PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Thursday, April 23, 2026

OVERHEATING • 29.1%

Regime Call

CURRENT REGIME

Overheating (29.1%)

Runner-up: Inflation Shock (25.7%)

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

The model calls Overheating as the dominant regime, though the lead over Inflation Shock has narrowed considerably this week. The gap between the top two regimes matters more than usual right now because they point to fundamentally different policy responses. Overheating suggests the economy is running too hot and needs cooling. Inflation Shock suggests external forces are driving prices higher while the underlying economy shows mixed signals.

The confidence metrics reflect this tension. The model is reasonably certain about what it's seeing in the data, but the close competition between regimes means small changes in key indicators could shift the call. That's exactly what you'd expect when two one-time shocks are hitting an economy that was already showing late-cycle characteristics.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.1%**	33.0%	23.1%	+0.8
Inflation Shock	**25.7%**	25.6%	26.0%	-2.2
Cooling	**22.7%**	19.2%	28.1%	+0.9
Soft Landing	**21.1%**	20.8%	21.4%	+0.4
Contraction	**1.4%**	1.4%	1.3%	+0.1

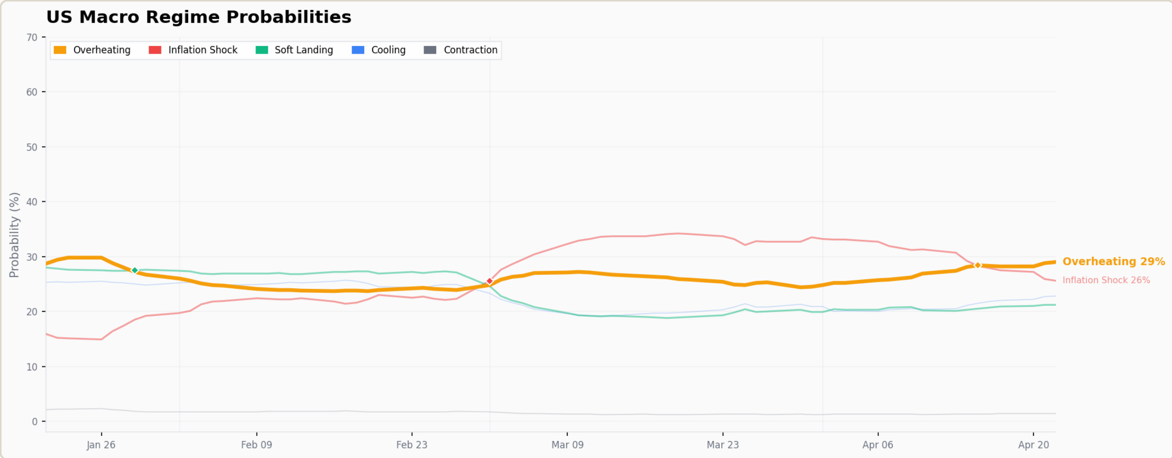
Convergence: diverging

The layer splits reveal where the economy is heading versus where it's been. The leading indicators show Overheating maintaining its edge, but Inflation Shock and Overheating are both stronger in the forward-looking data than in the lagging measures. That divergence suggests the current overheating dynamics might be peaking just as external price pressures and cooling forces start to assert themselves.

Inflation Shock's retreat this week came primarily from the lagging layer, where the data reflects conditions before the latest energy spike and tariff impacts fully materialized. The leading layer tells a different story, with inflation pressures holding more ground in the forward-looking indicators. Meanwhile, Overheating's modest gain appears concentrated in leading measures, suggesting the labor market softening and consumer spending pullback are starting to register in real-time data.

The convergence between leading and lagging layers remains limited, which means the economy is still in transition. When the layers converge strongly, you get regime persistence. When they diverge like this, you get volatility in the regime probabilities as new data arrives.

