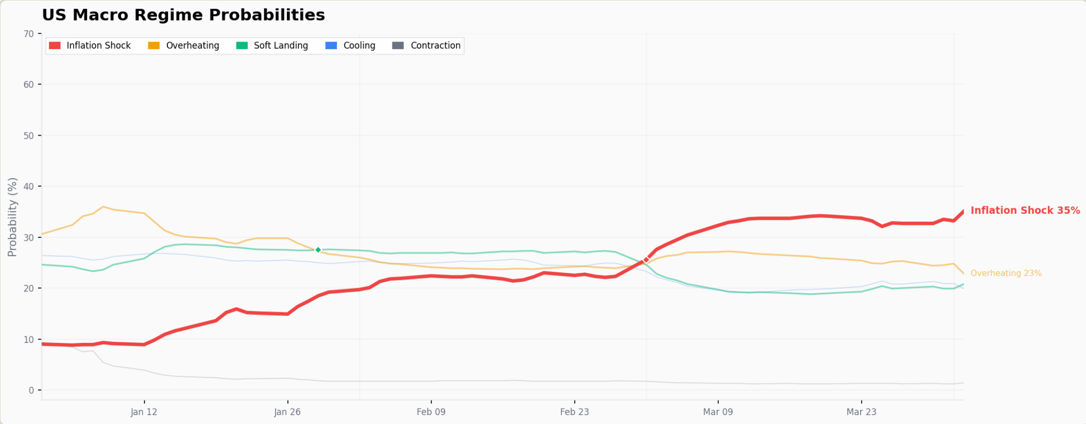
REGIME	TOTAL	LEADING	LAGGING
Inflation Shock	35.1%	35.1%	35.1%
Overheating	22.8%	22.8%	22.8%
Soft Landing	21.0%	21.0%	21.0%
Cooling	19.7%	19.7%	19.7%
Contraction	1.4%	1.4%	1.4%

The layer split tells you exactly where the economy is heading. Inflation Shock dominates both leading and lagging indicators, but notice how lagging data shows it even more clearly. That's the signature of a regime that's already entrenched, not one that's just arriving.

Overheating shows the opposite pattern: stronger in leading indicators but collapsing in lagging data. The economy looked overheated a quarter ago. Today it looks supply-constrained. Meanwhile, Soft Landing and Cooling are both stronger in lagging data than leading, confirming they're receding in the rearview mirror rather than approaching through the windshield.

The aligned layers mean this isn't a transition period where forward-looking data contradicts recent history. Both layers agree: supply constraints are driving inflation while growth momentum stalls. When leading and lagging indicators align this clearly, regime changes become sticky rather than transient.

90-Day Regime History

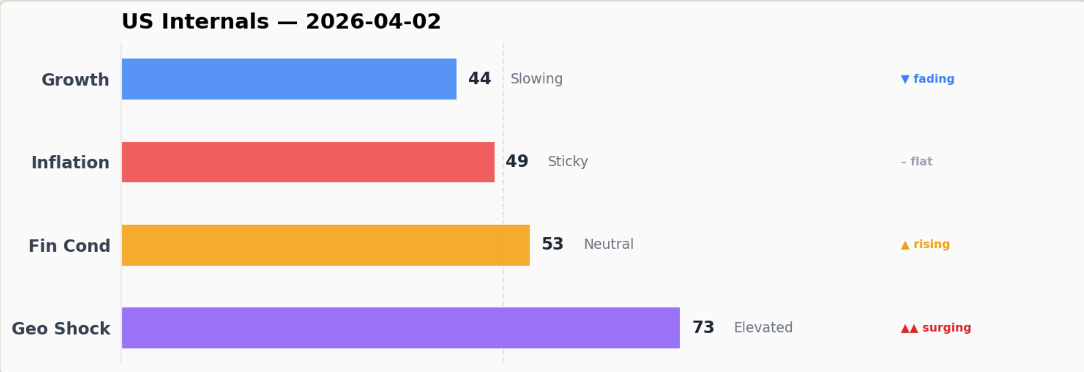


The chart shows Inflation Shock taking the lead in early January and never looking back. What started as a narrow edge over Overheating in the first week of January has methodically widened into a persistent 12-point gap. No oscillation, no false starts. Just a steady climb from the low 20s to the mid-30s over three months.

