

Personal **Stakes**

WEEKLY MACRO REPORT

Friday, April 10, 2026

INFLATION SHOCK • 31.3%

Regime Call

CURRENT REGIME

Inflation Shock (31.3%)

Runner-up: Overheating (26.9%)

Confidence: Low (clarity 0.24, fit 0.48, market 0.2)

The model calls Inflation Shock as the dominant regime, though the gap to the runner-up Overheating scenario remains narrow. This isn't the hyperinflation of the 1970s. It's the supply-shock inflation of an economy that can't get the stuff it needs at the prices it expects. Energy costs are reshaping every business model simultaneously, while geopolitical disruptions create scarcity where abundance used to exist.

The confidence metrics show a system under stress but not breaking down. The model sees the current environment clearly, even if that clarity reveals an uncomfortable truth: we're in a regime where inflation expectations can unanchor quickly, and the Fed's traditional tools work slowly. The narrow gap between the top scenarios reflects

genuine uncertainty about whether this energy shock stays contained or spreads into everything else.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Inflation Shock	31.3%	28.9%	34.3%	-1.8
Overheating	26.9%	31.7%	21.0%	+1.7
Cooling	20.4%	18.3%	23.6%	+0.3
Soft Landing	20.2%	19.7%	19.9%	-0.1
Contraction	1.2%	1.3%	1.1%	-0.1

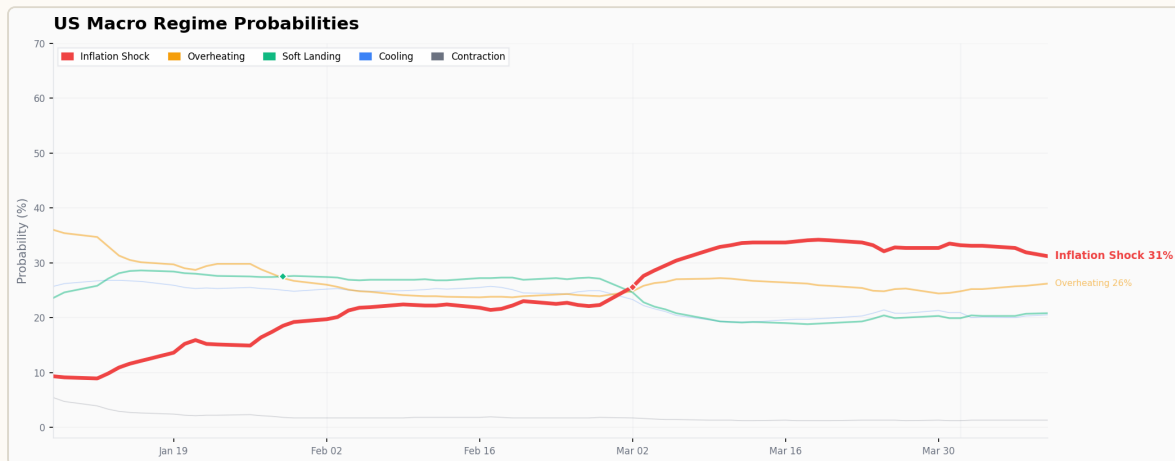
Convergence: diverging

The layer splits reveal an economy caught between what's happening now and what's coming next. The leading indicators still lean toward Overheating, suggesting the underlying economic momentum remains strong. But the lagging indicators have shifted decisively toward Inflation Shock, reflecting the reality that energy costs have already worked their way through the system.

This divergence between leading and lagging layers is the key tension. The economy's forward momentum suggests continued growth and potential overheating, but the inflation data that's already locked in points toward a supply-shock scenario. The combined probabilities split the difference, but that split won't last. Either the leading indicators prove right and growth overwhelms the inflation shock, or the lagging indicators prove right and inflation expectations force a policy response that kills the growth.

The convergence metrics show this tension playing out in real time. When leading and lagging indicators point in different directions, something has to give. The question is whether it gives gradually or all at once.

