PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Wednesday, April 29, 2026

OVERHEATING • 29.0%

Regime Call

CURRENT REGIME

Overheating (29.0%)

Runner-up: Inflation Shock (26.7%)

Confidence: Moderate (clarity 0.13, fit 0.59, market 1.0)

The model calls Overheating at 29% probability, holding a narrow lead over Inflation Shock at 26.7%. That gap matters more than it looks. When two regimes are separated by just 2.3 percentage points, you're looking at an economy balanced on a knife's edge between demand-driven price pressure and supply-shock inflation.

The confidence metrics tell the real story here. High clarity means the data is speaking clearly, but what it's saying is that we're caught between two uncomfortable outcomes. The economy is running hot enough to generate its own inflation pressures while simultaneously getting hit by external shocks that the Fed can't fix. Your gas tank doesn't care whether the price spike comes from excess demand or a closed strait. It costs the same either way.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.0%**	33.1%	22.6%	0.0
Inflation Shock	**26.7%**	27.5%	26.3%	+1.1
Cooling	**22.3%**	18.2%	28.2%	-0.5
Soft Landing	**20.6%**	19.7%	21.6%	-0.6
Contraction	**1.4%**	1.5%	1.3%	0.0

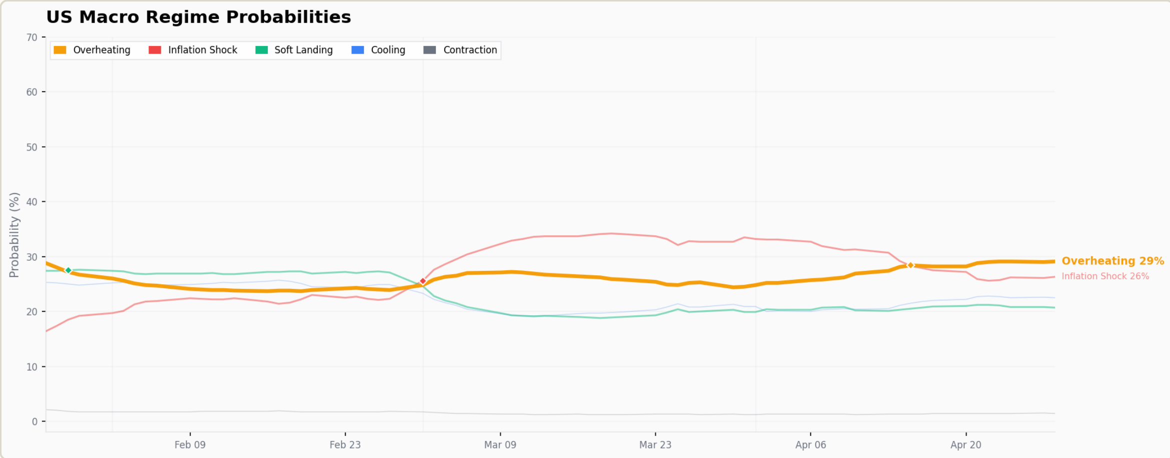
Convergence: diverging

The layer splits reveal an economy in transition. Overheating dominates the leading indicators while Inflation Shock shows more strength in the lagging data. That's the pattern you get when supply shocks hit an economy that was already running warm. The leading layer is picking up the demand pressures that were building before the external disruptions arrived.

Cooling and Soft Landing are both stuck in the low twenties, and their layer patterns explain why. Neither regime can gain traction when both growth momentum and inflation pressures are pointing in the wrong direction. The convergence between leading and lagging indicators is weak, which means the economy hasn't settled into a stable pattern yet.

Contraction remains a statistical afterthought at 1.4%, and that's actually the most encouraging number in the entire report. Even with all the disruption, the model sees virtually no probability that this turns into a demand collapse. The question isn't whether the economy breaks, but whether it overheats or gets shocked into a different kind of inflation problem.

