PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Wednesday, April 22, 2026

OVERHEATING • 29.0%

Regime Call

CURRENT REGIME

Overheating (29.0%)

Runner-up: Inflation Shock (25.6%)

Confidence: Moderate (clarity 0.19, fit 0.59, market 0.8)

Overheating holds the lead with a narrow margin over Inflation Shock, but the gap has widened meaningfully this week. The runner-up position tells you everything about where the risks lie: this isn't a comfortable expansion cruising toward a soft landing. This is an economy running too hot, with inflation pressures that could easily tip into something worse.

The confidence metrics paint a picture of an economy in transition rather than settled equilibrium. The model sees the current state clearly enough, but the fit suggests we're in a regime that doesn't match historical patterns perfectly. That makes sense when you're dealing with tariff shocks and closed shipping lanes rather than textbook demand overheating. The market confirmation is partial, which means some assets are buying the story while others are hedging against it.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.0%**	33.0%	23.3%	+0.6
Inflation Shock	**25.6%**	24.8%	26.2%	-2.7
Cooling	**22.8%**	19.6%	27.9%	+1.3
Soft Landing	**21.2%**	21.1%	21.3%	+0.7
Contraction	**1.4%**	1.5%	1.4%	+0.1

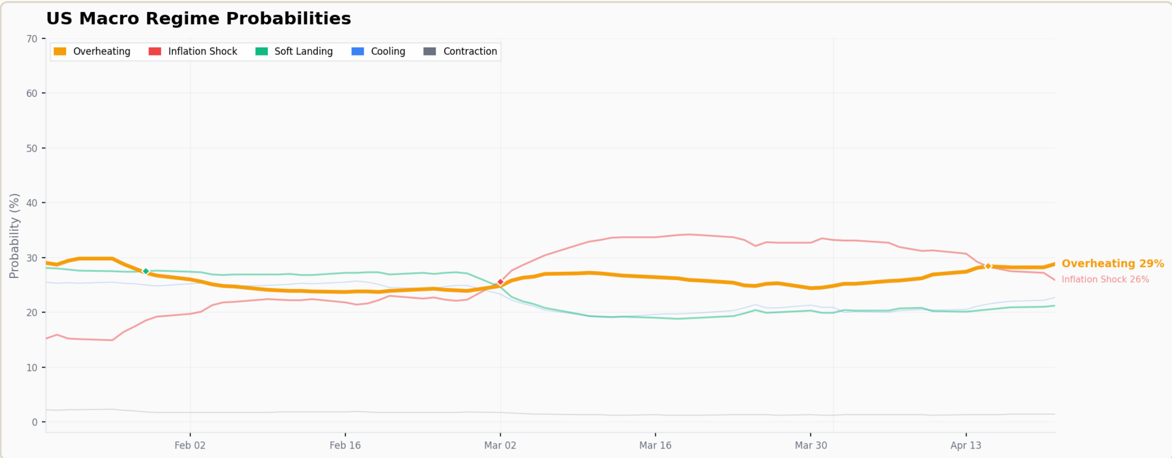
Convergence: diverging

The layer splits reveal an economy caught between what's happening now and what's coming next. The leading indicators show a more balanced distribution across regimes, suggesting the current Overheating dominance isn't as entrenched as the headline probabilities suggest. Meanwhile, the lagging layer is where Overheating really shows its strength, reflecting the inflation data that's already in the books.

This divergence between leading and lagging is the key tension. The economy is overheating based on what we can measure today, but the forward-looking indicators are less convinced this persists. That's exactly what you'd expect when the inflation surge comes from identifiable supply shocks rather than broad-based demand excess. The leading layer is already pricing in the possibility that these shocks fade, while the lagging layer is still processing the damage they've already done.

The convergence reading captures this perfectly. When leading and lagging indicators point in different directions, you get an economy that's technically overheating but with meaningful probability that it's already peaked. The question is whether the supply shocks resolve before they bleed into expectations and wage demands.