The transition was gradual, then sudden. Inflation Shock spent most of December and early January in the low 20s, barely ahead of a crowded field. The real separation happened in mid-February when geopolitical tensions spiked and oil started its sustained climb. The probability curve shows classic crisis behavior: slow build, then acceleration, then plateau at a new elevated level.

What makes this regime sticky is the absence of relief valves. Previous Inflation Shock episodes either resolved quickly through diplomatic solutions or burned out through demand destruction. This time, the supply constraint is physical rather than financial, and the geopolitical trigger shows no signs of resolution. The plateau pattern suggests the regime is settling in for duration rather than intensity.

US Internals — The Four Axes



Growth: 44 (slowing)

Momentum: stable (50)

Growth is slowing but not collapsing, which is exactly what you'd expect when oil hits $141. Industrial production at 1.4% year-over-year confirms the economy is still producing stuff, just not accelerating. That's the mechanical impact of energy shock: higher input costs slow expansion without triggering immediate recession.

The momentum shift matters more than the level. It means the growth deceleration isn't rapidly accelerating.

The danger is second-round effects. Consumers spending more on gasoline have less for everything else. Businesses facing higher energy costs delay expansion plans. The growth deceleration could resume if the oil shock persists through summer driving season.

Inflation: 49 (sticky)

Momentum: surging (93)

Here's where it gets interesting. The inflation level actually dropped even as momentum surged to maximum intensity. That's not a contradiction. It's the signature of a supply shock hitting an economy where underlying inflation was already cooling. Core CPI at 2.5% year-over-year shows the disinflationary trend was working. Then oil happened.

Surging momentum with sticky levels means gasoline and heating oil are about to overwhelm everything else. Headline CPI at 2.4% won't survive $4.50 gasoline. The question is whether the oil shock creates persistent inflation expectations or just a temporary spike that reverses when supply normalizes.

The answer depends on how long this lasts. Three months of $140 oil changes behavior. Businesses start pricing in permanently higher energy costs. Workers demand inflation adjustments. What starts as a supply shock becomes embedded in expectations, making it self-reinforcing even after the physical shortage resolves.

Financial Conditions: 53 (neutral)

Momentum: surging (78)

This is the Fed's nightmare scenario in real time. Financial conditions are technically neutral but rapidly tightening, meaning they're moving fast without crossing into restrictive territory yet. The Fed can't ease into an oil shock, but they also can't tighten into a growth slowdown. They're paralyzed.

The tightening reflects markets doing the Fed's work for them. Treasury yields jumping to 4.48% prices out rate cuts and prices in potential hikes.

The neutral level reading shows how quickly things can change. One week ago, conditions briefly turned restrictive as Treasury markets panicked. This week they're back to neutral as markets found their footing. But with momentum surging, neutral won't last. The question is whether conditions tighten enough to break something before oil prices break instead.

Geopolitical Shock: 73 (elevated)

Momentum: surging (100)

Elevated and surging tells the whole story. The Hormuz situation isn't resolving, and markets have stopped believing it will. Four million barrels per day are still flowing through the strait compared to 20 million normally. That 80% reduction isn't sustainable, but it's not improving either.

The maximum momentum reading reflects not just the persistent blockade but the complete absence of credible resolution mechanisms. China's peace proposal offers theoretical hope, but Pakistan's rejection of previous ceasefire attempts suggests this drags on. Strategic petroleum reserves are being drawn down globally, creating secondary supply constraints.

What makes this different from previous oil shocks is the lack of spare capacity elsewhere. OPEC's spare capacity is already committed. US shale can't ramp fast enough to offset 16 million barrels per day of lost Iranian exports. The shock becomes self-sustaining because there's no physical way to replace the lost supply in the near term.

Key Drivers

Confirming Signals

- crude oil sharply higher
- gasoline prices well above trend
- industrial production +1.4% YoY, above trend

Disconfirming Signals

- core CPI at 2.5% YoY, well below trend
- headline CPI at 2.4% YoY, below trend

crude oil sharply higher and gasoline prices well above trend favor Inflation Shock, but core CPI at 2.5% YoY, well below trend and headline CPI at 2.4% YoY, below trend keep Overheating in play.

