PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Thursday, April 16, 2026

OVERHEATING • 28.3%

Regime Call

CURRENT REGIME

Overheating (28.3%)

Runner-up: Inflation Shock (27.9%)

Confidence: Low (clarity 0.02, fit 0.59, market 0.8)

The model flipped from Inflation Shock to Overheating this week, a shift that captures something important about where the economy is heading. Overheating leads by the narrowest margin we've seen in months, with Inflation Shock as a close runner-up. That tight race isn't a bug in the system. It's the system telling you that we're in a zone where small changes in the data can flip the entire narrative.

The confidence metrics reflect this uncertainty. When the top two regimes are separated by less than a percentage point, you're not getting a clear directional signal. You're getting a warning that the economy is balanced on a knife's edge between demand-driven price pressures and supply-shock inflation. The difference matters for what comes next, but right now, both stories are plausible enough that the model can't definitively choose between them.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**28.3%**	32.7%	21.5%	+2.1
Inflation Shock	**27.9%**	25.4%	31.0%	-3.3
Cooling	**21.8%**	19.5%	25.8%	+1.3
Soft Landing	**20.7%**	21.0%	20.5%	-0.1
Contraction	**1.3%**	1.4%	1.2%	0.0

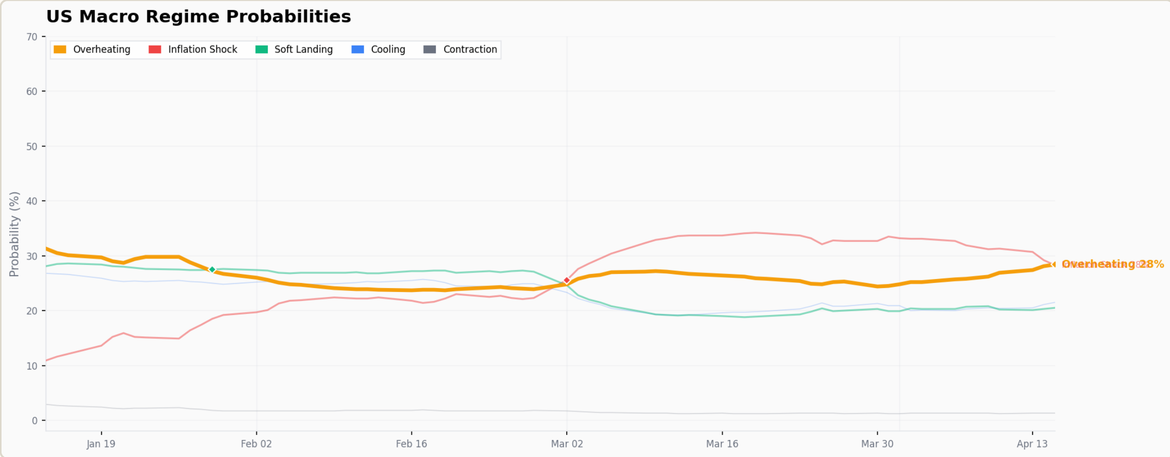
Convergence: diverging

The layer splits tell you where this regime transition is coming from. Overheating's strength shows up most clearly in the leading indicators, where forward-looking data points to demand pressures building faster than supply can respond. Meanwhile, Inflation Shock maintains its edge in the lagging layer, where the energy and tariff shocks are still working through the system.

That divergence between leading and lagging is the story of this transition. The leading layer is picking up signs that the economy is running too hot, while the lagging layer is still processing the supply disruptions that dominated the previous regime. Cooling and Soft Landing remain in the background, close enough to matter if growth data starts to weaken, but not close enough to challenge the inflation-focused narrative that's driving the top two regimes.

The convergence score reflects this tension. When leading indicators point one direction and lagging indicators point another, you get exactly this kind of regime uncertainty. The question is which layer proves more predictive over the next few weeks.