90-Day Regime History

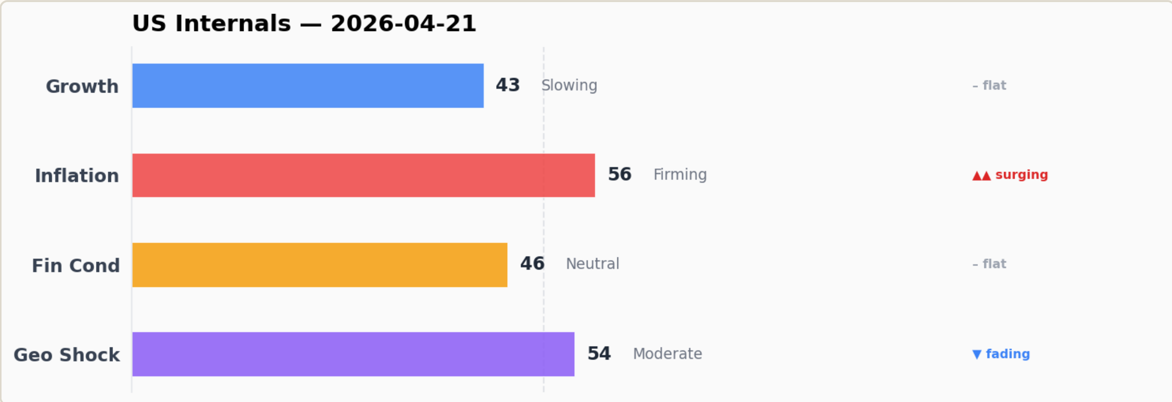


Overheating took the lead in a sharp spike rather than a gradual climb, which tells you this regime shift was event-driven rather than the result of slowly building economic pressures. The transition happened fast when the tariff impacts hit the data and the Strait of Hormuz closed, pushing inflation measures above trend in a matter of weeks rather than months.

Before this spike, the regime distribution was much more balanced, with Soft Landing and Cooling holding meaningful probabilities. That previous equilibrium reflected an economy that was genuinely uncertain about its direction. The current Overheating dominance represents a sharp break from that uncertainty, driven by external shocks rather than internal economic momentum.

The shape of the probability curve shows persistence rather than oscillation. Once Overheating took the lead, it's held that position consistently, though the margin over alternatives has fluctuated. This suggests the underlying drivers are real and sustained, not just temporary market volatility. But the fact that alternatives remain viable indicates the regime could shift again if those drivers change.

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	56.5	firming	89 (surging)	73.2	-16.7	-0.3
Financial Conditions	45.8	neutral	47 (stable)	49.8	-4.0	-0.7
Geopolitical Shock	54.5	moderate	47 (stable)	52.9	+1.6	-3.2

Growth

Growth remains in slowing territory with stable momentum, which creates an interesting puzzle. The economy is decelerating, but not accelerating that deceleration. This is what you get when supply shocks hit an economy that was already cooling naturally. The tariff impacts and energy disruptions are adding inflation pressure without providing any growth stimulus.

The stable momentum reading suggests the growth slowdown isn't feeding on itself yet. Consumer spending was strong in February even as real incomes turned negative, which means households were drawing down savings or increasing credit usage. That's not sustainable indefinitely, but it's preventing the growth deceleration from becoming a contraction spiral. The question is how long that cushion lasts with gas prices jumping and inflation expectations potentially rising.

Inflation

Inflation sits firmly in firming territory with surging momentum, and this is where the regime call gets its conviction. The momentum reading captures the acceleration that's happening in real time, not just the level that's already been reached. Core PCE running higher than CPI inflation means the Fed's preferred gauge is worse than the headlines suggest.

The surging momentum reflects two distinct forces: tariff pass-through that's largely complete and energy price spikes that are ongoing. The tariff damage is already baked into the data, but the Strait of Hormuz situation could drive further acceleration if it persists. This axis would need to see momentum shift from surging to stable before the overall regime call would soften meaningfully.