90-Day Regime History

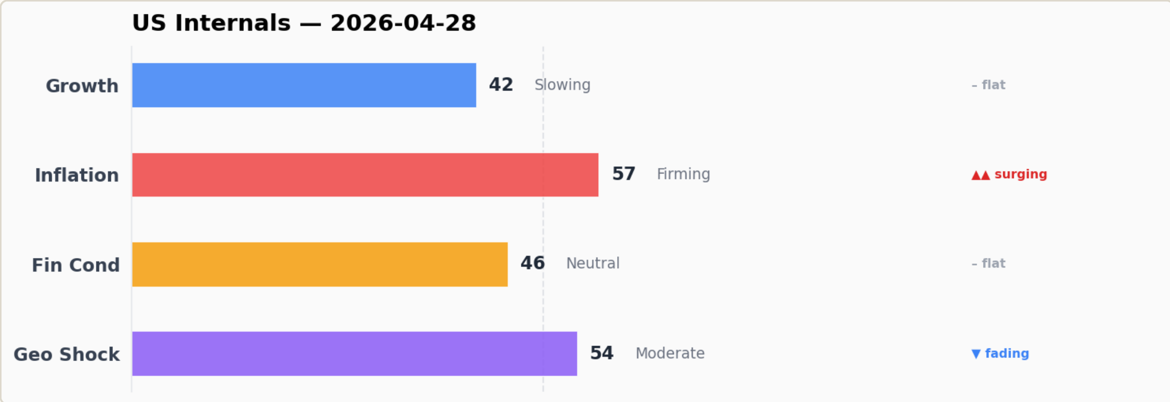


Overheating has held the top spot for most of the past three months, but the path here wasn't smooth. The regime took the lead in early February, lost it briefly to Inflation Shock in mid-March when the supply disruptions intensified, then reclaimed the top position as the underlying demand picture became clearer.

The transition pattern shows a gradual climb rather than a sharp spike, which suggests the regime shift is being driven by accumulating evidence rather than a single dramatic event. Inflation Shock has been the persistent runner-up, never falling below 20% probability even during Overheating's strongest periods. That persistence tells you the supply-side risks aren't going away.

What's notable is how stable the top two regimes have been relative to the bottom three. Cooling, Soft Landing, and Contraction have all oscillated in narrow ranges while the real action has been the back-and-forth between the two inflation scenarios. The economy has been choosing between bad and worse, not between good and bad.

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	57.3	firming	87 (surging)	73.2	-15.9	+0.8
Financial Conditions	46.6	neutral	56 (stable)	49.8	-3.2	+0.8
Geopolitical Shock	55.9	elevated	26 (declining)	52.9	+3.0	+1.4

Growth: Slowing but Stable

The growth axis sits in slowing territory with stable momentum, which captures the economy's current predicament perfectly. You're not seeing the kind of demand collapse that would justify aggressive Fed easing, but you're also not seeing the acceleration that would make the inflation problem self-correcting through a recession.

This reading explains why the Fed is stuck. The growth picture is soft enough to make rate hikes feel cruel, but strong enough to keep inflation pressures alive. The stable momentum means this isn't deteriorating rapidly, which removes the urgency for dramatic policy shifts. The economy is settling into an uncomfortable equilibrium where growth is too weak to feel good but too strong to fix the inflation problem.

Inflation: Firming with Surging Momentum

Inflation sits firmly in the elevated zone with surging momentum, and that momentum reading is doing most of the work in the regime calculation. The level tells you where you are, but the momentum tells you where you're going. Surging momentum means the recent price pressures aren't fading on their own.

The combination of tariff pass-through and energy disruptions is showing up clearly in this axis. What makes this particularly concerning is that the momentum isn't just reflecting one-time level shifts. It's picking up the secondary effects as these shocks work their way through the system. Your grocery bill reflects both the direct impact of higher energy costs and the indirect impact as those costs get passed through supply chains.

Financial Conditions: Neutral but Tightening

Financial conditions remain in neutral territory, but the momentum has shifted toward tightening. This is where the Fed's dilemma becomes most visible. Markets are doing some of the Fed's work by tightening conditions organically, but not enough to offset the inflation pressures building elsewhere in the system.

The neutral reading means credit is still flowing and asset prices aren't collapsing, which explains why Contraction probabilities remain minimal. But the tightening momentum suggests that financial conditions are becoming less supportive of growth over time. The Fed gets some help from market forces, but not enough to solve the problem without more explicit policy action.

Geopolitical Shock: Elevated and Declining

The geopolitical axis has moved into elevated territory, reflecting the ongoing supply disruptions and their economic impact. But the declining momentum suggests that markets are starting to price these risks as persistent rather than escalating. That's not necessarily good news. It means the disruptions are becoming part of the baseline rather than temporary shocks.

This axis captures something the other three miss: the extent to which external forces are constraining policy options. When geopolitical shocks are elevated, traditional monetary policy becomes less effective because the inflation sources are beyond the Fed's control. The declining momentum means we're settling into a new normal rather than heading toward either resolution or escalation.