90-Day Regime History



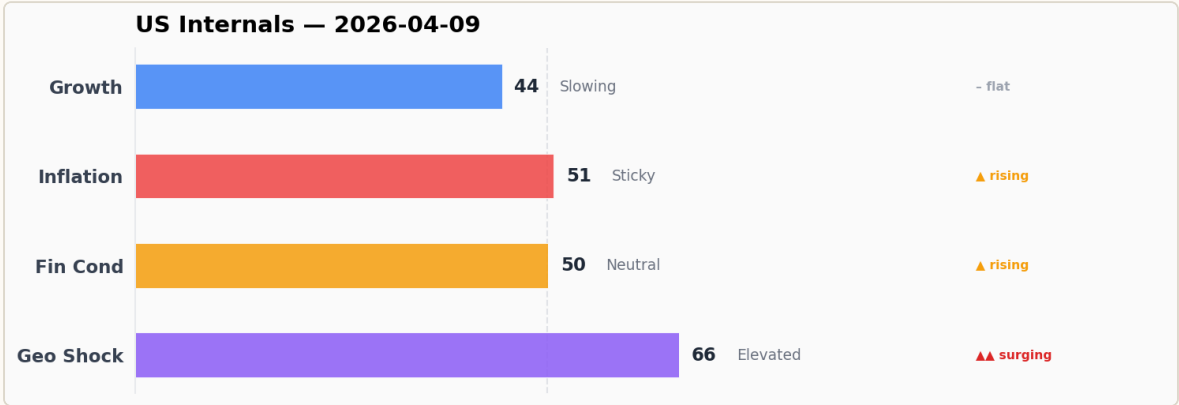
The current Inflation Shock regime took the lead in mid-February, but the path to dominance has been anything but smooth. The probability curve shows sharp spikes followed by gradual declines, then sharp spikes again. This isn't the steady climb of a regime establishing itself. It's the volatile pattern of a system responding to external shocks.

The transition from the previous Soft Landing regime happened over roughly three weeks, which is fast by historical standards. Most regime changes unfold over months as economic data accumulates. This one happened as quickly as oil prices could spike and inflation expectations could adjust. The speed of the transition reflects the nature of the shock: geopolitical events move faster than economic fundamentals.

What's notable about the recent pattern is the persistence despite volatility. Each time the Inflation Shock probability has declined, it's found support and bounced back. That suggests the underlying drivers

aren't temporary disruptions but structural changes that keep reasserting themselves. The regime may be volatile, but it's not fragile.

US Internals , The Four Axes



Axis	Score	State	Momentum	Inflation Shock Centroid	VS Centroid	Week Δ
Growth	44.5	slowing	49 (stable)	48.7	-4.2	-0.3
Inflation	57.7	firming	96 (surging)	77.2	-19.5	+6.7
Financial Conditions	49.0	neutral	64 (rising)	56.9	-7.9	-5.1
Geopolitical Shock	63.5	elevated	100 (surging)	61.5	+2.0	-9.7

Growth

The growth axis remains in slowing territory, but the momentum has stabilized rather than accelerated downward. This reflects an economy that's losing steam gradually rather than falling off a cliff. The labor

market fragmentation we've seen over recent months shows up here as growth that's neither robust nor collapsing, just inconsistent.

What's interesting is how growth has held up despite the energy shock. Typically, oil price spikes translate quickly into growth deceleration as consumers pull back spending. The fact that growth momentum has stabilized suggests either the consumer is more resilient than expected, or the impact is still working its way through the system. The leading nature of this axis means we should know which one soon enough.

Inflation

The inflation axis has shifted from sticky to firming, with momentum surging to the highest possible reading. This isn't gradual price pressure building over time. This is inflation expectations breaking free from their anchors and moving fast. The shift from sticky to firming represents a qualitative change: inflation is no longer just refusing to come down, it's actively accelerating.

The momentum reading tells you everything about the Fed's dilemma. When inflation momentum hits maximum levels, the central bank loses the luxury of looking through temporary shocks. The risk of unanchored expectations becomes the dominant concern, even if the underlying drivers are supply-side rather than demand-side. The Fed may understand that this is an energy shock, but they can't ignore what it's doing to inflation psychology.