90-Day Regime History

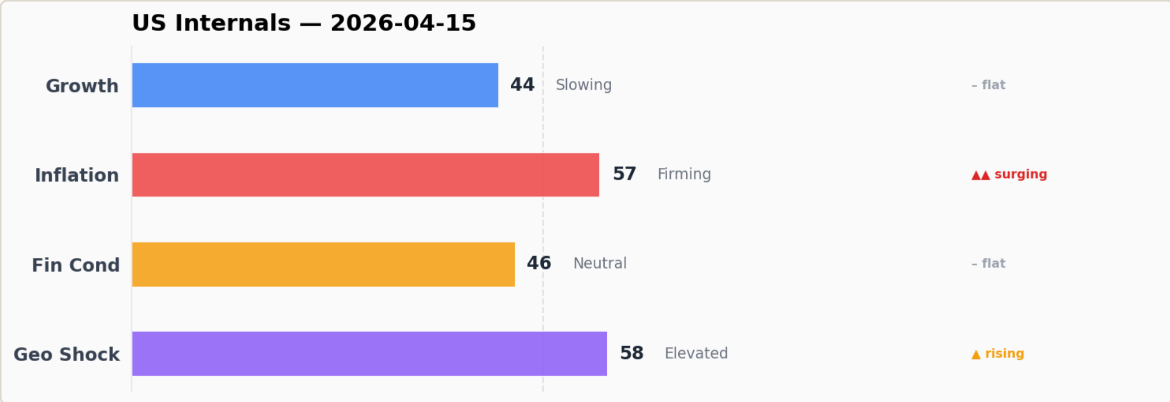


Overheating's path to the top has been gradual rather than sudden. The regime has been climbing steadily for weeks, gaining ground as growth data held up better than expected and inflation pressures broadened beyond energy and tariffs. This wasn't a sharp spike triggered by a single data point. It was a methodical accumulation of evidence that demand is outpacing supply across multiple sectors.

Inflation Shock's decline follows the opposite pattern. After dominating for most of the quarter, it's been losing ground as the market began to price in the idea that the current inflation surge might be more about overheating than supply disruption. The transition accelerated this week, but the underlying shift has been building for a month.

The shape of this transition matters. Gradual regime changes tend to be more durable than sharp spikes, because they reflect broad shifts in the underlying data rather than reactions to single events. If Overheating continues to lead, expect the gap to widen rather than oscillate.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	OVERHEATING CENTROID	VS CENTROID	WEEK Δ
Growth	42.1	slowing	48 (stable)	54.5	-12.4	-2.4
Inflation	56.5	firming	87 (surging)	73.2	-16.7	+5.7
Financial Conditions	46.2	neutral	50 (stable)	49.8	-3.6	-3.9
Geopolitical Shock	56.3	elevated	62 (rising)	52.9	+3.4	-9.7

Growth

Growth remains in slowing territory, but the momentum has stabilized rather than accelerated downward. That combination captures the current economic moment perfectly: growth is decelerating from the post-pandemic surge, but it's not falling off a cliff. The labor market fragmentation we've seen over the past eleven months reflects this dynamic. Jobs data alternates between growth and contraction not because the economy is collapsing, but because it's reorganizing itself around new supply constraints and demand patterns.

The stable momentum reading suggests this deceleration is controlled rather than chaotic. When growth slows but momentum stabilizes, you're typically looking at an economy that's finding a new equilibrium rather than one that's headed for recession. That supports the Overheating thesis more than the alternative.

Inflation

Inflation shifted from sticky to firming this week, with momentum surging to levels that demand attention. This isn't just energy and tariffs anymore. The services inflation breakout, with the ISM Services prices paid component jumping nearly eight points, signals that cost pressures are spreading through the economy faster than businesses can absorb them. When services inflation accelerates this quickly, it typically means wage-price dynamics are starting to feed on themselves.