Financial Conditions

Financial conditions remain neutral despite the inflation surge, which reflects the Fed's dilemma in real time. Policy rates are restrictive enough to slow growth but not tight enough to quickly suppress supply-driven inflation. The Fed doesn't have good tools for the type of inflation we're seeing, because raising rates further would hit employment without directly addressing closed shipping lanes or tariff costs.

The stable momentum in financial conditions suggests the Fed is likely to stay patient rather than react aggressively to inflation prints that are driven by identifiable supply shocks. This creates a window where inflation can run above target without triggering the kind of monetary tightening that would force a regime shift toward Contraction. But that patience has limits, especially if the supply shocks start bleeding into wage demands and broader expectations.

Geopolitical Shock

Geopolitical shock dropped from elevated to moderate this week, with momentum shifting from rising to stable. This reflects the oil market's assessment that immediate escalation risk has decreased, even though the underlying Strait of Hormuz problem remains unresolved. The score captures the difference between acute crisis risk and chronic supply disruption.

The momentum shift to stable suggests markets don't expect the situation to deteriorate further in the near term, but they're also not pricing in a quick resolution. This axis could easily spike back to elevated if there's any military escalation or if diplomatic efforts clearly fail. The current reading reflects a kind of uneasy equilibrium where the worst-case scenarios seem less likely but the baseline disruption continues.

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 carry the regime call, with core PCE, gasoline prices, and headline CPI all running well above trend. These aren't marginal excesses; they're clear breaks from the Fed's target range driven by identifiable supply shocks. The gasoline price surge alone is enough to keep household inflation expectations elevated, regardless of what happens to core goods or services.

The disconfirming signals create the tension that keeps alternatives viable. Core CPI below trend and sharply lower wage growth suggest the underlying demand picture isn't consistent with classic overheating. This is why the regime call isn't more decisive: the inflation surge is real, but it's not broad-based demand excess. The disconfirming signals would become decisive if wage growth re-accelerated or if core services inflation started climbing consistently. Until then, they're a reminder that this overheating episode could resolve faster than historical precedent suggests.

Week in Review

WEEK SUMMARY (VS 2026-04-15)

REGIME	PRIOR	CURRENT	Δ
Overheating	28.4%	29.0%	+0.6

REGIME	PRIOR	CURRENT	Δ
Inflation Shock	28.3%	25.6%	-2.7
Cooling	21.5%	22.8%	+1.3
Soft Landing	20.5%	21.2%	+0.7
Contraction	1.3%	1.4%	+0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	44.5	42.7	-1.8	slowing
Inflation	56.8	56.5	-0.3	firming
Fin Cond	46.5	45.8	-0.7	neutral
Geo Shock	57.7	54.5	-3.2	moderate

Inflation Shock probability dropped by nearly three percentage points this week, the largest single move in the regime distribution. The decline came as geopolitical shock readings moderated from elevated to moderate territory, reflecting the oil market's assessment that immediate escalation risks have decreased even though the Strait of Hormuz remains closed. This happened primarily on Thursday and Friday as crude oil prices pulled back from their recent peaks.

The supporting moves tell a story of supply shock moderation rather than demand cooling. Geopolitical shock momentum shifted from rising to stable, while financial conditions eased slightly as Treasury yields backed off their highs. Oil flipped from diverging to confirming in the market signals, suggesting the energy complex is now behaving more consistently with the regime call. Meanwhile, Treasury yields moved in the opposite direction, flipping from confirming to diverging as the bond market started pricing in more Fed patience.

What held steady is more revealing than what moved. The core inflation drivers remained unchanged, with PCE, gasoline prices, and headline CPI all staying well above trend. Growth continued slowing with stable momentum, and financial conditions remained neutral despite the inflation pressures. This stability during a week of meaningful geopolitical developments signals that the underlying regime is entrenched, not that nothing significant happened. The model's reading barely shifted because the fundamental supply-demand imbalance persists regardless of short-term risk premium fluctuations.

