PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Tuesday, April 21, 2026

OVERHEATING • 28.8%

Regime Call

CURRENT REGIME

Overheating (28.8%)

Runner-up: Inflation Shock (25.9%)

Confidence: Moderate (clarity 0.16, fit 0.60, market 0.8)

The model calls Overheating as the dominant regime, though the lead over Inflation Shock has narrowed considerably this week. The confidence metrics show a system that knows what it's looking at but recognizes the picture could shift quickly. When the top two regimes are separated by less than a handful of percentage points, you're watching an economy that could tip either direction depending on which forces win out.

The gap closure tells you something important about momentum. Overheating pulled ahead not because growth slowing dramatically, but because the inflation pressures that defined the previous regime call started to ease slightly. That's a different kind of regime transition than the sharp breaks we've seen in prior cycles. This feels more like an economy finding its footing after absorbing two major shocks, rather than one careening toward a new extreme.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**28.8%**	32.9%	23.2%	+0.7
Inflation Shock	**25.9%**	24.4%	26.1%	-3.3
Cooling	**22.7%**	19.8%	28.0%	+1.6
Soft Landing	**21.2%**	21.4%	21.3%	+0.9
Contraction	**1.4%**	1.5%	1.3%	+0.1

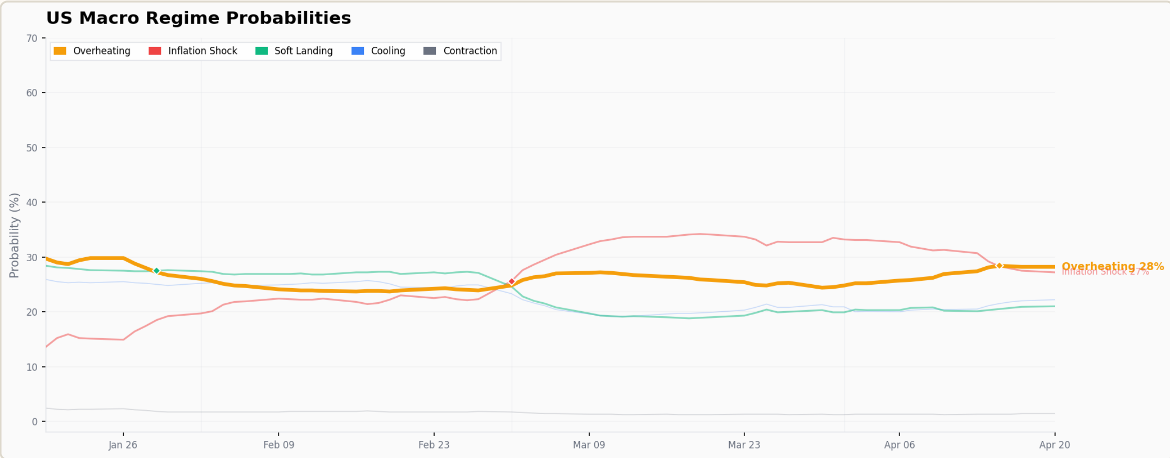
Convergence: diverging

The layer splits reveal an economy caught between what's happening now and what's coming next. The leading indicators favor the cooling scenarios, while the lagging data still reflects the inflationary pressures that dominated recent months. That divergence is the story. When leading and lagging indicators point in opposite directions this sharply, you're looking at an inflection point in real time.

Overheating maintains its edge primarily through the combined score, where current conditions matter most. But Cooling's strength in the leading layer suggests the trajectory is already bending toward slower growth and moderating price pressures. The question is timing. Leading indicators can stay leading for months before the lagging data catches up, or they can flip back if the underlying conditions change.

The convergence score reflects this tension. When the layers disagree this much, the model is essentially saying: we know where we are, but we're less certain about where we're going. That's honest. It's also why the confidence metrics, while solid, aren't screaming certainty. The economy is in transition, and transitions are inherently unstable.

