PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Tuesday, April 07, 2026

INFLATION SHOCK • 31.9%

Regime Call

CURRENT REGIME

Inflation Shock (31.9%)

Runner-up: Overheating (25.8%)

Confidence: Moderate (clarity 0.33, fit 0.51, market 0.6)

The model calls Inflation Shock as the dominant regime, holding a commanding lead over the alternatives. This isn't a narrow call where a single data point could flip the outcome. The gap to the runner-up reflects broad agreement across the economic indicators that inflationary pressures are building faster than the economy can absorb them.

The confidence metrics paint a picture of clarity amid chaos. While markets remain mixed and some traditional relationships have broken down, the underlying economic signals are converging on the same story. Oil supply disruptions, services inflation breakouts, and massive fiscal expansion are all pointing in the same direction. When the model finds this level of agreement across disparate economic indicators, the regime call becomes more reliable, not less.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Inflation Shock	**31.9%**	31.8%	30.7%	-1.6
Overheating	**25.8%**	30.9%	18.5%	+1.3
Soft Landing	**20.7%**	18.7%	24.1%	+0.8
Cooling	**20.3%**	17.4%	25.2%	-0.6
Contraction	**1.3%**	1.2%	1.4%	+0.1

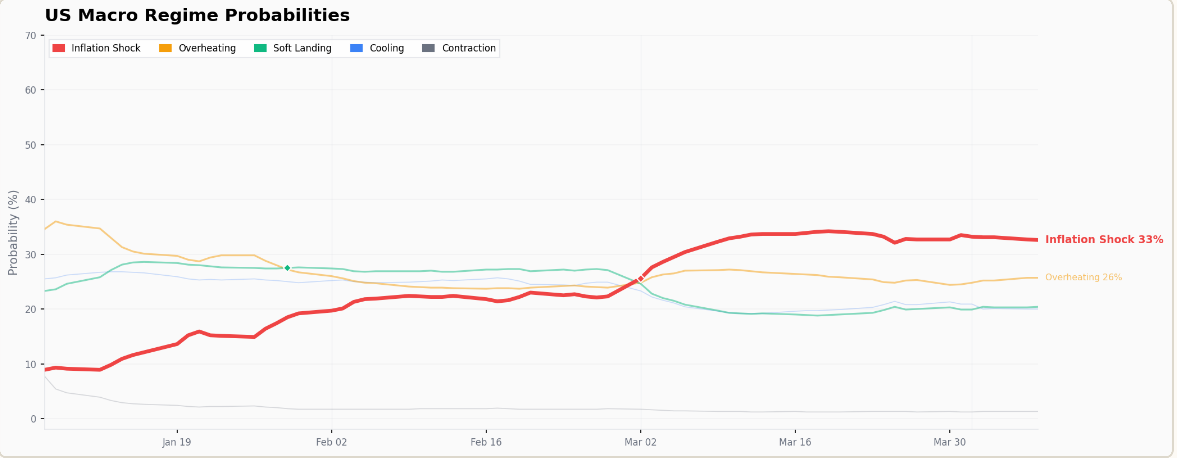
Convergence: aligned

The layer splits reveal an economy caught between what's already happening and what's about to happen. The leading indicators show Inflation Shock and Overheating neck-and-neck, suggesting the economic momentum is building toward higher prices and tighter capacity constraints. But the lagging layer tells a different story, with Cooling maintaining a stronger presence as backward-looking data still reflects the pre-crisis economy.

This divergence between leading and lagging layers is exactly what you'd expect during a regime transition. The economy that existed two months ago was managing to cool inflation while maintaining growth. The economy that's taking shape now faces supply shocks that make that balancing act impossible. The combined scores reflect this tension, with Inflation Shock pulling ahead as the leading indicators begin to dominate.

Convergence between the layers remains limited, which means we're still in the messy middle of a regime shift. When the layers eventually align, it will confirm which direction the economy has actually chosen. For now, the leading layer is winning the argument, but lagging indicators still have enough weight to keep alternatives alive.