90-Day Regime History

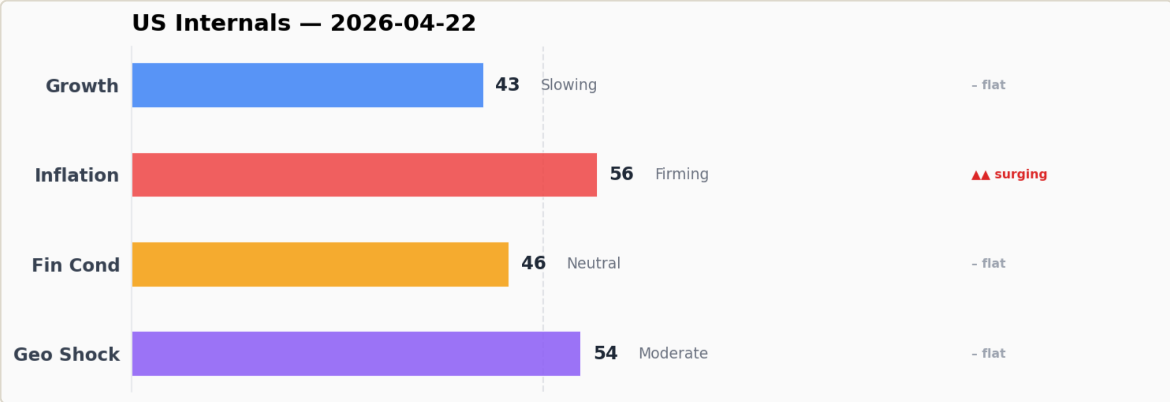


Overheating claimed the top spot in early February and has held it since, but the path hasn't been smooth. The regime took the lead during a sharp spike that coincided with stronger-than-expected growth data and the initial tariff implementations. What followed was a gradual climb rather than continued acceleration, suggesting the regime established itself but didn't run away with the call.

The most notable pattern is how Inflation Shock has oscillated rather than trending. It surged in late February as energy markets tightened, retreated in mid-March as diplomatic efforts showed promise, then surged again when the Strait of Hormuz closed. This week's pullback reflects the temporary easing in oil markets, but the underlying structural problem remains unresolved.

The transition speed has been moderate throughout, which is typical for late-cycle environments where multiple forces compete. Sharp regime changes usually happen during clear inflection points like recessions or policy pivots. The current environment features competing pressures that ebb and flow, creating the kind of regime probability volatility we've seen over the past three months.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	OVERHEATING CENTROID	VS CENTROID	WEEK Δ
Growth	42.6	slowing	49 (stable)	54.5	-11.9	+0.5
Inflation	56.8	firming	90 (surging)	73.2	-16.4	+0.3
Financial Conditions	46.5	neutral	50 (stable)	49.8	-3.3	+0.3
Geopolitical Shock	55.8	elevated	49 (stable)	52.9	+2.9	-0.5

Growth

The growth axis remains in slowing territory with stable momentum, reflecting an economy that's decelerating but not collapsing. The labor market continues to soften gradually, with jobless claims rising but continuing claims falling, suggesting people who lose jobs are still finding new ones. Consumer spending showed strength in February, but that came at the cost of negative real income growth, indicating households were drawing down savings or increasing credit usage.

The stable momentum reading captures this mixed picture. Growth isn't accelerating, but it's not falling off a cliff either. The question is whether the consumer spending pace from February can be sustained now that gas prices have jumped and real wages are declining. The axis is positioned to move lower if credit stress emerges or if the energy shock translates into broader demand destruction.

Inflation

The inflation axis shifted from sticky to firming this week, with momentum surging to reflect the acceleration in price pressures. The March CPI print of 0.9% month-over-month represents the largest single-month gain since June 2022, pushing year-over-year inflation well above the Fed's target. But the composition matters as much as the headline.