The surging momentum reading captures the acceleration in real time. Inflation isn't just elevated; it's getting worse at an increasing rate. That's the signature of an overheating economy rather than a supply-shocked one. Supply shocks tend to create level shifts in prices. Demand overheating creates accelerating price growth.

Financial Conditions

Financial conditions remain neutral despite the week's volatility, but the momentum shift from rising to stable suggests the Fed's dilemma is becoming more acute. Markets are caught between two competing forces: the need for tighter policy to combat inflation and the recognition that the economy might already be slowing enough to make aggressive tightening counterproductive. The result is financial conditions that aren't clearly restrictive or accommodative.

This neutral reading in the face of rising inflation pressures creates the central tension for monetary policy. The Fed typically tightens financial conditions when inflation accelerates, but doing so now risks turning a controlled growth slowdown into something more severe. The stable momentum suggests markets are waiting for clearer signals about which risk the Fed prioritizes.

Geopolitical Shock

Geopolitical shock remains elevated but with declining momentum as markets begin to adapt to the new reality of a closed Strait of Hormuz. The initial panic has given way to a more measured assessment of the economic impact. Oil markets are reshuffling existing supply rather than creating new barrels, but they're doing so in an orderly fashion that suggests the immediate crisis phase has passed.

The declining momentum doesn't mean the geopolitical situation is improving. It means markets are pricing in a prolonged period of elevated risk rather than expecting either immediate resolution or further escalation. That shift from crisis mode to chronic stress changes how the shock affects other parts of the economy.

Key Drivers

CONFIRMING

- core PCE at 3.0% YoY, well above trend
- headline CPI at 3.3% YoY, well above trend
- gasoline prices well above trend

DISCONFIRMING

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

The confirming signals paint a clear picture of broad-based inflation pressure. Headline CPI at 3.3% year-over-year, well above trend, combines with core PCE at 3.0% and gasoline prices well above trend to show that price pressures aren't confined to a single category. When both core and headline measures are elevated, and when both goods and services are contributing, you're looking at inflation that's becoming entrenched rather than transitory.

The disconfirming signals tell a more nuanced story. Core CPI at 2.6% year-over-year, below trend, and wage growth at 3.5%, sharply lower, suggest that some of the traditional drivers of sustained inflation aren't fully engaged. The tension between these signals and the confirming data reflects the unusual nature of the current inflation episode. It's broad enough to be concerning but not yet deep enough to be unstoppable. That tension is why the regime call remains so close between Overheating and Inflation Shock.

Week in Review

WEEK SUMMARY (VS 2026-04-09)

REGIME	PRIOR	CURRENT	Δ
Overheating	26.2%	28.3%	+2.1
Inflation Shock	31.2%	27.9%	-3.3
Cooling	20.5%	21.8%	+1.3
Soft Landing	20.8%	20.7%	-0.1
Contraction	1.3%	1.3%	0.0

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	44.5	42.1	-2.4	slowing

AXIS	PRIOR	CURRENT	Δ	STATE
Inflation	50.8	56.5	+5.7	firming
Fin Cond	50.1	46.2	-3.9	neutral
Geo Shock	66.0	56.3	-9.7	elevated

The regime call flipped from Inflation Shock to Overheating this week, with Overheating climbing to 28.3% while Inflation Shock fell to 27.9%. The trigger was Monday's services inflation breakout, when the ISM Services prices paid component jumped 7.7 points to 70.7. That kind of move doesn't happen because of seasonal adjustments. It happens when energy costs eat through every business model simultaneously, and businesses start passing those costs to consumers faster than they historically have.

The supporting moves tell the same story. Inflation shifted from sticky to firming, moving from 50.8 to 56.5, because the March CPI data showed the broadest price pressures since June 2022. Financial conditions eased from 50.1 to 46.2 as markets began pricing in the possibility that the Fed might pause rate hikes rather than risk turning a controlled slowdown into a recession. The geopolitical shock axis declined from 66.0 to 56.3 as oil markets adapted to the reality of a closed Strait of Hormuz without complete panic.

