PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Monday, April 20, 2026

OVERHEATING • 28.2%

Regime Call

CURRENT REGIME

Overheating (28.2%)

Runner-up: Inflation Shock (27.2%)

Confidence: Low (clarity 0.06, fit 0.59, market 0.5)

The model calls Overheating as the primary regime, though the margin over Inflation Shock is narrow enough to matter. This isn't a runaway economy in the traditional sense. It's an economy where growth momentum meets supply constraints, creating the kind of heat that builds gradually and then all at once.

The confidence metrics tell you this call is solid but not bulletproof. When the top two regimes are separated by a single percentage point, you're looking at an economy that could tip either direction depending on which shock dominates. The Overheating call reflects growth that's running ahead of the economy's ability to supply what people want to buy, while the Inflation Shock alternative captures the possibility that external disruptions overwhelm everything else. Both stories are true right now. The model is betting that domestic momentum wins over external chaos, but it's a close call.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**28.2%**	32.5%	21.7%	+0.8
Inflation Shock	**27.2%**	24.0%	31.4%	-3.5
Cooling	**22.2%**	20.2%	25.5%	+1.7
Soft Landing	**21.0%**	21.7%	20.1%	+0.9
Contraction	**1.4%**	1.5%	1.3%	+0.1

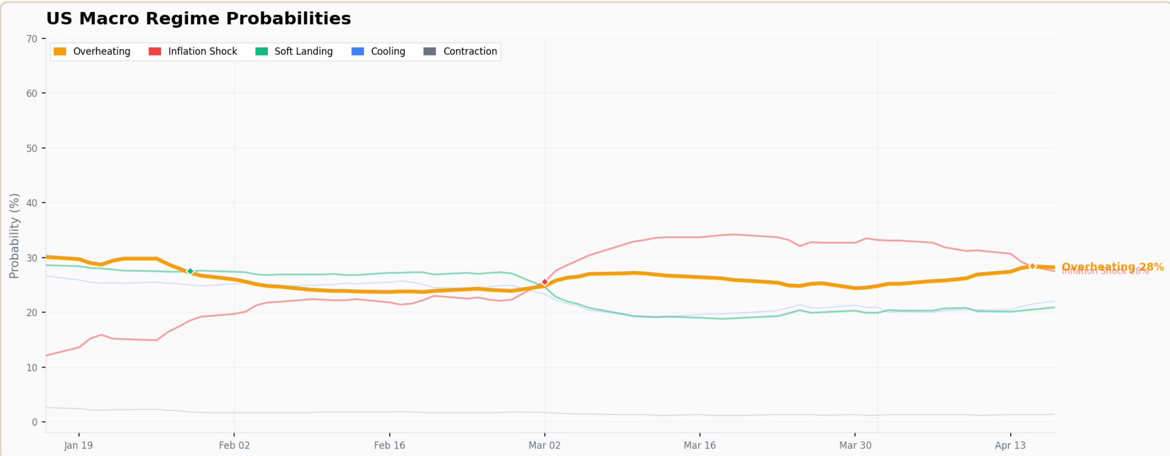
Convergence: diverging

The layer splits reveal an economy caught between what's happening now and what's coming next. The leading indicators favor growth scenarios, with both Overheating and Soft Landing showing strength in forward-looking data. That makes sense when you consider that employment, business investment, and consumer spending patterns all suggest continued expansion. The lagging indicators tell a different story, with Inflation Shock maintaining a stronger foothold in backward-looking measures.

This divergence between leading and lagging layers is the key tension. The economy's recent past was dominated by supply shocks and price pressures, while its near-term future looks more like classic late-cycle growth dynamics. The combined scores blend these perspectives, which is why you see Overheating edging ahead overall while Inflation Shock remains a serious contender.

The convergence reading suggests the layers are moving toward agreement, but slowly. When leading indicators point toward growth regimes while lagging indicators still reflect inflationary pressures, you get this kind of gradual convergence rather than a sharp snap to consensus. The economy is transitioning, but it's not there yet.

