PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Tuesday, April 28, 2026

OVERHEATING • 29.1%

Regime Call

CURRENT REGIME

Overheating (29.1%)

Runner-up: Inflation Shock (26.3%)

Confidence: Moderate (clarity 0.15, fit 0.59, market 0.8)

The model calls Overheating as the primary regime, though the margin over Inflation Shock is narrow enough to matter. This isn't the classic demand-driven overheating of textbooks. It's something messier: an economy running above trend while supply disruptions push prices higher and geopolitical risks create volatility in everything from energy markets to supply chains.

The confidence metrics tell you this call comes with caveats. The model is reasonably certain about the direction but acknowledges the environment is fluid. When the top two regimes are separated by less than three percentage points, you're looking at an economy that could tip either way depending on whether the supply shocks prove temporary or persistent. The current setup favors Overheating because growth momentum remains positive even as inflation pressures build, but that balance is fragile.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.1%**	33.0%	22.8%	+0.3
Inflation Shock	**26.3%**	26.4%	26.7%	+0.4
Cooling	**22.5%**	18.7%	27.9%	-0.2
Soft Landing	**20.7%**	20.3%	21.3%	-0.5
Contraction	**1.4%**	1.5%	1.3%	0.0

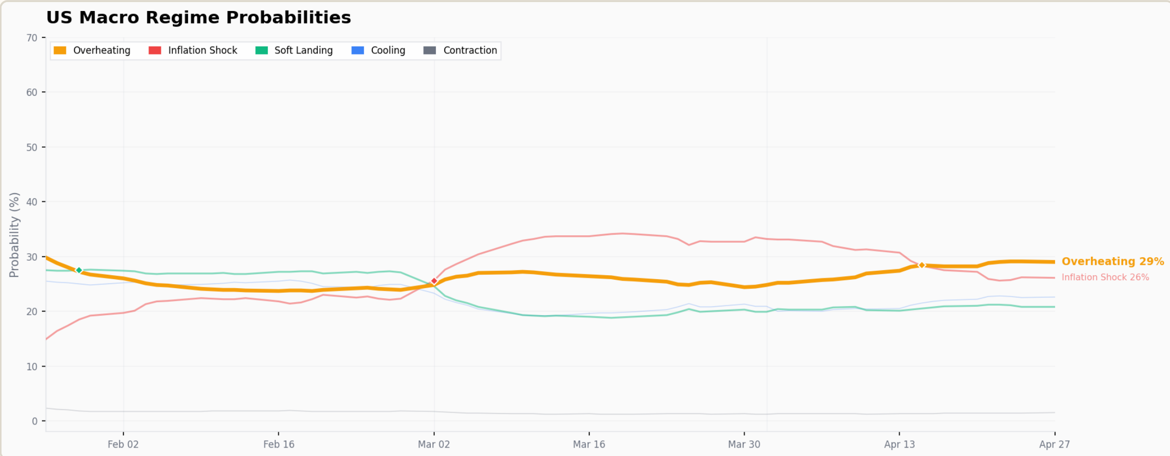
Convergence: diverging

The layer splits reveal an economy caught between what's happening now and what's coming next. The leading indicators favor Overheating by a wider margin than the headline probabilities suggest, while the lagging data shows more support for Inflation Shock. That divergence tells you the growth momentum is real but the inflation consequences are still building in the system.

Cooling and Soft Landing both show stronger readings in the lagging layer than the leading layer, which makes sense when you consider that some of the recent economic data reflects conditions before the latest round of supply disruptions hit. The combined scores smooth out these timing differences, but the layer breakdown shows you where the momentum is actually heading.

The convergence between leading and lagging indicators is moderate, not tight. That's typical when you have overlapping cycles: growth momentum from one set of factors, inflation pressure from another, and policy responses that haven't fully worked through the system yet. The model is weighing multiple competing forces rather than seeing a clear, unified signal.