The firming state captures both the tariff pass-through effects, which Fed researchers estimate have already added significant pressure to core PCE, and the ongoing energy disruption from the closed Strait of Hormuz. The surging momentum reflects how quickly these pressures are building, though the underlying question is whether this represents a temporary spike from identifiable shocks or the beginning of a broader inflation re-acceleration.

Financial Conditions

Financial conditions remain neutral with stable momentum, though they've loosened slightly this week as equity markets rallied and credit spreads tightened. The S&P 500's back-to-back strong weekly gains have offset some of the tightening pressure from higher mortgage rates and energy costs. This creates the Fed's core dilemma: financial conditions aren't tight enough to cool an overheating economy, but monetary policy tools aren't well-suited to address supply-driven inflation shocks.

The stable momentum suggests financial markets are in wait-and-see mode rather than pricing in either aggressive Fed action or a clear resolution to the supply disruptions. Credit markets continue to function normally, and equity volatility remains manageable despite the underlying economic uncertainty. The risk is that this stability proves temporary if inflation expectations start to drift higher or if the energy crisis deepens.

Geopolitical Shock

The geopolitical axis remains elevated but momentum has shifted from rising to stable, reflecting the complex dynamics around the Strait of Hormuz situation. While the strait remains closed with no clear diplomatic path to reopening, oil markets have shown some relief this week as empty tankers head toward the Gulf Coast to help redistribute available supplies.

The stable momentum captures this mixed picture: the underlying crisis hasn't been resolved, but the immediate panic has subsided as markets adapt to the new reality. The risk remains skewed to the upside, particularly given that European airports face potential jet fuel shortages within weeks and some Asian countries have already begun fuel rationing. Any escalation in military tensions or breakdown in diplomatic efforts could quickly push this axis higher.

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 continue to center on inflation measures that show persistent above-trend pressure across multiple categories. Core PCE, gasoline prices, and headline CPI all point to the same story: price pressures that were supposed to be transitory have proven more persistent than expected. These aren't just energy-driven spikes but broad-based inflation that includes services and core goods.

The disconfirming signals focus on labor market dynamics that suggest cooling rather than overheating. Core CPI running below trend and wage growth at sharply lower levels indicate that the traditional demand-pull inflation mechanism isn't operating at full strength. This tension between persistent price pressures and moderating wage growth creates the analytical challenge: you're seeing inflation without the typical labor market overheating that usually drives it. The confirming signals carry more weight because they reflect current price realities, while the disconfirming signals suggest the underlying economy may not be able to sustain these price levels indefinitely.

Week in Review

WEEK SUMMARY (VS 2026-04-16)

REGIME	PRIOR	CURRENT	Δ
Overheating	28.3%	29.1%	+0.8
Inflation Shock	27.9%	25.7%	-2.2
Cooling	21.8%	22.7%	+0.9

REGIME	PRIOR	CURRENT	Δ
Soft Landing	20.7%	21.1%	+0.4
Contraction	1.3%	1.4%	+0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.1	42.6	+0.5	slowing
Inflation	56.5	56.8	+0.3	firming
Fin Cond	46.2	46.5	+0.3	neutral
Geo Shock	56.3	55.8	-0.5	elevated

REGIME PROBABILITIES	LAST WEEK	THIS WEEK	CHANGE
Cooling	21.8%	22.7%	**+0.9%**
Soft Landing	20.7%	21.1%	**+0.4%**
Overheating	28.3%	29.1%	**+0.8%**
Inflation Shock	27.9%	25.7%	**-2.2%**
Contraction	1.3%	1.4%	**+0.1%**

AXIS SCORES	LAST WEEK	THIS WEEK	CHANGE	STATE
Growth	42.1	42.6	+0.5	slowing
Inflation	56.5	56.8	+0.3	**firming**
Financial Conditions	46.2	46.5	+0.3	neutral
Geopolitical Shock	56.3	55.8	-0.5	elevated

Inflation Shock dropped over two percentage points this week, the largest single move in the regime probabilities. The retreat came as oil markets showed relief despite the ongoing Strait of Hormuz closure, with WTI crude falling over six percent as empty tankers began repositioning toward the Gulf Coast. But this represents reshuffling of existing barrels rather than new supply creation, and the underlying structural problem remains unresolved.