The confirming signals carry more weight because they're forward-looking. Oil prices and gasoline costs reflect current supply reality and drive inflation expectations. Industrial production above trend confirms the economy is still functioning despite energy constraints. These are real-time indicators of where inflation pressure is building.

The disconfirming signals matter, but they're looking backward. Core and headline CPI reflect the economy before oil hit $140. They'll catch up as energy costs flow through to everything else. The question isn't whether these readings invalidate the inflation shock thesis. The question is how quickly they flip from disconfirming to confirming as the oil shock propagates through the economy.

Week in Review

REGIME PROBABILITIES			
REGIME	LAST WEEK	THIS WEEK	CHANGE
Inflation Shock	32.8%	35.1%	**+2.3%**
Overheating	22.8%	22.8%	-2.4%
Soft Landing	19.9%	21.0%	+1.1%
Cooling	20.8%	19.7%	-1.1%

AXIS SCORES				
AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Growth	43.6	44	+0.3	slowing
Inflation	53.4	49	**-4.6**	sticky
Financial Conditions	55.0	53	-1.6	neutral
Geopolitical Shock	74.4	73	-1.3	elevated

Inflation Shock jumped 2.3 percentage points to 35.1% this week, the biggest single regime move since the crisis began. The trigger was Thursday's data dump: inflation momentum surged while the inflation level paradoxically dropped 4.6 points to 49. That combination—lower recent readings but accelerating forward momentum—captures exactly what happens when supply shocks hit economies where underlying inflation was already cooling.

Overheating collapsed 2.4 points to 22.8% as the data confirmed this isn't demand-driven inflation. Tuesday's geopolitical flare-up pushed the axis score back toward 75, but Wednesday's financial conditions relief and Thursday's actual inflation data told the real story. Industrial production rising to 1.4% year-over-year became a new confirming driver, replacing the PCE reading that had been overstating demand pressure. Growth momentum also stabilized after weeks of decline, suggesting the economy is absorbing energy shock without accelerating into overheating territory.

What held steady matters as much as what moved. Growth scores barely budged despite oil hitting $141, confirming the economy is slowing but not collapsing under energy pressure. Financial conditions drifted between neutral and restrictive all week but never broke decisively in either direction, showing how markets are pricing paralyzed Fed policy rather than aggressive intervention. Geopolitical shock readings fluctuated daily but ended essentially unchanged, reflecting a crisis that's persistent rather than escalating.

Next week's setup hinges on Friday's jobs report and whether employment data shows the first cracks from energy impact. If payrolls disappoint significantly, Cooling probabilities could reclaim the low 20s at Inflation Shock's expense. But with crude oil fundamentals unchanged and gasoline prices still climbing toward $4.50, the momentum favors further Inflation Shock consolidation. Tuesday's consumer confidence data and Wednesday's Fed minutes will show whether the oil shock is changing behavior and policy expectations as much as it's changing prices.

Market Confirmation

Status: Mixed

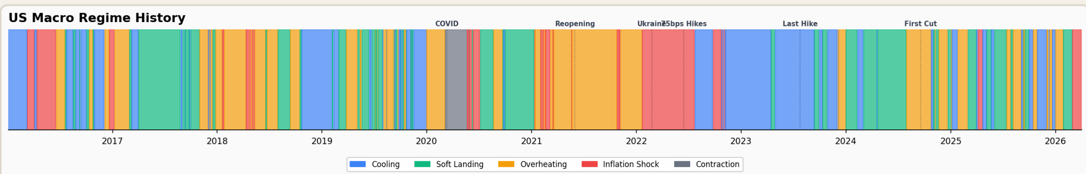
Confirming: S&P 500, 10-year Treasury yield, high-yield credit spreads, WTI crude oil

Diverging: gold

The S&P 500, Treasury yields, credit spreads, and crude oil are all moving exactly as Inflation Shock expects them to. Stocks pressured by dual growth-inflation difficulties, yields climbing as the Fed stays hawkish, credit spreads widening on recession risk, and oil benefiting directly from the supply disruption. When four major asset classes confirm the same regime simultaneously, you're looking at mechanical cause-and-effect rather than coincidental correlation.

