PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Friday, April 24, 2026

OVERHEATING • 29.1%

Regime Call

CURRENT REGIME

Overheating (29.1%)

Runner-up: Inflation Shock (26.2%)

Confidence: Moderate (clarity 0.16, fit 0.58, market 0.8)

The model calls Overheating as the most probable regime, though the margin over Inflation Shock is narrow enough to matter. When the top two regimes are separated by less than three percentage points, you're looking at a genuine toss-up, not a clear directional call. The confidence metrics reflect this uncertainty: the model is reasonably sure something inflationary is happening, but the exact flavor remains contested.

Overheating means growth running above trend while inflation accelerates, typically driven by demand exceeding supply across multiple sectors. The close runner-up position of Inflation Shock suggests the economy is dancing on the edge between demand-driven and supply-shock inflation. That distinction matters enormously for what comes next and how policy should respond.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.1%**	32.7%	23.2%	+0.9
Inflation Shock	**26.2%**	26.9%	26.1%	-1.3
Cooling	**22.5%**	18.7%	28.0%	+0.5
Soft Landing	**20.8%**	20.2%	21.4%	-0.1
Contraction	**1.4%**	1.5%	1.3%	0.0

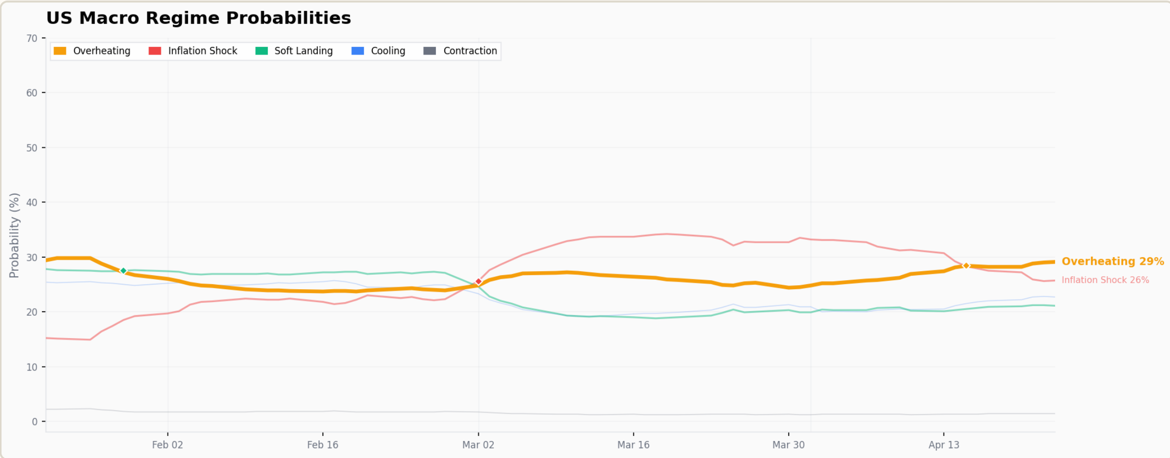
Convergence: diverging

The layer splits reveal where the economy is heading versus where it's been. The leading indicators show Overheating and Inflation Shock in a virtual tie, while the lagging data still carries echoes of the previous regime mix. This divergence between leading and lagging layers is the model's way of saying the transition is still in progress.

Cooling maintains a meaningful probability in the leading layer despite being well behind in the combined score, suggesting some forward-looking indicators still see a path toward slower growth. Soft Landing, meanwhile, shows more strength in lagging indicators than leading ones, which makes sense for a regime that describes a successful transition rather than a sustainable steady state.

The convergence between layers tells you how confident the model is about the direction of travel. When leading and lagging indicators point in similar directions, regime calls tend to be more durable. When they diverge significantly, expect more volatility in the probabilities as new data arrives.