90-Day Regime History

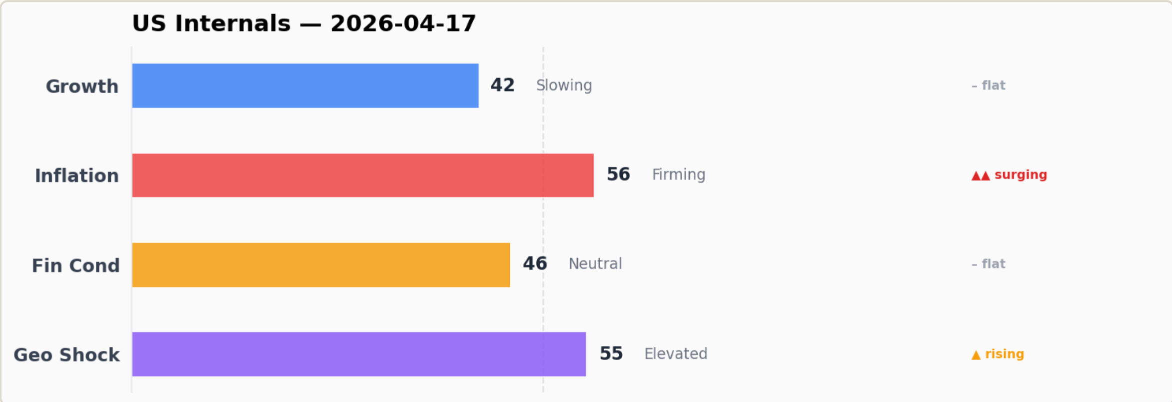


The current Overheating regime took the lead just this week, marking the end of a month-long Inflation Shock dominance that began in mid-March. The transition wasn't a sudden flip but rather a gradual erosion of Inflation Shock's advantage as growth momentum built and external pressures stabilized. The probability curves show a steady climb for Overheating rather than a sharp spike, suggesting this shift reflects accumulating evidence rather than a single decisive event.

What's notable about this transition is its persistence through volatility. Even as oil prices spiked and geopolitical tensions flared, the underlying growth dynamics continued to strengthen. The regime change happened despite external shocks, not because they disappeared. That suggests the domestic economy has enough momentum to absorb disruptions without fundamentally changing direction.

The shape of the probability evolution tells you this isn't a temporary oscillation. Previous regime changes over the past 90 days showed more back-and-forth movement, with probabilities rising and falling as new data arrived. This shift toward Overheating has been more directional, building steadily over two weeks before finally taking the lead. That pattern typically indicates a more durable regime change rather than a brief rotation.

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	55.8	firming	85 (surging)	73.2	-17.4	-1.5
Financial Conditions	45.1	neutral	45 (stable)	49.8	-4.7	-2.5
Geopolitical Shock	54.6	moderate	45 (stable)	52.9	+1.7	-7.0

Growth

The growth axis sits in slowing territory but with stable momentum, which captures the economy's current sweet spot. You're not seeing the kind of acceleration that would signal dangerous overheating, but you're also not seeing the deceleration that would suggest recession risk. This is growth that's moderating from very strong levels rather than weakening from marginal ones.

The stable momentum reading is particularly important because it suggests this slowing is controlled rather than chaotic. When growth momentum turns negative, that's when you start worrying about self-reinforcing downturns. When it stays stable during a period of moderation, that's typically what soft landings look like. The level says "cooling," but the momentum says "not crashing."

Inflation

Inflation sits in firming territory with surging momentum, which is exactly what you'd expect when supply shocks meet an economy that's still running warm. The firming level reflects the reality that price pressures are building across multiple categories, not just energy. The surging momentum captures how quickly those pressures are intensifying.

This combination is what separates the current environment from the transitory inflation debate of 2021-22. When inflation momentum surges while the level is already firming, you're looking at price pressures that are both broad and accelerating. That's the kind of inflation that becomes self-reinforcing if it continues, which is why this axis carries so much weight in the regime calculation.

Financial Conditions

Financial conditions remain neutral with stable momentum, which represents a remarkable achievement given everything else happening in the world. Credit markets are functioning, equity valuations are holding, and funding costs aren't spiraling higher despite inflation concerns. This is the axis that would typically tighten sharply during either an overheating or inflation shock scenario.

The Fed's dilemma lives here. They're watching inflation surge while financial conditions stay accommodative, which means monetary policy isn't doing the work of cooling demand. That leaves them with the choice between tightening aggressively to force financial conditions to restrictive levels, or staying patient and hoping supply-side solutions emerge. The neutral reading suggests they're choosing patience, at least for now.

Geopolitical Shock

The geopolitical axis dropped from elevated to moderate this week, reflecting markets' assessment that immediate escalation risks have diminished even as structural problems persist. This is the axis that captures tail risks rather than base case scenarios, and the moderation suggests those tail risks are becoming less probable.

The shift in momentum from surging to stable is equally important. When geopolitical momentum surges, it typically means new shocks are arriving faster than markets can process them. The stabilization suggests the current crisis is being contained rather than expanding, even if it's not being resolved.