Next week's setup depends on whether the geopolitical moderation continues or reverses. The momentum is clearly toward lower immediate crisis risk, but the structural problems remain unresolved. Any headlines about military escalation or failed diplomatic talks could send the geopolitical shock axis spiking back toward elevated territory, which would likely push Inflation Shock probabilities higher again. The March PCE report will provide the next major data point on whether the supply shocks are bleeding into broader price pressures or remaining contained to energy and tariff-affected categories.

Market Confirmation

The market is giving you a split decision on Overheating, which makes sense when the regime is driven by supply shocks rather than demand excess. Confirming assets are tracking the historical playbook: commodities are broadly higher, the dollar is strengthening on relative growth differentials, and credit spreads are widening as inflation expectations rise. These moves reflect the mechanical reality of supply-driven price pressures hitting an economy that was already running warm.

The diverging assets tell the more interesting story. Gold's rally alongside risk assets suggests markets aren't treating this as a normal overheating episode where the Fed can simply tighten into submission. When both equities and the ultimate hedge rally together, you're looking at a regime where traditional policy tools don't map cleanly to the problem. The energy complex is showing the same split personality, with crude prices volatile but elevated, reflecting a market that knows the physical constraints are real but can't price the resolution timeline. These aren't positioning quirks or liquidity issues. They're assets correctly recognizing that tariff pass-through and closed shipping lanes require different solutions than demand management.

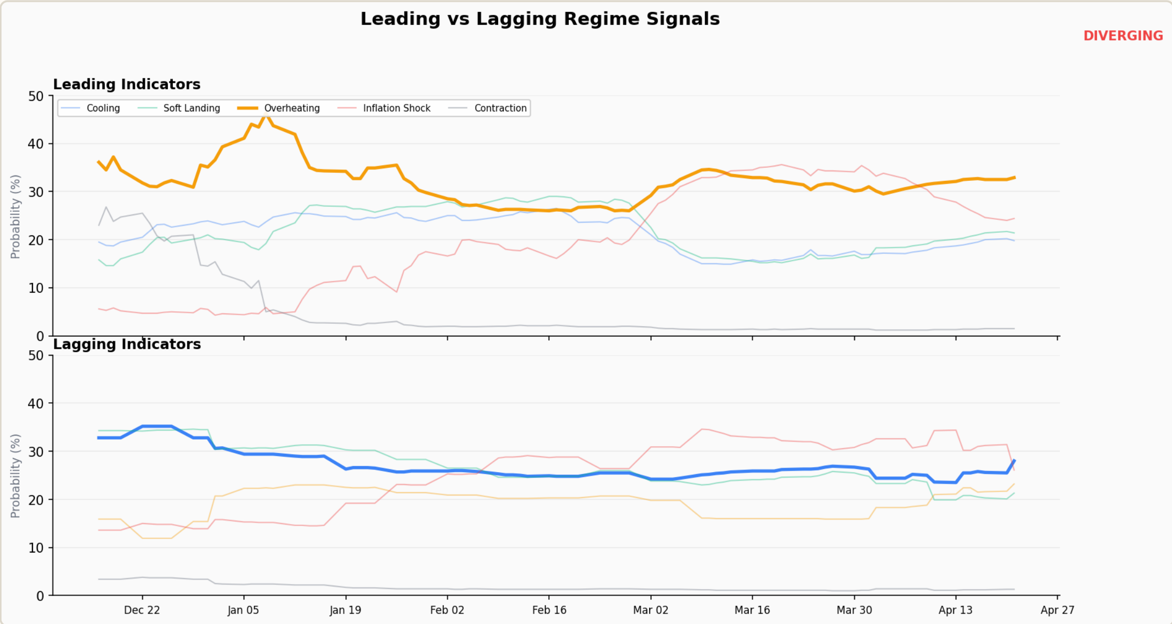
Asset Playbook

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 getting pulled in opposite directions, and the model's stances reflect that tension. Equities hold a favorable stance despite the overheating call, which captures the reality that supply-driven inflation doesn't automatically crater corporate earnings the way demand destruction does. Rates are pressured as inflation expectations rise faster than growth expectations fall. Credit spreads are widening but not collapsing, reflecting concern about the inflation impact on margins without panic about systemic risk. The dollar strength is the most straightforward call in the bunch, benefiting from relative outperformance as other economies deal with the same supply shocks from a weaker starting position.