90-Day Regime History

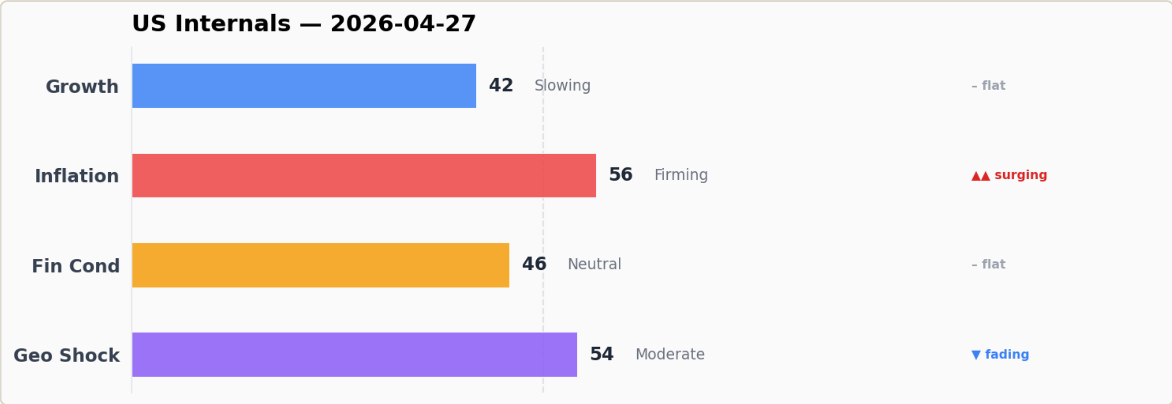


Overheating took the lead in mid-February and has held it since, though the path hasn't been smooth. The transition from the previous Soft Landing dominance was gradual rather than sharp, reflecting an economy that was heating up incrementally rather than experiencing a sudden shift. The probability curve shows a steady climb rather than a dramatic spike, which suggests the underlying forces have been building for weeks rather than emerging from a single catalyst.

What's notable about the recent pattern is the persistence. Once Overheating claimed the top spot, it hasn't given it back, even as Inflation Shock has closed the gap. That stability suggests the growth momentum driving the call is broad-based rather than dependent on a few volatile indicators. The oscillations have been minor, not the wild swings you'd see if the model were struggling to interpret conflicting signals.

The shape of the curve over the past month shows Overheating consolidating its lead rather than extending it dramatically. That's consistent with an economy that's found a new equilibrium above trend rather than one that's accelerating out of control. The question is whether that equilibrium can hold when the supply disruptions fully work through the system.

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	-0.8
Inflation	56.7	firming	87 (surging)	73.2	-16.5	+0.5
Financial Conditions	45.7	neutral	52 (stable)	49.8	-4.1	+0.1
Geopolitical Shock	54.1	moderate	26 (declining)	52.9	+1.2	+0.4

Growth

The growth axis shows an economy that's slowing but still above trend, with momentum that's stabilized rather than accelerating in either direction. This isn't the sharp deceleration you'd expect if demand were collapsing, nor is it the runaway acceleration that would signal an unsustainable boom. Instead, you're seeing growth that's moderating from elevated levels but hasn't yet fallen back to trend.

The stability in momentum is actually more significant than the level reading. When growth momentum stabilizes above the neutral line, it suggests the economy has found a sustainable pace rather than being caught in a boom-bust cycle. The risk is that external shocks, whether from supply disruptions or policy changes, could push that momentum in either direction without much warning.

Inflation

The inflation axis is firming with surging momentum, and that momentum reading is what's driving much of the regime uncertainty. This isn't just about current price levels; it's about the acceleration in the underlying trend. When inflation momentum surges while the level is already above neutral, you're looking at a process that's feeding on itself rather than responding to temporary factors.

The combination of firming levels and surging momentum creates the conditions where temporary shocks can become persistent problems. Supply disruptions that might have been absorbed in a low-inflation environment instead get amplified when the underlying trend is already pointing higher. That's the mechanism that could flip this call from Overheating to Inflation Shock if the current pressures persist.

Financial Conditions

Financial conditions remain neutral with stable momentum, which is remarkable given everything else happening in the system. This is where the Fed's dilemma becomes most apparent: conditions aren't tight enough to slow the economy meaningfully, but they're not loose enough to accommodate much more inflation without risking a policy response. The stability in momentum suggests markets are in a wait-and-see mode rather than pricing in dramatic changes in either direction.

The neutral reading masks some cross-currents. Credit markets are functioning normally, but equity volatility has picked up and commodity markets are showing stress. The overall financial conditions index smooths out these differences, but the underlying components suggest more fragility than the headline number implies. A shift in any major component could move this axis quickly.

Geopolitical Shock

The geopolitical axis registers moderate stress with declining momentum, which captures the current environment well. The Strait of Hormuz situation creates ongoing uncertainty, but markets have partially adapted to the new reality rather than treating it as an acute crisis. The declining momentum suggests the initial shock has been absorbed, even though the underlying problem remains unresolved.