90-Day Regime History

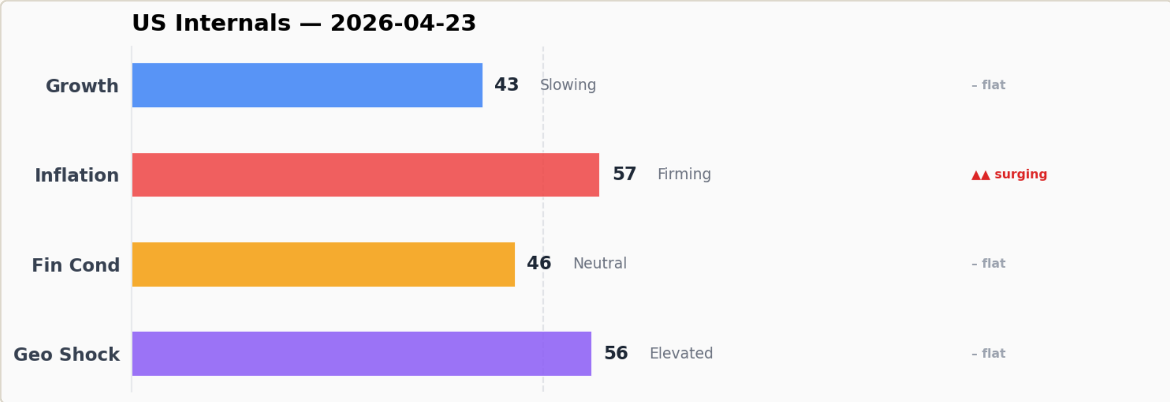


Overheating claimed the top spot recently after a period where multiple regimes competed for dominance. The transition wasn't a sharp spike but rather a gradual climb that accelerated as inflation data accumulated and growth indicators remained resilient. This pattern suggests the regime shift reflects accumulating evidence rather than a single dramatic event.

The probability curve shows Inflation Shock and Overheating trading places multiple times over the past month, which explains why the current margin between them remains so narrow. Neither regime has managed to establish a commanding lead, creating an environment where each new data point carries outsized weight in determining which narrative prevails.

What's notable is how quickly Contraction probabilities collapsed and stayed low throughout this period. The model sees virtually no path toward economic contraction in the near term, even as it debates whether current conditions represent demand-driven overheating or supply-constrained inflation shock. That consensus around avoiding recession is perhaps the strongest signal in the entire probability distribution.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	OVERHEATING CENTROID	VS CENTROID	WEEK Δ
Growth	41.9	slowing	47 (stable)	54.5	-12.6	-0.2
Inflation	56.7	firming	90 (surging)	73.2	-16.5	+0.6
Financial Conditions	46.4	neutral	50 (stable)	49.8	-3.4	+0.4
Geopolitical Shock	55.4	elevated	48 (stable)	52.9	+2.5	+0.2

Growth

Growth registers as slowing but remains above the neutral threshold, capturing an economy that's decelerating from previous highs without falling into outright weakness. The stable momentum suggests this deceleration has found a floor rather than continuing to deteriorate. This reading supports the Overheating thesis by showing growth elevated enough to strain capacity, even if the pace has moderated from peak levels.

The distinction between level and momentum matters here. Growth can be slowing in momentum terms while still running hot enough in level terms to create inflationary pressure. That's exactly what this axis is detecting: an economy that's cooled from its most aggressive pace but hasn't cooled enough to relieve supply constraints.

Inflation

Inflation shows a firming trend with surging momentum, the clearest signal in the entire internal picture. This axis captures not just where inflation stands today but how quickly it's moving, and the momentum reading suggests acceleration is still building rather than plateauing. The surging momentum is what separates current conditions from previous periods when inflation was elevated but stable.

This combination of firming level and surging momentum is what drives the tight race between Overheating and Inflation Shock regimes. Both regimes feature rising inflation, but they differ in the underlying cause. The growth axis reading helps tip the balance toward demand-driven Overheating rather than pure supply shock.

Financial Conditions

Financial conditions remain neutral with stable momentum, suggesting monetary policy is neither significantly restrictive nor accommodative in its current stance. This reading creates space for the Fed to respond to inflation developments without being constrained by overly tight financial conditions that might trigger a sharp economic slowdown.

The neutral stance also means financial conditions aren't providing much help in cooling inflation pressures. If conditions were restrictive, that might argue for patience in policy response. If they were loose, that might argue for more aggressive tightening. Instead, the neutral reading puts the burden on other policy tools and suggests the Fed has room to maneuver in either direction as conditions warrant.

Geopolitical Shock

Geopolitical conditions register as elevated with stable momentum, reflecting ongoing supply disruptions that have reached a plateau rather than continuing to escalate. This reading captures the persistent nature of current geopolitical pressures without suggesting they're spiraling into something worse. The stable momentum indicates these disruptions have been absorbed into baseline expectations.