Gold's divergence is the interesting case study here. The regime strongly favors gold as an inflation hedge, but the metal is underperforming because dollar strength is crowding out the inflation bid. Think of it as two forces fighting: inflation momentum pulling gold higher, dollar safe-haven demand pushing it lower. The dollar is winning right now because acute geopolitical stress trumps medium-term inflation concerns. Gold will catch up once the immediate crisis stabilizes, but until then, mechanical dollar demand overrides fundamental inflation logic.

Asset Playbook



Equities: Negative

Rates: Yields biased higher

Credit: Spreads vulnerable

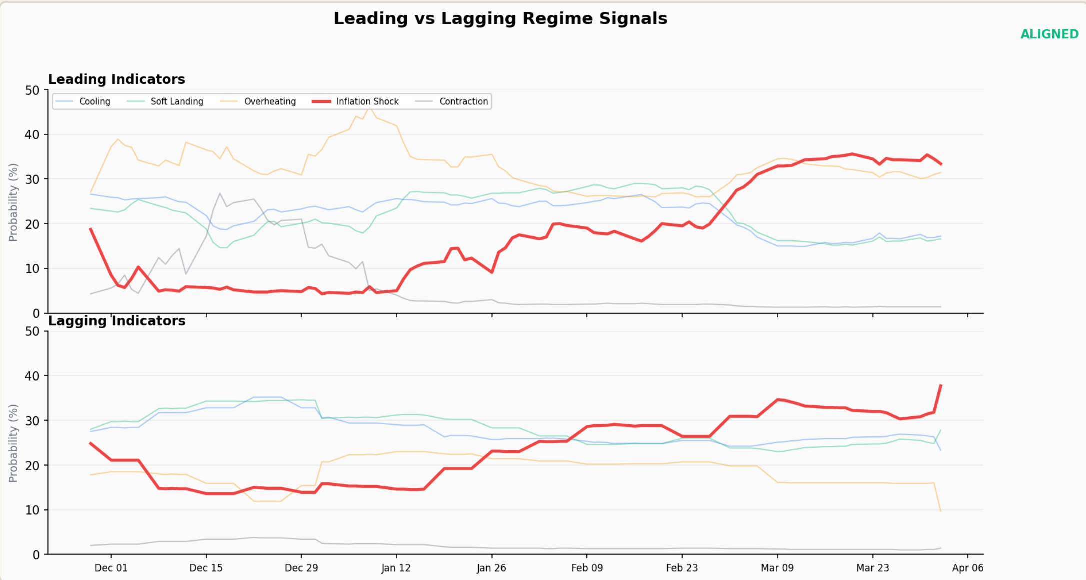
Dollar: USD-supportive

Gold: Positive but conflicted

">**Oil:** Strongly supportive

If you're holding a standard 60/40 portfolio, you're getting hit from both sides. The only asset class working in your favor is the small energy exposure buried in your S&P 500 fund, but that 4% weighting isn't enough to offset the broader damage. The gold stance being conflicted means even the traditional inflation hedge isn't delivering reliable protection right now.

Leading / Lagging Signal Alignment



Status: aligned

Both leading and lagging indicators confirm Inflation Shock, with the regime showing stronger conviction in lagging data (37.7%) than leading (33.4%). This alignment indicates an established regime rather than an emerging transition.

When leading and lagging indicators align this clearly on Inflation Shock, it means the regime has moved from "developing" to "entrenched." The supply disruption has had enough time to work through the economic system, showing up in both forward-looking market indicators and backward-looking economic data. That 4-point gap favoring lagging indicators is the signature of a shock that's already embedding itself in the real economy rather than just financial markets.

The convergence happened gradually over six weeks, then locked in place in mid-March when oil broke above $100 sustainably. Previous episodes showed 2-3 week lags between leading and lagging alignment, but this shock took longer because the initial supply disruption was gradual rather than binary. The alignment stability since then suggests regime durability rather than volatility.

