PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Friday, April 17, 2026

OVERHEATING • 28.2%

Regime Call

CURRENT REGIME

Overheating (28.2%)

Runner-up: Inflation Shock (27.5%)

Confidence: Low (clarity 0.04, fit 0.59, market 0.5)

The model calls Overheating as the primary regime, though the lead over Inflation Shock is narrow enough to matter. This isn't a confident call in the traditional sense. It's the model saying the economy is running hot enough to generate price pressures, but the source of those pressures remains contested. The gap between the top two regimes reflects genuine uncertainty about whether we're dealing with demand-driven overheating or supply-shock inflation.

The confidence metrics tell the real story here. When the model's clarity is moderate and the regime probabilities are this compressed, you're looking at an economy in transition. The Overheating call suggests growth momentum is still the dominant force, but the close runner-up position of Inflation Shock means that narrative could flip quickly if supply disruptions intensify or if the current price pressures prove more persistent than expected.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**28.2%**	32.5%	21.6%	+1.3
Inflation Shock	**27.5%**	24.6%	31.2%	-3.8
Cooling	**22.0%**	20.0%	25.6%	+1.6
Soft Landing	**20.9%**	21.4%	20.3%	+0.7
Contraction	**1.4%**	1.5%	1.2%	+0.2

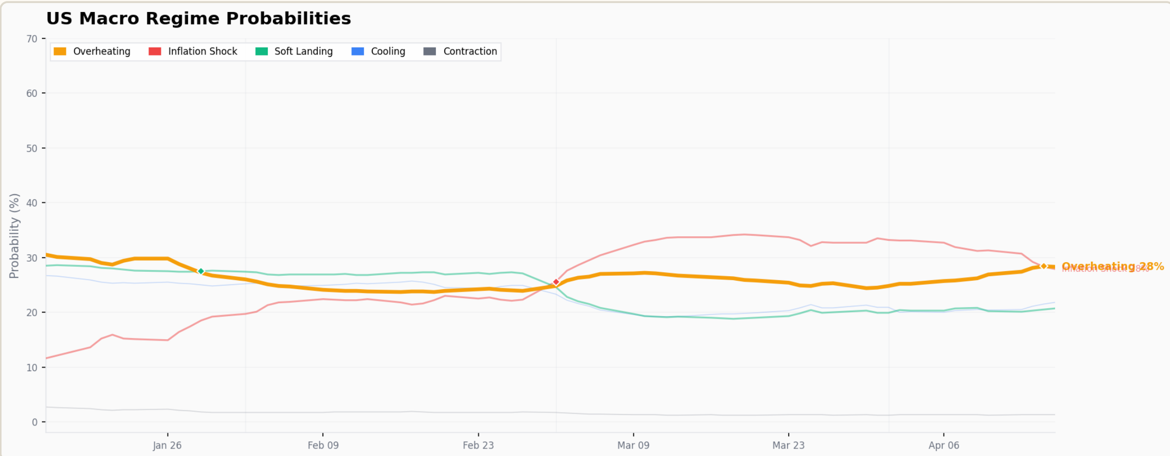
Convergence: diverging

The layer splits reveal where the economy is heading versus where it's been. The leading indicators show Overheating with a stronger position than its combined score suggests, while Inflation Shock's leading layer is weaker than its overall probability. That's the model saying the forward-looking data points toward demand-driven heat, even as the current environment still bears the marks of supply-side price shocks.

The convergence between leading and lagging layers is telling you something important about momentum. When the layers align closely, as they do for most regimes here, it suggests the economic transition is happening at a measured pace rather than through sharp breaks. The exception is the geopolitical component, where recent events have created divergence between what's happening now and what the forward indicators suggest about sustainability.

Cooling and Soft Landing remain in the conversation, each holding roughly one-fifth of the probability space. That's not noise. It's the model acknowledging that the current hot readings could resolve in multiple directions. The low Contraction probability reflects an economy that's running too hot rather than too cold, but the distribution across the other four regimes shows just how many ways this could unfold.