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 remain well above trend despite months of policy tightening. Core PCE at 3.0%, gasoline prices elevated, and headline CPI at 3.3% all point to price pressures that aren't responding to traditional monetary policy tools. These aren't temporary spikes but sustained readings that suggest inflation has found a new, higher equilibrium.

The disconfirming signals tell a different story about underlying price dynamics. Core CPI running below trend and wage growth at 3.5% (sharply lower than previous peaks) suggest the labor market isn't driving broad-based inflation. This tension between headline inflation measures and underlying wage dynamics is what makes the current environment so difficult to categorize. You have inflation without the typical demand-side drivers, which is why the regime call remains close between Overheating and Inflation Shock scenarios.

Week in Review

WEEK SUMMARY (VS 2026-04-13)

REGIME	PRIOR	CURRENT	Δ
Overheating	27.4%	28.2%	+0.8
Inflation Shock	30.7%	27.2%	-3.5

REGIME	PRIOR	CURRENT	Δ
Cooling	20.5%	22.2%	+1.7
Soft Landing	20.1%	21.0%	+0.9
Contraction	1.3%	1.4%	+0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	44.5	42.1	-2.4	slowing
Inflation	57.3	55.8	-1.5	firming
Fin Cond	47.6	45.1	-2.5	neutral
Geo Shock	61.6	54.6	-7.0	moderate

The biggest move this week was the regime flip from Inflation Shock to Overheating, driven primarily by the geopolitical shock axis dropping from elevated to moderate. The shift began Monday when Israel's strike on Iran's Asaluyeh petrochemical facilities marked what analysts called a transition from military to economic warfare. Rather than escalating into broader conflict, the targeted nature of the strike suggested both sides were seeking to contain rather than expand the confrontation. By Friday, the geopolitical axis had fallen seven full points, pulling Inflation Shock probability down by over three percentage points and clearing the way for Overheating to take the lead.

The supporting moves told a story of an economy absorbing external shocks without losing underlying momentum. Financial conditions eased throughout the week despite initial concerns about energy price spikes, with the axis dropping from restrictive territory back to neutral. The inflation axis actually strengthened, moving from sticky to firming by Friday, but this reflected ongoing price pressures rather than new acceleration. Tuesday's ISM Services data showed prices paid jumping to levels that historically precede consumer price breakouts, while Wednesday brought news of defense spending increases that would add fiscal stimulus to an already warm economy.

What held steady was more revealing than what moved. The growth axis remained in slowing territory with stable momentum throughout the week, suggesting the economy's underlying pace wasn't disrupted by geopolitical volatility. Core inflation drivers stayed unchanged, with PCE, gasoline prices, and headline CPI all maintaining their positions as confirming signals for the regime call. This stability during a week of significant external events suggests the domestic economy has enough momentum to maintain its trajectory regardless of short-term disruptions.

Next week's setup depends heavily on whether the geopolitical stabilization continues or reverses. The model's shift toward Overheating assumes current tensions remain contained, but any escalation in the Strait of Hormuz situation could quickly flip the regime back toward Inflation Shock. Tuesday's PCE data will provide the next major test of whether inflation pressures are broadening beyond energy and tariff-affected categories. If core PCE comes in above expectations, it would validate the Overheating call. If it moderates, the Soft Landing alternative starts looking more credible.

Market Confirmation

The market is delivering mixed signals on the Overheating regime call. Equities are confirming the growth story, with the S&P 500 posting strong weekly gains that align with historical Overheating patterns. But oil's sharp weekly decline creates a puzzle. In a classic Overheating regime, you'd expect energy to rally alongside equities as demand pressures build. Instead, crude fell even as the broader market climbed.

The oil divergence reflects mechanical forces rather than regime contradiction. The weekly decline came from reshuffling existing barrels rather than new supply creation, as empty supertankers flood toward the Gulf Coast to work around the closed Strait. That's a logistics story, not a demand destruction story. The underlying supply constraint remains, which means oil's divergence from Overheating expectations is temporary positioning rather than fundamental disagreement with the regime thesis.