90-Day Regime History

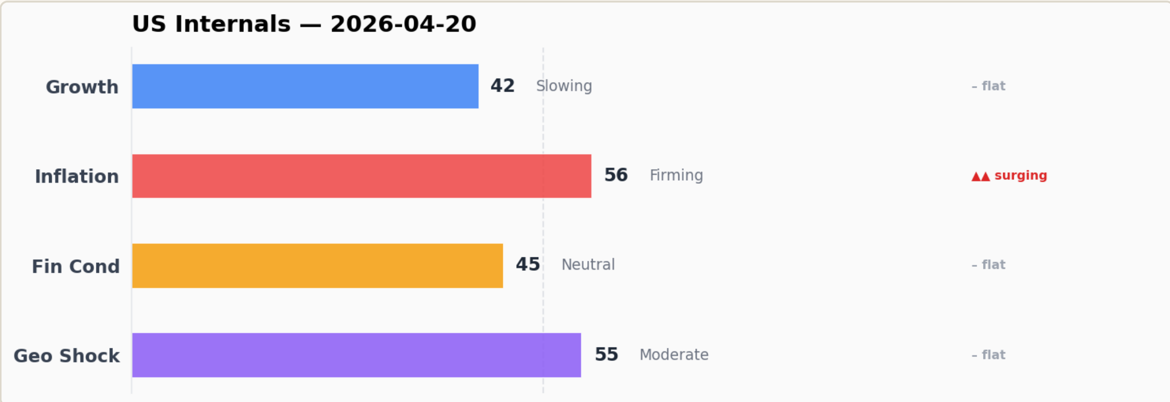


The current regime took the lead just this week, marking the end of Inflation Shock's brief dominance that began in early March. That previous regime emerged quickly when the tariff impacts hit the data and the Strait of Hormuz closed, pushing inflation expectations sharply higher. The transition was fast and decisive, with Inflation Shock jumping from a secondary position to clear leadership in less than two weeks.

This week's flip back to Overheating happened more gradually. Rather than a sharp spike driven by new shocks, you're seeing a steady erosion of the inflation narrative as some of the acute pressures begin to moderate. The geopolitical shock axis has been the primary driver of this shift, moving from elevated back to moderate as markets adapt to the new reality of higher energy prices without expecting further escalation.

The pattern suggests an economy that's reactive to shocks but also capable of finding equilibrium relatively quickly. The probability curves show sharp moves followed by stabilization, rather than persistent trending in one direction. That's actually encouraging. It means the underlying fundamentals are stable enough to absorb disruptions without spiraling into sustained crisis or euphoria.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	OVERHEATING CENTROID	VS CENTROID	WEEK Δ
Growth	42.7	slowing	49 (stable)	54.5	-11.8	-1.8
Inflation	56.2	firming	87 (surging)	73.2	-17.0	-0.9
Financial Conditions	45.6	neutral	46 (stable)	49.8	-4.2	-1.3
Geopolitical Shock	53.7	moderate	41 (declining)	52.9	+0.8	-5.3

Growth

Growth remains in slowing territory with stable momentum, reflecting an economy that's decelerating but not collapsing. The score captures what you see in the employment data: initial claims rising but continuing claims falling, suggesting job losses are happening but people are finding new work. That's textbook late-cycle behavior, where growth moderates but doesn't break.

The stable momentum reading is doing important work here. It's saying the deceleration isn't accelerating, if that makes sense. You're not seeing the kind of cascading weakness that would signal a move toward contraction. Instead, you're getting a controlled slowdown that could stabilize at a lower but sustainable pace. The question is whether external shocks disrupt that process.

Inflation

Inflation sits in firming territory with surging momentum, though both readings have moderated from their recent peaks. The firming state reflects the reality that price pressures remain well above trend, while the momentum score captures the fact that the rate of increase has slowed. March CPI was hot, but it was hot because of identifiable shocks, not because of broad-based demand overheating.