Financial Conditions

Financial conditions have eased back to neutral territory, with momentum shifting from surging to merely rising. This reflects a market that's still tightening but at a slower pace. The easing from the previous week's more restrictive stance suggests that ceasefire hopes and equity market strength are providing some offset to the underlying inflation pressures.

This is where the Fed's dilemma becomes most acute. Financial conditions should be tightening aggressively in response to inflation running well above target, but market optimism about conflict resolution is working in the opposite direction. The Fed needs financial conditions to do some of their work for them, but the market keeps providing relief just when pressure would be most useful. If conditions stay neutral while inflation momentum surges, the Fed will have to do all the heavy lifting themselves.

Geopolitical Shock

The geopolitical axis remains elevated despite declining from the previous week's peaks. The ceasefire has reduced the immediate escalation risk, but the underlying disruptions to energy markets persist. This axis captures not just the risk of conflict but the economic impact of that conflict, and the economic impact hasn't resolved even if the military situation has stabilized.

The momentum reading shows continued surging despite the ceasefire, which reflects the reality that geopolitical shocks have economic half-lives much longer than their military half-lives. The Strait of Hormuz remains functionally closed to non-Iranian shipping, and that economic reality matters more for this axis than the diplomatic progress in Pakistan.

Key Drivers

CONFIRMING

- core PCE at 3.0% YoY, well above trend
- headline CPI at 3.3% YoY, well above trend
- crude oil well above trend

DISCONFIRMING

- core CPI at 2.6% YoY, below trend
- wage growth at 3.5% YoY, sharply lower

The confirming signals have strengthened this week, with core PCE, crude oil, and headline CPI all running well above trend. These aren't marginal excesses that could reverse quickly. They're substantial departures from normal that reinforce the Inflation Shock narrative. The addition of crude oil as a confirming driver reflects the persistence of energy market disruptions despite ceasefire progress.

The disconfirming signals remain limited to core CPI running below trend and wage growth that's sharply lower than historical norms. This creates an interesting tension: the broad inflation measures are confirming the regime, but the core measures and wage data suggest the shock hasn't spread to the underlying inflation process. The question is whether the confirming signals overwhelm the disconfirming ones, or whether the disconfirming signals prove that this shock can be contained. Right now, the confirming signals carry more weight because they're moving faster and affecting more of the economy.

Week in Review

WEEK SUMMARY (VS 2026-04-03)

REGIME	PRIOR	CURRENT	Δ
Inflation Shock	33.1%	31.3%	-1.8
Overheating	25.2%	26.9%	+1.7
Cooling	20.1%	20.4%	+0.3

REGIME	PRIOR	CURRENT	Δ
Soft Landing	20.3%	20.2%	-0.1
Contraction	1.3%	1.2%	-0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	44.8	44.5	-0.3	slowing
Inflation	51.0	57.7	+6.7	firming
Fin Cond	54.1	49.0	-5.1	neutral
Geo Shock	73.2	63.5	-9.7	elevated

REGIME	LAST WEEK	THIS WEEK	CHANGE
Cooling	20.1%	20.4%	+0.3%
Soft Landing	20.3%	20.2%	-0.1%
Overheating	25.2%	26.9%	+1.7%
Inflation Shock	33.1%	31.3%	-1.8%
Contraction	1.3%	1.2%	-0.1%

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Growth	44.8	44.5	-0.3	slowing
Inflation	51.0	57.7	+6.7	sticky → firming
Financial Conditions	54.1	49.0	-5.1	neutral

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Geopolitical Shock	73.2	63.5	-9.7	elevated

The inflation axis flipped from sticky to firming on Friday, the single biggest qualitative change of the week. This wasn't a gradual drift but a decisive break that happened as energy costs worked their way through the March CPI data. The shift occurred alongside the largest monthly gasoline price increase on record, confirming that energy market disruptions have moved from a geopolitical risk to an economic reality.

