PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Friday, May 01, 2026

OVERHEATING • 29.0%

Regime Call

CURRENT REGIME

Overheating (29.0%)

Runner-up: Inflation Shock (27.1%)

Confidence: Moderate (clarity 0.10, fit 0.62, market 0.8)

The model calls Overheating as the dominant regime, though the margin over Inflation Shock has narrowed to just under two percentage points. That's a tight race, and it matters because these two regimes produce very different playbooks. Overheating says the economy is running too hot across multiple dimensions. Inflation Shock says specific supply disruptions are doing the damage while the underlying economy stays reasonably balanced.

The confidence metrics tell you this isn't a slam dunk call. The model is reasonably certain about the direction but acknowledges the data is messy. When the top two regimes are this close, small moves in key indicators can flip the ranking quickly. That's exactly what happened this week when core PCE jumped and geopolitical tensions shifted, pushing Inflation Shock closer to the lead.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.0%**	33.0%	23.4%	-0.1
Inflation Shock	**27.1%**	27.0%	27.2%	+0.9
Cooling	**22.2%**	18.6%	27.6%	-0.3
Soft Landing	**20.3%**	20.0%	20.6%	-0.5
Contraction	**1.4%**	1.5%	1.2%	0.0

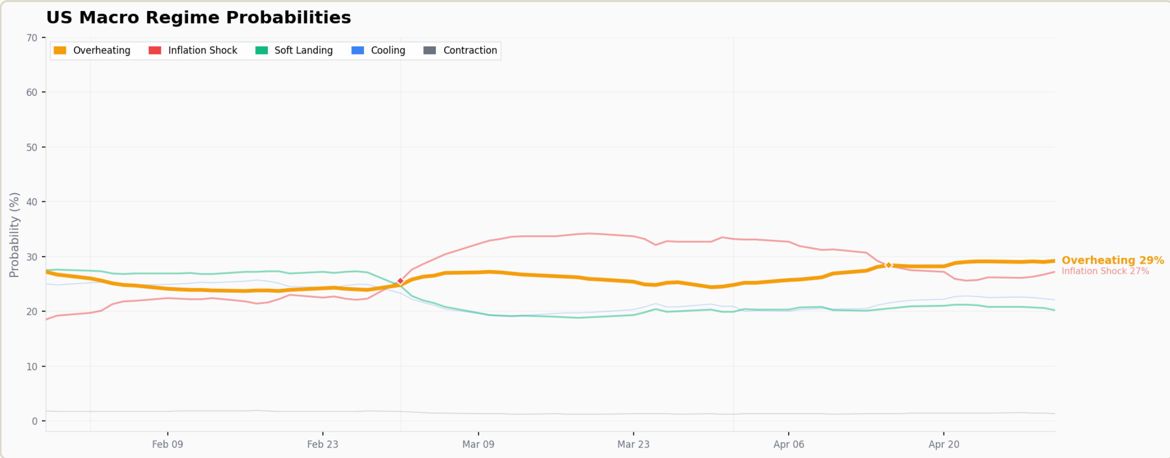
Convergence: diverging

The layer splits reveal where the economy is heading versus where it's been. The leading indicators favor Overheating by a wider margin than the headline probabilities suggest, while the lagging indicators show Inflation Shock gaining ground. That divergence tells you the supply shock story is becoming more entrenched in the data that's already happened, but the forward-looking measures still point toward broad-based overheating.

Cooling and Soft Landing are both stuck in the low twenties, unable to gain traction despite some mixed signals in the labor market. The combined scores show these regimes getting squeezed from both sides. When growth momentum stays positive and inflation keeps firming, the middle-ground scenarios lose their appeal. The economy is picking a direction, and that direction is hot.

The convergence between leading and lagging layers has deteriorated, which means the model is seeing conflicting signals about timing. The recent past says supply shocks, the near future says overheating. One of these views will prove wrong, and the regime probabilities will snap toward whichever story the data confirms over the next few weeks.