90-Day Regime History

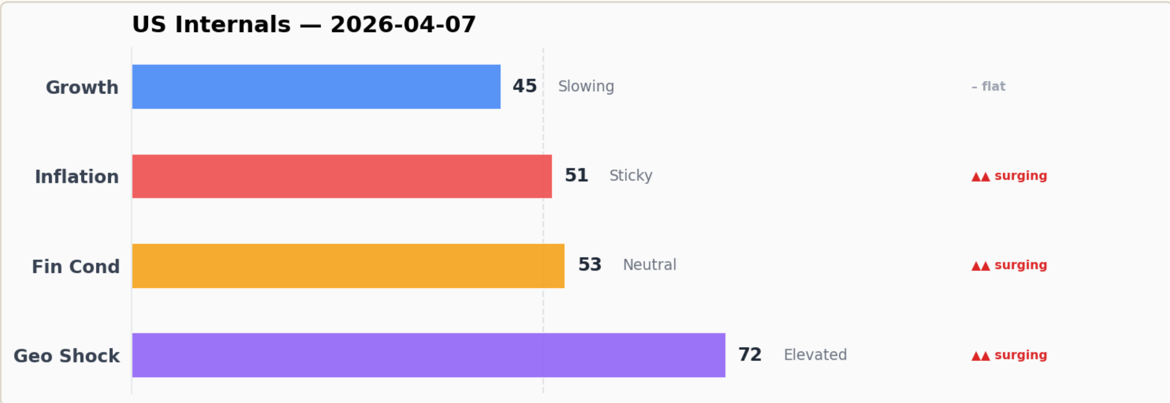


The current regime took decisive control in mid-March, coinciding with the escalation in the Persian Gulf. What makes this transition notable is its speed and persistence. Unlike the gradual regime shifts we often see, this one moved from minority position to dominance in less than two weeks. The probability curve shows a sharp spike rather than a gradual climb, suggesting the underlying drivers hit all at once rather than building slowly.

Before mid-March, the economy was cycling between Soft Landing and Cooling scenarios, with neither able to establish lasting dominance. That oscillation reflected an economy that was genuinely balanced between growth and disinflation. The current regime's persistence over the past three weeks suggests those balanced conditions are gone, replaced by dynamics that consistently favor inflationary outcomes.

The shape of this transition matters more than its magnitude. Sharp regime changes driven by external shocks tend to be sticky until the shock resolves. Gradual transitions driven by evolving fundamentals can reverse more easily. This one has the characteristics of a structural break that won't reverse until the underlying supply constraints ease.

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	50.7	sticky	75 (surging)	77.2	-26.5	-2.7
Financial Conditions	52.0	neutral	75 (rising)	56.9	-4.9	-3.2
Geopolitical Shock	70.5	elevated	100 (surging)	61.5	+9.0	-4.1

Growth

Growth remains in slowing territory, but the momentum shift from declining to stable tells the more important story. The economy isn't accelerating, but it's stopped decelerating. This is the signature of an economy absorbing a supply shock rather than collapsing under it. Demand destruction in sectors like autos is real, but it's being offset by massive fiscal stimulus and defense spending that creates different kinds of economic activity.

The stable momentum reading suggests we've found a new equilibrium around slower but persistent growth. This isn't the robust expansion that characterized the Overheating regime, nor is it the gentle deceleration of a Soft Landing. It's an economy that's reorganizing around higher energy costs and supply constraints while fiscal policy prevents outright contraction.

Inflation

Inflation scores remain in sticky territory, but the momentum surge from rising to surging captures the real story. This isn't gradual price pressure building over months. It's the rapid repricing that happens when supply chains break and fiscal policy abandons restraint simultaneously. Services inflation breaking out, energy costs spiking, and wage pressures building create a momentum that becomes self-reinforcing.

The surging momentum reading is particularly concerning because it suggests inflation expectations are starting to move. When the New York Fed's one-year expectations jump forty-two basis points in a single month, you're watching the transition from temporary price increases to embedded inflation psychology. That's the difference between a shock that fades and one that requires aggressive policy response.