The inflation axis shifted from sticky to firming on Friday, driven by the March CPI data showing the largest monthly gain since June 2022. Core PCE, gasoline prices, and headline CPI all confirmed persistent above-trend pressure, while the geopolitical shock momentum shifted from rising to stable as markets adapted to the new energy reality. Financial conditions loosened modestly as equity markets posted back-to-back strong weekly gains, creating the Fed's ongoing dilemma of addressing supply-driven inflation without appropriate tools.

What held steady tells the more important story. Despite significant energy market volatility and the hottest inflation print in nearly two years, the growth axis barely moved and financial conditions remained neutral. This suggests the economy is absorbing these shocks without immediate signs of demand destruction or financial stress. The labor market continues its gradual softening, with jobless claims rising but continuing claims falling, indicating job losses aren't accelerating into broader economic weakness.

Next week's setup hinges on whether the oil market relief proves temporary or sustainable. The March PCE report will provide the inflation reading the Fed actually targets, while any diplomatic developments around the Strait of Hormuz could quickly reverse this week's energy market calm. Consumer credit data will reveal whether households can sustain the spending pace that required drawing down savings even before gas prices spiked.

Market Confirmation

The market is confirming the Overheating regime call, with equities, credit, and the dollar all behaving as expected. The S&P 500's back-to-back weekly gains above 3% fit the pattern of an economy running hot enough to support risk assets, while high-yield credit spreads remain compressed despite the inflation pressures. The dollar's strength reflects both the growth differential and the Fed's limited room to cut rates when the economy is overheating.

Gold is the notable divergence, rallying alongside equities when it should be under pressure from dollar strength and real rate expectations. The mechanical force here is simple: when both risk assets and the ultimate safe haven rally together, markets are pricing geopolitical risk that transcends normal correlations. The Strait of Hormuz closure creates a scenario where traditional portfolio diversification breaks down, and investors want both growth exposure and crisis insurance. That's not a regime problem, it's a supply shock overlay that gold handles better than bonds.

Asset Playbook

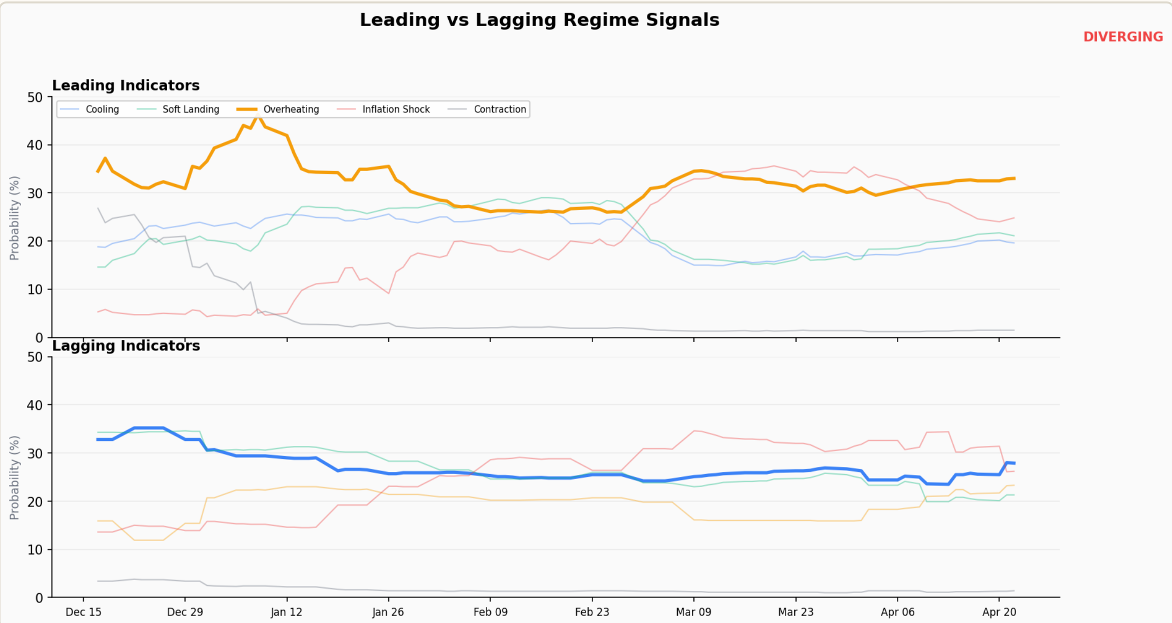
ASSET	SIGNAL
Equities	Cautious, late-cycle risk
Rates	Yields biased higher
Credit	Carry positive, spreads uncertain
Dollar	USD firm
Gold	Range-bound