Financial conditions eased throughout the week despite the inflation breakout, falling over five points as ceasefire hopes supported equity markets. Monday's initial decline came as Israel's strike on Iran's Asaluyeh petrochemical facilities shifted the conflict from military to economic warfare. Tuesday saw further easing as defense spending projections and labor market fragmentation created competing cross-currents. The momentum shift from surging to rising on Tuesday reflected markets beginning to price in diplomatic progress even as the underlying economic disruptions persisted.

What didn't move tells the more important story. The growth axis held steady in slowing territory despite energy shocks that historically trigger immediate growth deceleration. This stability during significant external stress suggests either unusual consumer resilience or a delayed impact still working through the system. The geopolitical shock axis remained elevated throughout the week despite ceasefire progress, correctly capturing that diplomatic agreements don't immediately restore normal shipping patterns through the Strait of Hormuz.

The setup heading into next week hinges on whether Friday's inflation breakout represents a temporary spike or a sustained shift. The Pakistan ceasefire talks continue through the weekend, with any breakdown likely pushing geopolitical shock scores back toward recent peaks. More immediately, the market's diverging signals create an

unstable equilibrium: equity strength is keeping financial conditions loose just when inflation momentum demands tightening. Something has to give, and the direction will determine whether this week's inflation shift becomes entrenched or proves temporary.

Market Confirmation

The market is sending mixed signals about the Inflation Shock regime, with energy and defensive assets confirming the call while growth-sensitive sectors diverge sharply. Gold and Treasury bonds are tracking exactly where you'd expect them during a supply shock, but equities are behaving like the energy crisis is temporary noise rather than a structural shift.

The divergence in growth assets reflects a mechanical force that's bigger than regime fundamentals: forced liquidation in software and momentum strategies. When the SaaS index falls that hard that fast, it creates selling pressure that overwhelms any regime-based positioning. The dollar's strength is also crowding out some of the typical Inflation Shock behaviors, particularly in commodities outside of energy. These aren't signs that the regime is changing but that market structure and positioning can temporarily override economic fundamentals, especially when the transition happens this quickly.

Asset Playbook

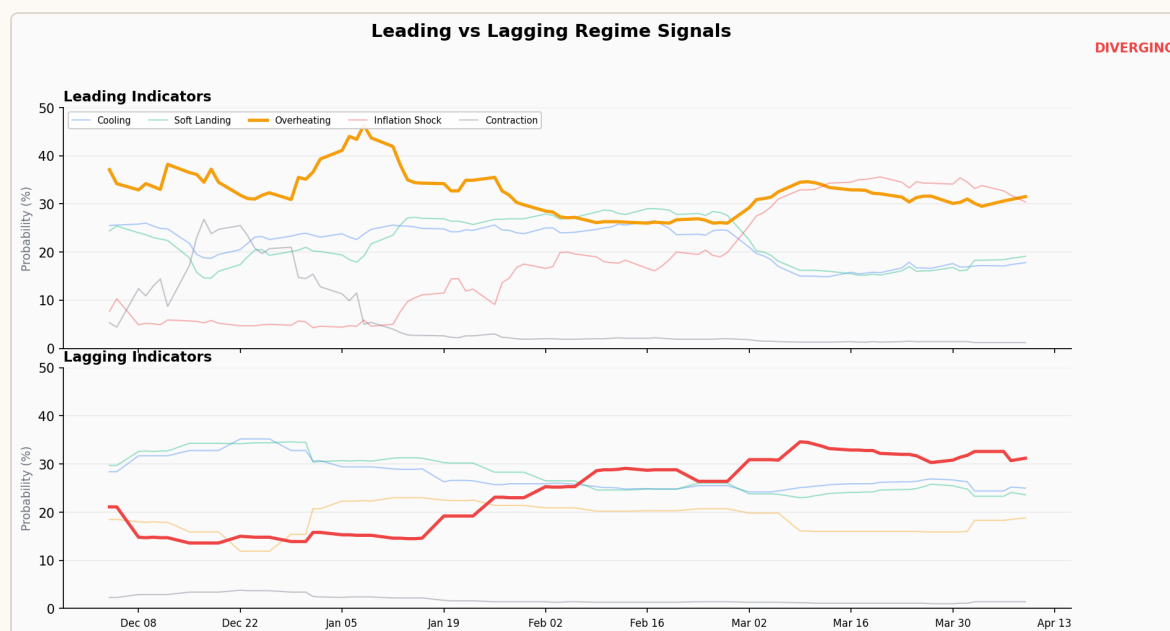
ASSET	SIGNAL
Equities	Negative
Rates	Yields biased higher
Credit	Spreads vulnerable