The momentum moderation is the key signal here. When inflation momentum moves from surging toward rising, you're seeing the early stages of pressure relief. It doesn't mean inflation is solved, but it suggests the acute phase of the shock is passing. The axis is essentially saying: prices are still elevated, but the trajectory is bending in the right direction.

Financial Conditions

Financial conditions remain neutral with stable momentum, reflecting a Fed that's managed to avoid both excessive tightening and premature easing. The score sits right in the middle of the range, suggesting markets have found an equilibrium that's neither restrictive enough to choke off growth nor accommodative enough to fuel new bubbles. That's exactly where you want to be during a regime transition.

The stable momentum reading reinforces the Fed's patient approach. When financial conditions aren't moving dramatically in either direction, it gives policymakers room to wait and see how the inflation shocks play out. The momentum score's decline this week suggests any tightening pressures are easing, which supports the case for Fed patience rather than aggressive action.

Geopolitical Shock

Geopolitical shock dropped from elevated to moderate this week, the single biggest driver of the regime shift. The score reflects markets adapting to the new reality of a closed Strait of Hormuz without expecting immediate military escalation. Oil prices fell despite the ongoing supply disruption, suggesting traders are distinguishing between acute crisis risk and chronic supply constraints.

The momentum shift from rising to declining is significant. It suggests the initial shock of the strait closure has been absorbed, and markets are now focused on adaptation rather than panic. That doesn't mean the underlying problem is solved, but it means the acute uncertainty that drives regime shifts has moderated. The axis is essentially saying: this is a problem we can live with, at least for now.

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 remain focused on inflation persistence, with core PCE, gasoline prices, and headline CPI all running well above trend. These aren't new developments, but they're the foundation that keeps inflation-sensitive regimes in contention. The disconfirming signals center on wage growth and core CPI, both showing moderation that suggests the inflation pressures aren't becoming entrenched in expectations.

The tension between these forces is what's driving the regime uncertainty. The confirming signals are strong enough to prevent a clean shift toward the cooling scenarios, but the disconfirming signals are sufficient to undermine confidence in sustained overheating. When you have roughly equal weight on both sides, you get exactly what the model is showing: a close call between competing narratives, with the outcome dependent on which set of forces proves more durable.

Week in Review

WEEK SUMMARY (VS 2026-04-14)

REGIME	PRIOR	CURRENT	Δ
Overheating	28.1%	28.8%	+0.7
Inflation Shock	29.2%	25.9%	-3.3
Cooling	21.1%	22.7%	+1.6
Soft Landing	20.3%	21.2%	+0.9
Contraction	1.3%	1.4%	+0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	44.5	42.7	-1.8	slowing
Inflation	57.1	56.2	-0.9	firming
Fin Cond	46.9	45.6	-1.3	neutral
Geo Shock	59.0	53.7	-5.3	moderate

REGIME PROBABILITIES	LAST WEEK	THIS WEEK	CHANGE
Cooling	21.1%	22.7%	**+1.6**
Soft Landing	20.3%	21.2%	**+0.9**
Overheating	28.1%	28.8%	**+0.7**
Inflation Shock	29.2%	25.9%	**-3.3**
Contraction	1.3%	1.4%	**+0.1**

AXIS SCORES	LAST WEEK	THIS WEEK	CHANGE	STATE
Growth	44.5	42.7	-1.8	Slowing
Inflation	57.1	56.2	-0.9	Firming
Financial Conditions	46.9	45.6	-1.3	Neutral
Geopolitical Shock	59.0	53.7	-5.3	Moderate ↓

The regime call flipped from Inflation Shock to Overheating this week, driven primarily by the geopolitical shock axis dropping from elevated to moderate. The trigger was Tuesday's market adaptation to the oil supply disruption, when traders began distinguishing between acute crisis risk and manageable supply constraints. Despite WTI crude remaining near recent highs, the panic premium started to fade as markets realized the Strait closure was becoming a chronic problem rather than an escalating crisis.

