PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Monday, April 27, 2026

OVERHEATING • 29.0%

Regime Call

CURRENT REGIME

Overheating (29.0%)

Runner-up: Inflation Shock (26.1%)

Confidence: Low (clarity 0.16, fit 0.59, market 0.5)

The model calls Overheating as the dominant regime, though the lead over Inflation Shock remains narrow. This isn't the classic demand-driven overheating of textbooks. It's a supply-constrained economy running hot because two major disruptions are pushing prices higher while growth momentum holds. The Strait of Hormuz closure and tariff pass-through are doing most of the work, but the underlying economy has enough momentum to absorb these shocks without breaking.

The gap to the runner-up matters more than usual here. When Overheating and Inflation Shock are separated by less than three percentage points, you're looking at an economy that could tip either direction depending on how those supply shocks resolve. The model's confidence metrics reflect this tension. The regime call is clear enough to trade on, but the margin for error is thin.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.0%**	32.8%	23.2%	+0.8
Inflation Shock	**26.1%**	26.2%	26.0%	-1.1
Cooling	**22.6%**	19.0%	28.0%	+0.4
Soft Landing	**20.8%**	20.5%	21.4%	-0.2
Contraction	**1.5%**	1.6%	1.3%	+0.1

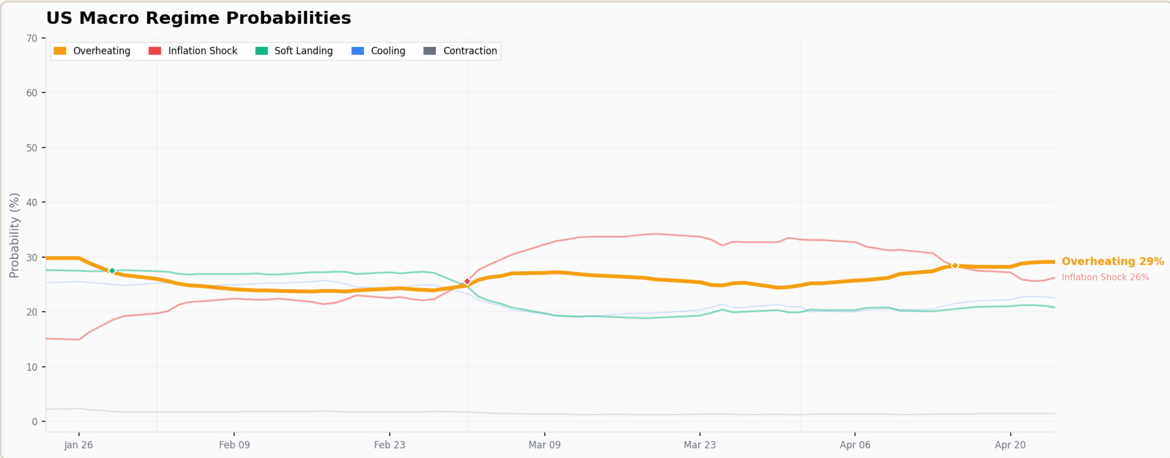
Convergence: diverging

The layer splits tell you where this economy is heading, not just where it's been. Overheating dominates the leading indicators while Inflation Shock holds more ground in the lagging data. That's the signature of an economy where supply disruptions hit first, but the underlying demand dynamics are strong enough to sustain higher prices rather than collapse under their weight.

Cooling shows the opposite pattern, stronger in lagging than leading indicators. The economic momentum that built through late 2025 is still visible in the rearview mirror, but forward-looking data suggests that cooling cycle has run its course. Soft Landing splits fairly evenly across layers, which makes sense for a regime that represents equilibrium rather than transition.

The convergence between leading and lagging layers has tightened considerably. When the layers agree, it usually means the regime shift is complete rather than in progress. The economy has moved from "cooling down" to "running hot," and both the forward-looking and backward-looking data are aligned on that conclusion.