90-Day Regime History

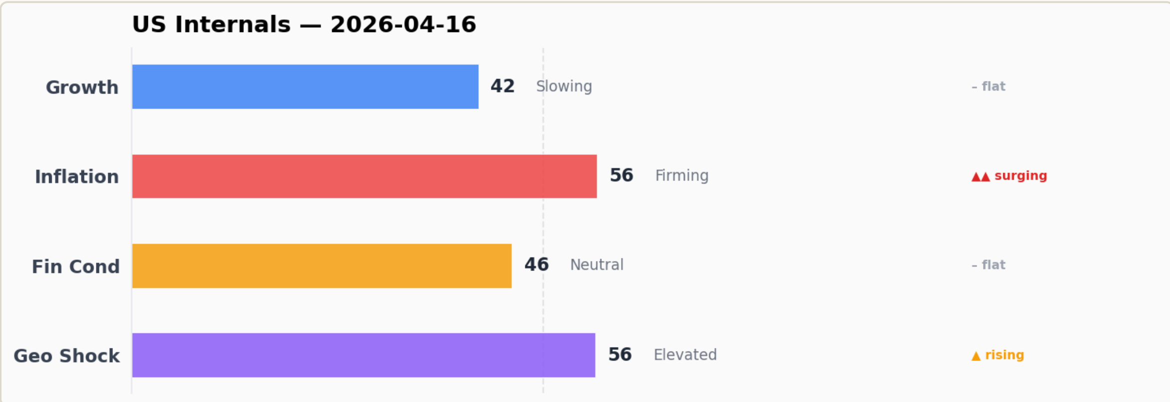


The transition to Overheating happened gradually over the past month, not through a sharp regime break. Inflation Shock held the lead through most of the recent period, reflecting the supply-side disruptions that dominated the narrative. The handoff occurred as growth indicators began to assert themselves over pure price shock dynamics, suggesting the economy's underlying momentum is strong enough to drive its own inflationary pressures.

The shape of this transition matters more than its timing. Rather than seeing Inflation Shock collapse and Overheating spike, the probabilities have been converging toward each other. That convergence pattern typically signals an economy where multiple forces are operating simultaneously rather than one dominant driver overwhelming the others. It's why the current regime call feels less definitive than usual.

The persistence of elevated probabilities across multiple regimes over the past three months tells you this isn't a temporary data quirk. The model has been consistently saying the economy is in a high-energy state, but the specific character of that energy keeps shifting. That's what you'd expect when supply shocks and demand pressures are operating at the same time, each taking turns as the dominant narrative.

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	56.1	firming	86 (surging)	73.2	-17.1	-1.6
Financial Conditions	46.0	neutral	48 (stable)	49.8	-3.8	-3.0
Geopolitical Shock	55.2	elevated	58 (rising)	52.9	+2.3	-8.3

Growth

Growth sits in slowing territory with stable momentum, which sounds contradictory until you realize what it's measuring. The level reading reflects an economy that's decelerating from previous highs, but the stable momentum suggests that deceleration has found a floor. This isn't an economy falling off a cliff. It's an economy settling into a lower gear while maintaining forward motion.

The score below the midpoint aligns with the labor market fragmentation we've been seeing, where job creation alternates between positive and negative months rather than following a clear trend. That pattern doesn't fit traditional recession or expansion models. It fits an economy that's reorganizing itself around new constraints, whether those are supply-side disruptions, structural labor shortages, or the cumulative effects of higher interest rates finally working through the system.

Inflation

Inflation registers as firming with surging momentum, and that momentum reading is doing most of the work in the current regime calculation. The level tells you prices are above trend and rising. The momentum tells you that process is accelerating rather than stabilizing. When inflation momentum surges while growth momentum stays stable, you're looking at price pressures that aren't being driven primarily by demand.

