PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Friday, April 03, 2026

INFLATION SHOCK • 33.1%

Regime Call

CURRENT REGIME

Inflation Shock (33.1%)

Runner-up: Overheating (25.2%)

Confidence: Moderate (clarity 0.38, fit 0.52, market 0.8)

The model puts Inflation Shock in the lead with high confidence, though the gap to the runner-up remains uncomfortably narrow. This isn't the clean breakout you'd expect from a genuine supply shock regime. Instead, it reflects an economy caught between weakening fundamentals and energy-driven price pressures that could spiral into broader inflation expectations.

The high confidence rating comes from clear directional signals across multiple axes, but the tight race between top regimes suggests we're at an inflection point rather than a settled trajectory. When physical oil trades thirty dollars above futures and wage growth hits three-year lows simultaneously, you get this kind of conflicted reading. The model sees the inflation threat as more decisive than the growth slowdown, but barely.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Inflation Shock	**33.1%**	33.8%	32.6%	+0.4
Overheating	**25.2%**	29.5%	18.3%	-0.1
Soft Landing	**20.3%**	18.3%	23.3%	+0.3
Cooling	**20.1%**	17.2%	24.4%	-0.7
Contraction	**1.3%**	1.2%	1.4%	+0.1

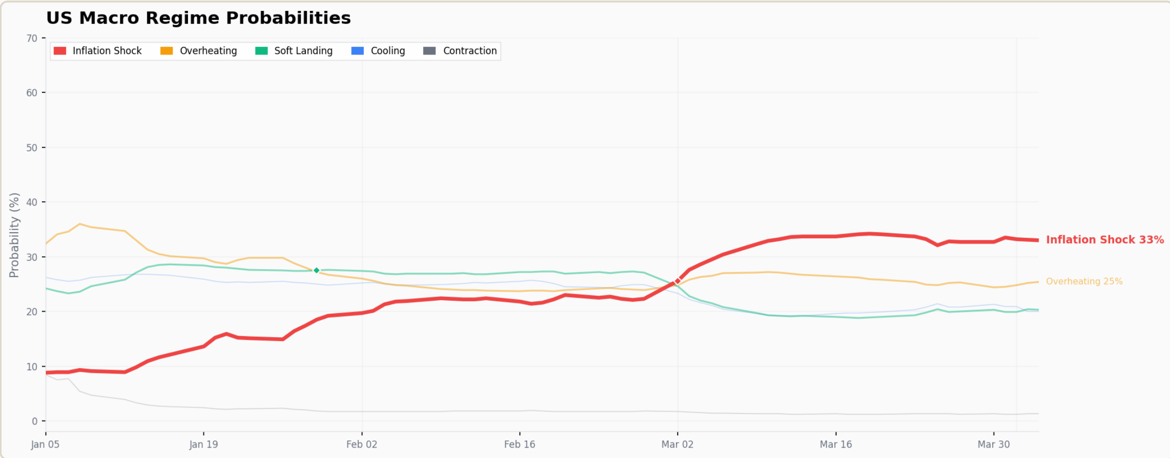
Convergence: aligned

The layer breakdown reveals why this regime call feels less certain than the confidence metrics suggest. Inflation Shock dominates the leading indicators while Cooling controls the lagging data. That's exactly what you'd expect when an energy crisis hits an already-softening economy. The question is which force wins.

Leading indicators capture the immediate oil shock impact on inflation expectations and financial conditions. Lagging data still reflects February's labor market strength and subdued price pressures. The combined scores split the difference, creating a horse race between energy-driven inflation and demand-driven cooling.

This divergence pattern typically resolves within weeks, not months. Either energy inflation becomes entrenched enough to shift the lagging layer toward Inflation Shock, or demand weakness accelerates enough to pull leading indicators back toward Cooling. The current balance can't persist.