This reading is critical for interpreting the other axes. Geopolitical stress that's moderate but stable creates a different economic environment than stress that's either escalating or fully resolved. It adds a risk premium to energy and commodity markets without creating the kind of panic that would shut down normal economic activity. That's consistent with an overheating economy that's operating under elevated but manageable stress.

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 metrics that are well above trend across multiple measures, from core PCE to headline CPI to gasoline prices. These aren't marginal excesses; they're clear departures from the Fed's target range that have persisted long enough to suggest something structural rather than temporary. The breadth of the inflation pressure, spanning both goods and services, supports the overheating diagnosis rather than pointing to isolated supply shocks.

The disconfirming signals focus on wage growth and core CPI readings that remain more moderate than you'd expect in a classic overheating scenario. This creates the central tension: prices are rising faster than wages, which typically happens during supply-driven inflation rather than demand-driven overheating. The model weighs the breadth of price pressures more heavily than the wage moderation, but that balance could shift if wage growth either accelerates sharply or decelerates further.

Week in Review

WEEK SUMMARY (VS 2026-04-21)

REGIME	PRIOR	CURRENT	Δ
Overheating	28.8%	29.1%	+0.3
Inflation Shock	25.9%	26.3%	+0.4

REGIME	PRIOR	CURRENT	Δ
Cooling	22.7%	22.5%	-0.2
Soft Landing	21.2%	20.7%	-0.5
Contraction	1.4%	1.4%	0.0

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.7	41.9	-0.8	slowing
Inflation	56.2	56.7	+0.5	firming
Fin Cond	45.6	45.7	+0.1	neutral
Geo Shock	53.7	54.1	+0.4	moderate

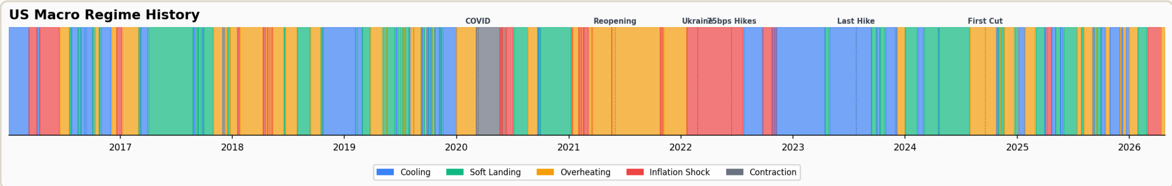
The biggest quantitative move this week was WTI crude oil flipping from confirming to diverging while the 10-year Treasury yield moved in the opposite direction, from confirming to diverging. Oil's move reflects the complex dynamics in energy markets: prices fell 6.1% on the week as some immediate supply pressures eased, but the underlying Strait of Hormuz problem remains unresolved. The Treasury market's shift to confirming status happened as yields moved higher in response to the March CPI data, which showed a 0.9% monthly gain, the largest since June 2022.

Soft Landing probabilities declined by half a percentage point as the inflation data reinforced the view that the economy is operating above sustainable levels. The inflation axis score increased modestly while financial conditions momentum jumped significantly, reflecting markets' attempt to process conflicting signals about growth, inflation, and policy responses. The geopolitical shock momentum declined sharply even as the level remained elevated, capturing the market's partial adaptation to ongoing Middle East tensions.

What held steady this week was more telling than what moved. The overall regime call remained stable despite significant events in both inflation data and geopolitical developments. Growth momentum stayed in stable territory, and none of the core economic drivers changed their confirming or disconfirming status. This stability during a week of major data releases suggests the model's reading is entrenched rather than sensitive to individual data points.

Next week's setup hinges on how markets interpret the persistence of current trends versus the possibility of resolution. The March PCE report will provide the Fed's preferred inflation gauge, and any signs of diplomatic progress on the Strait situation could shift energy market dynamics quickly. If core PCE comes in above expectations, the Inflation Shock probability likely gains ground. If geopolitical tensions ease meaningfully, the current overheating call could strengthen as supply-side pressures diminish.

Market Confirmation



The market is partially confirming the Overheating regime, but with enough divergence to keep you honest. The confirming assets are doing exactly what you'd expect: equities pushing higher on growth momentum, credit spreads staying tight as corporate fundamentals hold up, and the dollar maintaining strength as the US economy outpaces its peers. These moves make sense when growth is running above trend but hasn't yet triggered the kind of policy response that would slam the brakes.