90-Day Regime History

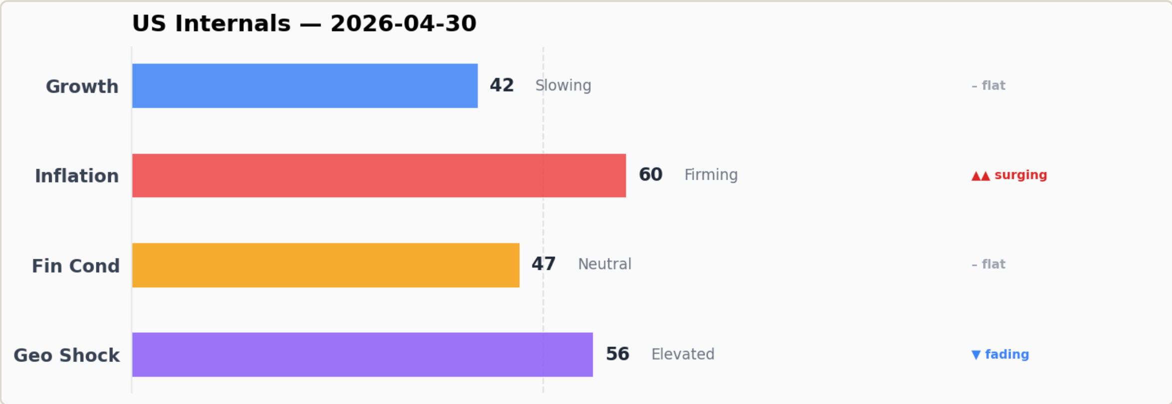


Overheating took the lead in mid-February and has held it for roughly six weeks, though the margin has compressed significantly. The initial move was sharp, driven by a cluster of hot inflation prints and resilient growth data. But rather than building on that lead, Overheating has spent the last month defending it against a persistent Inflation Shock challenge.

The shape of the probability curve shows a regime under pressure rather than one gaining momentum. Overheating spiked quickly, plateaued, and now faces a steady erosion as supply shock evidence accumulates. That's not the pattern of a regime that's about to dominate for months. It's the pattern of a regime that could flip on the next major data release.

What's notable is how quickly the transition happened from the previous Soft Landing dominance. The model went from pricing a controlled slowdown to pricing an overheated economy in less than three weeks. When regime shifts happen that fast, they tend to be either very right or very wrong. The persistence of the Overheating call suggests the model found something real, but the narrowing margin suggests that something might be more specific than broad-based overheating.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	OVERHEATING CENTROID	VS CENTROID	WEEK Δ
Growth	42.0	slowing	46 (stable)	54.5	-12.5	+0.1
Inflation	59.5	firming	84 (surging)	73.2	-13.7	+2.8
Financial Conditions	47.1	neutral	56 (stable)	49.8	-2.7	+0.7
Geopolitical Shock	54.9	moderate	22 (falling)	52.9	+2.0	-0.5

Growth

The growth axis remains in slowing territory with stable momentum, which creates an interesting tension with the Overheating regime call. You'd expect an overheated economy to show accelerating growth, but what you're seeing instead is growth that's slowing from a high level while remaining above trend. That's consistent with an economy that ran hot and is now moderating, but hasn't yet cooled enough to relieve pressure on other parts of the system.

The stable momentum reading suggests this slowdown isn't accelerating, which keeps the growth axis from supporting a Cooling regime call. But it also isn't reversing, which limits the case for sustained Overheating. The growth data is essentially neutral in the regime debate, leaving inflation and financial conditions to drive the call.

Inflation

The inflation axis is doing the heavy lifting for both Overheating and Inflation Shock, sitting firmly in firming territory with surging momentum. The recent jump in core PCE and the persistent strength in services inflation show this isn't a transitory blip. Whether you call it overheating or supply shocks, the inflation axis is screaming that price pressures are intensifying, not moderating.

The surging momentum is particularly important because it captures the acceleration in inflation, not just the level. When momentum is this strong, it takes significant disinflationary data to reverse the trend. The inflation axis is essentially telling you that whatever is driving price pressures, it's getting stronger, not weaker.

Financial Conditions

Financial conditions sit in neutral territory but with stable momentum that's been gradually firming. This is where the Fed's dilemma becomes most apparent. Policy rates are already restrictive, credit spreads have widened modestly, and equity volatility has picked up, but none of these moves have been dramatic enough to meaningfully tighten financial conditions. The Fed is pushing on the brake pedal, but the car isn't slowing down as much as they'd like.

The stable momentum reading suggests financial conditions aren't tightening on their own, which means the Fed would need to do more work to achieve meaningful restraint. But with unemployment already above target and growth slowing, additional tightening risks overshooting. The financial conditions axis is essentially neutral in the regime debate, which leaves the Fed without clear guidance from market-based measures of policy transmission.