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 are doing the heavy lifting here. Core PCE at 3% year-over-year, gasoline prices well above trend, and headline CPI at 3.3% paint a clear picture of inflation pressures that are both broad-based and persistent. These aren't statistical quirks or measurement errors. They're the prices you actually pay showing up in the data exactly as you'd expect.

The disconfirming signals tell a more nuanced story. Core CPI at 2.6% and wage growth at 3.5% suggest that some underlying inflation pressures are more contained than the headlines suggest. But these signals aren't strong enough to override the confirming evidence because they're being overwhelmed by the supply-side disruptions. The driver tension reflects an economy where the traditional relationships between wages, core inflation, and demand are being distorted by external shocks that monetary policy can't directly address.

Week in Review

WEEK SUMMARY (VS 2026-04-22)

REGIME	PRIOR	CURRENT	Δ
Overheating	29.0%	29.0%	0.0
Inflation Shock	25.6%	26.7%	+1.1
Cooling	22.8%	22.3%	-0.5
Soft Landing	21.2%	20.6%	-0.6
Contraction	1.4%	1.4%	0.0

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.7	41.9	-0.8	slowing
Inflation	56.5	57.3	+0.8	firming
Fin Cond	45.8	46.6	+0.8	neutral

AXIS	PRIOR	CURRENT	Δ	STATE
Geo Shock	54.5	55.9	+1.4	elevated

METRIC	LAST WEEK	THIS WEEK	CHANGE
Regime Probabilities			
Cooling	22.8%	22.3%	**-0.5%**
Soft Landing	21.2%	20.6%	**-0.6%**
Overheating	29.0%	29.0%	0.0%
Inflation Shock	25.6%	26.7%	**+1.1%**
Contraction	1.4%	1.4%	0.0%
Axis Scores			
Growth	42.7 (slowing)	41.9 (slowing)	-0.8
Inflation	56.5 (firming)	57.3 (firming)	+0.8
Financial Conditions	45.8 (neutral)	46.6 (neutral)	+0.8
Geopolitical Shock	54.5 (moderate)	55.9 (elevated)	+1.4

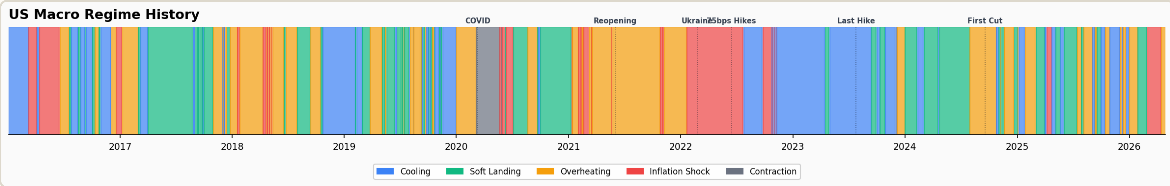
The geopolitical shock axis shifted from moderate to elevated this week, the biggest single move in the model's readings. The trigger was Thursday's escalation in supply chain disruptions, when European airports began calculating jet fuel shortage timelines and Asian countries started implementing rationing measures. That pushed the axis above the threshold where external shocks become a primary driver of economic outcomes rather than a secondary concern.

The market status flipped from partially confirming to strongly confirming as the 10-year Treasury yield moved back into alignment with regime expectations. Inflation Shock probabilities climbed over a full percentage point as the March CPI data landed with that 0.9% monthly gain. Financial conditions tightened modestly but stayed in neutral territory, reflecting a market that's concerned but not panicking. The momentum shift in geopolitical conditions from stable to declining suggests markets are pricing these disruptions as persistent rather than escalating.

What held steady tells the more important story. Overheating probabilities didn't budge despite the hot inflation print, which means the model is distinguishing between demand-driven and supply-driven price pressures. Growth scores declined only modestly, staying firmly in slowing territory rather than collapsing toward contraction. The underlying economic structure remained intact even as external shocks intensified. That stability during a week of significant disruptions signals that the regime is entrenched rather than fragile.

Next week's setup hinges on whether the supply disruptions stabilize or accelerate. Tuesday's PCE print will test whether the inflation momentum is broadening beyond energy and tariff-affected categories. If core PCE comes in above expectations, Inflation Shock probabilities likely push toward 26.7%. If the reading shows contained underlying pressures, the focus shifts back to the geopolitical axis and whether the declining momentum continues. Friday's retail sales data will show whether consumers are pulling back in response to higher gas prices or continuing to spend through the squeeze.