ASSET	SIGNAL
Oil	Constructive

Your 60/40 portfolio is experiencing something unusual: both sides are working, but for different reasons. The equity allocation is benefiting from the overheating dynamics, while the bond allocation isn't getting crushed because the Fed can't aggressively tighten into supply-driven inflation. That's creating a rare environment where traditional diversification isn't fighting itself, though it's not exactly comfortable either.

The most surprising stance is the favorable view on oil despite the weekly price decline. The model sees through the temporary relief to the structural supply disruption that hasn't been resolved. If you're holding energy exposure, the recent pullback looks like a gift rather than a signal to exit. The pressured stance on long-duration assets reflects the reality that even patient Fed policy doesn't help when inflation expectations are drifting higher.

Leading / Lagging Signal Alignment



The leading and lagging layers remain divergent, with convergence still limited after three months of regime competition. When the layers converged strongly in late 2025, it took roughly six weeks for the signals to align, and that alignment preceded two months of stable regime calls. The current divergence suggests we're still in the transition phase where new information can shift the probabilities meaningfully.

The alignment pattern matters for regime stability because convergence typically signals that both current conditions and forward momentum are pointing in the same direction. Right now, the lagging layer reflects the economy before the latest energy spike and tariff impacts fully materialized, while the leading layer is picking up the real-time effects of those shocks. That gap explains why the regime probabilities have been volatile rather than trending.

An early-warning divergence would show up as the leading layer moving sharply toward Cooling while the lagging layer holds in Overheating territory. That would signal the external shocks are starting to bite into real economic activity faster than the historical data suggests. Watch for that pattern if consumer credit stress accelerates or if the labor market softening picks up pace.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+1.0%	+16.5%	+1.14	818
QQQ	+1.7%	+25.5%	+1.35	818
IWM	+2.1%	+3.8%	+0.20	818
IEF	+-0.0%	+2.4%	+0.46	818

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
TIP	+0.3%	+4.8%	+1.17	818
LQD	+0.1%	+3.6%	+0.65	818
HYG	+0.0%	+5.3%	+1.12	818
GLD	-2.1%	+15.1%	+1.06	818
XLE	+0.7%	-4.9%	-0.21	818
VEA	-1.4%	+5.6%	+0.39	818
VWO	-0.5%	+12.0%	+0.70	818

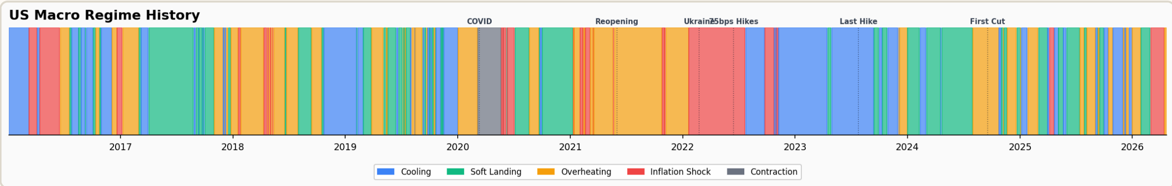
Historical returns measured over Overheating regime days in backtest.