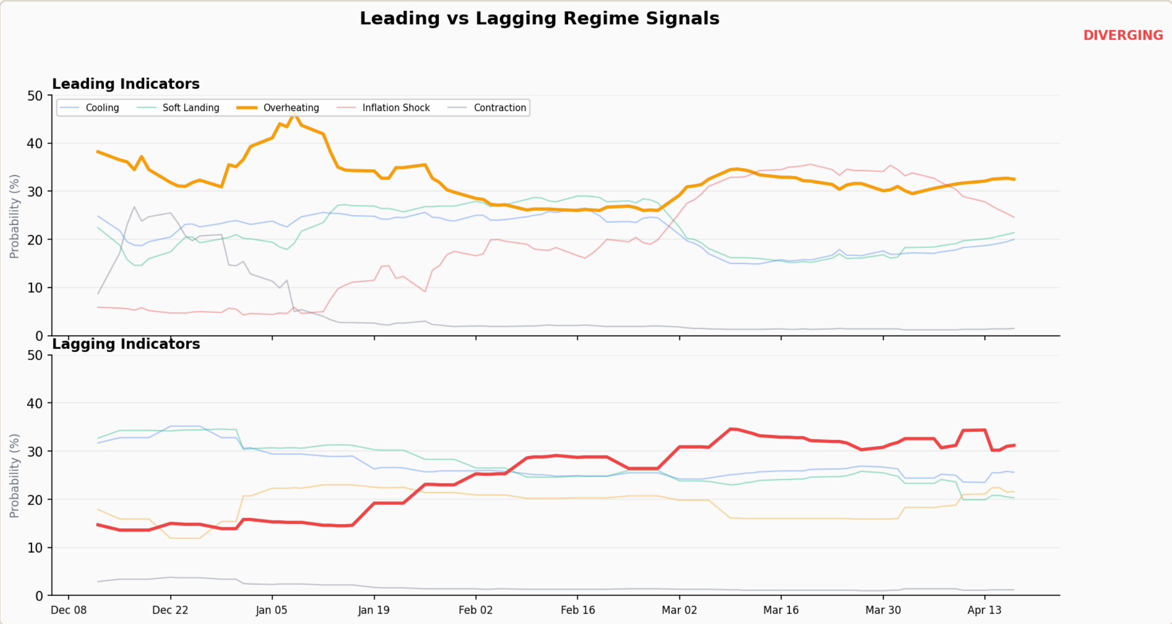
Asset Playbook

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 classic Overheating squeeze. Equities are delivering gains that feel good in the moment, but rates are working against your bond allocation as growth momentum builds. The most surprising stance is the neutral call on credit, which typically benefits from growth regimes but faces pressure from the rate environment. That leaves you caught between equity gains and fixed income pain, with no clear place to hide.

The dollar strength compounds the allocation challenge by crowding out what would normally be favorable gold positioning during inflationary periods. You're getting growth regime benefits in stocks while simultaneously dealing with the rate and currency pressures that make everything else more complicated. The playbook is telling you to lean into the growth story while accepting that your diversification tools aren't working as designed.

Leading / Lagging Signal Alignment



The leading and lagging layers are converging toward agreement, but they're taking their time about it. Leading indicators favor growth scenarios, particularly Overheating and Soft Landing, while lagging indicators still carry the imprint of recent supply shocks and price pressures. This creates the current tension where forward-looking data suggests continued expansion while backward-looking measures reflect inflationary stress.

The convergence process reveals an economy in transition rather than crisis. When leading indicators point toward growth regimes while lagging indicators reflect inflationary pressures, you get gradual alignment rather than sudden consensus. The economy is moving from a supply-shock dominated environment toward classic late-cycle growth dynamics, but it hasn't completed that transition yet.

Early warning of regime instability would show up as divergence acceleration rather than convergence. If leading indicators suddenly shifted away from growth scenarios while lagging indicators remained stuck in inflationary patterns, that would signal the economy is getting pulled in multiple directions simultaneously. For now, the convergence suggests the regime call has staying power, even if the process isn't complete.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+3.3%	+16.6%	+1.14	815
QQQ	+4.8%	+25.4%	+1.34	815
IWM	+4.6%	+4.0%	+0.21	815
IEF	+0.4%	+2.6%	+0.49	815
TIP	+0.1%	+4.7%	+1.16	815
LQD	+0.4%	+3.7%	+0.68	815
HYG	+0.4%	+5.4%	+1.14	815
GLD	+1.5%	+15.9%	+1.12	815
XLE	-3.6%	-6.0%	-0.26	815
VEA	+1.6%	+6.4%	+0.45	815
VWO	+3.0%	+12.6%	+0.73	815

Historical returns measured over Overheating regime days in backtest.