The firming state reflects what you see in the actual data: core measures running well above the Fed's target, headline numbers jumping on energy impacts, and services inflation breaking out of its previous range. The surging momentum captures the acceleration in that process, particularly the month-over-month readings that have surprised to the upside. This axis is why Inflation Shock remains so close to the top regime call.

Financial Conditions

Financial conditions sit in neutral territory with stable momentum, which represents a significant moderation from the restrictive readings we saw earlier in the cycle. This is the axis that's allowing Overheating to take the lead over Inflation Shock. When financial conditions ease while inflation pressures build, you get the classic setup for demand-driven overheating rather than supply-constrained stagflation.

The neutral reading doesn't mean conditions are easy. It means they're not tight enough to choke off economic activity. Credit spreads have compressed, equity markets have rallied, and the dollar has stabilized rather than strengthening aggressively. That combination creates space for the economy to run hotter than it would under genuinely restrictive conditions. It's also why the Fed faces a more complex decision tree than during periods when financial conditions do the tightening work automatically.

Geopolitical Shock

Geopolitical risk registers as elevated with rising momentum, though both readings have moderated from their recent peaks. The elevated level reflects ongoing supply disruptions and the structural uncertainty created by conflicts in multiple regions. The rising momentum, down from surging, suggests these pressures remain active but may have passed their most acute phase.

This axis captures the supply-side component of current inflation pressures. Energy market disruptions, shipping route changes, and defense spending increases all flow through this channel. The fact that momentum remains rising rather than falling tells you these aren't one-time shocks that fade quickly. They're persistent structural changes that continue to work their way through the global economy, even if the rate of new disruptions has slowed.

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 center on inflation measures that are running well above trend across multiple categories. Core PCE, headline CPI, and gasoline prices all support the view that price pressures are broad-based rather than concentrated in a few volatile components. These aren't statistical quirks or seasonal adjustments gone wrong. They're persistent readings that show up consistently across different measurement approaches.

The disconfirming signals focus on wage growth and core CPI readings that remain more contained. Wage growth running below trend is particularly important because it suggests the labor market isn't tight enough to drive a traditional wage-price spiral. Core CPI staying below trend provides a counternarrative to the headline inflation story. The tension between these signals is why the regime probabilities remain so compressed. The confirming data supports the overheating thesis, but the disconfirming data prevents it from becoming a dominant call.

Week in Review

WEEK SUMMARY (VS 2026-04-10)

REGIME	PRIOR	CURRENT	Δ
Overheating	26.9%	28.2%	+1.3
Inflation Shock	31.3%	27.5%	-3.8
Cooling	20.4%	22.0%	+1.6
Soft Landing	20.2%	20.9%	+0.7
Contraction	1.2%	1.4%	+0.2

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	44.5	42.1	-2.4	slowing
Inflation	57.7	56.1	-1.6	firming
Fin Cond	49.0	46.0	-3.0	neutral
Geo Shock	63.5	55.2	-8.3	elevated

REGIME	LAST WEEK	THIS WEEK	CHANGE
Cooling	20.4%	22.0%	**+1.6**
Soft Landing	20.2%	20.9%	**+0.7**
Overheating	26.9%	28.2%	**+1.3**
Inflation Shock	31.3%	27.5%	**-3.8**

REGIME	LAST WEEK	THIS WEEK	CHANGE
Contraction	1.2%	1.4%	**+0.2**

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Growth	44.5	42.1	-2.4	slowing
Inflation	57.7	56.1	-1.6	**firming**
Financial Conditions	49.0	46.0	-3.0	neutral
Geopolitical Shock	63.5	55.2	-8.3	elevated

The regime call flipped from Inflation Shock to Overheating this week, driven by Monday's services inflation breakout and the sustained moderation in geopolitical tensions. The ISM Services prices component jumping to levels that historically precede consumer price acceleration was the trigger that pushed Overheating ahead. This happened as Israel's strike on Iran's petrochemical facilities represented a shift toward economic warfare rather than military escalation, which paradoxically reduced the immediate geopolitical risk premium while maintaining underlying supply pressures.