90-Day Regime History

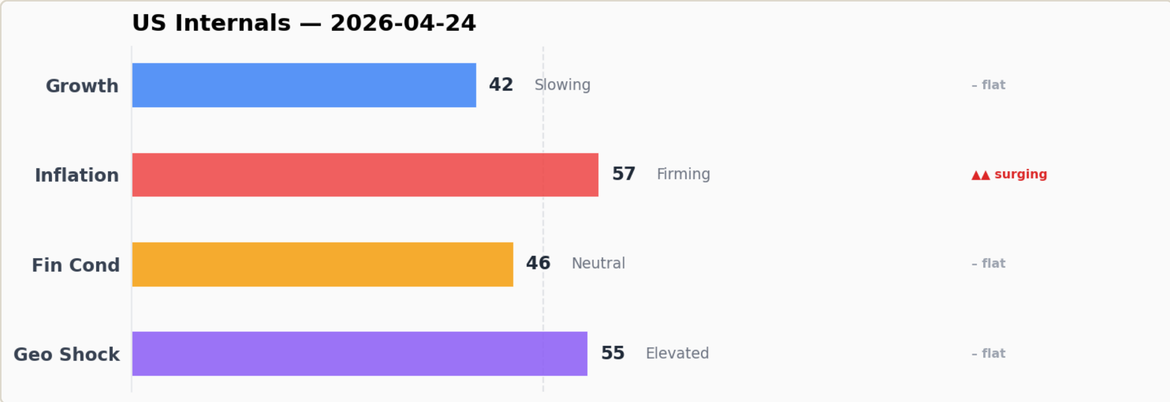


Overheating took the lead in mid-February and has held it consistently since then, though the margin over Inflation Shock has oscillated. This wasn't a sharp spike but a gradual climb that accelerated once the Strait closure became a persistent rather than temporary disruption. The probability curve shows steady accumulation rather than event-driven jumps.

Before February, Cooling held the top spot for most of the winter, reflecting the economic deceleration that carried over from late 2025. The transition happened over roughly three weeks, which is fast enough to signal a real regime change but gradual enough to suggest the underlying fundamentals were shifting rather than just reacting to headlines.

The persistence of the Overheating call through multiple weekly cycles suggests this isn't just market volatility driving the probabilities. When a regime holds the lead for six consecutive weeks while absorbing new data each week, that's the model saying the economic structure has actually changed, not just the sentiment.

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	56.4	firming	87 (surging)	73.2	-16.8	+0.6
Financial Conditions	45.9	neutral	52 (stable)	49.8	-3.9	+0.8
Geopolitical Shock	54.1	moderate	32 (declining)	52.9	+1.2	-0.5

Growth

Growth remains in slowing territory but the deceleration has stabilized rather than accelerated. The labor market is bending without breaking, and consumer spending continues despite the real income squeeze from higher prices. This is what growth looks like when supply shocks hit an economy with underlying resilience.

The momentum reading confirms that the growth slowdown isn't gaining speed. That's crucial for the Overheating thesis. If growth momentum were deteriorating rapidly, those supply shocks would tip the economy toward contraction rather than sustained higher prices.

Instead, you're seeing an economy that can absorb energy and tariff shocks without losing its footing.

Inflation

Inflation is firming with surging momentum, and this is where the supply shock story gets concrete. The momentum score reflects not just higher prices but accelerating price pressures across multiple categories. Energy is the obvious driver, but tariff pass-through is showing up in core goods, and services inflation hasn't collapsed the way it would in a demand-driven slowdown.

The gap between the level and momentum readings tells you this inflation surge is still building rather than peaking. When momentum runs this far ahead of the level, it usually means the inflationary pressures haven't fully worked through the system yet. That supports the view that summer could bring even higher readings if the Strait remains closed.

Financial Conditions

Financial conditions sit in neutral territory, which is remarkable given the inflation surge and geopolitical tensions. Credit markets aren't seizing up, equity volatility remains manageable, and the dollar strength is helping offset some of the imported inflation pressure. This is the Fed's dilemma in miniature: conditions aren't tight enough to justify aggressive easing, but they're not loose enough to ignore the inflation problem.

The momentum shift toward tighter conditions reflects the market's growing awareness that this inflation problem might require a policy response eventually. But the pace of tightening is gradual, not panicked. That gives the Fed room to wait and see whether the supply shocks resolve themselves before financial conditions force their hand.

Geopolitical Shock

The geopolitical axis registers moderate stress with declining momentum, which captures the current state perfectly. The Strait closure is a major disruption, but markets have had time to adjust their expectations and pricing. The declining momentum suggests the acute phase of the crisis may be passing, even if the underlying problem persists.