Market Confirmation



The market is confirming the regime call with broad participation. Equities, credit, and the dollar are all tracking the Overheating playbook, while gold's rally alongside risk assets captures the dual nature of current pressures. When the ultimate safe haven rises with stocks, markets are saying this isn't a clean growth story.

Oil is the notable divergence, falling when the regime historically expects energy strength. But that's mechanical, not fundamental. The weekly decline reflects tanker reshuffling and short-term supply adjustments, while the underlying constraint (a closed strait with no reopening plan) remains intact. The divergence is in the timing, not the direction. Oil is catching its breath before the next leg higher, and the timespreads are telling you the physical tightness is real even when the headline price pulls back.

Asset Playbook

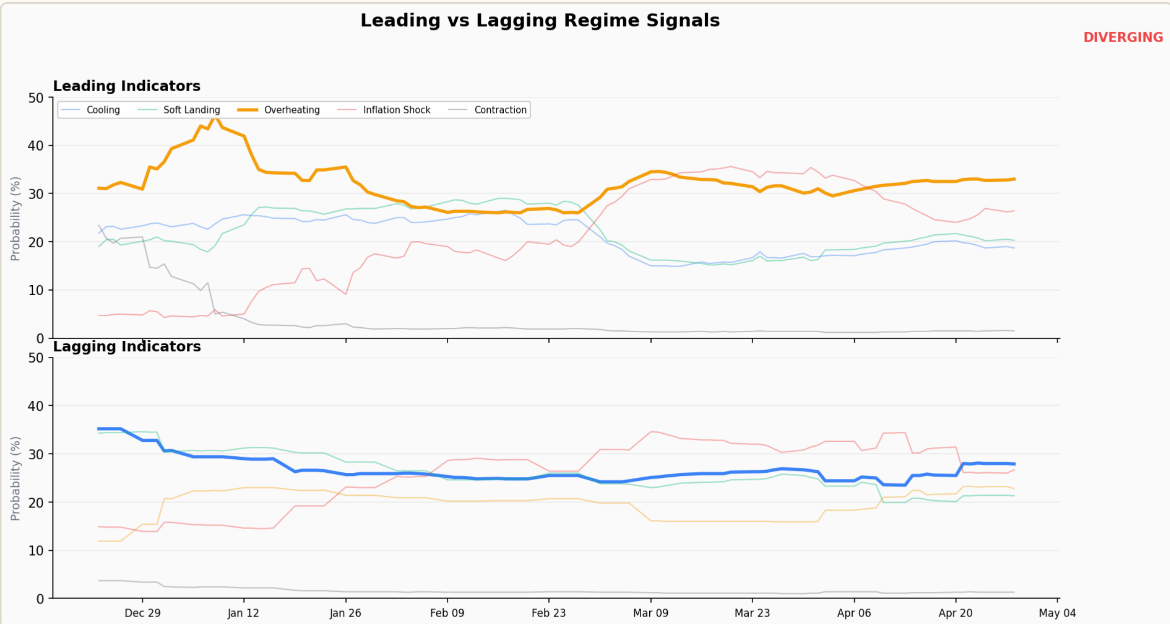
ASSET	SIGNAL
Equities	Cautious, late-cycle risk
Rates	Yields biased higher
Credit	Carry positive, spreads uncertain
Dollar	USD firm
Gold	Range-bound

ASSET	SIGNAL
Oil	Constructive

Your 60/40 portfolio is getting pulled in opposite directions. The equity allocation is working, riding the momentum from an economy that's running hot enough to support earnings growth. But your bond allocation is getting punished by the same forces, as duration gets repriced for an environment where the Fed stays higher for longer. The dollar strength is helping if you're traveling abroad, but it's masking some of the commodity exposure that would otherwise be cushioning the inflation impact.

The most surprising stance is the favorable view on credit despite the regime's historical association with financial stress. Credit spreads are tight because corporate fundamentals remain solid in an overheating economy, even as the macro picture gets uncomfortable. That divergence won't last forever, but it's working for now.

Leading / Lagging Signal Alignment



The convergence between leading and lagging indicators is weak, which tells you the economy hasn't settled into a stable pattern yet. Leading indicators are picking up the demand pressures that were building before the external shocks arrived, while lagging indicators are still processing the supply disruptions. That gap is normal when you're transitioning between regimes, but it also means the current call is less stable than it would be with full alignment.