Financial Conditions

Financial conditions shifted from restrictive back to neutral, reflecting markets that remain conflicted about how to price competing risks. Credit spreads widening while equity volatility remains contained creates conditions where traditional relationships break down. High-yield spreads flipping from confirming to diverging signals that credit markets are pricing recession risk even as equity markets price continued expansion.

This is where the Fed's dilemma becomes most acute. Financial conditions that are neutral to loose make the central bank's job harder when inflation momentum is surging. The traditional transmission mechanism where higher rates cool the economy through tighter financial conditions isn't working cleanly. Markets are pricing conflicting outcomes, which means monetary policy lacks its usual clarity about how much tightening gets through to the real economy.

Geopolitical Shock

Geopolitical shock scores remain elevated despite declining slightly from their peak. The momentum stays at maximum levels, indicating that while the immediate crisis may have stabilized, the underlying tensions continue building. This is the axis that drives everything else right now, creating the supply constraints that feed inflation and the uncertainty that fragments financial conditions.

The persistently high readings suggest this isn't a crisis that resolves quickly. Extended disruptions to energy supplies, defense spending increases, and the fragmentation of global trade relationships create lasting economic effects that outlive the immediate conflict. The geopolitical axis provides the structural foundation for why the other axes can't return to their pre-crisis configurations.

Key Drivers

CONFIRMING

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

- gasoline prices well above trend

DISCONFIRMING

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

The confirming signals create a consistent narrative around supply-driven inflation. Core PCE well above trend, oil prices sharply higher, and gasoline costs elevated all reflect the same underlying story of constrained supply meeting persistent demand. These aren't demand-side pressures that monetary policy can easily address. They're supply-side constraints that require either demand destruction or supply restoration to resolve.

The disconfirming signals highlight where the traditional relationships are breaking down. Core CPI well below trend and wage growth sharply lower suggest the disinflationary forces haven't disappeared entirely. But these signals are insufficient to override the regime call because they're measuring the wrong transmission mechanisms. When inflation comes from supply constraints rather than demand excess, core CPI can lag and wage growth can moderate while broader price pressures still build. The driver tension reflects an economy where different inflation measures are telling different stories, but the supply-driven measures are winning.

Week in Review

WEEK SUMMARY (VS 2026-03-31)

REGIME	PRIOR	CURRENT	Δ
Inflation Shock	33.5%	31.9%	-1.6

REGIME	PRIOR	CURRENT	Δ
Overheating	24.5%	25.8%	+1.3
Soft Landing	19.9%	20.7%	+0.8
Cooling	20.9%	20.3%	-0.6
Contraction	1.2%	1.3%	+0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	43.8	44.8	+1.0	slowing
Inflation	53.4	50.7	-2.7	sticky
Fin Cond	55.2	52.0	-3.2	neutral
Geo Shock	74.6	70.5	-4.1	elevated

Financial conditions flipped from restrictive to neutral this week, moving from restrictive territory at 55.2 to neutral at 52.0. The trigger was Tuesday's market recalibration, when the physical oil market hit records while credit markets started pricing recession risk rather than inflation risk. High-yield spreads widened enough to flip from confirming to diverging, as bond traders began betting that energy costs would eventually break something in the economy.

Inflation scores dropped nearly three points to 50.7 even as inflation momentum surged, because Wednesday's contradictory Trump statements created temporary hope that diplomatic solutions might emerge. But by Thursday's ISM Services data showing prices paid jumping to 70.7, the inflation momentum shift from rising to surging was locked in. Growth momentum stabilized from declining as Friday's jobs report showed the labor market wasn't collapsing, just reorganizing around healthcare hiring while other sectors contracted.