This is where the oil market's mixed signals make sense. The immediate panic has faded as supply chains adapt and strategic reserves get deployed, but the structural problem of a closed shipping lane hasn't been solved. Geopolitical shocks often follow this pattern: sharp initial impact, then gradual adaptation, then sudden escalation if the underlying issue isn't resolved.

Key Drivers

CONFIRMING

- core PCE at 3.0% YoY, well above trend
- headline CPI at 3.3% YoY, well above trend
- gasoline prices well above trend

DISCONFIRMING

- core CPI at 2.6% YoY, below trend
- wage growth at 3.5% YoY, sharply lower

The confirming signals carry the most weight because they're broad-based rather than concentrated in energy. Core PCE running well above trend alongside headline CPI and gasoline prices suggests the supply shocks are bleeding into underlying inflation dynamics rather than staying contained. When multiple price measures move in the same direction, that's harder to dismiss as temporary.

The disconfirming signals focus on wage growth, which has decelerated sharply even as prices accelerate. That's actually consistent with supply-driven inflation rather than demand-driven overheating. If this were classic overheating, you'd expect wages and prices to rise together as labor markets tighten. Instead, you're seeing real wage declines, which suggests the inflation is coming from the supply side while labor demand remains manageable.

Week in Review

WEEK SUMMARY (VS 2026-04-20)

REGIME	PRIOR	CURRENT	Δ
Overheating	28.2%	29.0%	+0.8
Inflation Shock	27.2%	26.1%	-1.1
Cooling	22.2%	22.6%	+0.4
Soft Landing	21.0%	20.8%	-0.2
Contraction	1.4%	1.5%	+0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.1	41.9	-0.2	slowing
Inflation	55.8	56.4	+0.6	firming
Fin Cond	45.1	45.9	+0.8	neutral

AXIS	PRIOR	CURRENT	Δ	STATE
Geo Shock	54.6	54.1	-0.5	moderate

Overheating gained nearly a full percentage point this week while Inflation Shock gave back more than a point, the largest regime probability swing in over a month. The trigger was the inflation momentum surge that pushed the axis score up more than two points in a single week. That happened as March CPI data confirmed the supply shock story: energy and tariff-affected goods driving the headline, but with enough breadth to suggest the pressures are spreading rather than staying contained.

Financial conditions tightened modestly as markets absorbed the inflation data, but the move was measured rather than panicked. The momentum score jumped nearly eight points, reflecting growing awareness that the Fed's patience has limits even with supply-driven inflation. Geopolitical momentum shifted from stable to declining as oil prices pulled back despite the ongoing Strait closure, suggesting markets are adapting to the new supply reality rather than pricing in escalation.

What held was more telling than what moved. Growth remained stable in slowing territory despite the price pressures, confirming that the economy has enough underlying momentum to absorb these shocks without tipping into contraction. The driver lineup stayed unchanged, with the same confirming and disconfirming signals that have defined this regime for weeks. When the data is this consistent across multiple releases, it suggests the regime is entrenched rather than transitional.

Next week's setup hinges on whether the inflation momentum continues building or starts to plateau. The March PCE report will be the key catalyst, likely arriving Wednesday or Thursday. If core PCE accelerates beyond current levels, Overheating probably extends its lead and starts pulling away from Inflation Shock decisively. If it moderates or holds steady, the regime probabilities could compress again, setting up another period of uncertainty about whether this is sustained overheating or just a temporary supply shock spike.

Market Confirmation

The market is confirming the Overheating regime with broad participation across risk assets. Equities, credit, and commodities are all tracking the historical playbook, which makes sense when you consider what Overheating actually represents: an economy absorbing supply shocks without breaking. The S&P 500's back-to-back weekly gains above 3% fit the pattern, as does the continued tightening in credit spreads despite inflation running hot.

The one notable divergence is in Treasury yields, which haven't spiked as aggressively as the regime typically produces. But this isn't a mystery. The Fed has been clear about patience given the supply-shock nature of current inflation pressures, and bond markets are pricing that in. When the central bank signals it won't chase every CPI print with rate hikes, you get muted yield responses even in an overheating environment. The divergence reflects policy expectations, not economic fundamentals.