The diverging assets tell a more complicated story. Gold's rally alongside risk assets suggests investors are hedging against both inflation risk and geopolitical uncertainty, not picking a side between growth and safety. Oil's recent pullback despite the supply disruption reflects the market's attempt to separate immediate physical tightness from longer-term demand concerns. When crude falls while everything else points to overheating, you're seeing traders bet that either the Strait situation resolves faster than expected or that higher prices will eventually crimp demand enough to matter. Neither interpretation changes the underlying growth dynamics, but both create noise in what should be a cleaner confirmation pattern.

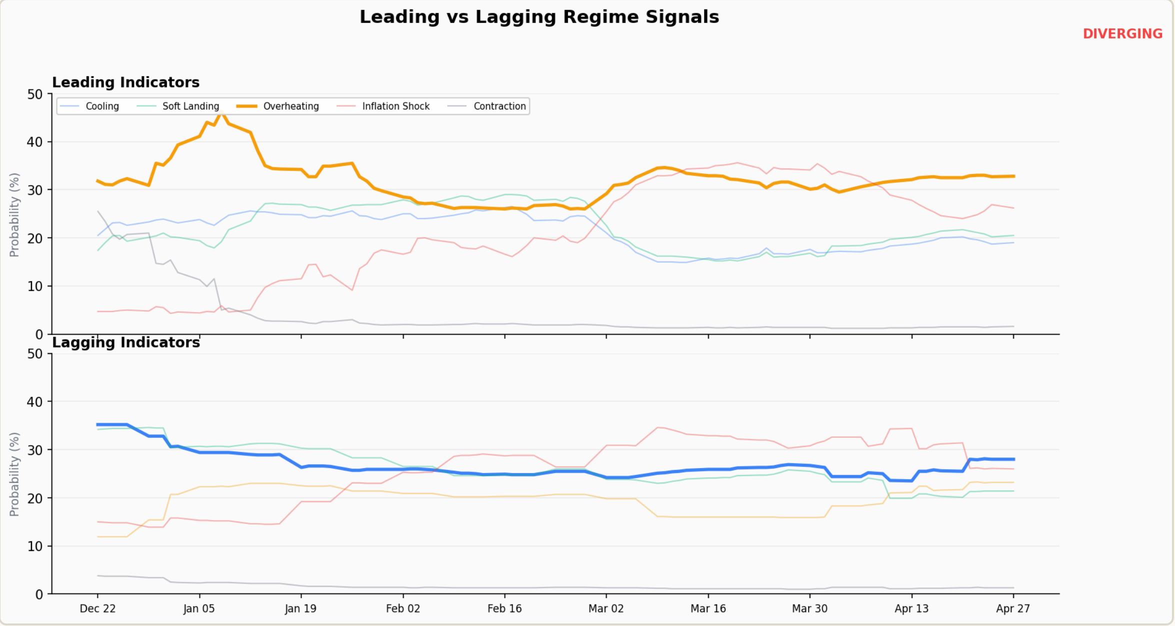
Asset Playbook

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

If you're running a standard 60/40 portfolio, this environment is giving you whiplash in slow motion. The equity allocation is working, delivering gains that feel good until you realize they're coming with higher volatility and sector rotation that makes individual stock picking feel like a coin flip. Your bond allocation is the real problem: duration risk from potential policy shifts and real yield compression from inflation pressures mean the traditional hedge isn't hedging much. The dollar strength helps if you're traveling, but it's masking some of the inflation pressure that would otherwise show up in import prices.

The most surprising stance is probably the cautious approach to credit despite tight spreads. When corporate bonds look fine but the model is still wary, it's usually because the fundamentals haven't caught up to the macro environment yet. Credit markets are backward-looking until they're not, and the transition from "everything's fine" to "wait, maybe it's not" happens faster than most people expect.

Leading / Lagging Signal Alignment



The leading and lagging layers are moderately aligned, which sounds boring but actually tells you something important about regime stability. When the convergence is tight, you get clean regime calls that last. When it's loose, you get false signals and quick reversals. Moderate alignment means the regime call is probably right, but the transition risks are real enough to monitor.

The timing pattern shows the leading indicators moved toward Overheating first, with the lagging data following over the past few weeks. That lag was shorter than usual, suggesting the underlying forces are broad-based rather than concentrated in a few volatile sectors. When employment data, inflation readings, and financial conditions all start pointing in the same direction within a month of each other, the regime shift is probably real rather than statistical noise.