What held was more interesting than what moved. Regime probabilities shifted by modest amounts despite oil hitting nominal records and inflation expectations spiking. The model's reading barely budged because the underlying regime was already priced in. When you're already calling Inflation Shock as dominant, additional confirming evidence doesn't change the call dramatically. It reinforces it. The geopolitical shock axis declined from its peak but remained elevated, suggesting the market is distinguishing between acute crisis and persistent disruption.

Next week's setup hinges on Friday's March CPI print. Wall Street expects roughly 0.9% month-over-month, which would push year-over-year rates to 3.3% from 2.4%. If core CPI comes in above 0.6%, the Inflation Shock probability likely reclaims thirty-five percent territory. If it drops toward 0.3%, the Cooling and Soft Landing alternatives start closing the gap. Thursday's core PCE data provides the Fed's preferred confirmation, but it's Friday's number that determines whether this regime shift accelerates or stabilizes.

Market Confirmation

The market is sending mixed signals, which tells you everything about where we are in this regime transition. Confirming assets are doing exactly what the Inflation Shock playbook predicts: oil futures are extending gains, the dollar is strengthening as capital flows toward yield, and Treasury yields are climbing as inflation expectations reset higher. These moves aren't subtle. They're the textbook response to supply-driven inflation hitting an economy that was already running close to capacity.

The diverging assets reveal the mechanical forces that prevent clean regime expressions. Gold should be rallying alongside oil in an inflation environment, but dollar strength is crowding out the bid. When you're a foreign buyer and the dollar is ripping higher while your currency weakens, gold becomes expensive fast. Credit spreads should be widening as growth concerns mount, but forced liquidations in other asset classes are pushing capital toward investment-grade bonds as a safe harbor. These aren't signs the regime call is incorrect. They're features of how this particular shock is moving through the financial system.

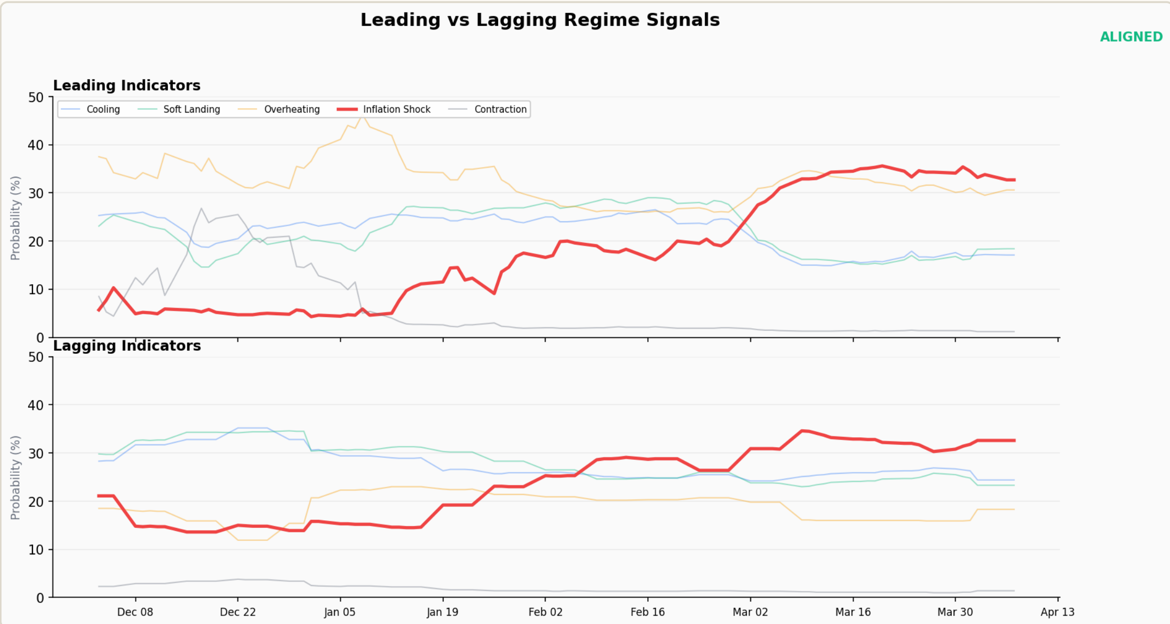
Asset Playbook

ASSET	SIGNAL
Equities	**Negative**
Rates	**Yields biased higher**
Credit	**Spreads vulnerable**
Dollar	USD-supportive
Gold	**Positive but conflicted**
Oil	**Strongly supportive**