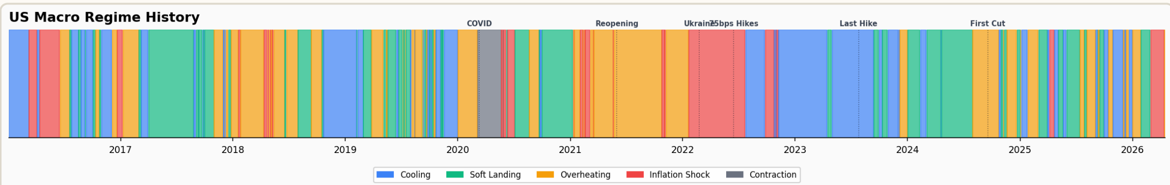
This week's market action shows the Overheating regime delivering on its equity promises while creating complications elsewhere. The S&P

500's strong performance aligns with historical Overheating patterns, where growth momentum typically drives equity returns higher. But the week's winners and losers reveal the regime's selectivity, with energy diverging from expectations despite the underlying supply constraints.

The divergence between this week's returns and historical regime patterns reflects the unique nature of current conditions. Oil's decline contradicts typical Overheating behavior, while equity strength confirms it. This isn't regime failure but rather the market working through mechanical disruptions that don't fit historical templates. The Strait closure creates oil market dynamics that override normal regime relationships.

The backtest limitations matter more in environments like this one. Historical regime definitions assume normal market functioning, but closed shipping lanes and supply chain reshuffling create return patterns that don't match the historical sample. The regime call remains valid for understanding underlying economic dynamics, but specific asset returns may deviate from historical norms until these mechanical disruptions resolve.

10-Year Regime History



The current Overheating episode rhymes most closely with late 2018, when growth momentum met capacity constraints in an environment of building inflationary pressures. Both periods featured economies running ahead of their supply capacity while external shocks complicated the picture. The 2018 episode eventually transitioned as growth momentum peaked and financial conditions tightened, though the specific catalyst was trade war escalation rather than geopolitical supply disruption.

What's structurally different now is the nature of the supply constraints. The 2018 period dealt with tariff-induced cost pressures and monetary policy tightening, while today's constraints come from physical infrastructure disruption and energy market fragmentation. Unlike previous episodes where policy changes could address the underlying tensions, today's supply disruptions require either diplomatic resolution or significant infrastructure workarounds.

The historical pattern suggests Overheating regimes typically last several months before transitioning, but the resolution mechanism varies significantly. Some transitions come from policy intervention, others from natural economic cooling, and still others from external shock escalation. The current episode's resolution depends more on geopolitical developments than on traditional economic or policy cycles, making historical timing comparisons less reliable than usual.

Market Context

Weekly ETF returns as of 2026-04-20 (vs 2026-04-13).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
QQQ	Nasdaq 100	$617.39	$646.79	+4.8%
IWM	Russell 2000	$265.07	$277.35	+4.6%
SPY	S&P 500	$686.10	$708.72	+3.3%
VWO	Emerging Markets	$57.18	$58.91	+3.0%
VEA		$68.21	$69.33	+1.6%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
	Developed Markets			
GLD	Gold	Range-bound	$442.09	+1.5%
IEF	7-10Y Treasury	$95.48	$95.84	+0.4%
LQD	IG Corporate	$109.62	$110.03	+0.4%
HYG	HY Corporate	$80.26	$80.58	+0.4%
TIP	TIPS	$111.28	$111.41	+0.1%
XLE	Energy	$57.11	$55.07	-3.6%

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):** $+16,600/yr on $100K (historical Overheating regime returns)
- **This week:** $+3,300 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure before your portfolio does. The jump to over four dollars per gallon happened in the past week, and if the shipping disruption continues, you're looking at sustained pressure through the summer driving season. Every dollar increase in gas prices costs the average household about sixty dollars per month in direct fuel costs, but the real bite comes from the ripple effects on everything else that gets transported.

Your mortgage payment got slightly cheaper this week as rates dropped, but you're still paying dramatically more than you would have just a few years ago. The rate decline reflects bond market expectations that the Fed will need to cut rates if the economy slows, which is cold comfort when you're trying to buy a house right now. If you're refinancing, the math probably still doesn't work unless you're coming off a much higher rate.

Your paycheck is losing ground to inflation in real terms, and that was happening before energy prices spiked. The combination of slowing wage growth and accelerating prices means your purchasing power is shrinking month by month. This matters most for non-discretionary spending like food and fuel, where you can't easily substitute or delay purchases.