Geopolitical Shock

The geopolitical axis dropped from elevated to moderate this week, with momentum shifting to falling. That sounds like good news until you realize it reflects a slight easing in immediate crisis risk, not a resolution of underlying tensions. The Strait of Hormuz remains closed, oil supply chains are still disrupted, and the fundamental geopolitical drivers of inflation remain in place.

The falling momentum suggests markets are adapting to the current level of disruption rather than pricing in escalation. But adaptation isn't the same as resolution. The geopolitical axis is contributing less to the regime call this week, but it's still elevated enough to support the supply shock narrative that underpins Inflation Shock as a viable alternative to Overheating.

Key Drivers

CONFIRMING

- core PCE at 3.2% YoY, sharply higher
- 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 persistence, with gasoline prices, headline CPI, and the updated core PCE reading all pointing toward sustained price pressures. The core PCE update is particularly important because it's the Fed's preferred measure, and the jump from the prior reading shows the inflation problem is getting worse, not better. These confirming signals carry significant weight because they span both energy and core measures, suggesting broad-based price pressures rather than isolated shocks.

The disconfirming signals focus on labor market cooling, with core CPI below trend and wage growth sharply lower providing evidence that underlying demand pressures may be moderating. But these signals aren't decisive because they're being overwhelmed by the supply-side inflation drivers. The tension between confirming and disconfirming data essentially boils down to supply versus demand: are price pressures driven by an overheated economy or by specific supply disruptions? The confirming signals are winning that debate, but not by enough to make the regime call definitive.

Week in Review

WEEK SUMMARY (VS 2026-04-24)

REGIME	PRIOR	CURRENT	Δ
Overheating	29.1%	29.0%	-0.1
Inflation Shock	26.2%	27.1%	+0.9

REGIME	PRIOR	CURRENT	Δ
Cooling	22.5%	22.2%	-0.3
Soft Landing	20.8%	20.3%	-0.5
Contraction	1.4%	1.4%	0.0

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	41.9	42.0	+0.1	slowing
Inflation	56.7	59.5	+2.8	firming
Fin Cond	46.4	47.1	+0.7	neutral
Geo Shock	55.4	54.9	-0.5	moderate

Inflation Shock gained nearly a full percentage point this week, rising from 26.2% to 27.1%, while Soft Landing lost half a point to 20.3%. The trigger was Thursday's core PCE release, which jumped to 3.2% year-over-year and provided fresh evidence that price pressures are intensifying rather than moderating. The same day, geopolitical shock momentum shifted from stable to falling as markets adapted to the current level of Strait of Hormuz disruption without pricing in immediate escalation.

The inflation axis moved higher by nearly three points, from 56.7 to 59.5, driven by that core PCE print and continued strength in gasoline prices. Financial conditions firmed modestly, up 0.7 points to 47.1, as Treasury yields rose and credit spreads widened slightly. The growth axis barely moved, staying in slowing territory with stable momentum, which reinforces the view that this is more about supply-side inflation than demand-side overheating.

What held steady was more telling than what moved. The Overheating regime maintained its lead despite the Inflation Shock surge, and the growth axis remained anchored in slowing territory despite hot inflation prints. That stability suggests the model sees the current inflation spike as potentially transitory, driven by identifiable supply shocks rather than broad-based economic overheating. The regime probabilities are tight enough that this view could flip quickly, but for now, the model is treating supply shocks as a challenge to the Overheating thesis rather than a replacement for it.

Next week's setup hinges on whether the inflation momentum continues or stalls. Tuesday's retail sales data and Wednesday's housing starts will test whether consumer demand is holding up despite higher gas prices and mortgage rates. If retail sales disappoint and housing activity slows, that would support the view that supply shocks are doing the inflation damage while underlying demand moderates. If both measures come in strong, the Overheating regime likely extends its lead and the Fed's patience gets tested.

Market Confirmation

The market is sending mixed signals on the regime call, with assets splitting between confirmation and divergence in ways that reveal the underlying tension between broad overheating and targeted supply shocks. The confirming assets are doing exactly what you'd expect in an overheating environment, while the diverging ones are getting pulled around by forces that have nothing to do with domestic demand pressure.