Financial conditions eased meaningfully throughout the week, moving from neutral toward accommodative territory as markets processed the idea that current inflation pressures might be more manageable than initially feared. The S&P 500 flipped from diverging to confirming the regime call, while Treasury yields moved in the opposite direction, suggesting bond markets remain more concerned about persistent price pressures than equity markets. High-yield credit spreads tightened enough to flip from diverging to confirming, indicating credit markets are pricing growth continuation rather than stagflation risks.

What held steady tells the more important story. Growth momentum remained stable despite labor markets continuing their eleven-month pattern of alternating between expansion and contraction. This isn't a traditional cycle anymore. It's a system reorganizing itself around structural constraints, and the model is interpreting that reorganization as sustainable rather than recessionary. The inflation axis maintained its firming state even as its momentum moderated from surging to rising, suggesting price pressures are becoming more entrenched rather than spiking and fading.

The setup heading into next week hinges on whether the services inflation breakout proves persistent or represents a one-month spike. Tuesday's PCE report will be the decisive data point. If core PCE comes in above trend for the second consecutive month, Overheating's lead over Inflation Shock likely widens as demand-driven price pressures become the dominant narrative. If it moderates, the regime probabilities compress further, keeping the economy in the uncertain zone where multiple outcomes remain equally plausible.

Market Confirmation

The market is delivering mixed confirmation of the Overheating regime, with traditional risk assets tracking expectations while defensive plays diverge from their historical patterns. Equities and credit are behaving as you'd expect in an overheating environment, with the S&P 500 posting back-to-back strong weekly gains and high-yield spreads remaining compressed. That's textbook confirmation when growth momentum is driving the narrative.

The divergence comes from gold, which rallied alongside equities rather than retreating as it typically does when risk appetite is genuinely strong. When both risk assets and the ultimate safe haven move higher together, the market is saying this equity bounce isn't an all-clear signal. Gold's behavior suggests investors are hedging against the supply-side inflation risks that keep Inflation Shock as a close runner-up regime. The dollar's strength is also crowding out some of the typical overheating patterns, creating cross-currents that prevent clean regime confirmation across all asset classes.