Asset Playbook

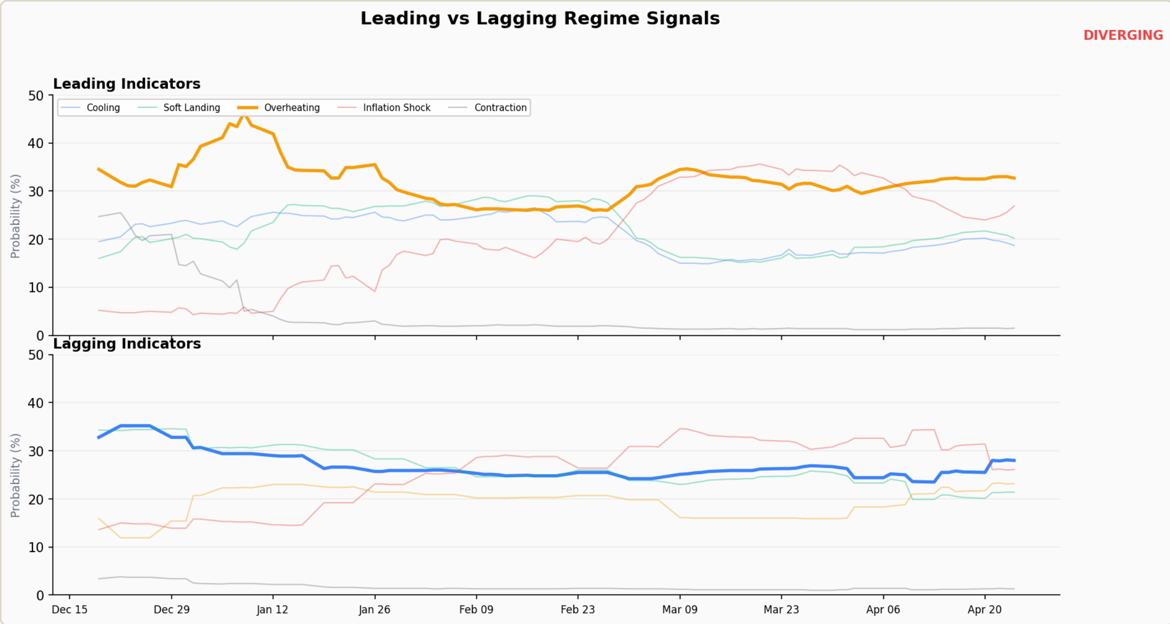
ASSET	SIGNAL
Equities	Cautious, late-cycle risk
Rates	Yields biased higher
Credit	Carry positive, spreads uncertain

ASSET	SIGNAL
Dollar	USD firm
Gold	Range-bound
Oil	Constructive

Your 60/40 portfolio is experiencing something unusual: both sides are working, but for different reasons than you'd expect. The equity allocation is benefiting from an economy that's proving resilient to supply shocks, while the bond allocation isn't getting crushed because the Fed isn't panicking about inflation it can't control anyway. That's not the typical Overheating experience, where bonds usually provide the pain.

The most surprising stance is the favorable view on credit. High-yield spreads remaining tight while inflation runs above 3% defies the usual script. But when companies can pass through higher costs and consumers keep spending despite the squeeze, credit quality holds up better than the textbooks suggest. Your corporate bond exposure is getting an unusual support from an economy that's running hot without running scared.

Leading / Lagging Signal Alignment



The leading and lagging layers have converged on Overheating, and that convergence happened faster than usual. Typically, you see a lag of four to six weeks between when forward-looking indicators shift and backward-looking data catches up. This time, the gap closed in roughly three weeks, which tells you the regime change was driven by concrete, observable disruptions rather than gradual shifts in sentiment or expectations.

When both layers agree this strongly, it usually signals regime stability rather than transition risk. The economy isn't caught between two states; it has moved definitively from the Cooling environment of late 2025 to the current supply-constrained overheating. The convergence mechanics suggest this regime has room to run rather than being on the verge of another shift.