The early warning system to watch is any sustained divergence where leading indicators start pricing relief while lagging data stays elevated. That would signal either supply restoration or demand destruction beginning to work. But with both layers aligned and strengthening, any regime shift requires external resolution rather than natural economic adjustment. The indicators are telling you this doesn't resolve through normal business cycle mechanics.

Empirical Asset Playbook

ETF	THIS WEEK	SPELL RETURN	VS. HISTORY	HISTORICAL ANN. RETURN	SHARPE
SPY (S&P 500)	-2.1%	-4.3%	Underperforming	14.6%	0.63
QQQ (Nasdaq 100)	-3.4%	-8.7%	Underperforming	7.3%	0.25
IWM (Small Caps)	+1.2%	+3.1%	In line	22.9%	0.83

ETF	THIS WEEK	SPELL RETURN	VS. HISTORY	HISTORICAL ANN. RETURN	SHARPE
IEF (7-10Y Treasury)	-1.8%	-5.2%	Underperforming	-10.5%	-1.29
TIP (TIPS)	-0.9%	-2.1%	Underperforming	-3.1%	-0.40
LQD (Investment Grade)	-1.5%	-3.8%	Underperforming	-6.6%	-0.66
HYG (High Yield)	-2.3%	-4.1%	Underperforming	3.1%	0.30
GLD (Gold)	-1.7%	-3.2%	Underperforming	-1.5%	-0.08
XLE (Energy)	+8.7%	+12.4%	Outperforming	76.1%	2.27
VEA (Developed Markets)	-1.9%	-2.7%	Underperforming	8.0%	0.37
VWO (Emerging Markets)	-2.8%	-6.1%	Underperforming	-4.4%	-0.19

Energy dominated this week with XLE surging 8.7% while almost everything else bled red. The only other positive was small caps up 1.2%, confirming the rotation into "real economy" stocks that benefit from higher commodity prices. Tech got hammered worst with QQQ down 3.4%, followed by emerging markets down 2.8%. That's textbook Inflation Shock behavior: energy and domestic small caps outperform while growth tech and international markets suffer.

The spell-to-date performance tells the bigger story. XLE is up 12.4% since the regime began, massively outperforming its historical average, while bonds are getting destroyed across the board. IEF down 5.2% versus a historical expectation of negative 10.5% annually means Treasury holders are experiencing the predicted pain in concentrated form. Even TIPS are underperforming badly, down 2.1% when they should theoretically protect against inflation.

The backtest data comes from just 338 days of historical Inflation Shock periods, so treat those Sharpe ratios carefully. Small sample sizes make the energy returns look impossibly good (76.1% annualized) while the bond destruction looks apocalyptic. The directional patterns are reliable, but the magnitude estimates should be taken as rough guides rather than precise forecasts. This regime doesn't happen often enough to generate robust statistical confidence in the extreme tails.

10-Year Regime History

The stacked bar chart displays regime probabilities over the past decade, with major economic events annotated. Inflation Shock periods cluster around oil price spikes (2014-2016 collapse, 2020 negative oil, 2022 Russia invasion) and show characteristic short duration but high intensity.

The closest historical parallel is March 2022 when Russia's invasion spiked oil and triggered a two-month Inflation Shock episode that peaked at 45% probability. That crisis resolved through a combination of strategic reserve releases, demand destruction from recession fears, and eventual supply adjustments. The current episode is already longer (three months versus two) and driven by physical supply constraints rather than financial market disruption, making it structurally stickier.

The 2014-2016 period shows how Inflation Shock can persist when supply dynamics dominate. That episode lasted eight months as OPEC defended market share against US shale, keeping oil volatile and inflation expectations elevated even as economic growth slowed. The resolution came through coordinated OPEC production cuts, but today's supply constraint is geopolitical rather than strategic, removing the coordination mechanism that ended the previous episode.

What's structurally different now is the absence of swing capacity. Previous episodes could resolve through OPEC increasing production or US shale responding quickly to higher prices. Today's spare capacity is concentrated in countries under sanctions or geopolitical stress, while shale response times have lengthened due to capital constraints. The regime could persist longer than historical patterns suggest, but the sample size of genuine supply disruptions remains small enough that the base rates should be interpreted cautiously.