The divergences aren't challenging the regime call so much as highlighting which parts of the overheating story are mechanical versus fundamental. When crude oil moves opposite to regime expectations despite supply disruptions, that's positioning and near-term physical flows overwhelming the longer-term inflation transmission mechanism.

When other risk assets track the overheating playbook while energy goes its own way, you're seeing the difference between broad economic momentum and sector-specific disruptions playing out in real time.

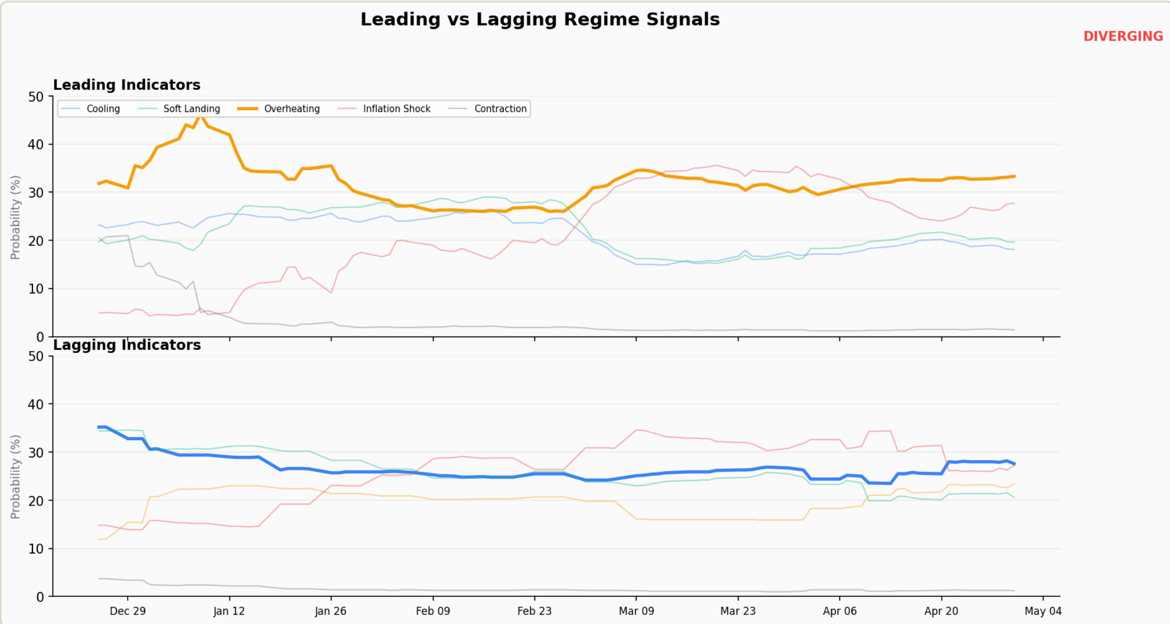
Asset Playbook

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

Your 60/40 portfolio is getting pulled in multiple directions right now, with the equity allocation benefiting from the overheating environment while the bond allocation faces pressure from persistent inflation momentum. The most surprising stance is probably the nuanced positioning across different parts of the rates complex, where the model sees opportunities in some duration exposures while remaining cautious on others. This isn't a clean risk-on or risk-off environment where everything moves together.

The dollar strength is creating allocation pain for international exposures, while commodity positioning reflects the supply shock dynamics rather than pure demand overheating. If you're wondering why some of these stances feel counterintuitive, remember that the market confirmation section showed meaningful divergences from regime expectations, and those mechanical forces are factored into the positioning framework.

Leading / Lagging Signal Alignment



The convergence between leading and lagging indicators has deteriorated meaningfully, creating the kind of signal conflict that makes regime calls less stable. When the forward-looking measures point toward broad overheating while the backward-looking data reflects supply shock dynamics, you get this tension where the model is confident about the direction but acknowledges the path could shift quickly.

Historically, when leading and lagging layers diverge by this magnitude, the resolution tends to happen within four to six weeks rather than months. The economy doesn't stay suspended between two different stories for extended periods. Either the leading indicators prove right and the lagging data catches up to the overheating narrative, or the supply shock evidence in the lagging layer overwhelms the forward momentum and pulls the regime call toward Inflation Shock.