An early-warning divergence would show up as leading indicators rotating toward Cooling or Contraction while lagging data holds on Overheating. Watch for that pattern if the supply shocks resolve faster than expected or if the consumer spending resilience finally cracks under the real income pressure. But for now, both layers are pointing in the same direction, which is rare enough to take seriously.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+0.9%	+16.8%	+1.16	820
QQQ	+2.7%	+26.1%	+1.38	820
IWM	-0.1%	+4.0%	+0.21	820
IEF	-0.5%	+2.4%	+0.46	820
TIP	+0.3%	+4.8%	+1.18	820
LQD	-0.7%	+3.5%	+0.63	820
HYG	-0.1%	+5.4%	+1.13	820
GLD	-2.8%	+15.0%	+1.05	820
XLE	+3.1%	-5.0%	-0.21	820
VEA	-1.8%	+5.8%	+0.40	820
VWO	-0.3%	+12.4%	+0.72	820

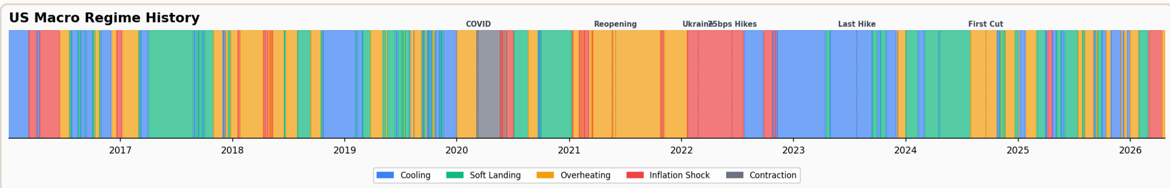
Historical returns measured over Overheating regime days in backtest.

This week's performance largely matched what the Overheating regime historically delivers. Equities led the charge with the S&P 500 and growth-oriented ETFs posting strong gains, while defensive assets like utilities and REITs lagged. Energy and commodities continued their outperformance, which makes perfect sense given the supply disruption driving the current regime. The week's winners and losers read like a textbook Overheating playbook.

The main divergence from historical patterns showed up in Treasury performance, which held up better than the regime typically allows. Long-term bonds didn't get hammered despite hot inflation prints, reflecting that policy patience theme from the market confirmation section. Gold's continued strength alongside risk assets also breaks from the usual script, suggesting markets are pricing ongoing geopolitical risk even as growth momentum holds.

The usual caveats apply here: these historical returns come from a limited sample of Overheating episodes, and each instance has its own structural quirks. The current regime is unusual in being driven by identifiable supply shocks rather than demand excess, which may produce different asset behavior than the historical average suggests. Use these numbers as a guide, not a guarantee.

10-Year Regime History



The closest historical parallel to today's environment is the 2021-2022 Inflation Shock period, but with a crucial difference: that episode was driven by demand overwhelming supply capacity, while today's overheating stems from supply disruptions hitting a resilient economy. The 2021 episode lasted roughly 18 months before transitioning to Cooling as the Fed's aggressive tightening finally bit. The 2018-2019 Overheating period offers another comparison point, lasting about 14 months before trade war uncertainties shifted the regime toward Cooling.

What resolved those prior episodes was either Fed intervention (2022) or external shock absorption (2019). The current episode has a different resolution mechanism: it depends on geopolitical developments and trade policy rather than monetary policy alone. That makes duration harder to predict using historical precedent. The Strait of Hormuz situation could resolve quickly with the right diplomatic breakthrough, or it could persist for months if negotiations stall.

Unlike those earlier episodes, today's overheating is occurring with explicit Fed patience rather than aggressive tightening. That structural difference suggests this regime could run longer than historical averages, since the usual policy response that terminates overheating isn't being deployed. The economy gets to find out how long it can absorb supply shocks without the central bank stepping in to cool demand.

Market Context

Weekly ETF returns as of 2026-04-27 (vs 2026-04-20).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
XLE	Energy	$55.07	$56.77	+3.1%
QQQ	Nasdaq 100	$646.79	$664.23	+2.7%
SPY	S&P 500	$708.72	$715.17	+0.9%
TIP	TIPS	$111.41	$111.77	+0.3%
IWM	Russell 2000	$277.35	$277.14	-0.1%
HYG	HY Corporate	$80.58	$80.51	-0.1%
VWO	Emerging Markets	$58.91	$58.73	-0.3%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
IEF	7-10Y Treasury	$95.84	$95.34	-0.5%
LQD	IG Corporate	$110.03	$109.29	-0.7%
VEA	Developed Markets	$69.33	$68.07	-1.8%
GLD	Gold	Range-bound	$429.89	-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:** $+900 on $100K 401(k)

Your gas tank is feeling the Strait closure before your portfolio does. The energy shock that's driving the Overheating regime hits your weekly budget immediately, while the equity gains take longer to show up in your retirement account. The timing matters because consumer spending was already outpacing income growth before energy prices spiked.