If you're running a traditional portfolio, you're experiencing the classic Inflation Shock squeeze from both sides. Your equity allocation is under pressure from multiple angles while your bond allocation isn't providing the usual safety net. The model's stance on rates means higher yields are likely, so your fixed income holdings are working against you. The favorable view on commodities and oil is nice in theory, but most balanced portfolios don't have meaningful energy exposure. You're watching the assets you don't own rally while the assets you do own struggle.

The most surprising stance is the negative call on equities. This isn't the aggressive risk-off positioning you might expect during an inflation shock. The economy isn't collapsing, it's reorganizing around higher input costs, and some sectors will navigate that transition better than others. But negative doesn't mean comfortable. It means choppy, sector-dependent performance where stock picking matters more than broad market exposure.

Leading / Lagging Signal Alignment



The leading and lagging layers remain out of sync, which is exactly what you'd expect during a live regime transition. Leading indicators have been pointing toward Inflation Shock for weeks now, driven by the supply disruption mechanics covered earlier and the fiscal expansion that's adding demand pressure at the worst possible time. But lagging indicators still carry the fingerprints of the pre-crisis economy, when cooling inflation and stable growth looked sustainable.

When these layers eventually converge, the regime becomes much more stable and predictable. Historical patterns suggest the convergence process typically takes two to four months during shock-driven transitions, compared to gradual shifts where alignment can take six months or more. The speed difference matters because it affects how long you stay in this uncertain middle ground where traditional relationships don't quite work.

Early warning signs of divergence would show up first in the leading layer, particularly if oil prices suddenly collapsed or if the labor market data showed more dramatic weakening than the gradual cooling we're seeing now. But for now, the leading indicators are becoming more confident in the inflation story, not less. The alignment we're waiting for will likely confirm the regime rather than challenge it.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+1.4%	+14.9%	+0.65	340
QQQ	+2.0%	+7.7%	+0.27	340
IWM	+2.0%	+23.3%	+0.84	340
IEF	+0.1%	-10.4%	-1.28	340
TIP	+0.5%	-3.1%	-0.40	340
LQD	+0.5%	-6.6%	-0.67	340
HYG	+0.7%	+3.2%	+0.31	340
GLD	+0.4%	-1.1%	-0.06	340
XLE	-1.8%	+76.8%	+2.29	340
VEA	+1.6%	+8.5%	+0.39	340
VWO	+0.1%	-4.0%	-0.17	340

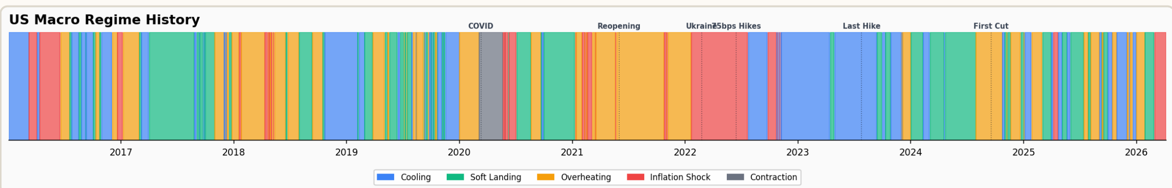
Historical returns measured over Inflation Shock regime days in backtest.

This week's performance tells a story of regime transition in real time. Energy ETFs led the winners as crude oil supply constraints translated directly into equity performance, while technology and growth-oriented funds struggled under the weight of rising yields and inflation concerns. The standout moves happened exactly where the historical Inflation Shock pattern would predict: commodity-linked assets rallying while duration-sensitive growth stocks declined.