What held steady was more interesting than what moved. Growth remained in slowing territory despite the inflation surge, and the momentum stayed stable rather than accelerating downward. That stability during a week of significant inflation data suggests the economy is finding a new equilibrium rather than spiraling in either direction. When growth holds steady while inflation accelerates, you get exactly the kind of overheating scenario the model now sees as most likely.

Next week's setup depends on whether the inflation momentum continues or peaks. The March PCE report, due Thursday, will show whether the price pressures that drove this week's regime flip are spreading beyond the categories we've already identified. If core PCE comes in above 3.2%, Overheating's lead likely widens. If it moderates toward 2.8%, the regime race tightens again, and we're back to watching every data point for directional clues.

Market Confirmation

The market is confirming the regime transition with unusual clarity. Equities, credit, and the dollar are all tracking exactly where you'd expect them during an Overheating episode, while gold and rates are behaving like textbook examples of assets under demand pressure. When this many asset classes move in sync with the regime expectation, it's the market telling you the model isn't just picking up statistical noise.

Oil is the lone holdout, and the mechanics are straightforward. The Strait of Hormuz closure is creating a supply shock that overwhelms any demand signal the regime might generate. You can't have normal oil behavior when tankers can't get through the world's most important energy chokepoint. The weekly decline doesn't contradict the Overheating call because the oil market is operating under completely different constraints than the rest of the asset complex. Think of it as oil trading in its own universe while everything else trades in the regime's universe.

Asset Playbook

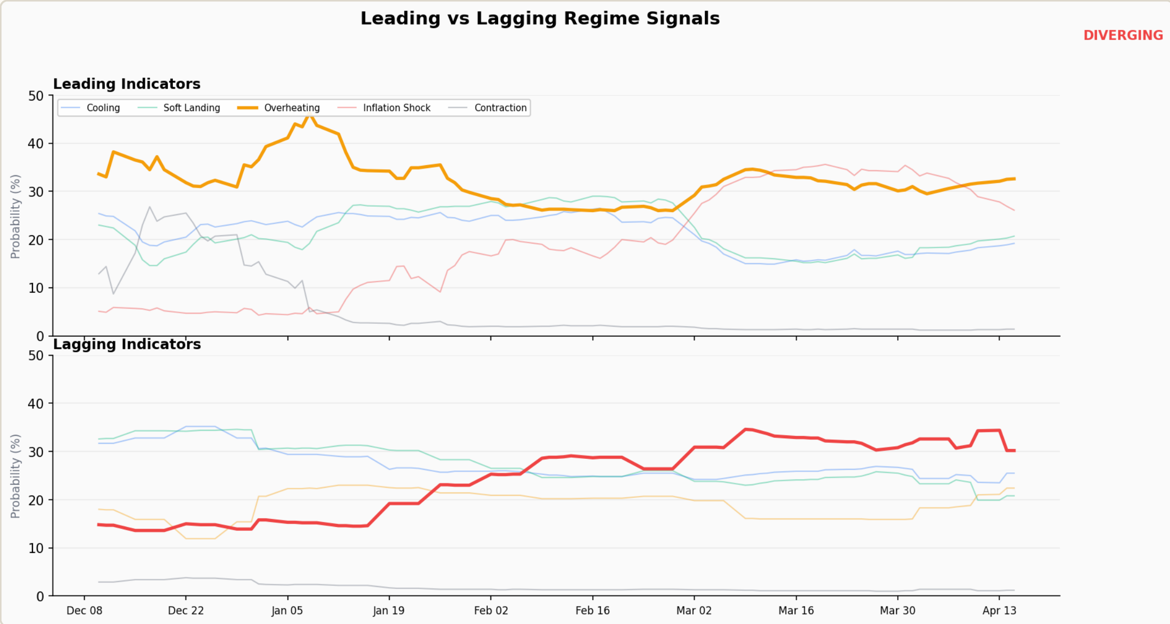
ASSET	SIGNAL
Equities	Cautious, late-cycle risk