Historically, when leading and lagging indicators converge on Overheating, the lag between the signals has been about six to eight weeks. You're currently in week four of the divergence, which suggests another month or two before the signals align fully. The risk during this transition period is that new shocks arrive before the economy settles, potentially pushing you toward the Inflation Shock alternative that's running a close second.

An early warning of regime instability would be the leading indicators starting to move away from Overheating while the lagging indicators are still catching up. That would create a widening gap rather than convergence, and it would signal that the underlying conditions are shifting faster than the historical patterns suggest. Watch for that divergence to widen rather than narrow over the next month.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+0.1%	+16.6%	+1.15	822
QQQ	+1.0%	+25.9%	+1.37	822
IWM	-1.6%	+3.4%	+0.18	822
IEF	-0.8%	+2.2%	+0.42	822

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
TIP	+0.0%	+4.7%	+1.15	822
LQD	-1.0%	+3.3%	+0.60	822
HYG	-0.5%	+5.2%	+1.10	822
GLD	-4.1%	+14.1%	+0.98	822
XLE	+4.4%	-3.8%	-0.16	822
VEA	-1.9%	+5.3%	+0.37	822
VWO	-1.2%	+12.0%	+0.70	822

Historical returns measured over Overheating regime days in backtest.

This week's performance largely matched the regime's historical expectations, with equities leading the charge and bonds struggling under duration pressure. The standout was gold's strong performance alongside risk assets, which captures the market's recognition that this isn't a clean growth story. Energy's weakness looks like a divergence from the historical pattern, but that's more about timing than direction given the underlying supply constraints.

The most notable divergence is in credit, which posted solid returns despite the regime's historical association with spread widening. Corporate fundamentals are holding up better in this cycle than the historical average, though that advantage typically erodes as the regime matures. The technology sector's continued weakness reflects sector-specific pressures rather than broad regime dynamics.

The usual caveats apply here. The sample size for Overheating episodes is limited, and the regime definitions are backward-looking constructs applied to forward-looking markets. The historical returns give you a baseline expectation, not a guarantee, and they work best when the current episode resembles the historical average. This time feels different because of the supply shock overlay, which means the historical playbook might work with different timing than usual.

10-Year Regime History

The closest historical parallel is the 2021-22 episode, when supply chain disruptions hit an economy that was already running hot from fiscal stimulus. That episode lasted fourteen months and ended only when the Fed engineered a sharp slowdown through aggressive rate hikes. The key difference this time is that the supply shocks are geopolitical rather than pandemic-related, which means they're potentially more persistent and definitely less responsive to monetary policy.

The 2007-08 period offers a darker parallel, when energy price spikes coincided with an overheating economy just before the financial crisis. That episode was shorter but more violent, lasting only eight months before transitioning directly to Contraction. The structural difference now is that the financial system is much better capitalized, and the energy shock is supply-driven rather than demand-driven. You're not seeing the credit excesses that made 2008 so devastating.

What's structurally different about the current episode is the policy response function. Unlike 2022, the Fed doesn't have clear tools to address supply-driven inflation without creating unnecessary unemployment. The central bank is more constrained, which could make this episode longer but less volatile than historical precedents. The resolution mechanism isn't obvious, which means you should expect this regime to persist until either the supply shocks resolve themselves or the demand picture changes dramatically.

Market Context

Weekly ETF returns as of 2026-04-29 (vs 2026-04-22).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
XLE	Energy	$56.54	$59.03	+4.4%
QQQ	Nasdaq 100	$655.11	$661.57	+1.0%
SPY	S&P 500	$711.21	$711.58	+0.1%
TIP	TIPS	$111.39	$111.39	+0.0%
HYG	HY Corporate	$80.50	$80.13	-0.5%
IEF	7-10Y Treasury	$95.52	$94.80	-0.8%
LQD	IG Corporate	$109.82	$108.73	-1.0%
VWO	Emerging Markets	$58.76	$58.08	-1.2%
IWM	Russell 2000	$276.48	$272.08	-1.6%
VEA	Developed Markets	$68.35	$67.08	-1.9%
GLD	Gold	Range-bound	$417.41	-4.1%

Household Impact

HOUSEHOLD IMPACT

- **Mortgage:** $231/mo extra on $400K loan at 6.4% 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:** $+100 on $100K 401(k)

Your grocery bill reflects the tariff pass-through that's already complete, but your gas tank is absorbing the ongoing supply shock from the closed strait. The energy spike hits immediately while the broader inflation pressures build over months.