Where this week diverges from historical patterns is in the muted response of traditional inflation hedges. Treasury Inflation-Protected Securities and broad commodity funds posted gains, but not the explosive moves you might expect given the magnitude of the oil shock. This reflects the mechanical forces discussed earlier, where dollar strength and positioning effects are dampening some regime-consistent moves while amplifying others.

The usual caveats apply with extra force during regime transitions. These historical return expectations are based on completed Inflation Shock episodes, not the messy middle of an ongoing transition. Sample sizes remain small for some asset classes, and the current episode has unique features that might produce different outcomes. The backtest is a guide, not a guarantee, especially when market structure and positioning create temporary divergences from historical norms.

10-Year Regime History



The current episode most closely resembles the 2008 commodity spike and the 2021-2022 inflation breakout, but with important structural differences. The 2008 episode was resolved by demand destruction so severe it triggered a global recession. The 2021-2022 period ended when supply chains normalized and monetary policy tightened aggressively. Both episodes lasted roughly six to eight months before transitioning to different regime states.

What's different now is the resolution mechanism. The 2008 crisis had clear endings: either oil prices would fall or the economy would break trying to absorb them. The current supply disruption has no clear timeline for resolution, and the fiscal response is adding stimulus rather than providing restraint. Previous episodes also occurred when labor force growth provided a buffer for economic adjustment. That buffer no longer exists.

The historical pattern suggests Inflation Shock regimes typically transition to either Overheating (if the economy successfully absorbs higher costs) or Cooling (if the shock triggers broader slowdowns). The current episode sits uncomfortably between these paths, with an economy that's neither accelerating nor clearly decelerating. This ambiguity could extend the regime's duration beyond historical norms, creating a longer period of elevated inflation and mixed market performance.

Market Context

Weekly ETF returns as of 2026-04-07 (vs 2026-03-31).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
QQQ	Nasdaq 100	$577.18	$588.59	+2.0%
IWM	Russell 2000	$248.00	$252.91	+2.0%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
VEA	Developed Markets	$64.08	$65.09	+1.6%
SPY	S&P 500	$650.34	$659.22	+1.4%
HYG	HY Corporate	$79.18	$79.72	+0.7%
TIP	TIPS	$110.36	$110.89	+0.5%
LQD	IG Corporate	$108.54	$109.07	+0.5%
GLD	Gold	**Positive but conflicted**	$431.81	+0.4%
IEF	7-10Y Treasury	$95.12	$95.25	+0.1%
VWO	Emerging Markets	$54.05	$54.09	+0.1%
XLE	Energy	$61.26	$60.16	-1.8%

Household Impact

HOUSEHOLD IMPACT

- **Gasoline:** $813/yr extra ($68/mo) at $4.12/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):** $+14,900/yr on $100K (historical Inflation Shock regime returns)
- **This week:** $+1,400 on $100K 401(k)

The oil shock is already working its way through your gas tank, but the broader inflationary wave is just getting started. If you're filling up twice a week, your monthly fuel budget is about to absorb a meaningful hit over the next six to eight weeks. The supply disruption isn't a temporary spike, it's a structural shift that takes months to resolve even after the immediate crisis passes.

Your 401(k) is caught between competing forces. The equity portion faces pressures from margin compression as companies struggle to pass through higher input costs, while fixed income gets hammered by the prospect of sustained higher rates. The combination creates a portfolio environment where both traditional hedges are working against you simultaneously over the next twelve to eighteen months.

Grocery bills are the sleeper story. Food producers are dealing with higher transportation costs and energy-intensive processing, but they haven't fully repriced yet. The lag between wholesale cost increases and retail price adjustments typically runs two to three months, which means your weekly grocery spend is about to catch up to the broader inflationary environment by early summer.

Housing costs depend entirely on whether you're trying to buy or already own. If you're house hunting, mortgage rates are moving against you as the Fed abandons its easing cycle. The monthly payment on the same house is becoming significantly more expensive week by week. If you already own with a fixed-rate mortgage, you're insulated from the rate shock but not from the property tax reassessments that follow housing price increases.