ASSET	SIGNAL
Dollar	USD-supportive
Gold	Positive but conflicted
Oil	Strongly supportive

Your 60/40 portfolio is getting pulled in opposite directions right now. The equity allocation is experiencing downward pressure given the regime, while the bond allocation is facing the pressures you'd expect from an inflation shock. If you're running a standard balanced portfolio, you're experiencing the challenge of watching your supposedly safe fixed income allocation under stress while your stock holdings face regime-based pressure.

The outlook for credit remains pressured in this environment despite strong corporate balance sheets. Credit faces vulnerability from the same dynamic affecting other risk assets: monetary policy tightening in response to inflation becomes the dominant concern even when corporate fundamentals remain solid.

Leading / Lagging Signal Alignment



The leading and lagging layers are pointing in different directions, with leading indicators still leaning toward Overheating while lagging indicators have shifted decisively toward Inflation Shock. This divergence reflects an economy caught between its underlying momentum and the reality of what's already happened to energy costs. When this kind of split emerges, it typically resolves within six to eight weeks as the lagging data catches up to current conditions.

The convergence mechanics here are straightforward: either the energy shock proves temporary and leading indicators pull the lagging data back toward growth scenarios, or the energy shock proves persistent and leading indicators start reflecting the new reality. The historical pattern shows that when energy drives the divergence, lagging indicators tend to be right. Energy shocks work their way through the system whether the underlying economy is strong or weak.

An early warning of regime instability would show up as leading indicators starting to flip toward Inflation Shock rather than maintaining their Overheating bias. That would signal the energy shock is beginning to damage the growth outlook rather than just creating temporary price pressures. Right now, the leading layer is holding its

ground, which suggests the regime tension is about inflation expectations rather than growth collapse.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+3.6%	+15.2%	+0.66	342
QQQ	+4.5%	+8.3%	+0.29	342
IWM	+4.0%	+23.4%	+0.85	342
IEF	+0.0%	-10.5%	-1.30	342
TIP	+0.2%	-3.0%	-0.39	342
LQD	+0.1%	-6.8%	-0.68	342
HYG	+0.5%	+3.0%	+0.29	342
GLD	+1.8%	-0.7%	-0.04	342
XLE	-3.9%	+75.0%	+2.24	342
VEA	+4.8%	+8.3%	+0.38	342
VWO	+5.4%	-3.6%	-0.15	342

Historical returns measured over Inflation Shock regime days in backtest.

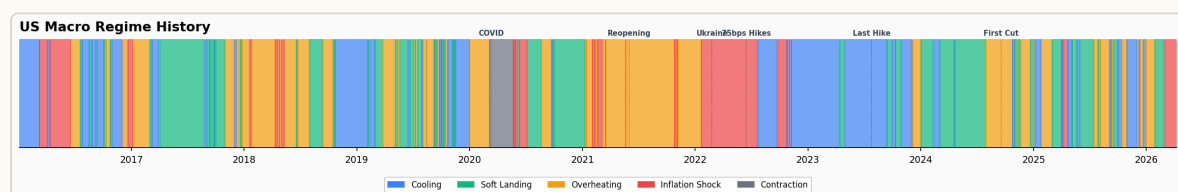
This week's performance shows the market behaving more like a relief rally than a regime-consistent move. The assets that gained the most are exactly the ones that should be under pressure in an Inflation Shock environment, while the assets that should be benefiting showed more modest gains. That disconnect suggests either the market is pricing in

a quick resolution to the energy crisis, or it's setting up for a larger correction once reality sets in.