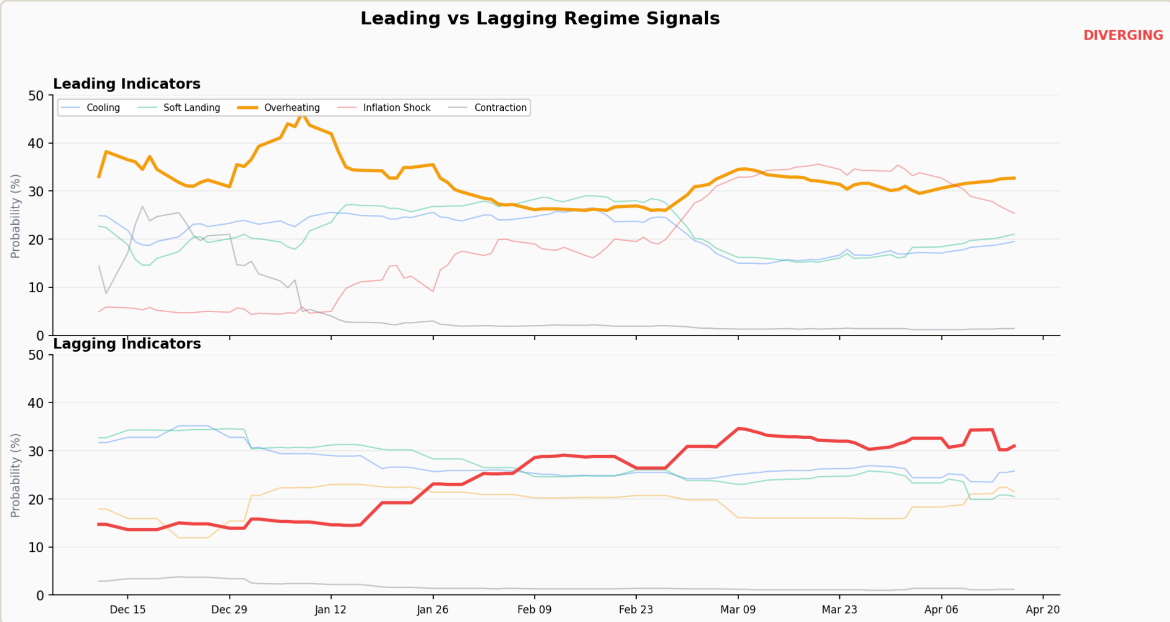
Asset Playbook

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

Your 60/40 portfolio is experiencing the kind of regime uncertainty that makes asset allocation feel like a guessing game. Equities carry a favorable stance, which has delivered this week, but rates and credit both face pressure from the inflation overhang. That creates a tug-of-war in a traditional portfolio where your stock gains are fighting against bond losses and credit spread widening risks.

The most surprising stance is gold's favorable rating, which reflects its role as an inflation hedge rather than a traditional safe haven play. Oil's favorable stance makes sense given the supply disruption mechanics covered earlier, but it's also the position that creates the most direct household pain through gas prices. The dollar's neutral stance reflects competing forces between growth momentum supporting the currency and inflation concerns weighing on real returns.

Leading / Lagging Signal Alignment



The leading and lagging layers are converging toward the same regime conclusion, which tells you this economic transition is happening at a measured pace rather than through sharp breaks. When forward-looking indicators align with current conditions, it suggests the regime has found stability rather than remaining in flux. The convergence process has brought both layers into agreement on Overheating as the primary regime, though the narrow margin over Inflation Shock persists in both timeframes.

This alignment strengthens regime stability because it means the economic forces driving today's conditions are also visible in the forward-looking data. The model isn't seeing conflicting signals between where the economy has been and where it's heading. That reduces the likelihood of a sudden regime flip, though it doesn't eliminate the possibility given how compressed the top regime probabilities remain.

An early-warning divergence would show up as the leading layer shifting toward a different regime while the lagging layer holds the current position. Watch for the leading indicators to break toward either Inflation Shock if supply disruptions intensify, or toward Cooling if the growth momentum that's driving the current call begins to fade. The tight probability spreads mean small shifts in the leading layer could signal bigger changes ahead.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+4.5%	+16.7%	+1.15	814
QQQ	+6.2%	+25.5%	+1.35	814
IWM	+5.5%	+3.9%	+0.20	814
IEF	+0.7%	+2.6%	+0.49	814
TIP	+0.4%	+4.8%	+1.17	814
LQD	+0.8%	+3.7%	+0.68	814
HYG	+0.9%	+5.5%	+1.15	814
GLD	+2.0%	+16.2%	+1.14	814
XLE	-3.4%	-6.0%	-0.26	814
VEA	+2.8%	+6.5%	+0.46	814
VWO	+4.3%	+12.7%	+0.74	814

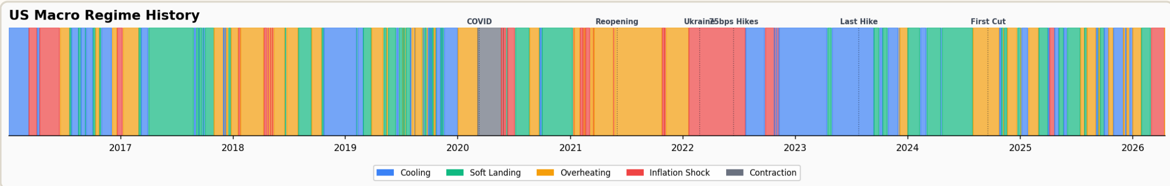
Historical returns measured over Overheating regime days in backtest.