The early warning signal to watch is whether this divergence starts to narrow in either direction. If leading indicators begin incorporating more supply shock evidence, that's your signal that the regime is shifting toward Inflation Shock. If lagging indicators start reflecting broader demand pressure beyond energy and tariff-affected categories, that confirms the Overheating call and suggests more persistence ahead.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+0.9%	+16.9%	+1.17	824
QQQ	+1.5%	+26.4%	+1.40	824
IWM	+1.0%	+4.2%	+0.22	824
IEF	-0.9%	+2.2%	+0.42	824
TIP	-0.4%	+4.7%	+1.15	824
LQD	-0.9%	+3.3%	+0.60	824
HYG	-0.5%	+5.2%	+1.09	824
GLD	-2.3%	+14.4%	+1.01	824
XLE	+3.5%	-3.9%	-0.17	824
VEA	+0.9%	+6.1%	+0.42	824
VWO	-0.1%	+12.5%	+0.72	824

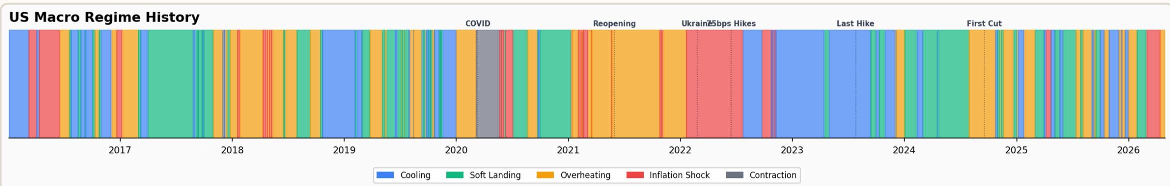
Historical returns measured over Overheating regime days in backtest.

This week's market action shows a clear divergence from what the Overheating regime typically delivers, with several asset classes moving opposite to their historical patterns during similar economic environments. The week's biggest movers were concentrated in areas where regime expectations and current market dynamics are most misaligned, particularly in energy and technology sectors where supply disruptions and positioning flows are overwhelming the fundamental regime signals.

The performance gaps between this week's returns and historical regime patterns highlight how specific the current environment is compared to past Overheating episodes. When assets consistently underperform or outperform their regime expectations, it usually means either the regime call is wrong or there are powerful cross-currents that won't persist. Given the model's confidence metrics and the clear identification of supply shock forces, this looks more like temporary divergence than regime misclassification.

The usual caveats apply with extra force right now: the historical sample for Overheating regimes includes episodes with very different supply shock characteristics, and the current geopolitical disruptions create return patterns that don't map cleanly onto past cycles. The backtest gives you the baseline expectation, but the regime transition signals and market confirmation sections are better guides for navigating the current environment's specific dynamics.

10-Year Regime History



The historical pattern shows Overheating regimes typically lasting between three and eight months, with resolution coming through either Fed policy tightening that forces a transition to Cooling, or supply constraints that push the economy into Inflation Shock territory. The closest parallel to today's environment is the 2021-2022 episode, where initial overheating gave way to supply-driven inflation as geopolitical disruptions and supply chain bottlenecks overwhelmed domestic demand management.

What's structurally different now is the speed of regime transitions and the persistence of supply shock elements even within Overheating periods. Past cycles showed cleaner separations between demand-driven and supply-driven inflation episodes, while the current environment blends both forces simultaneously. The regime model is designed to identify the dominant driver, but when both are present, the transitions become more volatile and less predictable than historical averages suggest.

The resolution mechanisms that ended previous Overheating episodes, primarily Fed tightening cycles that cooled demand, are less available today given the supply shock components that monetary policy can't address. Unlike previous cycles where the Fed could engineer a controlled transition to Cooling, today's overheating includes elements that require supply-side solutions, making the path forward more dependent on geopolitical developments than domestic policy choices.

Market Context

Weekly ETF returns as of 2026-05-01 (vs 2026-04-24).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
XLE	Energy	$56.87	$58.85	+3.5%
QQQ	Nasdaq 100	$663.88	$674.15	+1.5%
IWM	Russell 2000	$276.65	$279.28	+1.0%
SPY	S&P 500	$713.94	$720.65	+0.9%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
VEA	Developed Markets	$68.14	$68.72	+0.9%
VWO	Emerging Markets	$59.02	$58.99	-0.1%
TIP	TIPS	$111.80	$111.35	-0.4%
HYG	HY Corporate	$80.48	$80.06	-0.5%
IEF	7-10Y Treasury	$95.56	$94.74	-0.9%
LQD	IG Corporate	$109.60	$108.60	-0.9%
GLD	Gold	Range-bound	$423.18	-2.3%

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):** $+16,900/yr on $100K (historical Overheating regime returns)
- **This week:** $+900 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure before your portfolio does. The jump to over four dollars per gallon happened in the span of a week, and if the shipping disruption persists through summer driving season, you're looking at sustained pressure on your fuel budget through August. The mechanism is straightforward: when tankers can't move crude efficiently, refiners pay more for feedstock, and that cost lands at the pump within days.