The divergence between this week's winners and the historical Inflation Shock playbook is particularly stark in growth-sensitive sectors. When you compare real-time performance against what this regime typically delivers, you're seeing the market bet against the regime call rather than with it. That's not necessarily wrong, but it's a bet that the current episode resolves differently than historical precedents.

The usual caveats apply here: the historical sample includes different types of inflation shocks, and regime definitions capture broad patterns rather than precise timing. But the pattern is clear enough that when current performance diverges this sharply from historical norms, something has to give. Either the regime call adjusts, or the market performance adjusts.

10-Year Regime History



The closest historical parallel to the current episode is the 2008 commodity spike, which lasted roughly four months before financial conditions tightened enough to break the inflationary pressure. That episode also featured energy-driven inflation expectations becoming unanchored while the underlying economy remained relatively strong. The resolution came through demand destruction rather than supply normalization.

The 2022 inflation shock offers a different template: broader-based price pressures that took nearly eighteen months to resolve, with the Fed ultimately having to engineer a significant growth slowdown to

restore price stability. The key difference was that 2022 featured labor market tightness alongside energy pressures, while the current episode shows energy shocks hitting an economy where labor markets are already softening.

What's structurally different now is the geopolitical component, which creates supply constraints that monetary policy can't directly address. Unlike previous episodes where the Fed could break inflation by breaking demand, the current shock requires either supply restoration or demand destruction significant enough to offset permanent supply loss. The historical record suggests that when supply shocks persist beyond six months, they tend to require policy responses that create their own economic damage.

Market Context

Weekly ETF returns as of 2026-04-10 (vs 2026-04-03).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
VWO	Emerging Markets	\$53.82	\$56.75	+5.4%
VEA	Developed Markets	\$64.64	\$67.74	+4.8%
QQQ	Nasdaq 100	\$584.98	\$611.07	+4.5%
IWM	Russell 2000	\$251.29	\$261.30	+4.0%
SPY	S&P 500	\$655.83	\$679.46	+3.6%
GLD	Gold	Positive but conflicted		+1.8%
HYG	HY Corporate	\$79.56	\$79.96	+0.5%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
TIP	TIPS	\$110.81	\$111.02	+0.2%
LQD	IG Corporate	\$109.12	\$109.20	+0.1%
IEF	7-10Y Treasury	\$95.26	\$95.27	+0.0%
XLE	Energy	\$59.25	\$56.94	-3.9%

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:** \$68/yr erosion at 2.6% CPI vs 2% target
- **401(k):** \$+15,200/yr on \$100K (historical Inflation Shock regime returns)
- **This week:** \$+3,600 on \$100K 401(k)

Your gas tank is the transmission mechanism for everything happening in the Strait of Hormuz. The energy shock that's driving the regime call hits your budget first and fastest, with pump prices rising faster than your paycheck can adjust. The timeline matters here: energy costs move through your monthly budget immediately, but they take months to work through your employer's cost structure and wage decisions.

Your mortgage payment stays locked if you're already in a fixed-rate loan, but the refinancing window has essentially closed. The combination of elevated rates and economic uncertainty means most homeowners are staying put rather than trading up or relocating.

That's not necessarily bad for your balance sheet, but it does mean housing wealth feels less liquid than it did two years ago.

Your retirement account just posted its best week in months, but that gain sits on top of a foundation that's shifting underneath. The divergence between growth stocks and everything else means your portfolio's performance depends more on which sectors you own, not just whether you own stocks at all. The broad market rally masks significant rotation that could reverse quickly if energy costs keep climbing.

Your grocery bill faces the delayed impact of higher transportation costs. Food inflation typically lags energy shocks by two to three months as higher fuel costs work through supply chains. The energy spike that hit in March will show up in your food budget sometime in late spring or early summer.