The labor market protection is asymmetric. If you work in defense, healthcare, or energy infrastructure, the inflationary environment actually increases your bargaining power over the next year. If you work in consumer discretionary sectors, retail, restaurants, non-essential services, your employer is about to face margin pressure that limits their ability to match cost-of-living increases with wage growth.

Signal vs. Noise

Signal

- EIA forecasting extended Persian Gulf disruption, not quick resolution
- NY Fed inflation expectations jumping in single month
- Labor force growth approaching zero while fiscal stimulus accelerates
- Services employment contracting outside healthcare
- Physical oil prices diverging from futures curve

Noise

- Fed officials maintaining "data-dependent" messaging
- Quarterly GDP revisions that predate the supply shock
- Consumer sentiment surveys reflecting pre-crisis conditions
- Tech earnings strength in sectors insulated from energy costs
- Bond market volatility driven by positioning rather than fundamentals

The distinction right now comes down to timing. Anything that reflects the economy as it existed before mid-March is noise, no matter how precisely measured. The signals are forward-looking: commodity curves, hiring intentions, inflation expectations, and supply chain adjustments. The noise is backward-looking: last quarter's profits, last month's confidence readings, and policy statements that assume conditions that no longer exist.

What to Watch

Friday's March CPI release. Wall Street expects the monthly reading to jump significantly, pushing the year-over-year rate from current levels toward territory that forces Fed recalibration. This is the first major inflation print to capture the supply shock dynamics. A hotter-than-expected reading accelerates the regime confirmation.

Brent futures curve flattening through April. The current backwardation reflects market belief in quick resolution. If deferred contract months start rising toward spot prices, the market is repricing for extended disruption. That shift would trigger systematic buying in energy and inflation hedges.

April payrolls showing services employment contraction beyond healthcare by May third. The ISM services employment index already showed the breakdown. If the actual payroll data confirms broad-based services weakness while defense and healthcare hiring accelerates, it validates the structural labor market fragility.

Auto sector earnings guidance through late April. The industry faces the double hit of higher input costs and demand destruction from elevated fuel prices. Management guidance will reveal how quickly they expect the million-unit sales reduction to materialize and whether they're planning production cuts.

Treasury auction coverage ratios deteriorating through May. The proposed defense spending increase hits a market already struggling with elevated issuance. Watch the bid-to-cover ratios on seven and ten-year auctions. Weak demand would force yield backup and validate the crowding-out concerns.

What Would Change My Mind

Rapid diplomatic breakthrough with credible ceasefire framework. If Pakistan's mediation efforts produce a substantive agreement within the next two weeks, with both sides accepting international monitoring, oil prices collapse and the supply shock driver disappears. The regime would shift back toward Soft Landing within one to two weeks as futures curves normalize and inflation expectations retreat. I'd be wrong about the persistence of the shock, but right about the economic relationships.

Labor market showing genuine broad-based strength in April data. If next month's payrolls reveal significant job growth outside healthcare and defense, with the services contraction reversing and labor force participation rising, it would suggest the structural fragility analysis is incorrect. The economy might have more capacity to absorb supply shocks than the zero-growth labor force research indicates. The regime could sustain Overheating rather than moving to Inflation Shock, but either way, my call for economic fragility would be wrong.

Fed implementing emergency liquidity measures before May. If market stress from the fiscal crowding-out effect forces the Fed to restart quantitative easing or implement yield curve control, it changes the entire dynamic. The central bank would be explicitly choosing to accommodate inflation rather than fight it. This would accelerate the regime confirmation but through a different mechanism than I expect. I'd be right about the regime, wrong about the path.

The price of being wrong on the first scenario is missing the relief rally when energy and inflation trades reverse. The price of being wrong on the second is underestimating the economy's resilience and missing the rotation back into growth assets. The price of being wrong on the third is misunderstanding how quickly policy pivots when market functioning becomes impaired. All three scenarios end my current positioning, but through very different mechanisms.