This week's performance delivered a mixed verdict on regime expectations, with equity ETFs posting strong gains that align with historical Overheating patterns while defensive assets told a more complicated story. The broad market strength matches what the regime historically delivers, though the magnitude of moves suggests markets are pricing in resolution of near-term uncertainties rather than just grinding higher on growth momentum.

The divergences from historical patterns show up in the cross-asset behavior, particularly the simultaneous strength in both risk assets and traditional hedges. That's not typical of clean Overheating episodes, where defensive assets usually retreat as growth momentum takes hold. The pattern suggests markets are navigating the dual pressures that keep Inflation Shock as a close alternative regime.

The usual caveats apply with extra force given the regime uncertainty. These historical returns reflect past episodes where Overheating was the clear dominant regime, not periods where multiple regimes were competing for control. The sample sizes for regime-specific returns are also limited by the relatively short history of some ETFs and the episodic nature of economic regimes. Use these as directional guides rather than precise forecasts, especially when the regime call itself carries lower confidence than usual.

10-Year Regime History



The current Overheating episode shares DNA with the 2021-22 period, when supply chain disruptions and fiscal stimulus created a similar tension between demand-driven growth and supply-side inflation pressures. Both periods feature compressed regime probabilities and frequent handoffs between Overheating and Inflation Shock as the dominant narrative. The pattern suggests economies can run hot enough to generate broad price pressures while still facing supply-side constraints that complicate the inflation story.

What's structurally different now is the source of the supply disruption and the policy response. The earlier episode featured pandemic-related supply chains and aggressive fiscal support, while today's tensions center on geopolitical energy disruptions and tariff-driven price pressures. The Fed's position is also different, with policymakers facing inflation that may not respond to traditional monetary tools, unlike the demand-driven pressures they eventually contained through rate hikes.

The historical pattern shows these mixed-regime periods tend to resolve toward one clear dominant state, but the resolution mechanism varies significantly. Some episodes see supply constraints ease, allowing pure growth momentum to take hold. Others see demand cool enough that supply-side pressures become the dominant story. The current environment lacks the clear resolution mechanism that characterized previous transitions, which explains why the regime probabilities remain compressed rather than trending toward a decisive outcome.

Market Context

Weekly ETF returns as of 2026-04-17 (vs 2026-04-10).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
QQQ	Nasdaq 100	$611.07	$648.85	+6.2%
IWM	Russell 2000	$261.30	$275.78	+5.5%
SPY	S&P 500	$679.46	$710.14	+4.5%
VWO	Emerging Markets	$56.75	$59.18	+4.3%
VEA	Developed Markets	$67.74	$69.63	+2.8%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
GLD	Gold	Range-bound	$445.93	+2.0%
HYG	HY Corporate	$79.96	$80.65	+0.9%
LQD	IG Corporate	$109.20	$110.04	+0.8%
IEF	7-10Y Treasury	$95.27	$95.93	+0.7%
TIP	TIPS	$111.02	$111.48	+0.4%
XLE	Energy	$56.94	$55.02	-3.4%

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):** $+16,700/yr on $100K (historical Overheating regime returns)
- **This week:** $+4,500 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure more than any other single economic force right now. The energy shock that's driving the broader inflation picture translates directly into higher costs every time you fill up, and the timeline for relief depends entirely on geopolitical developments that remain unpredictable.

Your grocery bill is absorbing the double hit of energy costs and tariff pass-through effects. The supply chain disruptions aren't just theoretical when you're buying food that has to move through multiple transportation links, each now more expensive than they were six months ago.

Your mortgage or rent payment is getting squeezed from both directions. If you're shopping for a home, mortgage rates remain elevated even as the Fed holds steady. If you're renting, landlords are dealing with the same energy and transportation cost increases that eventually work their way into lease renewals.