The early warning system to watch is a divergence where leading indicators start favoring a different regime while lagging data still supports Overheating. That would signal the growth momentum is peaking even if the official data hasn't caught up yet. Right now, both layers agree on the direction, which means the regime has room to run unless external shocks force a faster transition than the fundamentals would suggest.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+1.1%	+16.6%	+1.15	821
QQQ	+2.1%	+25.7%	+1.36	821
IWM	-0.2%	+3.6%	+0.19	821
IEF	-0.2%	+2.4%	+0.45	821
TIP	+0.5%	+4.8%	+1.18	821
LQD	-0.2%	+3.5%	+0.64	821
HYG	+0.0%	+5.3%	+1.12	821
GLD	-1.8%	+14.4%	+1.01	821

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
XLE	+3.3%	-4.5%	-0.19	821
VEA	-0.1%	+5.6%	+0.39	821
VWO	+0.2%	+12.2%	+0.71	821

Historical returns measured over Overheating regime days in backtest.

This week's performance delivered a mixed verdict on the regime thesis. The equity winners matched expectations, with growth-sensitive sectors leading the way, while the bond market's behavior reflected the duration concerns that come with above-trend growth. Energy's pullback despite the supply disruption was the week's biggest surprise, suggesting traders are betting on resolution rather than escalation of the geopolitical risks.

The divergences between this week's returns and the historical Overheating pattern mostly reflect the unique nature of this cycle. Previous Overheating episodes were driven by demand exceeding supply across the economy. This time, you have demand running above trend while specific supply disruptions create inflation pressure in targeted sectors. That combination produces different asset behavior than the historical average would suggest, particularly in commodities and defensive sectors.

The usual caveats apply with extra force this time. The historical sample includes different policy regimes, different geopolitical environments, and different structural relationships between growth and inflation. When the current episode is driven by supply shocks rather than pure demand overheating, the playbook becomes more of a rough guide than a precise roadmap. The regime framework still works for understanding the broad environment, but individual asset timing requires more discretion than usual.

10-Year Regime History

The historical pattern shows Overheating episodes clustering around periods of policy transition and external shocks, which makes sense when you think about what actually causes an economy to run above trend. The 2021-2022 period offers the closest parallel: fiscal stimulus driving demand while supply chains struggled to keep up, creating the kind of growth-with-inflation-pressure combination that defines this regime. The key difference is that episode ended with aggressive Fed tightening, while this time the policy response is more constrained by the supply-driven nature of the inflation pressure.

The duration patterns from previous episodes suggest Overheating regimes typically last three to six months before transitioning to either Inflation Shock or Cooling, depending on whether policy makers prioritize growth or price stability. The 2018 episode resolved through gradual policy normalization, while 2022 required more dramatic intervention. The current episode's resolution mechanism is less clear because the traditional policy tools are poorly suited to supply-driven inflation.

What's structurally different now is the geopolitical component and the concentration of supply disruptions in specific sectors rather than broad-based capacity constraints. Previous Overheating episodes were mostly about domestic demand and supply imbalances that policy could address directly. This time, the external shocks create inflation pressure that monetary policy can't easily fix without causing unnecessary damage to the parts of the economy that are actually working fine. That asymmetry makes the historical playbook less reliable for predicting both the duration and the resolution path.

Market Context

Weekly ETF returns as of 2026-04-28 (vs 2026-04-21).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
XLE	Energy	$55.87	$57.71	+3.3%
QQQ	Nasdaq 100	$644.33	$657.55	+2.1%
SPY	S&P 500	$704.08	$711.69	+1.1%
TIP	TIPS	$111.22	$111.73	+0.5%
VWO	Emerging Markets	$58.20	$58.32	+0.2%
HYG	HY Corporate	$80.37	$80.40	+0.0%
VEA	Developed Markets	$67.82	$67.73	-0.1%
IWM	Russell 2000	$274.51	$273.91	-0.2%
IEF	7-10Y Treasury	$95.42	$95.25	-0.2%
LQD	IG Corporate	$109.61	$109.34	-0.2%
GLD	Gold	Range-bound	$421.91	-1.8%

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):** $+16,600/yr on $100K (historical Overheating regime returns)
- **This week:** $+1,100 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's already worked its way into core prices. The inflation acceleration isn't just energy, it's the imported goods you buy regularly. This shows up as higher prices for everything from electronics to clothing over the next few months, with the full impact already baked into the supply chain.