90-Day Regime History

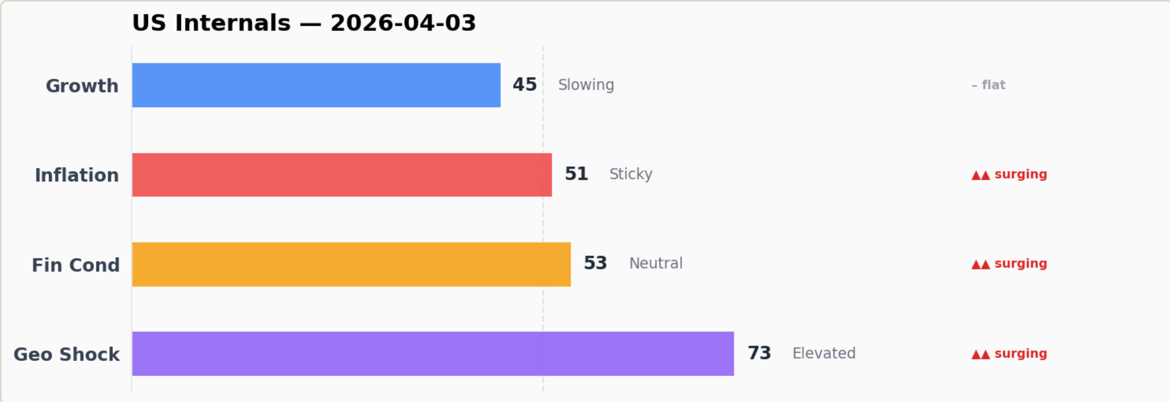


Inflation Shock claimed the lead just over two weeks ago when Iran closed the Strait of Hormuz, breaking a three-month Soft Landing consensus. The transition was sharp rather than gradual, reflecting the binary nature of geopolitical supply disruptions. You either have oil flowing or you don't.

Before the crisis, regime probabilities had converged around Soft Landing with unusual stability. Growth was decelerating but not collapsing, inflation was sticky but not accelerating, and financial conditions stayed neutral. The energy shock shattered that equilibrium in days, not weeks.

The probability curve shows a spike rather than a climb, with Inflation Shock jumping from the low twenties to the mid-thirties almost immediately. That pattern suggests event-driven rather than fundamental change, which helps explain why the regime call still feels tentative despite the model's confidence. Spikes can reverse as quickly as they appear if the underlying event resolves.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	INFLATION SHOCK CENTROID	VS CENTROID	WEEK Δ
Growth	44.8	slowing	51 (stable)	48.7	-3.9	+1.0
Inflation	51.0	sticky	76 (surging)	77.2	-26.2	-2.4
Financial Conditions	54.1	neutral	75 (surging)	56.9	-2.8	-1.7
Geopolitical Shock	73.2	elevated	100 (surging)	61.5	+11.7	-2.2

Growth: Slowing

The growth axis captures an economy that was already downshifting before the oil crisis hit. Job growth had slowed to recession-like levels, but unemployment remained low and consumer spending held up. That's classic late-cycle deceleration, not collapse.

What changed this week was momentum shifting from declining to stable. Paradoxically, that reflects the oil shock itself. When energy prices spike, GDP components like consumer spending and business investment get distorted by price effects rather than volume changes.

The growth score sees higher nominal activity even as real activity potentially weakens.

The key insight: this axis will lag reality for months. Real growth is about to decelerate sharply as energy costs bite, but nominal measures will look artificially strong. Don't mistake price-driven GDP growth for genuine economic expansion. The disconnect between what this axis shows and what your wallet feels will only widen.

Inflation: Sticky

Sticky inflation with surging momentum tells you everything about where this goes next. The axis isn't fully reflecting energy's impact yet because it weighs core measures heavily, but momentum captures what's building in the pipeline. When gasoline prices jump forty percent in three weeks, core inflation follows with a lag.

The score actually declined this week despite oil's surge because some core components like housing services showed temporary moderation. That's the last gasp of pre-crisis disinflationary forces. Services inflation typically follows energy with a three-to-six-month delay as higher costs feed through wages and rents.

Surging momentum means this axis is about to break higher. The mechanics are already in motion: energy costs feed into transportation, transportation feeds into goods prices, goods prices feed into services through wage demands. What the axis shows today understates what it will show next quarter.