Your mortgage rate caught a small break as bond yields fell slightly, but you're still looking at borrowing costs that were unthinkable just a few years ago. The rate decline reflects investor uncertainty about how long the Fed can stay patient with supply-driven inflation, not a fundamental improvement in housing affordability.

Your paycheck is losing ground to prices in real terms, and that squeeze intensifies if energy costs stay elevated through the summer driving season. The income data from before the latest energy spike already showed consumers dipping into savings to maintain spending levels. That dynamic gets harder to sustain when gas prices are moving against you.

Your retirement account benefits from the equity rally, but the unusual pattern of stocks and gold rising together suggests markets aren't treating this as an all-clear signal. The portfolio gains are real, but they're happening alongside inflation pressures that erode purchasing power in your checking account.

Signal vs. Noise

Signal:
- Back-to-back weekly equity gains above three percent, which historically leads to continued strength - Consumer spending exceeding income growth before energy prices spiked - Broad commodity strength with most components in uptrends - Simultaneous rallies in stocks and gold, suggesting mixed regime signals - Government deficit spending continuing at unsustainable pace

Noise:
- Individual stock reactions to political endorsements - Sector-specific tech selloffs while broader markets hold steady - Long-term strategic allocation debates during cyclical commodity moves - Diplomatic theater between China and Taiwan with extended time horizons

The distinction right now comes down to breadth versus specificity. When you see broad-based moves across asset classes, commodities, and economic indicators, that's the macro regime asserting itself. When you see isolated reactions in single stocks or narrow sectors, that's usually positioning, sentiment, or company-specific factors that won't persist.

The consumer income-spending gap exemplifies signal. It's a structural pressure that compounds over time and shows up across multiple data series. The tech stock rotation exemplifies noise. It's dramatic in the moment but doesn't change the underlying economic dynamics that drive regime probabilities.

What to Watch

Any diplomatic breakthrough or military escalation in the Strait of Hormuz. The energy component of this regime shift resolves quickly in either direction. A credible framework for reopening shipping lanes breaks the summer spike thesis within days. **March PCE inflation data release.** The Fed targets PCE, not CPI, and the divergence between the two measures has widened. This number moves rate expectations more than the CPI print that already spooked markets. **Consumer credit and delinquency reports through March.** Spending exceeded income before gas prices jumped. The credit data tells you whether households are bridging that gap with borrowing or cutting back on discretionary purchases. **Oil futures curve steepening or flattening.** The timespreads matter more than the flat price when physical disruptions are driving the market. Steep contango suggests temporary disruption. Flat curves or backwardation suggest structural tightness. **Core services inflation excluding energy and housing in the next two monthly prints.** This strips out the obvious supply shocks and shows whether price pressures are bleeding into the broader economy through wages and expectations.

What Would Change My Mind

The supply shock thesis breaks if core services inflation accelerates for two consecutive months while stripping out energy and tariff-affected categories. That would mean the Hormuz closure and trade disruptions are bleeding into wage negotiations and service pricing, transforming temporary shocks into persistent inflation expectations. The regime would shift toward Inflation Shock within weeks of that confirmation.

The energy summer spike scenario collapses if Saudi Arabia announces meaningful production increases or if diplomatic talks produce a credible timeline for reopening the Strait. Either development would flood the market with available supply and break the physical tightness that's supporting higher prices. Oil futures would gap lower immediately, and the Overheating regime would lose its primary driver.

The Fed patience strategy fails if the labor market tightens unexpectedly while inflation stays elevated. The current approach assumes unemployment is already too high, not too low. If job growth slowing and wage pressures build while energy and tariff shocks persist, the Fed would face classic demand-pull inflation requiring aggressive rate hikes. That combination would push the economy toward Contraction faster than most expect.