Your retirement account is caught in the tension between an overheating economy that should theoretically support equity valuations and the inflation pressures that make the Fed's next moves unpredictable. The regime uncertainty means your portfolio is riding the wave of conflicting signals about whether current growth is sustainable or setting up for a harder landing.

Your monthly budget is dealing with the reality that wage growth isn't keeping pace with the price increases you're seeing at the pump and grocery store. The purchasing power squeeze is happening in real time, and the Fed's tools aren't designed to fix supply shocks quickly.

Signal vs. Noise

Signals Worth Tracking:
- The layer splits between leading and lagging indicators, particularly how the forward-looking data maintains the Overheating call while current conditions still show Inflation Shock influence - Energy market timespreads and physical delivery constraints, not just headline crude prices - Consumer credit utilization and delinquency rates as households navigate the purchasing power squeeze - Core services inflation excluding energy and tariff-affected categories - The convergence pattern between regime probabilities rather than any single regime's absolute level

Noise to Ignore:
- Daily crude oil price volatility that doesn't reflect changes in physical supply constraints - Individual Fed speaker commentary about data dependence when the central bank lacks tools for supply-driven inflation - Sector rotation between growth and value that's driven by duration repricing rather than fundamental regime shifts - Geopolitical headlines that don't materially change the Strait of Hormuz situation - Month-to-month variations in single inflation components when the broader pattern shows supply shock persistence

The distinguishing factor right now is whether a development changes the fundamental supply constraints or demand dynamics driving the regime tension. Price movements that reflect reshuffling around existing constraints are noise. Changes that alter the constraints themselves are signal.

What to Watch

Energy market structure developments by April 15th. Any credible diplomatic framework for Strait of Hormuz reopening or major producer capacity announcements that could offset the physical supply constraints currently driving energy prices. **March PCE inflation data release on April 26th.** This is the Fed's preferred gauge and will show whether the supply shocks are bleeding into the broader price dynamics that actually drive monetary policy decisions. **Consumer credit data for March, due April 7th.** Household borrowing patterns will reveal whether the purchasing power squeeze is forcing structural changes in spending behavior or just temporary adjustments. **Leading economic indicators for March, released April 18th.** The forward-looking components will test whether the model's leading layer confidence in Overheating over Inflation Shock holds up against fresh data. **Any escalation or de-escalation in Middle East military**

operations over the next two weeks. The geopolitical shock component remains the wild card that could flip the regime probabilities quickly in either direction.

What Would Change My Mind

Scenario One: Supply Shock Resolution. If the Strait of Hormuz reopens through diplomatic breakthrough or military success, and major energy producers announce immediate capacity increases, the Inflation Shock probability should collapse within two weeks. The model would likely shift toward Soft Landing as supply constraints ease faster than demand cools. I'd be wrong about the persistence of current price pressures, and the Fed would regain policy effectiveness much sooner than expected. **Scenario Two: Demand Overheating Confirmation.** If core services inflation accelerates for two consecutive months while wage growth re-accelerates above recent trends, that would confirm the Overheating call decisively. The model should show Overheating probabilities rising above the current compressed range within a month. I'd be wrong about the supply-driven nature of current inflation, and the Fed would need to act more aggressively than markets currently expect. **Scenario Three: Growth Momentum Break.** If employment indicators deteriorate sharply while inflation pressures persist, creating stagflation dynamics, the model should shift toward Cooling or even Contraction within six weeks. This would mean I'm wrong about the economy's underlying strength, and the current hot readings are masking fundamental weakness that supply shocks are exposing rather than causing.

The regime call depends on whether supply constraints or demand momentum proves more durable. I think supply constraints resolve first, but the price of being wrong is either missing a Fed pivot opportunity or underestimating how much tightening this economy can actually handle.

Personal Stakes

WHY MARKETS MOVE · WHY IT MATTERS TO YOU

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