The most surprising stance is gold's favorable rating in an environment where real rates should theoretically be rising. But that's the supply shock difference again. When inflation comes from external constraints rather than internal overheating, the Fed's response function changes, and gold benefits from the policy uncertainty. Your allocation pain is concentrated in fixed income, where duration is getting hit by inflation fears while credit quality concerns prevent a clean rotation to shorter maturities.

Leading / Lagging Signal Alignment



The convergence reading captures an economy caught between what's already happened and what's coming next. Leading indicators show a more balanced regime distribution, suggesting the current Overheating dominance isn't as entrenched as the headline probabilities indicate. The lagging layer is where Overheating really shows its strength, still processing the inflation data that's already in the books from tariff pass-through and energy disruptions.

This divergence is exactly what you'd expect when inflation surges come from identifiable supply shocks rather than broad-based demand excess. The leading layer is already pricing in the possibility that these shocks fade or get resolved, while the lagging layer reflects the damage they've already done to price levels. When these layers converged in previous episodes, the lag was typically two to three months, representing the time it takes for policy responses to show up in forward-looking indicators.

For regime stability, partial convergence like this suggests we're in a transitional period rather than a settled equilibrium. The economy is technically overheating based on what we can measure today, but the forward-looking indicators are less convinced this persists. An early-warning divergence would show up as leading indicators rotating toward Cooling or Soft Landing while lagging indicators remain stuck in Overheating territory. That would signal the supply shocks are resolving faster than the data can capture, creating space for the regime to shift before the inflation damage becomes entrenched in expectations.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+1.6%	+16.7%	+1.15	817
QQQ	+2.8%	+25.7%	+1.36	817
IWM	+2.6%	+3.9%	+0.20	817
IEF	-0.1%	+2.5%	+0.47	817

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
TIP	+-0.0%	+4.7%	+1.16	817
LQD	-0.1%	+3.6%	+0.66	817
HYG	+0.0%	+5.4%	+1.13	817
GLD	-1.2%	+15.4%	+1.08	817
XLE	+1.4%	-5.2%	-0.22	817
VEA	-0.5%	+5.9%	+0.41	817
VWO	+1.2%	+12.5%	+0.72	817

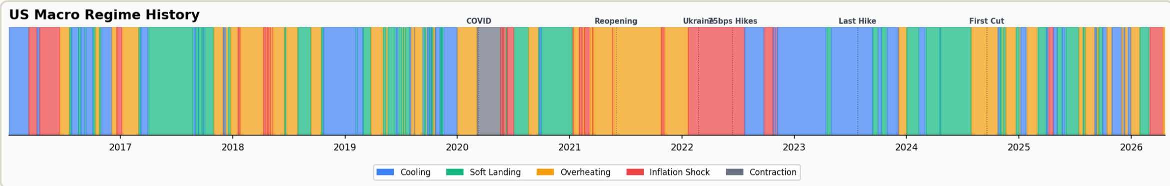
Historical returns measured over Overheating regime days in backtest.

This week's performance tells two different stories depending on where you look. Energy and commodity-linked assets led the winners, tracking exactly what the Overheating regime historically delivers. Broad equity indices posted solid gains despite the inflation concerns, reflecting the market's assessment that supply-driven price pressures don't automatically translate to earnings destruction. The week's biggest losers were concentrated in interest-rate sensitive sectors, where duration got hit by rising inflation expectations.