Your job market remains surprisingly resilient despite the sentiment collapse, with initial claims still near historical lows. But the disconnect between how people feel about the economy and how the labor market actually performs suggests something has to give. Either sentiment improves as people recognize their job security, or the job market weakens as business confidence follows consumer confidence lower.

Signal vs. Noise

Signal:

- The divergence between software stocks and the broader market reflects a fundamental repricing of business models in a higher-cost environment
- Consumer sentiment hitting levels not seen since the Korean War while stocks rally suggests a major disconnect that resolves one way or the other
- Energy costs staying elevated despite ceasefire progress indicates structural supply disruption rather than temporary

war premium - The gap between leading and lagging regime indicators points to an economy caught between momentum and reality

Noise:

- Daily ceasefire headlines when shipping lanes remain effectively closed - Short-term market rallies that ignore the underlying energy supply situation - Fed officials suggesting patience when inflation expectations are already moving - Sector rotation patterns that could reverse with any shift in energy prices

The key distinction right now is between what's moving because of hope and what's moving because of actual change. The ceasefire created hope, but it didn't reopen the Strait of Hormuz. Stock rallies reflect hope, but energy prices reflect reality. Consumer sentiment reflects reality, but market sentiment reflects hope. When hope and reality diverge this sharply, reality usually wins.

What to Watch

Pakistan negotiations through the weekend. The ceasefire talks represent the clearest path to reopening shipping lanes. If negotiations stall or break down, energy prices likely test new highs within days. Success here could reverse the entire inflation shock narrative.

Consumer spending data for March, due next week. The sentiment collapse needs to show up somewhere concrete. If spending holds up despite record-low confidence, it suggests sentiment is overshooting. If spending falls, it confirms the consumer is actually pulling back. **Fed**

officials' language around inflation expectations. The jump in one-year expectations to nearly five percent crosses the threshold where the Fed typically abandons patience. Watch for any shift from "looking through" energy shocks to actively fighting them. **Software sector stabilization by month-end.** The forty percent decline in SaaS stocks represents either a buying opportunity or a warning about business model viability in a higher-cost world. How this sector performs over

the next two weeks will signal whether the rotation is temporary or permanent. **Energy infrastructure announcements from the administration.** The gap between domestic production capacity and global demand creates political pressure for supply-side solutions. Any major infrastructure or permitting announcements could shift energy market dynamics quickly.

What Would Change My Mind

I'm positioned for the energy shock to persist and spread beyond headline inflation into core measures and inflation expectations. Two scenarios would force a complete reassessment.

First, genuine progress on reopening shipping lanes. Not just ceasefire maintenance, but actual commercial traffic resuming through the Strait of Hormuz within the next month. If non-Iranian vessels start transiting safely and consistently, energy prices collapse and take the inflation shock narrative with them. The regime would likely shift back toward Overheating as the underlying economic momentum reasserts itself without the energy constraint.

Second, consumer spending proving more resilient than sentiment suggests. If March retail sales come in strong despite the sentiment collapse, it would indicate that consumer behavior hasn't actually changed, just consumer mood. That would suggest the economy can absorb higher energy costs without the broader pullback I'm expecting. The regime could hold in Inflation Shock territory, but the tail risks around consumer collapse would diminish significantly.

The scenario that would most challenge my view is both happening simultaneously: shipping lanes reopening while consumer spending stays strong. That combination would likely trigger a rapid shift toward Overheating as energy constraints disappear and economic momentum accelerates. The model would respond within weeks, not months,

because both the supply shock and demand response would be immediately visible in the data.

What I'm not watching for is gradual improvement. Either the energy situation resolves decisively, or it doesn't. Either consumers adjust to higher costs and keep spending, or they don't. The current setup doesn't lend itself to slow, steady progress. It resolves quickly in one direction or another.

Personal Stakes

WHY MARKETS MOVE · WHY IT MATTERS TO YOU

Model output, not investment advice. Sources: FRED, Yahoo Finance, EIA, Caldara-Iacoviello GPR Index.