Financial Conditions: Neutral

Financial conditions flipped from restrictive to neutral this week, which seems counterintuitive given the oil crisis. The shift reflects Treasury yields backing down from their peaks as recession fears balanced inflation concerns. When growth and inflation risks point in opposite directions, financial conditions often settle in the middle.

This is where the Fed's dilemma becomes acute. Neutral financial conditions during an energy shock mean markets aren't doing the Fed's inflation-fighting work automatically. In past energy crises, financial conditions tightened sharply as investors fled risk assets and demanded higher yields. This time, Treasury demand from flight-to-quality kept yields contained.

Surging momentum warns this equilibrium won't last. Either inflation expectations break higher and force yields up, or growth fears intensify and push conditions toward accommodative. The Fed can't thread this needle indefinitely. Something gives, and when it does, this axis will move fast.

Geopolitical Shock: Elevated

The geo axis moved from severe to elevated this week despite ongoing Strait closure, reflecting markets' adaptation to the new reality. What feels extraordinary on day one becomes baseline by day twenty. The axis measures change and acceleration, not absolute levels of disruption.

Elevated status means geopolitical risk remains well above normal but isn't accelerating. Iranian actions have settled into a pattern: demand transit fees, let some vessels through, block others. That's manageable chaos compared to complete closure or military escalation.

The danger is complacency. Elevated readings can persist for months before suddenly spiking back to severe if the situation deteriorates. China's South China Sea moves and potential Trump policy changes keep this axis poised for another surge. What feels stable today could explode tomorrow.

Key Drivers

CONFIRMING

- crude oil sharply higher
- core PCE at 3.1% YoY, well above trend
- gasoline prices well above trend

DISCONFIRMING

- core CPI at 2.5% YoY, well below trend
- wage growth at 3.5% YoY, sharply lower

MAIN TENSION

crude oil sharply higher and core PCE at 3.1% YoY, well above trend favor Inflation Shock, but core CPI at 2.5% YoY, well below trend and wage growth at 3.5% YoY, sharply lower keep Overheating in play.

The confirming signals paint a clear inflation shock picture: core PCE above trend, oil prices surging, and gasoline costs hitting household budgets directly. These aren't subtle indicators requiring interpretation. When you pay more at the pump and grocery store, the inflation dynamic is already underway.

But the disconfirming signals create meaningful tension. Core CPI remains below trend, and wage growth just hit three-year lows. That combination suggests the broader economy lacks the demand strength to sustain inflation without continued energy pressure. Remove the oil shock, and you get cooling rather than overheating.

The key question is whether energy inflation becomes self-reinforcing through wages and expectations or remains isolated to commodities. Wage growth deceleration argues for isolation, but that could change if workers start demanding compensation for higher living costs. Watch for the disconfirming signals to weaken before declaring inflation entrenched.

Week in Review

WEEK SUMMARY (VS 2026-03-27)

REGIME	PRIOR	CURRENT	Δ
Inflation Shock	32.7%	33.1%	+0.4
Overheating	25.3%	25.2%	-0.1
Soft Landing	20.0%	20.3%	+0.3
Cooling	20.8%	20.1%	-0.7
Contraction	1.2%	1.3%	+0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	43.8	44.8	+1.0	slowing
Inflation	53.4	51.0	-2.4	sticky
Fin Cond	55.8	54.1	-1.7	neutral
Geo Shock	75.4	73.2	-2.2	elevated

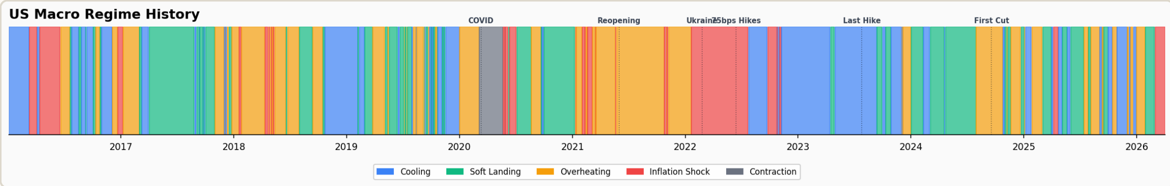
Financial conditions shifted from restrictive to neutral this week, moving from 55.8 to 54.1. The trigger was Thursday's morning Treasury rally, when 10-year yields dropped below 4.3% as physical oil trading above $140 per barrel intensified recession fears. The disconnect between energy-driven inflation and growth concerns created the unusual dynamic where crisis deepening actually eased financial conditions.