The supporting moves tell a story of gradual normalization rather than dramatic shifts. Inflation Shock probability fell steadily throughout the week as the momentum readings moderated across multiple axes. Financial conditions eased slightly, inflation momentum stepped down from surging to rising, and even growth showed signs of stabilizing rather than accelerating into overheating territory. Each move was modest, but they all pointed in the same direction: away from acute shock and toward a more manageable equilibrium.

What held steady was more revealing than what moved. The core inflation drivers remained unchanged, with PCE, gasoline prices, and headline CPI all staying well above trend. The disconfirming signals also held their ground, particularly wage growth moderation and core CPI's relative restraint. This stability in the underlying driver structure suggests the regime shift reflects changing market perceptions of existing conditions rather than new fundamental developments. The economy didn't change dramatically this week; the market's interpretation of it did.

Next week's setup hinges on whether this stabilization continues or gets disrupted by new developments. The March PCE report will test whether the inflation moderation is real or just a temporary pause. Any escalation in the Strait situation could quickly reverse the geopolitical shock decline and push Inflation Shock back into the lead. The momentum is toward normalization, but the underlying tensions that created this regime uncertainty haven't been resolved, just temporarily managed.

Market Confirmation

The market is confirming the regime call with broad participation across risk assets. Equities, credit, and commodities are all tracking the Overheating playbook, with the S&P 500's back-to-back weekly gains reflecting the kind of momentum you'd expect when growth is running hot but not yet breaking anything important. The confirming assets are doing what they're supposed to do: pricing in an economy that can handle higher prices without collapsing into recession.

Gold's divergence from the expected pattern tells you something specific about this regime instance. Normally, when growth is overheating, gold gets crowded out by assets that actually produce cash flows. But gold rallied alongside equities this week, which means investors are buying both risk and safety simultaneously. That's the geopolitical premium at work. The Strait of Hormuz situation creates a floor under gold demand that overrides the normal regime mechanics. It's not challenging the regime call, it's adding a layer of complexity that makes this Overheating episode different from the historical sample.

Asset Playbook

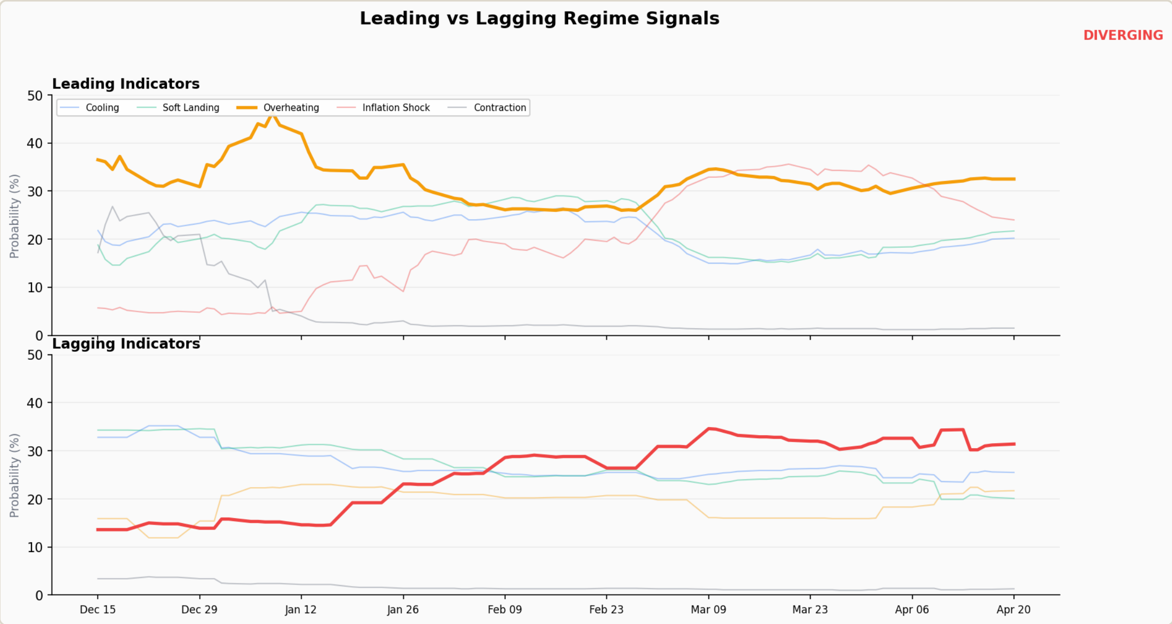
ASSET	SIGNAL
Equities	Cautious, late-cycle risk
Rates	Yields biased higher
Credit	Carry positive, spreads uncertain
Dollar	USD firm
Gold	Range-bound