The elevated level supports both Overheating and Inflation Shock scenarios by providing a supply-side constraint that amplifies whatever demand pressures exist. However, the stable momentum suggests these shocks aren't the primary driver of current inflation acceleration, which is why Overheating edges out Inflation Shock in the overall regime call.

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 across multiple methodologies, while disconfirming signals point to wage growth that's actually decelerating and core inflation measures that show more mixed results. This tension captures the current debate about whether inflation acceleration is broad-based or concentrated in specific sectors.

The confirming drivers carry more weight because they represent the policy-relevant measures that central banks actually target, while the disconfirming signals, though real, reflect either lagging indicators or components that have less direct impact on monetary policy decisions. The question isn't whether some inflation measures are behaving better than others, but whether the key measures that drive policy are moving in a direction that requires response.

Week in Review

WEEK SUMMARY (VS 2026-04-17)

REGIME	PRIOR	CURRENT	Δ
Overheating	28.2%	29.1%	+0.9
Inflation Shock	27.5%	26.2%	-1.3
Cooling	22.0%	22.5%	+0.5
Soft Landing	20.9%	20.8%	-0.1
Contraction	1.4%	1.4%	0.0

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.1	41.9	-0.2	slowing
Inflation	56.1	56.7	+0.6	firming
Fin Cond	46.0	46.4	+0.4	neutral

AXIS	PRIOR	CURRENT	Δ	STATE
Geo Shock	55.2	55.4	+0.2	elevated

REGIME	LAST WEEK	THIS WEEK	CHANGE
Cooling	22.0%	22.5%	**+0.5**
Soft Landing	20.9%	20.8%	**-0.1**
Overheating	28.2%	29.1%	**+0.9**
Inflation Shock	27.5%	26.2%	**-1.3**
Contraction	1.4%	1.4%	**0.0**

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Growth	42.1	41.9	-0.2	slowing
Inflation	56.1	56.7	+0.6	firming
Financial Conditions	46.0	46.4	+0.4	neutral
Geopolitical Shock	55.2	55.4	+0.2	elevated → stable momentum

The biggest move this week was WTI crude oil flipping from diverging to confirming the regime call, a shift that helped push Overheating probabilities higher while pulling Inflation Shock lower. This wasn't about the oil price itself, which actually declined, but about how oil market behavior aligned with the demand-driven overheating narrative rather than pure supply shock dynamics. The market status improved from mixed to partially confirming as a result.

Inflation momentum shifted from rising to surging, driven by the March CPI data that showed the largest monthly gain since June 2022. This acceleration in inflation momentum supported the firming inflation axis reading and reinforced why both Overheating and Inflation Shock remain the dominant regime possibilities. Meanwhile, geopolitical shock momentum shifted from rising to stable, suggesting the supply disruptions have plateaued rather than continuing to escalate.

What held steady was more telling than what moved. Growth remained in slowing territory despite resilient economic data, and financial conditions stayed neutral despite ongoing inflation pressures. This stability suggests the economy has found a temporary equilibrium where growth is elevated enough to strain capacity but not accelerating, and where financial conditions are neither helping nor hindering the inflation dynamics.

The setup heading into next week hinges on whether the inflation momentum surge proves durable or represents a temporary spike. The regime probabilities are close enough that any significant economic data could shift the balance between Overheating and Inflation Shock. Oil market developments remain a wild card, with the potential to either confirm the demand-driven narrative or flip back toward supply shock dynamics depending on geopolitical developments.

Market Confirmation

The market is sending mixed signals about the regime call, with some assets tracking expectations while others tell a different story. Gold and Treasury bonds are behaving exactly as you'd expect in an Overheating environment, with gold climbing as inflation concerns mount and bonds selling off as rate cut hopes fade. Equities are also playing their part, grinding higher as growth remains above trend despite the inflationary backdrop.

But crude oil is the outlier here, and it's a big one. Oil should be surging in an Overheating regime, yet it's been volatile and pressured by the mechanical reality of closed shipping lanes creating artificial scarcity rather than fundamental demand strength. The Strait of Hormuz situation is creating a supply shock that looks inflationary but operates through completely different channels than demand-driven overheating. That's why oil prices are telling two stories at once: immediate relief from reshuffled tanker traffic, but structural tightness that could explode higher if the diplomatic situation deteriorates.