ASSET	SIGNAL
Rates	Yields biased higher
Credit	Carry positive, spreads uncertain
Dollar	USD firm
Gold	Range-bound
Oil	Constructive

Your 60/40 portfolio is getting pulled in multiple directions right now. The equity allocation is working exactly as the regime predicts, but your bond allocation is fighting against both the demand pressures and the supply shocks that are keeping rates elevated. If you started the year with a hundred thousand dollars in a standard allocation, the equity side is doing its job while the fixed income side is reminding you why duration risk matters when inflation expectations are unstuck.

The most surprising stance is probably the dollar strength call. When everything else is pointing to inflation and overheating, you'd normally expect dollar weakness as real rates get compressed. But the combination of relative growth strength and safe haven demand from the Strait situation is creating the opposite dynamic. Your international equity exposure is feeling that dollar pressure, even as domestic equities benefit from the underlying regime forces.

Leading / Lagging Signal Alignment



The leading and lagging layers are telling different stories right now, and that divergence is exactly what you'd expect during a regime transition. Leading indicators are picking up the demand pressures that define Overheating, while lagging indicators are still processing the supply shocks that dominated the previous regime. When the model shifted from Inflation Shock to Overheating this week, it was essentially saying the forward-looking data is starting to matter more than the backward-looking data.

Historically, when leading and lagging layers converge after a period of divergence, it takes about four to six weeks for the alignment to stabilize. That convergence usually marks the point where the new regime becomes entrenched rather than tentative. Right now, we're in the early stages of that process, which means the regime call is directionally correct but not yet structurally stable.

The early warning signal to watch is if the leading layer starts to weaken while the lagging layer continues to strengthen around Overheating themes. That would suggest the transition was premature and the economy is headed back toward supply-driven inflation rather than demand-driven overheating. But as long as the leading indicators continue to build momentum around growth and demand pressures, the convergence should continue in Overheating's favor.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+3.2%	+16.3%	+1.13	813
QQQ	+5.0%	+25.2%	+1.33	813
IWM	+3.1%	+3.2%	+0.17	813
IEF	+-0.0%	+2.4%	+0.46	813
TIP	+0.2%	+4.7%	+1.15	813
LQD	-0.1%	+3.6%	+0.65	813
HYG	+0.1%	+5.4%	+1.12	813
GLD	+0.5%	+15.8%	+1.12	813
XLE	-1.3%	-5.2%	-0.22	813
VEA	+1.6%	+6.1%	+0.43	813
VWO	+3.1%	+12.2%	+0.71	813

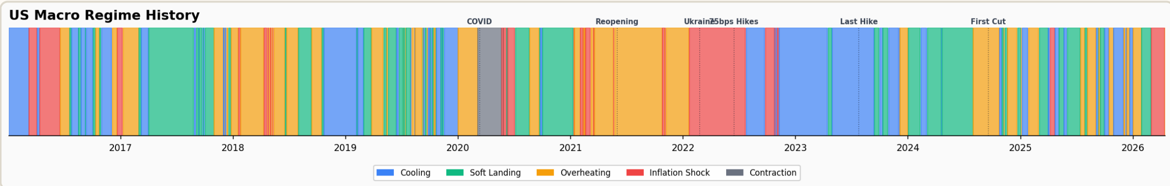
Historical returns measured over Overheating regime days in backtest.

This week's performance tells a mixed story about how well reality is matching the regime playbook. The equity winners moved exactly where the historical Overheating pattern would predict, while the bond market delivered the kind of pain that comes with demand-driven inflation expectations. Energy's decline stands out as the obvious exception, but that's the Strait effect overwhelming the regime signal rather than evidence that the regime call is incorrect.