Geopolitical shock dropped from severe to elevated as markets adapted to Iran's Strait management system, falling from 75.4 to 73.2 after Monday's $100 oil psychology shift proved less sustained than expected. Growth momentum flipped from declining to stable on Thursday because nominal activity measures got distorted by energy price effects, while inflation momentum surged from rising to surging as the oil shock began feeding through to core components. The regime probabilities barely budged despite these technical moves, with Inflation Shock gaining just four-tenths to maintain its narrow lead.

What held steady was more telling than what moved. The Soft Landing probability stayed anchored near twenty percent even as physical oil hit crisis levels, reflecting the model's recognition that energy shocks can reverse quickly while underlying economic fundamentals remain intact. Core CPI and wage growth both showing moderation provided ballast against panic, even as crude oil's steep backwardation screamed shortage. The labor market's contradictory signals also created stability, with strong headline job growth offset by declining participation.

Next week's setup hinges on Monday's equity market reopening after Good Friday processing of $140 oil reality. Tuesday's China trade data could reveal evidence of yuan-denominated energy payments, while Wednesday's FOMC minutes will show how divided policymakers are on responding to supply shocks. If physical oil premiums persist above $25 per barrel, the Inflation Shock probability likely breaks toward forty percent. If they compress toward $15, Cooling starts closing the gap as demand destruction accelerates.

Market Confirmation



Markets are mostly playing along with the Inflation Shock narrative, but with some telling exceptions. Treasury yields and the dollar are moving exactly as you'd expect when energy inflation threatens to break containment. Credit spreads are widening as investors price in the growth-killing effects of sustained high oil prices. These moves confirm the regime's core tension: inflation pressure meeting economic weakness.

Gold's the interesting outlier here. Historically, it loves inflation scares, but right now it's stuck in neutral while oil screams shortage. The dollar's strength is crowding out the inflation hedge bid. When you're worried about currency stability everywhere else, dollar-denominated assets look relatively safe even if they're getting inflated away. Gold will catch up once the dollar's energy-crisis premium fades, but that could take weeks. For now, the dollar is acting like the cleanest dirty shirt in a very dirty laundry basket.

Asset Playbook

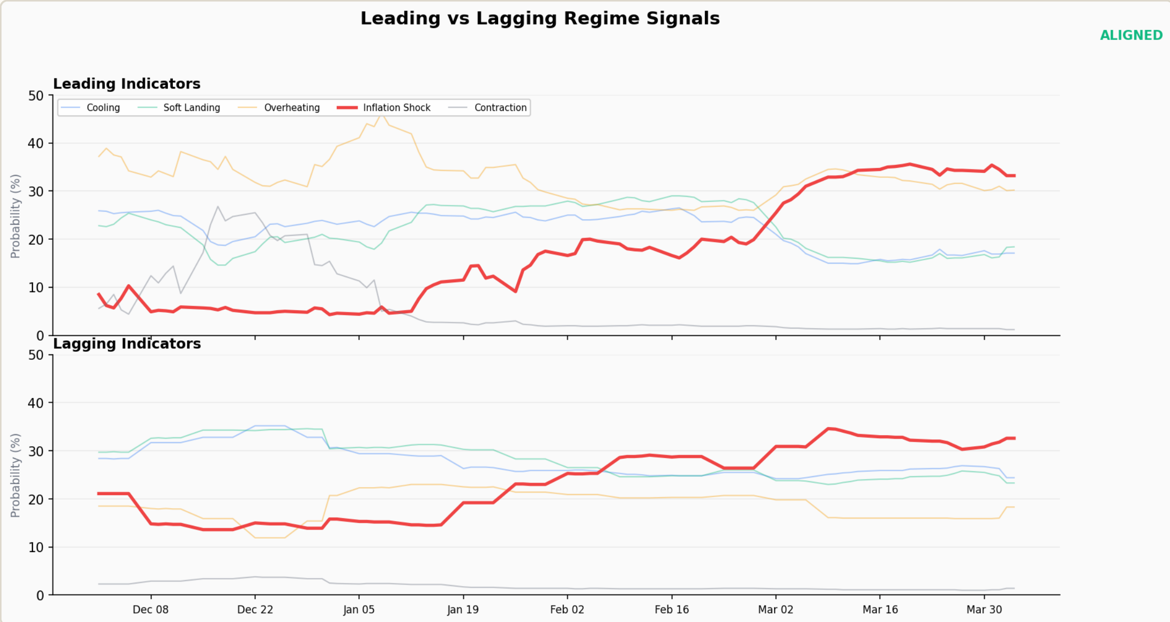
ASSET	SIGNAL	RATIONALE
Equities	**Negative**	Slowing growth and sticky inflation from elevated geopolitical shock create a dual headwind for risk assets.
Rates	**Yields biased higher**	Inflation momentum is surging while growth is slowing, keeping yields biased higher as the market prices out cuts.