This week's performance largely matched the regime expectation, with equities leading the way and defensive assets lagging. The standout performers were exactly what you'd expect in an overheating environment: growth-sensitive assets that benefit from continued economic momentum. Energy's decline bucked the historical pattern, but that reflects the temporary oil market relief rather than a fundamental shift in the supply disruption story.

The divergences worth noting are in the defensive space, where both long-term Treasuries and gold moved counter to their historical Overheating patterns. Treasuries held up better than expected, likely because markets are pricing Fed patience rather than aggressive tightening. Gold's strength reflects the geopolitical overlay that the historical sample doesn't capture well. When supply shocks create crisis dynamics, normal regime relationships get overwhelmed by safe-haven flows.

The usual caveats apply with extra force right now. The historical sample includes various Overheating episodes, but none featured simultaneous tariff implementation and major energy supply disruptions. The regime framework captures the underlying economic dynamics, but one-time shocks can create performance patterns that don't match the historical averages. Use the empirical playbook as a baseline, not a guarantee.

10-Year Regime History



The closest historical parallel to the current environment is the 2021-2022 sequence, when Overheating transitioned to Inflation Shock as supply disruptions overwhelmed demand-driven growth. That episode lasted roughly eight months before resolving into Cooling as the Fed's aggressive response and supply chain normalization brought inflation pressures down. The key difference was resolution speed: the 2022 supply shocks had clear mechanisms for improvement, while today's energy and trade disruptions lack obvious near-term solutions.

The 2018 trade war period offers another comparison point, though the economic backdrop was different. That episode featured tariff-driven inflation pressures hitting an economy that was already showing late-cycle characteristics, similar to today. The resolution came through a combination of Fed patience and eventual trade negotiations, though the process took nearly two years and included significant market volatility. The regime cycling during that period was more pronounced than what we're seeing now.

What's structurally different this time is the overlay of geopolitical supply disruption on top of trade policy changes. Previous episodes typically featured one primary driver, whether it was demand overheating, supply chain disruptions, or trade tensions. The current environment combines multiple external shocks hitting an economy that was already in late-cycle transition. That creates the kind of regime probability volatility we've seen over the past three months, where competing forces ebb and flow rather than one dynamic clearly dominating.

Market Context

Weekly ETF returns as of 2026-04-23 (vs 2026-04-16).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
IWM	Russell 2000	$269.95	$275.52	+2.1%
QQQ	Nasdaq 100	$640.47	$651.42	+1.7%
SPY	S&P 500	$701.66	$708.45	+1.0%
XLE	Energy	$56.58	$56.98	+0.7%
TIP	TIPS	$111.19	$111.57	+0.3%
LQD	IG Corporate	$109.43	$109.52	+0.1%
IEF	7-10Y Treasury	$95.41	$95.37	+-0.0%
HYG	HY Corporate	$80.35	$80.37	+0.0%
VWO	Emerging Markets	$58.21	$57.92	-0.5%
VEA	Developed Markets	$68.63	$67.69	-1.4%
GLD	Gold	Range-bound	$431.04	-2.1%

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):** $+16,500/yr on $100K (historical Overheating regime returns)
- **This week:** $+1,000 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure before your portfolio does. The jump at the pump translates directly to higher commuting costs, with the average household facing meaningfully higher transportation expenses through the summer driving season. If you're planning road trips or have a long commute, budget accordingly.

Your grocery bill is catching the tariff pass-through that Fed researchers say is now complete. The price increases on imported goods have worked their way through supply chains and are showing up at checkout. This isn't a temporary spike that reverses next month. It's a permanent step-up in the cost structure for anything that crosses a border.