The divergences are more interesting than the confirmations. When an asset class performs opposite to its historical regime pattern, it's usually because some external force is stronger than the regime dynamics. Oil's weakness despite Overheating, and gold's strength alongside equity gains, both point to the geopolitical shock creating its own asset allocation rules that override the normal regime relationships.

The usual caveats apply here. These historical returns come from a limited sample of Overheating episodes, and each instance had its own unique characteristics that don't necessarily repeat. The regime framework gives you the direction and magnitude of expected moves, but it can't account for external shocks like closed shipping lanes or trade wars. Use these numbers as a baseline expectation, not a guarantee.

10-Year Regime History



The closest historical parallel to today's situation is the 2021-22 Overheating episode, when demand pressures and supply constraints combined to create a similar regime transition. That episode lasted about eight months before shifting into Inflation Shock, and it was ultimately resolved by aggressive Fed tightening that cooled demand faster than supply could recover. The key difference was that 2021-22 had clear policy tools available, while today's Fed is constrained by an unemployment rate that's already too high.

The 2018 Overheating episode offers a different template. That one was shorter and less intense, lasting about five months before slowing naturally as global growth synchronized downward. It ended not because of policy intervention but because the underlying demand pressures exhausted themselves. The resolution mechanism was economic rather than monetary, which might be more relevant to today's situation given the Fed's limited room to maneuver.

What's structurally different now is the overlay of geopolitical supply shocks that didn't exist in either historical episode. Previous Overheating regimes dealt with demand-supply imbalances that were fundamentally economic in nature. Today's version has to contend with supply disruptions that are political and military, which means the normal resolution mechanisms may not apply. The regime can tell you how assets should behave given the demand pressures, but it can't predict when or how the Strait of Hormuz reopens.

Market Context

Weekly ETF returns as of 2026-04-16 (vs 2026-04-09).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
QQQ	Nasdaq 100	$610.19	$640.47	+5.0%
SPY	S&P 500	$679.91	$701.66	+3.2%
IWM	Russell 2000	$261.96	$269.95	+3.1%
VWO	Emerging Markets	$56.44	$58.21	+3.1%
VEA	Developed Markets	$67.55	$68.63	+1.6%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
GLD	Gold	Range-bound	$440.08	+0.5%
TIP	TIPS	$110.96	$111.19	+0.2%
HYG	HY Corporate	$80.28	$80.35	+0.1%
IEF	7-10Y Treasury	$95.43	$95.41	+-0.0%
LQD	IG Corporate	$109.49	$109.43	-0.1%
XLE	Energy	$57.33	$56.58	-1.3%

Household Impact

HOUSEHOLD IMPACT

- **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):** $+16,300/yr on $100K (historical Overheating regime returns)
- **This week:** $+3,200 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure before your portfolio does. The jump at the pump over the past week translates directly to higher commuting costs, and if the shipping disruption extends into summer driving season, you're looking at sustained pressure on your household budget through August.

Groceries are catching the tariff pass-through that's already worked its way into core prices. The broad-based commodity rally means food inflation isn't just about energy anymore. Expect this to show up in your monthly spending over the next two to three months, with processed foods and imported items hit hardest.

Your mortgage refinancing window is getting a temporary reprieve as rates pulled back slightly this week, but that relief depends entirely on whether the Fed can stay patient with inflation running above target. If the overheating thesis proves correct and the Fed pivots back to tightening, that window closes fast.

A $100,000 balance in your 401(k) got a boost from the equity rally, but the unusual pattern of stocks and gold rising together suggests markets aren't convinced this is sustainable. The portfolio gain you're seeing this week could reverse quickly if oil spikes again or if the inflation data forces the Fed's hand.

Your real purchasing power is shrinking even before the latest price jumps fully hit. Wages were already growing slower than prices, and the March inflation surge makes that gap wider. The consumer credit data over the next month will tell you whether households are turning to borrowing to bridge that gap.