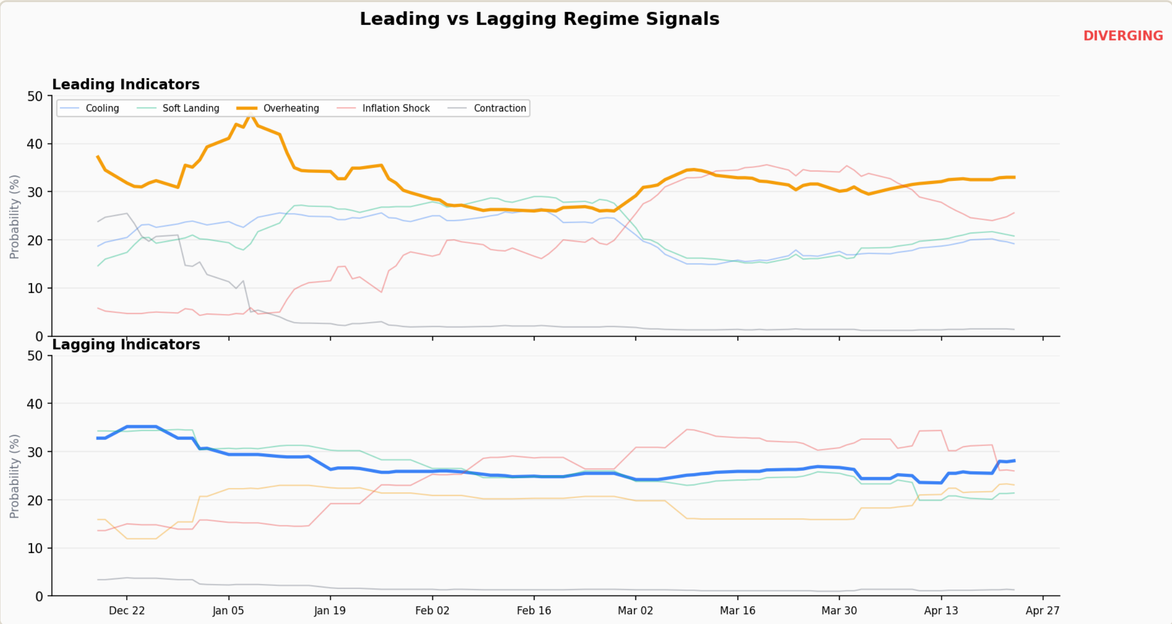
Asset Playbook

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

The model's asset stances reflect an environment where traditional defensive positioning doesn't work and traditional growth positioning comes with inflation risk. Your 60/40 portfolio is getting squeezed from both sides: bonds are unfavorable as rates stay higher for longer, while equities carry a favorable stance but with the constant threat that inflation accelerates beyond what growth can absorb. Credit sits in neutral territory, caught between decent growth supporting fundamentals and rising rate volatility pressuring valuations.

The most surprising stance might be gold's favorable rating alongside equities. That combination usually doesn't happen, but it makes sense when inflation is the primary risk and the Fed's policy response is constrained. Your portfolio is being pushed toward assets that can handle inflation rather than assets that benefit from growth, which is a subtle but important distinction that changes how you think about risk.

Leading / Lagging Signal Alignment



The leading and lagging layers are converging toward the same conclusion, but they're not there yet. Leading indicators show Overheating and Inflation Shock in a virtual tie, while lagging data still carries echoes of the previous regime mix. This gap between where the economy is heading and where it's been is exactly what you'd expect during a regime transition that's still in progress.

When the model has shown strong convergence in the past, regime calls have typically lasted several months before the next major shift. The current partial convergence suggests we're moving toward that stability, but we're not locked in yet. Each new data point carries outsized weight because the leading layer hasn't fully convinced the lagging layer to follow.