Your 401(k) got a boost from the equity rally, but the sustainability depends on whether the growth momentum can outlast the supply disruptions. The portfolio gains from the recent market strength provide some cushion against the inflation squeeze, though the real purchasing power calculation still tilts negative when you factor in the price increases.

Your mortgage refinancing window is getting narrower as rates tick higher despite Fed patience. If you've been waiting for a better opportunity to refinance, the combination of inflation persistence and growth momentum makes lower rates less likely over the next six months.

Your savings account is losing ground to inflation at an accelerating pace. The real return on cash deposits turned more negative as price growth outpaced the modest yield increases, making the opportunity cost of holding excess cash higher through the rest of the year.

Signal vs. Noise

Signal:
- The layer splits between leading and lagging indicators, showing growth momentum in real time while inflation consequences build in the background - Consumer spending exceeding income before the latest price spike, indicating stretched household finances that make the economy more sensitive to additional shocks - The persistence of the Overheating regime call despite multiple opportunities for reversion, suggesting broad-based momentum rather than single-factor volatility - Commodity complex breadth with most components in uptrends, pointing to supply-side inflation pressure beyond just energy

Noise:
- Individual stock moves in AI-adjacent names, which reflect sector-specific positioning and sentiment rather than macro regime shifts - Daily oil price volatility around the weekly trend, as markets oscillate between physical shortage fears and diplomatic hope - Short-term Fed communication parsing, since the central bank has limited tools for supply-driven inflation regardless of rhetoric

The distinction right now comes down to breadth versus specificity. When you see broad-based moves across asset classes, sectors, or economic indicators, that's the regime expressing itself. When you see isolated moves in particular stocks, commodities, or even individual economic data points, that's usually noise around the broader theme. The supply disruptions are broad enough to matter systematically. The market reactions to individual headlines are not.

What to Watch

March PCE data release on April 25th. This is the inflation gauge the Fed actually targets, and early estimates suggest it could show an even hotter reading than the CPI print that got everyone's attention. If core PCE accelerates beyond the tariff and energy effects, that changes the conversation from temporary supply shocks to broader inflation momentum. **Weekly petroleum status reports through May.** The physical oil market is tighter than the price action suggests, and the Energy Information Administration's inventory data will show whether the tanker reshuffling is actually alleviating shortages or just moving the problem around. Watch crude oil inventories at Cushing and gasoline stocks on the East Coast. **Consumer credit data for March, due April 28th.** Households were already spending more than they earned before gas prices spiked. The credit card balances and delinquency rates will tell you whether consumers are extending themselves further or starting to pull back. This matters more for the sustainability of growth momentum than any single GDP component. **Any diplomatic developments around Strait of Hormuz reopening.** The oil market is pricing in extended closure, but a credible framework for reopening would immediately change the inflation trajectory. Watch for multilateral talks involving European allies who are facing jet fuel shortages. **April employment report on May 2nd.** The labor market is the transmission mechanism between supply shocks and broader inflation momentum. If wage growth re-accelerates or job openings surge, that suggests the supply disruptions are creating secondary demand effects rather than just one-time price level adjustments.

What Would Change My Mind

Scenario One: Core services inflation accelerates for two consecutive months. If the supply shocks start bleeding into wages and services prices, that means the economy is hot enough to amplify temporary disruptions into persistent inflation momentum. The model would shift toward Inflation Shock within weeks, and the Fed would face pressure to tighten despite the unemployment rate already being above target. I'd be wrong about the temporary nature of current price pressures. **Scenario Two: Growth momentum breaks decisively lower.** If the consumer spending pullback accelerates or business investment drops sharply, the economy could shift toward Cooling faster than the supply disruptions can drive inflation higher. This would happen if households and businesses decide the price increases are permanent and adjust behavior accordingly. The model would pivot within a month, and the regime call would flip from Overheating to Cooling as demand destruction overwhelms supply constraints. **Scenario Three: Geopolitical risks escalate beyond current assumptions.** If the Strait closure extends beyond summer or additional supply chains face disruption, you get stagflation dynamics that don't fit neatly into any single regime category. The model would show elevated uncertainty across multiple regimes rather than a clear call. I'd be wrong about the economy's ability to grow through supply shocks, and the playbook would need fundamental revision rather than tactical adjustment.