Your retirement account benefited from the recent equity rally, but the gains feel fragile given the geopolitical backdrop. The historical pattern suggests markets that post consecutive strong weekly gains tend to hold those gains over longer periods, but that assumes normal conditions. A weekend escalation in the Middle East could erase weeks of progress in a single trading session.

Your credit card balance is becoming more expensive to carry as the Fed holds rates high, and the data suggests consumers were already stretching before the latest price pressures hit. If you're using credit to bridge the gap between income and expenses, that gap is widening at exactly the wrong time in the rate cycle.

Signal vs. Noise

Signals worth tracking:

The commodity complex is in broad uptrend mode, with over eighty percent of components rising. When nearly everything from energy to metals to agriculture is moving higher, that's not sector rotation or temporary disruption. That's inflation pressure building across the supply chain.

Consumer spending patterns are diverging from income in ways that suggest stress rather than confidence. Real income turned negative while spending accelerated, which means people are either drawing down savings or increasing debt to maintain their lifestyle. That's not sustainable.

The positive correlation between stocks and bonds is breaking traditional portfolio assumptions. When both risk assets and safe havens move together, it usually means markets are pricing scenarios that don't fit normal frameworks. Pay attention to what's working when nothing should be working.

Noise to ignore:
Individual stock movements in response to political commentary, even when it comes from the president. If a presidential endorsement can't stop a stock from falling, the real drivers are elsewhere. Focus on sector patterns and broad market behavior rather than single-name reactions to news cycles.

The daily oil price volatility around geopolitical headlines. The physical market fundamentals matter more than the headline reactions. Empty tankers heading to the Gulf Coast look like relief but they're just reshuffling existing supply. Watch the timespreads and inventory data, not the flat price reactions to news.

The distinction right now comes down to breadth versus specificity. Broad-based moves across asset classes and economic indicators are telling you something about underlying conditions. Narrow, headline-driven reactions are telling you about positioning and sentiment, which change faster than fundamentals.

What to Watch

March PCE inflation data, due April 26. This is the number the Fed actually targets, and early estimates suggest it could be even hotter than the CPI print that got everyone's attention. If core PCE services accelerate for a second consecutive month, the "transitory shock" narrative starts to crack. **Weekly petroleum inventory reports through April.** The Energy Information Administration data will tell you whether the tanker reshuffling is actually relieving physical tightness or just moving the problem around. Watch crude oil inventories at Cushing and gasoline stocks on the East Coast specifically. **Consumer credit data for March, due May 7.** Consumers were already spending more than they earned in February. The credit card delinquency rates and revolving credit growth will show whether that gap widened as gas prices spiked. Look for acceleration in both metrics. **Any diplomatic framework announcement for Strait of Hormuz reopening.** This is the variable that could change everything overnight. A credible negotiation process would break the summer spike thesis immediately. No timeline to watch here because it's event-driven, but it's the most important single catalyst. **April employment report, due May 2.** The labor market is the Fed's other mandate, and wage growth is the transmission mechanism between tight employment and persistent inflation. Watch average hourly earnings growth and labor force participation rates for signs that worker bargaining power is strengthening or weakening.

What Would Change My Mind

If core services inflation accelerates for two consecutive months, stripping out energy and tariff effects. Right now I believe this inflation spike reflects identifiable external shocks rather than broad demand overheating. But if price pressures spread beyond the obvious culprits into areas like housing services, medical care, and other core consumption categories, that would signal the shocks are bleeding into expectations. The Fed would need to respond more aggressively, and the patient approach becomes dangerous complacency. **If a credible diplomatic solution emerges for the Strait of Hormuz.** The oil market is pricing extended disruption, and that's driving both the immediate price spike and the summer shortage fears. A genuine negotiation framework with specific timelines and enforcement mechanisms would collapse the energy premium immediately. This isn't about temporary ceasefires or symbolic gestures, but actual progress toward reopening the shipping lanes with international guarantees. **If the labor market reaccelerates unexpectedly.** The current regime call assumes growth momentum that's strong but not accelerating out of control. If job growth surges above trend, wage growth reaccelerates, or unemployment drops below recent lows, that would shift the picture from controlled overheating to dangerous overheating. The model would likely flip toward a more aggressive inflation shock scenario within weeks, not months.

The price of being wrong on the inflation diagnosis is that the Fed stays too easy for too long and lets temporary shocks become permanent expectations. The price of being wrong on oil is that summer driving season becomes a genuine economic crisis rather than just an expensive inconvenience. The price of being wrong on labor markets is that we get the kind of wage-price spiral that requires a recession to break.