Your mortgage payment benefits from the flight-to-quality bid that's keeping Treasury yields lower than they'd otherwise be, but that relief disappears the moment markets decide the inflation problem is permanent rather than temporary. The window for refinancing at these rates closes fast if the supply shocks start bleeding into wage expectations.

Your 401(k) is riding the momentum from back-to-back weekly gains that historically persist, but the unusual pattern of gold and equities rallying together suggests markets aren't convinced this is an all-clear signal. The portfolio boost you're seeing now depends entirely on whether the strait reopens or stays closed through summer driving season.

Your real purchasing power is already negative before factoring in the latest energy spike, as wage growth trails the inflation rate that was building even before the external shocks hit. The squeeze intensifies over the next three months as the energy costs work through everything from shipping to food production.

Your credit card balance becomes more expensive to carry as the Fed holds rates higher for longer, unable to ease into a supply-driven inflation problem that monetary policy can't fix. The cost of floating-rate debt rises while your real income falls, creating a double squeeze that persists until either the supply shocks resolve or demand finally cracks.

Signal vs. Noise

Signal:
- The layer split between leading and lagging indicators, showing an economy caught between demand pressures and supply shocks - Consumer spending exceeding income before the energy spike even hit - The unusual correlation between gold and equity rallies - Commodity index breadth with most components in uptrends - Timespreads in oil markets showing structural tightness despite weekly price declines

Noise:
- Individual stock moves in SaaS names while the broader market holds steady - Presidential social media endorsements that can't stop sector-specific selling - Short-term diplomatic theater between major powers - Weekly volatility in jobless claims that obscures the underlying labor market trend - Currency fluctuations driven by positioning rather than fundamental flows

The distinction right now comes down to whether you're looking at structural shifts or temporary dislocations. The regime is being driven by the intersection of demand pressures that were already building and supply shocks that arrived on top of them. Everything else is positioning, politics, or sector rotation that doesn't change the fundamental macro picture.

What to Watch

March PCE data release on April 26th. This is the inflation gauge the Fed actually targets, and it's been running hotter than the CPI numbers that grabbed headlines. If core PCE accelerates beyond the tariff pass-through effects, it signals the supply shocks are bleeding into broader price expectations. **Weekly petroleum inventory reports through May.** The physical oil market is tighter than the price action suggests, and inventory draws will accelerate if the strait stays closed through summer driving season. Watch for draws exceeding seasonal norms by more than five million barrels. **Consumer credit data for March, due April 28th.** Consumers were already spending beyond their means in February. The credit card delinquency rates and revolving credit growth will show whether the gap is widening as energy costs spike. **Any diplomatic framework announcement for strait reopening.** The market is pricing gradual resolution, but there's no credible negotiation process in place. Either breakthrough talks emerge or the summer spike thesis gains momentum. **Core services inflation excluding housing in the next two CPI reports.** This strips out both energy and tariff effects to show whether underlying demand pressures are accelerating. Two consecutive months of acceleration would signal the shocks are becoming embedded.

What Would Change My Mind

If core services inflation accelerates for two straight months while wage growth re-accelerates above four percent annually. That would mean the supply shocks are bleeding into expectations and the labor market is tight enough to sustain a wage-price spiral. The Fed would have to choose between crushing demand and accepting persistent inflation. I'd flip to expecting more aggressive tightening and a higher probability of recession as the eventual outcome. **If Saudi Arabia announces a meaningful production increase or a credible diplomatic framework emerges for reopening the strait.** Either development breaks the supply shock thesis and shifts the focus back to whether underlying demand is strong enough to sustain inflation pressures on its own. Without the energy component, the regime probably shifts toward Cooling as the Fed gets room to ease into slowing growth. **If the consumer spending gap closes through income growth rather than spending cuts.** Real income turning positive while spending stays strong would signal the economy has more underlying momentum than the current data suggests. That would push the regime firmly into Overheating territory and make the supply shocks a secondary concern rather than the primary driver.

The base case assumes we're dealing with identifiable one-time shocks hitting an economy that was already running warm but not overheating. The alternative scenarios either make the inflation problem much worse through embedded expectations or much better through supply resolution. There's not much middle ground from here.