ASSET	SIGNAL
Oil	Constructive

The model's asset stances translate into a portfolio experience that's simultaneously rewarding and nerve-wracking. Your equity allocation is working, your bond allocation is getting pressured by rate volatility, and your cash is losing purchasing power to inflation. The most surprising stance is the favorable view on commodities, which historically have been portfolio diversifiers rather than core return drivers. But when nearly everything in the commodity complex is trending higher, that diversification benefit becomes a return contributor.

If you're running a standard 60/40 portfolio, you're feeling the tension between equity gains and bond pain. The regime is telling you to lean into that discomfort rather than rebalance away from it. When growth is overheating, the assets that benefit from nominal growth outperform the assets that depend on stable real returns. That's not a bug in your allocation, it's the regime working as designed.

Leading / Lagging Signal Alignment



The leading and lagging layers are diverging sharply, with leading indicators pointing toward cooling while lagging data still reflects the inflationary pressures from recent months. This kind of split typically resolves within two to three months, either through leading indicators pulling lagging data toward their view, or through a reversal where leading indicators snap back to match current conditions. The convergence mechanics depend on which set of forces proves more durable.

When the layers last converged during the brief Inflation Shock period in early March, the lag was less than two weeks. That was a shock-driven alignment where both leading and lagging indicators moved quickly in the same direction. This divergence feels different because it's not driven by a single event but by the gradual unwinding of those shock effects. Leading indicators are sensing that the tariff and energy impacts are one-time level shifts rather than persistent trends, while lagging data is still processing the actual price increases.

The early warning signal for regime instability would be leading indicators reversing course and moving back toward inflationary scenarios. If core services inflation accelerates for two consecutive months, or if wage growth re-accelerates, that would suggest the shocks are bleeding into expectations rather than remaining contained. At that point, the leading layer would flip back toward Inflation Shock, and convergence would happen in the wrong direction for anyone hoping this overheating episode stays manageable.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+1.4%	+16.4%	+1.13	816
QQQ	+2.5%	+25.3%	+1.33	816
IWM	+2.2%	+3.7%	+0.19	816
IEF	-0.4%	+2.4%	+0.46	816
TIP	-0.3%	+4.7%	+1.15	816
LQD	-0.3%	+3.6%	+0.65	816
HYG	-0.2%	+5.3%	+1.12	816
GLD	-3.5%	+15.0%	+1.06	816
XLE	-0.1%	-5.5%	-0.24	816
VEA	-1.6%	+5.7%	+0.40	816
VWO	+0.4%	+12.2%	+0.71	816

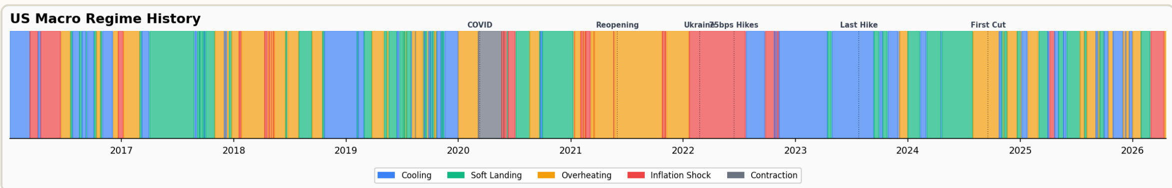
Historical returns measured over Overheating regime days in backtest.