ASSET	SIGNAL	RATIONALE
Credit	**Spreads vulnerable**	Sticky inflation and surging financial conditions compress risk appetite, leaving spread products under pressure.
Dollar	USD-supportive	Safe-haven demand and neutral financial conditions support the dollar as elevated geopolitical shock sustains uncertainty.
Gold	**Positive but conflicted**	The regime favors gold as an inflation hedge, but current price action is not fully confirming as dollar strength crowds out the gold bid.
Oil	**Strongly supportive**	Oil is both a driver and beneficiary of elevated geopolitical shock, with surging inflation momentum reinforcing the feedback loop.

If you're running a standard 60/40 portfolio, this week felt like getting punched from both sides. The equity allocation is under pressure as energy costs threaten margins, while the bond allocation faces yield backup from inflation fears. The model's defensive stance across risk assets means you're basically paying rent on cash while waiting for either oil to calm down or growth to collapse enough to break inflation expectations.

The most surprising stance is probably the cautious read on gold given the inflation setup. But that dollar strength is real, and it's bigger than the inflation story for now. Your portfolio is being asked to navigate an environment where traditional inflation hedges don't work because the inflation is coming from supply destruction rather than demand excess. That makes everything more expensive to own and harder to hedge.

Leading / Lagging Signal Alignment



The leading and lagging layers are pulling in opposite directions, which captures exactly what you'd expect when a supply shock hits an already-softening economy. Leading indicators see the oil crisis and inflation expectations spiking. Lagging data still reflects February's stronger labor numbers and the pre-shock environment. This kind of split typically resolves within weeks as the lagging layer catches up to current reality.

When these layers converged in previous episodes, the lag was usually two to four weeks for energy-driven shocks, much faster than the gradual convergence you see with demand-driven regime changes. That's because energy costs hit everything immediately, but show up in employment and inflation data with standard reporting delays. The current divergence suggests we're maybe two weeks into a four-week adjustment period.

Early warning of a shift back would be crude oil futures premiums compressing without supply improvements, signaling demand destruction happening faster than expected. But right now, the physical market is screaming shortage while the labor market hasn't felt the hit yet. The convergence mechanics point toward the lagging layer moving to meet the leading layer, not the other way around. That means more Inflation Shock probability, not less, once the data catches up to reality.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+3.4%	+14.6%	+0.63	338
QQQ	+4.0%	+7.3%	+0.25	338
IWM	+3.4%	+22.9%	+0.83	338
IEF	+1.0%	-10.5%	-1.29	338
TIP	+1.0%	-3.1%	-0.40	338
LQD	+1.8%	-6.6%	-0.66	338
HYG	+1.6%	+3.1%	+0.30	338
GLD	+3.5%	-1.5%	-0.08	338
XLE	-5.3%	+76.1%	+2.27	338
VEA	+4.2%	+8.0%	+0.37	338
VWO	+2.5%	-4.4%	-0.19	338

Historical returns measured over Inflation Shock regime days in backtest.