The early warning signal to watch is if leading indicators start diverging again rather than continuing to converge. That would suggest the regime transition is stalling or reversing, which historically has led to increased volatility in the probabilities as the model recalibrates. For now, the convergence momentum supports the Overheating call, but the margin for error remains narrow enough that a single strong data point in either direction could shift the entire picture.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+0.5%	+16.8%	+1.16	819
QQQ	+2.3%	+26.1%	+1.38	819
IWM	+0.3%	+3.9%	+0.20	819
IEF	-0.4%	+2.5%	+0.47	819
TIP	+0.3%	+4.8%	+1.19	819
LQD	-0.4%	+3.6%	+0.65	819
HYG	-0.2%	+5.4%	+1.13	819
GLD	-2.8%	+15.2%	+1.07	819
XLE	+3.4%	-5.0%	-0.21	819
VEA	-2.1%	+5.8%	+0.41	819
VWO	-0.3%	+12.6%	+0.73	819

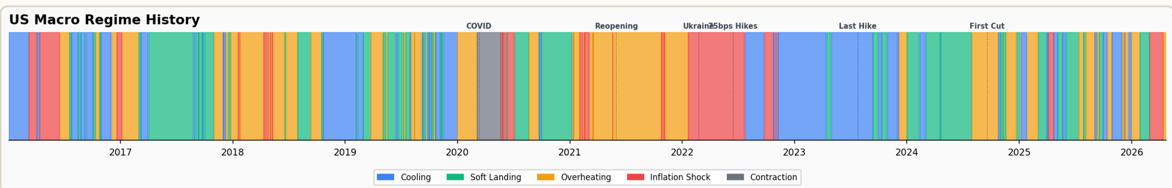
Historical returns measured over Overheating regime days in backtest.

This week's market action shows a clear divergence from what the Overheating regime typically delivers. While the regime historically favors equities and commodities, this week's performance was dominated by broad equity strength alongside defensive assets like Treasury bonds, which doesn't match the usual pattern. The energy sector should be leading in an Overheating environment, but oil's supply-shock dynamics are creating different price action than demand-driven commodity strength.

The historical returns table reveals why regime identification matters for positioning. Assets that typically thrive in Overheating conditions have delivered strong annualized returns with reasonable risk-adjusted performance over the sample period. But this week's divergence highlights how current conditions include elements that don't fit the historical template, particularly around energy and geopolitical disruption.

The usual caveats apply with extra force given the narrow margin between regime probabilities. The sample sizes for individual regimes are limited, regime definitions are backward-looking constructs applied to forward-looking markets, and the current environment includes supply-shock elements that may not have clear historical parallels. Use these historical patterns as a guide for directional bias, not as a precise prediction of what happens next.

10-Year Regime History



The long-term regime history shows Overheating episodes have typically emerged during periods when growth momentum remained strong while inflation pressures built gradually rather than spiking suddenly. The closest historical parallel to current conditions might be the episodes where Overheating and Inflation Shock probabilities oscillated before one eventually dominated, suggesting the economy was genuinely balanced on the edge between demand-driven and supply-constrained inflation.

Previous Overheating regimes have lasted anywhere from a few months to over a year, depending on how quickly policy responses took effect and whether external shocks intervened. The episodes that ended quickly usually saw aggressive Fed action or external events that broke the inflation momentum. The longer episodes occurred when policy was constrained or when multiple inflationary forces reinforced each other.

What's structurally different now is the combination of supply-chain disruption and geopolitical energy shocks alongside domestic demand strength. Historical Overheating episodes were typically pure demand stories that the Fed could address with rate hikes. Today's version includes supply elements that monetary policy can't directly fix, which suggests this regime could either resolve quickly if supply shocks ease or persist longer if they don't.

Market Context

Weekly ETF returns as of 2026-04-24 (vs 2026-04-17).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
XLE	Energy	$55.02	$56.87	+3.4%
QQQ	Nasdaq 100	$648.85	$663.88	+2.3%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
SPY	S&P 500	$710.14	$713.94	+0.5%
IWM	Russell 2000	$275.78	$276.65	+0.3%
TIP	TIPS	$111.48	$111.80	+0.3%
HYG	HY Corporate	$80.65	$80.48	-0.2%
VWO	Emerging Markets	$59.18	$59.02	-0.3%
IEF	7-10Y Treasury	$95.93	$95.56	-0.4%
LQD	IG Corporate	$110.04	$109.60	-0.4%
VEA	Developed Markets	$69.63	$68.14	-2.1%
GLD	Gold	Range-bound	$433.25	-2.8%

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):** $+16,800/yr on $100K (historical Overheating regime returns)
- **This week:** $+500 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure first and fastest. The energy shock that's driving the regime tension hits your weekly budget within days, not months. If crude stays elevated through summer driving season, you're looking at sustained pressure on transportation costs through September.