Your mortgage got slightly cheaper this week as rates dipped below six and a half percent, but that relief is modest against the backdrop of where rates sat two years ago. If you're refinancing or buying, the improvement saves you money over the life of the loan, though the monthly payment difference won't offset what you're spending extra on gasoline.

Your paycheck is losing ground to prices in real terms, with wage growth trailing the latest inflation reading. That gap widens if energy costs stay elevated, because energy touches everything from your commute to your grocery bill. The squeeze is happening now, not in some theoretical future scenario.

Your retirement account tied to the S&P 500 gained ground this week despite the inflation concerns, but the combination of rising stocks and rising gold suggests markets are hedging rather than celebrating. When both risk assets and safe havens rally together, it usually means the good news comes with asterisks attached.

Signal vs. Noise

Signal:
- March CPI's monthly jump to the highest since June 2022 - Consumer spending outpacing income growth before the gas price spike - The commodity complex showing broad-based strength beyond just energy - Gold rallying alongside equities instead of moving inversely - Empty tankers heading to the Gulf Coast while the Strait remains closed

Noise:
- Individual stock moves in the tech sector amid broader market stability - Weekly volatility in crude prices while the underlying supply constraint persists - Political theater around Taiwan that operates on a

much longer timeline - Short-term diplomatic headlines without concrete progress on reopening shipping lanes

The distinction right now comes down to whether you're seeing broad-based pressure across multiple systems or isolated disruptions that markets can route around. The signal is telling you this is systemic: inflation, supply chains, consumer finances, and geopolitical stability are all moving in the same direction. The noise is the day-to-day fluctuations that don't change the underlying trajectory.

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 be hotter than the CPI reading that already got your attention. If core PCE services accelerate beyond the energy and tariff effects, that changes the Fed's calculus entirely. **Weekly petroleum status reports through April.** The Energy Information Administration releases inventory data every Wednesday, and you want to watch both crude stocks and product inventories. If refiners can't get enough feedstock or if gasoline inventories start drawing down ahead of driving season, summer gas prices become a certainty rather than a risk. **Consumer credit data for March, due April 28th.** Consumers were already borrowing to maintain spending before energy costs spiked. The credit card balances and delinquency rates will tell you whether households are stretching further or starting to pull back. **Any diplomatic framework announcement for Strait of Hormuz negotiations.** This doesn't need to be a resolution, just a credible process with specific timelines. Markets will price in progress long before ships actually start moving normally again. **Initial jobless claims crossing above 230,000 for two consecutive weeks.** The labor market is the last pillar supporting consumer spending. If that starts to crack while inflation stays elevated, you're looking at stagflation dynamics rather than just an overheating economy.

What Would Change My Mind

If core services inflation strips out energy and tariff effects and still accelerates for two straight months, I'm wrong about this being supply-shock driven. That would mean the price pressures are bleeding into wage expectations and service sector pricing power, turning temporary shocks into persistent inflation psychology. The Fed would need to respond aggressively, and patience becomes dangerous policy. You'd see this first in restaurant prices, rent growth, and professional services. **If Saudi Arabia announces a meaningful production increase or if there's a credible diplomatic breakthrough on the Strait, the summer energy spike thesis collapses.** Either development would flood the market with supply relief and break the physical tightness that's driving current price action. Crude would gap down, gasoline would follow within days, and the inflation picture would improve dramatically within a month. **If the labor market deteriorates faster than expected while inflation stays hot, we're in stagflation territory rather than overheating.** You'd see this in continuing claims rising while initial claims stay elevated, or in the employment-to-population ratio starting to decline. That combination would force the Fed to choose between fighting inflation and supporting employment, and historically they choose wrong in that scenario. The regime call would flip to Inflation Shock with much higher confidence.