The divergences from historical patterns show up in the details. Technology stocks, particularly software names, fell sharply even as the broader market rallied, suggesting sector-specific forces beyond the macro regime. Fixed income performance was worse than the historical Overheating average, reflecting the market's recognition that this inflation episode might require different policy responses than previous overheating cycles. Gold's strong performance stands out as notably better than the typical Overheating environment, again highlighting how supply-shock inflation creates different asset dynamics than demand-driven overheating.

The usual caveats apply with extra force here. The historical sample for Overheating regimes includes episodes driven by very different mechanisms than tariff pass-through and geopolitical supply disruptions. Sample sizes remain limited, and regime definitions are backward-looking constructs applied to forward-looking problems. This week's returns reflect the market's real-time assessment of a unique situation, not a replay of historical patterns.

10-Year Regime History



The closest historical parallel to today's environment is the 2021-2022 inflation surge, but even that comparison breaks down quickly. That episode began with demand-side pressures from fiscal stimulus and supply chain disruptions, then evolved into broad-based price pressures that required aggressive Fed tightening to resolve. The mechanism was ultimately monetary: too much money chasing too few goods, with a clear policy prescription once the Fed committed to bringing demand back into balance with supply.

Earlier overheating episodes from the pre-2020 period typically lasted six to twelve months and resolved through some combination of Fed tightening, demand destruction, and supply recovery. The 2018 episode ended when trade war concerns shifted growth expectations. The 2011 commodity spike faded when European debt crisis fears dominated. Each had a clear resolution mechanism that markets could anticipate and price.

What's structurally different now is the policy response function. Unlike previous episodes, today's inflation drivers, tariff pass-through and closed shipping lanes, don't respond to interest rate adjustments. The

Fed's traditional tools are poorly matched to the problem, creating uncertainty about both the duration and the resolution path. That uncertainty shows up in the asset price behavior, where traditional relationships between inflation expectations, real rates, and risk assets are breaking down in ways that weren't visible in previous overheating cycles.

Market Context

Weekly ETF returns as of 2026-04-22 (vs 2026-04-15).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
QQQ	Nasdaq 100	$637.40	$655.11	+2.8%
IWM	Russell 2000	$269.39	$276.48	+2.6%
SPY	S&P 500	$699.94	$711.21	+1.6%
XLE	Energy	$55.76	$56.54	+1.4%
VWO	Emerging Markets	$58.09	$58.76	+1.2%
TIP	TIPS	$111.43	$111.39	+-0.0%
HYG	HY Corporate	$80.46	$80.50	+0.0%
IEF	7-10Y Treasury	$95.58	$95.52	-0.1%
LQD	IG Corporate	$109.94	$109.82	-0.1%
VEA	Developed Markets	$68.70	$68.35	-0.5%
GLD	Gold		$435.26	-1.2%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
		Range-bound		

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:** $+1,600 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure first and hardest. The jump at the pump happened before the March inflation data even hit, and it's not done. If the shipping disruption persists through summer driving season, you're looking at sustained pressure on your transportation budget through Labor Day at minimum.

Your grocery bill is absorbing the tariff pass-through that Fed researchers say is essentially complete. The price increases from trade policy are already baked into what you're paying for imported goods, but the secondary effects are still working through the system. Restaurants and food processors are repricing their menus and products based on higher input costs, which means the grocery store impact extends well beyond the directly affected items.

Your paycheck is losing ground to prices in real terms, and that gap widened before energy spiked. The combination of slowing wage growth and accelerating inflation means your purchasing power is eroding month by month. This isn't a temporary squeeze that resolves when one number gets better. Both sides of the equation are moving against you.

Your 401(k) is benefiting from the equity rally that historically produces above-average returns after back-to-back strong weeks. The S&P 500's recent performance puts your retirement account in a statistically favorable position for the next twelve months, assuming the geopolitical risks don't derail the pattern.