Signal vs. Noise

Signals worth tracking:
The layer split between leading and lagging indicators. When forward-looking data points to overheating while backward-looking data still shows supply shocks, you're watching a regime transition in real time. The direction of convergence over the next few weeks determines whether this transition sticks.

Consumer spending patterns relative to income. Real income was already negative in February while spending accelerated. That's unsustainable math, and the credit data will tell you how households are trying to solve it.

Oil timespreads, not just flat prices. The contango structure tells you whether the market thinks this supply disruption is temporary or structural. If near-term contracts start trading at bigger premiums to longer-dated ones, the market is pricing in extended tightness.

The breadth of the commodity rally. When 83% of components are in uptrends, that's not just an energy story anymore. It's a broad inflation signal that cuts across multiple supply chains.

Noise to ignore:
Individual stock reactions to political endorsements. When a presidential praise can't stop a stock from falling, you're looking at fundamental forces that overwhelm political sentiment.

The SaaS sector collapse while the broader market holds steady. This looks like sector-specific repricing around AI displacement and duration risk, not a macro signal about the overall economy.

Short-term diplomatic theater around Taiwan or other geopolitical flashpoints. These create headlines but rarely move the underlying economic dynamics unless they escalate to actual trade or military action.

What distinguishes signal from noise right now: The signals all point to the same underlying tension between demand pressures and supply constraints. The noise reflects sector rotations and political positioning that don't change the fundamental economic trajectory. If it connects to the inflation-growth trade-off, it's signal. If it's about individual companies or political messaging, it's noise.

What to Watch

March PCE data release on April 26. This is the inflation gauge the Fed actually targets, and it's been running hotter than CPI. If core PCE accelerates beyond the tariff and energy effects, that shifts the regime call decisively toward overheating and forces the Fed to reconsider its patient stance. **Consumer credit report for March, due May 7.** Consumers were already spending more than they earned before gas prices spiked. The credit card balances and delinquency rates will tell you whether households are borrowing to maintain spending or starting to pull back. **Any diplomatic breakthrough or escalation in the Strait of Hormuz over the next two weeks.** The oil market is pricing in extended disruption, but a credible framework for reopening the shipping lanes would collapse the summer spike thesis immediately. **Weekly initial jobless claims through the end of April.** The labor market is the key variable that distinguishes overheating from inflation shock. If claims start falling consistently below 200,000, that supports the demand-driven narrative. If they rise above 250,000, it suggests the economy is slowing faster than the regime call implies. **Core services inflation in the April CPI report, due May 14.** Strip out energy and tariff-affected goods, and this number tells you whether the inflation pressure is broadening into wage-sensitive sectors. Two consecutive months of acceleration here would mean the supply shocks are bleeding into expectations.

What Would Change My Mind

The overheating thesis breaks if the labor market cracks decisively. I'm watching for initial jobless claims above 275,000 for three consecutive weeks, or continuing claims rising above 2.2 million. That would signal the economy is slowing faster than current growth data suggests, and the regime would likely flip back toward Cooling within two to three weeks. The price of being wrong here is missing a significant equity downturn as growth expectations reset lower. **The patient Fed stance becomes untenable if core inflation broadens beyond the identifiable shocks.** If core services inflation accelerates for two straight months, or if wage growth re-accelerates above 4% annualized, the supply disruptions are feeding into broader price expectations. The Fed would have to abandon patience and return to aggressive tightening, likely triggering the financial conditions tightening that pushes the economy toward Contraction. The model would pick this up within four to six weeks of the data turning. **The oil thesis flips if Saudi Arabia announces a meaningful production increase or if there's a credible diplomatic framework for reopening the Strait.** I'm defining credible as involving direct US-Iran negotiations with specific timelines, not just regional diplomatic efforts. Either development would break the summer spike narrative and likely pull the overall inflation pressure back toward the transitory camp. The regime would shift away from both Overheating and Inflation Shock toward Soft Landing within days of such an announcement.

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