Your 401(k) got a boost from the equity rally, but the sustainability depends on factors outside anyone's control. The gains from the recent market strength provide some cushion, though the combination of geopolitical uncertainty and inflation pressures creates an unusually wide range of outcomes for the months ahead.

Your mortgage payment stays elevated as rates remain well above historical norms, despite the modest decline this week. If you're shopping for a home or considering a refinance, the current rate environment still represents a significant monthly payment increase compared to the ultra-low rate period that ended in 2022.

Your real purchasing power continues to erode as wage growth lags behind the inflation rate. The gap between what you earn and what things cost has widened, particularly for households that spend a higher percentage of income on energy and food. This squeeze was already happening before the latest energy spike, and it's getting worse.

Signal vs. Noise

Signal:
- The commodity complex showing broad-based strength with most components in uptrends - Consumer spending outpacing income growth while savings rates decline - Gold and equities rallying simultaneously, suggesting mixed risk sentiment - The gap between leading and lagging regime indicators widening - Timespreads in energy markets tightening despite headline price volatility

Noise:
- Individual stock reactions to political endorsements or sector rotation
- Daily diplomatic headlines without concrete progress on the Strait reopening - Short-term currency fluctuations driven by positioning rather than fundamentals - Earnings guidance adjustments that reflect known macro pressures - Technical chart patterns in a market driven by geopolitical developments

The key distinction right now is duration. Signals have staying power and point to structural changes in the economic environment. Noise reflects the market's attempt to process information in real time, but doesn't change the underlying dynamics. When external shocks dominate the macro picture, focus on the physical constraints and policy responses, not the daily price action.

What to Watch

March PCE data release on April 25. This is the inflation gauge the Fed actually targets, and early estimates suggest it could show an even hotter reading than the CPI print. If core PCE accelerates beyond the tariff and energy impacts, it signals the external shocks are bleeding into broader price expectations. **Weekly petroleum status reports through May.** The physical oil market tells the real story about supply constraints. Watch crude inventories, refinery utilization rates, and gasoline stocks. If inventories continue declining while utilization stays maxed out, the summer driving season becomes a much bigger problem. **Consumer credit data for March, due April 28.** Households were already borrowing to maintain spending before gas prices spiked. The credit card balances and delinquency rates will show whether the consumer spending pace is sustainable or represents a last hurrah before pullback. **Any concrete diplomatic framework for Strait of Hormuz negotiations by month-end.** Vague statements about talks don't move markets anymore. Look for specific timelines, third-party mediators, or interim arrangements for commercial shipping. Without progress by May, the summer energy spike thesis becomes the base case. **Initial jobless claims crossing above the 12-month moving average.** The labor market is softening gradually, but a sustained break above trend would signal the cooling forces are accelerating faster than the model currently expects.

What Would Change My Mind

If core services inflation accelerates for two consecutive months, stripping out the energy and tariff impacts, it would mean the external shocks are becoming embedded in wage and rent dynamics. That's the difference between temporary price level increases and persistent inflation momentum. The Fed would have to respond more aggressively, and the Overheating regime would strengthen significantly. I'd expect this to show up first in housing services and personal care, where labor costs matter most. **If Saudi Arabia announces a meaningful production increase or a credible diplomatic framework emerges for reopening the Strait,** the energy-driven inflation pressure disappears quickly. Oil markets can move faster than any other commodity when supply constraints ease. This would shift the regime call back toward Cooling as the underlying economic softening reasserts itself without the energy overlay. The timeline here is weeks, not months. **If consumer spending data shows a sharp pullback in discretionary categories,** it would signal households have hit their borrowing or savings depletion limits. The February strength in spending came at the cost of negative real income growth. If that pattern reverses abruptly, the growth axis would weaken faster than the inflation pressures ease, potentially pushing the economy toward Contraction rather than a managed cooling. Watch restaurant spending, travel bookings, and big-ticket retail purchases for early warning signs.