Your borrowing costs are seeing modest relief as mortgage rates tick down slightly, but the improvement is marginal against the backdrop of rates that remain elevated by recent historical standards. If you're refinancing or buying a home, every tenth of a percentage point matters, but the fundamental affordability challenge hasn't changed.

Signal vs. Noise

Signal:
- March CPI's monthly jump to levels not seen since June 2022 - Consumer spending exceeding income growth before energy prices spiked - Gold rallying alongside equities, suggesting the stock bounce isn't an all-clear - Empty supertankers heading to US Gulf Coast while Asian countries begin fuel rationing - Commodity index hitting new highs with the vast majority of components in uptrends

Noise:
- Presidential social media endorsements that can't stop individual stock declines - Sector-specific tech selloffs while broader markets hold steady - Long-term strategic asset allocation debates during acute supply disruptions - Diplomatic theater between major powers with extended time horizons

The distinction right now comes down to time horizon and breadth. The signals are showing up across multiple markets and affecting real economic activity within weeks. The noise involves single companies, political positioning, or theoretical portfolio construction questions that don't change how you navigate the next six months. When both safe havens and risk assets rally together, when consumers are stretching financially before the latest price shock, when physical commodity markets are disrupted rather than just repricing, those are signals worth tracking.

What to Watch

April 15: March PCE inflation report. This is the number that actually moves Fed policy expectations, and it's running higher than the CPI data that already got your attention. If core PCE accelerates beyond what tariff pass-through explains, the patient Fed thesis breaks down. **April 18: Consumer credit data for February.** Consumers were already spending more than they earned before gas prices jumped. The credit card and revolving credit numbers will show whether that gap is widening into dangerous territory. **Any weekend headlines about Strait of Hormuz military escalation or failed diplomatic talks.** Oil timespreads are more important than flat prices right now. If the near-term physical crunch gets worse, crude gaps higher on Monday regardless of what happened to prices on Friday. **May 2: April employment report.** If wage growth re-accelerates while the labor market remains this tight, it means the supply shocks are bleeding into wage expectations. That's when inflation becomes self-reinforcing rather than transitory. **Ongoing: European airport fuel supply reports.** If major European airports start announcing flight cancellations due to jet fuel shortages, the Strait closure moves from economic pressure to acute crisis. Three weeks is the timeline that matters.

What Would Change My Mind

Scenario One: Core services inflation accelerates for two consecutive months. If the supply shocks start bleeding into wage demands and service sector pricing, the whole "two identifiable one-time shocks" thesis falls apart. That would mean we're dealing with broad-based demand overheating rather than external disruptions, and the Fed's patience becomes dangerous complacency. The model would shift toward Inflation Shock within weeks, not months. **Scenario Two: Credible diplomatic framework emerges for reopening the Strait of Hormuz.** A genuine breakthrough that includes enforcement mechanisms and timeline commitments would break the summer oil spike thesis immediately. Crude would gap down, inflation expectations would reset, and the regime would likely shift back toward Soft Landing as the supply shock unwinds. The market would price this in hours, not days. **Scenario Three: Saudi Arabia announces meaningful production increases to offset the shipping disruption.** This is the wildcard that could stabilize energy markets without resolving the underlying geopolitical crisis. If the Saudis decide to use their spare capacity to prevent a global supply crunch, it buys time for diplomatic solutions while keeping inflation pressures manageable. The regime call would hold, but the confidence level would drop as we'd be depending on sustained Saudi cooperation rather than fundamental problem resolution.

The price of being wrong on the inflation diagnosis is that the Fed stays too easy for too long while broad-based price pressures build. The price of being wrong on the oil call is that summer driving season arrives with adequate supply and prices collapse just when everyone's positioned for scarcity. Both mistakes are expensive, but the inflation mistake is more dangerous because it's harder to reverse once expectations become unanchored.

Personal Stakes

WHY MARKETS MOVE · WHY IT MATTERS TO YOU