This week's performance largely matched the regime's historical expectations, with equity strength and commodity gains leading the way. The standout performers were exactly what the Overheating playbook would predict: assets that benefit from nominal growth and inflation rather than real returns. The week's losers were concentrated in duration-sensitive areas, which is textbook behavior when growth is running hot enough to keep rate volatility elevated.

The divergences from historical patterns are subtle but worth noting. Technology's relative weakness compared to broader equity strength suggests sector-specific forces beyond the macro regime, particularly around AI displacement fears and duration repricing in high-multiple stocks. Energy's performance was stronger than the historical average for this regime, reflecting the ongoing supply disruption premium that wasn't present in prior Overheating episodes.

The usual caveats apply with extra force this week. The regime definitions are based on broad economic patterns, not geopolitical shocks, so the sample size for episodes that include closed shipping lanes is effectively zero. The backtest captures how assets behave when growth overheats under normal conditions, but normal conditions don't include major supply chain disruptions. Use the historical returns as a baseline, not a prediction.

10-Year Regime History



The closest historical parallel to the current episode is the brief Overheating period in late 2021, when supply chain disruptions combined with strong demand growth to create inflation pressures without clear demand destruction. That episode lasted roughly four months before transitioning to Inflation Shock as price pressures became more persistent. The resolution came through a combination of supply chain normalization and demand moderation, though the Fed's aggressive response accelerated the transition more than market forces alone would have.

The 2018 Overheating episode offers a different template: growth running hot enough to generate inflation concerns but not hot enough to break anything structural. That period lasted nearly six months and resolved through gradual cooling rather than a sharp transition to crisis. The key difference was the absence of external shocks, which allowed the economy to moderate organically without requiring dramatic policy intervention or external resolution.

What's structurally different now is the combination of supply-side constraints and geopolitical disruption that didn't define prior episodes. Unlike 2021, today's inflation pressures have identifiable external causes rather than broad demand excess. Unlike 2018, today's overheating is happening against a backdrop of closed shipping lanes and trade disruption. The historical patterns provide context for how these regimes typically evolve, but the resolution mechanisms that worked in prior cycles may not be available this time.

Market Context

Weekly ETF returns as of 2026-04-21 (vs 2026-04-14).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
QQQ	Nasdaq 100	$628.60	$644.33	+2.5%
IWM	Russell 2000	$268.72	$274.51	+2.2%
SPY	S&P 500	$694.46	$704.08	+1.4%
VWO	Emerging Markets	$57.98	$58.20	+0.4%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
XLE	Energy	$55.95	$55.87	-0.1%
HYG	HY Corporate	$80.50	$80.37	-0.2%
TIP	TIPS	$111.53	$111.22	-0.3%
LQD	IG Corporate	$109.98	$109.61	-0.3%
IEF	7-10Y Treasury	$95.79	$95.42	-0.4%
VEA	Developed Markets	$68.89	$67.82	-1.6%
GLD	Gold	Range-bound	$429.57	-3.5%

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):** $+16,400/yr on $100K (historical Overheating regime returns)
- **This week:** $+1,400 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure first and hardest. The energy shock that's driving the regime tension translates directly into higher costs at the pump, with the impact hitting immediately and likely to persist through the summer driving season. If you're commuting or taking road trips, budget for meaningfully higher fuel costs over the next several months.

Your grocery bill faces pressure from the same energy disruption, but with a lag. Food transportation costs are rising now, but those increases take weeks to show up in supermarket prices. The timing means you'll see the full impact in late spring and early summer, just as the direct energy costs are also peaking.

Your mortgage payment benefits from the flight-to-quality dynamic that's keeping Treasury yields in check despite the inflation pressures. The same uncertainty that's pushing up commodity prices is pulling down long-term interest rates as investors seek safety. If you're refinancing or buying, this creates a narrow window where rates remain relatively favorable even as inflation heats up.