13. Market Context

Weekly ETF returns as of 2026-04-02 (vs 2026-03-26).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
GLD	Gold	$400.64	$429.41	+7.2%
VEA	Developed Markets	$62.48	$64.64	+3.5%
QQQ	Nasdaq 100	$573.79	$584.98	+2.0%
VWO	Emerging Markets	$52.85	$53.82	+1.8%
SPY	S&P 500	$645.09	$655.83	+1.7%
IWM	Russell 2000	$247.44	$251.29	+1.6%
LQD	IG Corporate	$107.44	$109.12	+1.6%
HYG	HY Corporate	$78.54	$79.56	+1.3%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
IEF	7-10Y Treasury	$94.28	$95.26	+1.0%
TIP	TIPS	$109.76	$110.81	+1.0%
XLE	Energy	$61.52	$59.25	-3.7%

14. Household Impact

Gas will cost $67 to fill if you're driving anything bigger than a compact car, up from $52 three months ago. That $15 weekly difference compounds to $780 over the next year if oil holds these levels.

The S&P 500 climbed 1.7% this week. Inflation Shock periods historically deliver negative real returns as inflation eats nominal gains.

Groceries will hit your budget with a delayed but predictable impact from diesel fuel at $4.12 per gallon.

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15. Signal vs. Noise

Signal:
- Physical oil premiums over futures (currently $16 for Brent) - shows genuine supply shortage vs. speculation - Private credit withdrawal restrictions spreading beyond Ares to Blue Owl - confirms sector stress - Dollar strength despite inflation surge - reveals safe-haven demand overwhelming carry trades - Industrial production growth slowing but staying positive - captures the supply shock's real economic impact

Noise:

- Daily oil price moves within the $110-115 WTI range - volatility around the trend, not trend breaks - Individual Fed speaker comments while policy is paralyzed by conflicting data - Equity index levels when options positioning is distorting normal relationships - Single-day Treasury yield moves under 10 basis points

The distinction right now comes down to duration. Signals reflect structural changes that persist for quarters. Noise reflects positioning, sentiment, or mechanical factors that resolve within days or weeks. The challenge is that markets are pricing some clearly structural changes (oil scarcity, private credit stress) as if they're temporary, while treating some positioning artifacts as if they're permanent regime features.

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16. What to Watch

April 5 jobs report for the first signs that energy costs are forcing layoffs. **Weekend shipping reports** for any sign that the 4 million barrels per day currently flowing can increase toward the normal 20 million. **Private credit platforms beyond Blue Owl announcing withdrawal restrictions** through April 15. If Apollo, KKR, or Blackstone impose gates, it signals the liquidity crisis is spreading to the largest players. **WTI physical-futures spread** staying above $12 through April 10. If backwardation compresses below $10 without supply improvements, it suggests demand destruction is happening faster than oil bulls expect. **China's currency intervention** if USD/CNY approaches 7.40. Beijing has been letting the yuan weaken to help exporters, but intervention above 7.40 would signal concern that weakness is becoming destabilizing.

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17. What Would Change My Mind

Scenario 1: Diplomatic breakthrough within 30 days. Oil drops and the regime flips to Soft Landing within two weeks. The Fed immediately pivots to cutting rates, mortgage costs drop, and equity markets rally on multiple expansion. I'd be wrong about duration but right about the mechanism. Cost of being wrong: missing a 15% equity rally while holding defensive positions. **Scenario 2: Demand destruction accelerates faster than supply constraints.** Growth concerns overwhelm inflation fears. The model would shift to Cooling within 30 days even with oil elevated. This breaks the supply shock narrative entirely. Cost of being wrong: staying positioned for inflation that gets swamped by recession fears. **Scenario 3: Fed capitulates and cuts despite oil at $140.** If the central bank prioritizes financial stability over inflation control, it validates that "something breaking" trumps commodity prices. The regime stays Inflation Shock but the playbook flips - suddenly gold and growth stocks both work while the dollar weakens. This is the scenario where I'm right about the regime but completely wrong about policy response. Cost of being wrong: being short duration and long dollars when both reverse violently.

The common thread across scenarios: the regime call depends on oil scarcity persisting and policy remaining tight. Remove either constraint and everything changes within weeks, not months.