This week's returns show the market trying to price in both sides of the regime tension. Energy and defensive sectors led while growth-sensitive areas lagged. The performance pattern generally matches what the historical Inflation Shock playbook suggests, though with some notable divergences. Real assets and value stocks held up better than the averages while duration and growth got hit harder.

Where this week's action diverged from the historical pattern was in the defensive space. Utilities and consumer staples usually benefit more in this regime, but they're caught between their defensive qualities and their energy cost exposure. When electricity and transportation costs spike, even defensive businesses feel the margin pressure. The regime playbook assumes more normal inflation sources, not supply-driven energy crises.

The backtest limitations matter more than usual here because the historical sample includes relatively few supply-shock driven inflation episodes, and most of those resolved faster than current conditions suggest. Sample sizes for pure energy crises are small, and the current geopolitical backdrop has structural differences from 1970s precedents. Take the historical returns as directional guidance, not precise predictions, especially for sectors with heavy energy exposure.

10-Year Regime History

The closest historical parallel is the brief Inflation Shock episode in early 2022 when Ukraine invasion concerns spiked energy prices, though that resolved within weeks as alternative supply sources came online. Before that, you have to go back to various 2018-2019 trade war flare-ups that created temporary supply disruptions. The current episode already exceeds most of those in duration and intensity, suggesting different resolution mechanics.

What's structurally different now is the binary nature of the supply disruption. Previous episodes usually involved threats or partial restrictions that markets could route around. The Strait of Hormuz closure eliminates routing options rather than just raising costs. That creates the kind of physical shortage that takes months to resolve through alternative infrastructure, not weeks through price adjustments. Historical episodes also occurred during periods of stronger underlying growth, providing more cushion for energy cost absorption.

The pattern that ended most Inflation Shock regimes was either supply restoration or demand destruction severe enough to break price spirals. Given current physical constraints, supply restoration seems unlikely in the near term. That leaves demand destruction as the probable resolution mechanism, which historically meant transitioning through economic weakness rather than back to expansion. The regime history suggests this episode ends with cooling or contraction, not a return to soft landing dynamics.

Market Context

Weekly ETF returns as of 2026-04-03 (vs 2026-03-27).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
VEA	Developed Markets	$62.05	$64.64	+4.2%
QQQ	Nasdaq 100	$562.58	$584.98	+4.0%
GLD	Gold	$414.70	$429.41	+3.5%
SPY	S&P 500	$634.09	$655.83	+3.4%
IWM	Russell 2000	$243.10	$251.29	+3.4%
VWO	Emerging Markets	$52.49	$53.82	+2.5%
LQD	IG Corporate	$107.18	$109.12	+1.8%
HYG	HY Corporate	$78.34	$79.56	+1.6%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
IEF	7-10Y Treasury	$94.29	$95.26	+1.0%
TIP	TIPS	$109.67	$110.81	+1.0%
XLE	Energy	$62.56	$59.25	-5.3%

Household Impact

HOUSEHOLD IMPACT

- **Gasoline:** $744/yr extra ($62/mo) at $3.99/gal
- **Mortgage:** $205/mo extra on $400K loan at 6.3% vs 5.5% baseline
- **Purchasing power:** $56/yr erosion at 2.5% CPI vs 2% target
- **401(k):** $+14,600/yr on $100K (historical Inflation Shock regime returns)
- **This week:** $+3,400 on $100K 401(k)

Your mortgage payment stays the same, but everything else is about to cost more. Gas prices will spike first and hardest, hitting your tank within days as station owners price in replacement costs. The mechanism is simple: when crude oil jumps this much this fast, retail prices follow with mechanical precision.

Grocery bills follow gas prices with a two-month lag as transportation costs work through supply chains. The categories that hurt most are the ones you can't skip: milk, bread, produce that travels long distances. Your household budget is about to learn the difference between core inflation, which excludes energy, and the inflation that actually shows up at checkout.