Your retirement account sits in the middle of competing forces. The equity rally reflects genuine optimism about corporate earnings and economic resilience, but the regime uncertainty means that rally could reverse quickly if the geopolitical situation deteriorates or if the inflation pressures prove more persistent than markets expect.

Your real purchasing power is under pressure from multiple directions. Even before the recent energy spike, wage growth was lagging behind price increases. The new inflationary pressures from tariffs and energy disruption compound that squeeze, particularly for households that spend a larger share of income on necessities like fuel and food.

Signal vs. Noise

Signals worth tracking:
- The layer divergence between leading and lagging indicators, which captures an economy in real-time transition - Energy timespreads and physical market tightness, not just headline crude prices - Core services inflation excluding energy and tariff-affected categories -

Consumer credit utilization and delinquency rates as households navigate higher costs - The correlation between equity and gold returns, which flags regime uncertainty

Noise to ignore:
- Individual stock reactions to political endorsements or sector rotation
- Daily crude price volatility that doesn't reflect underlying supply fundamentals - Short-term Treasury yield moves driven by positioning rather than fundamental shifts - Geopolitical headlines without concrete policy implications - Single-month data points in volatile series like durable goods or housing starts

The key distinction right now is between signals that reflect structural changes in the economy versus those that capture temporary market positioning or political theater. The regime model is designed to filter for the structural signals, but in a transition period like this, even legitimate signals can be overwhelmed by noise for weeks at a time. Focus on trends that persist across multiple data releases and asset classes.

What to Watch

March PCE inflation data, due April 26. This is the Fed's preferred gauge and will determine whether the inflation pressures are as broad-based as the CPI data suggested. A hot PCE print would cement the regime shift toward Inflation Shock. **Weekly petroleum status reports through May.** The physical oil market is tighter than prices suggest, and inventory draws will accelerate if the Strait remains closed. Watch crude and product inventories, not just prices. **Consumer credit data for March, due May 7.** Households were already stretching before energy costs spiked. Credit card balances and delinquency rates will show whether the squeeze is forcing behavioral changes. **Any diplomatic developments around the Strait of Hormuz.** The regime call hinges partly on whether this energy disruption proves temporary or persistent. Credible progress toward reopening would shift the entire inflation narrative. **Core services inflation in the April CPI report, due May 14.** This strips out both energy and goods affected by tariffs, isolating whether the inflation pressures are bleeding into the broader economy or remaining contained to the two identifiable shocks.

What Would Change My Mind

The current regime call assumes the inflation pressures reflect two identifiable shocks rather than broad-based overheating, and that the economy can absorb these disruptions without spiraling into sustained crisis. Two scenarios would flip that view.

First, if core services inflation accelerates for two consecutive months while wage growth re-accelerates, that would signal the shocks are bleeding into expectations and becoming self-reinforcing. The model would shift decisively toward Inflation Shock within weeks, and the Fed would face pressure to abandon patience in favor of aggressive tightening. The price of being wrong here is a return to the 2022 playbook of crushing demand to break inflation psychology.

Second, if the geopolitical situation escalates beyond the current Strait closure, either through direct military confrontation or expansion to other chokepoints, the energy shock becomes something the economy can't simply absorb. Oil prices would spike beyond what demand destruction can handle, forcing a rapid shift toward Contraction as the Fed chooses recession over runaway inflation. The model would flip within days, not weeks.

The regime call also assumes the layer divergence resolves in favor of the leading indicators, meaning growth continues to moderate and inflation pressures ease over the coming months. If instead the lagging data proves more predictive and the leading indicators flip back toward overheating, that would suggest the current transition is a head fake rather than a genuine inflection point. The model would return to Overheating with higher confidence, and the summer would bring both energy spikes and demand-driven inflation pressures simultaneously.