Your grocery bill faces a slower burn from the tariff pass-through that's already working its way through supply chains. The inflationary pressure here builds over quarters, not weeks, as importers exhaust existing inventory and restock at higher costs. The timing means peak impact hits during back-to-school season.

Your mortgage rate caught a small break as Treasury yields fell on recession fears, but that relief evaporates quickly if the growth-inflation tension resolves toward the overheating scenario. The rate environment remains hostage to whether this inflation surge proves temporary or persistent.

Your paycheck is losing ground to prices in real terms, and that gap widens if energy costs stay elevated while wage growth remains subdued. The squeeze intensifies over the next six months unless either inflation moderates or employers accelerate pay increases to retain workers.

Your retirement account benefits from the equity rally driven by growth resilience, but those gains remain vulnerable to energy price spikes that could shift the regime call toward pure inflation shock. The portfolio impact depends entirely on whether markets can sustain growth optimism amid rising input costs.

Signal vs. Noise

Signals worth tracking:
The layer divergence between leading and lagging indicators. When forward-looking data points toward overheating while backward-

looking data still shows regime transition, each new release carries outsized weight in determining which narrative wins.

Energy market structure beyond just the flat price. The physical constraints from the Strait closure create supply bottlenecks that don't show up in headline crude numbers but matter enormously for refined product availability.

Real income trends as the inflation acceleration meets wage growth deceleration. Consumer spending patterns under this pressure reveal whether demand destruction starts to do the Fed's work for them.

Noise to ignore:
Individual data point volatility within the broader regime framework. Monthly CPI prints will be messy given the one-time shocks, but the underlying growth-inflation dynamic is what drives regime probabilities.

Market sector rotation stories that don't connect to the macro regime. Stock picking narratives matter less than whether equity markets can sustain a growth bid while absorbing energy price shocks.

The key distinction right now is duration. Signals have staying power that extends beyond the immediate news cycle. Noise gets overwhelmed by the next data release. In an environment where the model sees genuine uncertainty between overheating and inflation shock, focus on indicators that help resolve that tension rather than those that just add to the daily market chatter.

What to Watch

Energy market structure through month-end. If refined product shortages start hitting European airports or Asian rationing expands beyond current levels, the inflation shock scenario gains probability mass rapidly. The physical constraints matter more than headline crude prices. **March PCE inflation data release on April 26.** This is the Fed's preferred gauge, and if it shows broader acceleration beyond energy and tariff effects, the overheating thesis strengthens significantly. Core services inflation trends will be the key component. **Consumer credit and spending data through April.** Real income turned negative before the latest energy spike. If credit card delinquencies rise or spending patterns shift dramatically, demand destruction could start resolving the regime tension toward cooling. **Any diplomatic framework for Strait of Hormuz reopening.** A credible negotiation process or military de-escalation plan would immediately reduce inflation shock probabilities and shift regime odds back toward pure overheating dynamics. **Fed communication around the dual mandate trade-off.** If policymakers signal they're willing to tolerate higher unemployment to combat supply-driven inflation, that changes the entire policy response function and regime evolution path.

What Would Change My Mind

The regime call favors overheating with inflation shock as a close second, reflecting genuine uncertainty about whether current conditions represent demand exceeding supply or supply constraints creating artificial scarcity. Two scenarios would flip that assessment decisively.

If core services inflation accelerates for two consecutive months independent of energy and tariff effects, the overheating diagnosis becomes dominant. That would signal demand pressures broad enough to drive price increases across sectors that aren't directly affected by the Strait closure or trade policy. The model would shift probability mass toward overheating within weeks of confirming that pattern.

Alternatively, if a credible diplomatic solution emerges for the Strait situation or Saudi Arabia announces meaningful production increases, the inflation shock probabilities collapse rapidly. Without the supply constraint, current price pressures look much more like demand-driven overheating that monetary policy can address through normal channels. The regime call would clarify toward overheating with much higher confidence.

The price of being wrong on the first scenario is underestimating how quickly supply-driven inflation becomes demand-driven inflation when it persists long enough to shift expectations. The price of being wrong on the second is overestimating how quickly geopolitical supply shocks resolve when the underlying conflicts have no clear diplomatic path forward.