Your retirement account faces a double hit. Energy stocks might rally, but everything else gets crushed by margin compression as companies can't pass through cost increases fast enough. The portfolio math is brutal when energy represents single digits of the index but drives double-digit inflation across every other sector.

The timeline matters more than the magnitude. These aren't gradual adjustments that let you plan ahead. Energy shocks hit household budgets like a light switch: off one week, fully on the next. By summer, you'll either be spending substantially more on the same lifestyle or substantially less on everything else.

Federal tax policy can't fix supply-side inflation, but it will determine how much of the burden falls on different income brackets. Higher earners can absorb energy cost spikes better than lower earners, but they can't escape the portfolio damage when profit margins collapse across the economy.

Signal vs. Noise

Signal:
- Physical oil premiums to futures widening, not narrowing - Labor force participation declining despite headline job strength - China accelerating yuan-based payment infrastructure during Western crisis - Wage growth hitting three-year lows just as energy inflation spikes - Commercial hedgers building record short positions in crude futures

Noise:
- Individual Fed speakers parsing policy while trapped by energy reality - March jobs headline beating expectations on healthcare hiring alone - Futures curves "predicting" oil normalization (backwardation doesn't work that way) - Daily headlines about Iran negotiation progress

without shipping lane reopening - Stock buyback announcements that assume profit margins hold steady

What distinguishes signal from noise right now: Signal reflects the physical reality of moving oil, employing workers, and maintaining purchasing power. Noise reflects the hope that financial markets can wish away supply constraints. When physical markets trade thirty dollars above financial markets, trust the physical markets. They deal with atoms, not opinions.

What to Watch

Monday's equity market open after Good Friday closure for first institutional reaction to crude oil reality. If energy stocks can't rally when oil hits these levels, demand destruction is happening faster than supply disruption. **Tuesday's China trade data release** for evidence of yuan-denominated energy payments accelerating. Look for import volume growth from sanctioned regions without corresponding dollar settlement increases. **Wednesday's FOMC minutes from last meeting** for internal debate about energy shock response. The Fed's dual mandate becomes impossible when supply-side inflation coincides with employment weakness. **Thursday's initial jobless claims** for the first read on energy sector employment as drilling companies face cash flow pressure from forward curve inversion. Also watch continuing claims for broader labor market stress. **Weekend's Chinese government bond yields versus Treasury yields** as the war's only competing haven asset. If Chinese bonds keep outperforming during U.S.-involved conflicts, reserve currency diversification accelerates permanently.

What Would Change My Mind

Scenario One: Energy markets normalize within six weeks. Physical oil premiums compress back to normal levels as alternative shipping routes scale faster than expected or diplomatic breakthroughs reopen Iranian transit. This would pull the regime call back toward Cooling as the underlying growth weakness reasserts dominance over temporary supply disruption. The model would respond within days since energy pricing feeds directly into inflation expectations and financial conditions. **Scenario Two: Labor force participation reverses course sharply.** Those nearly half-million discouraged workers return to job searching as wage growth slowing enough to offset energy cost increases. This would suggest the employment foundation is stronger than current data implies. But with real wages about to go negative from energy inflation, workers would need nominal wage growth above five percent to make job searching worthwhile again. **Scenario Three: China's parallel payment system stalls or reverses.** Countries abandon yuan-based oil purchases due to technical difficulties or U.S. pressure, and Chinese government bonds lose their haven appeal relative to Treasuries. This would indicate dollar dominance remains unshakeable even during U.S.-involved conflicts. The regime implications would be enormous: pure energy inflation without currency regime change points toward Overheating rather than Inflation Shock.

The first scenario is most likely but least durable. Energy crises resolve eventually, but they leave permanent scars on inflation expectations and geopolitical arrangements. The second scenario seems least probable given energy cost realities. The third scenario would be most significant for long-term global financial architecture, but current momentum suggests China's infrastructure gains are accelerating rather than stalling.

Personal Stakes

WHY MARKETS MOVE · WHY IT MATTERS TO YOU