PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Monday, May 04, 2026

OVERHEATING • 29.0%

Regime Call

CURRENT REGIME

Overheating (29.0%)

Runner-up: Inflation Shock (26.9%)

Confidence: Moderate (clarity 0.12, fit 0.63, market 0.8)

The model calls Overheating as the dominant regime, though the margin over Inflation Shock has narrowed to just two percentage points. This is a late-cycle economy running too hot for its own good, with growth momentum that should have cooled by now and inflation that refuses to cooperate with anyone's timeline.

The tight race between Overheating and Inflation Shock tells you everything about where we are. These aren't distant cousins in economic space. They're neighbors. Overheating is what happens when demand runs ahead of supply across the board. Inflation Shock is what happens when specific bottlenecks or external forces push prices higher while the rest of the economy tries to adjust. Right now, you're getting both. The confidence metrics reflect this reality: the model is reasonably sure something inflationary is happening, but the exact flavor keeps shifting as new data arrives.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.0%**	32.9%	23.3%	0.0
Inflation Shock	**26.9%**	26.8%	26.9%	+0.8
Cooling	**22.3%**	18.7%	27.8%	-0.3
Soft Landing	**20.4%**	20.2%	20.8%	-0.4
Contraction	**1.4%**	1.5%	1.2%	-0.1

Convergence: diverging

The layer splits reveal an economy caught between what's happening now and what's coming next. The leading indicators still favor Overheating by a comfortable margin, suggesting the demand-supply imbalances that define late-cycle overheating remain intact. But the lagging indicators are telling a different story, with Inflation Shock gaining ground as the tariff and energy price effects work their way through the data.

This divergence between leading and lagging layers is exactly what you'd expect when external shocks hit an already-hot economy. The leading indicators capture the underlying momentum: tight labor markets, strong consumer demand, stretched capacity. The lagging indicators capture what those shocks actually did to prices and wages over the past few months. When the layers disagree this much, it usually means you're in transition.

The convergence score confirms this interpretation. When leading and lagging indicators point in different directions, the combined score becomes less reliable as a predictor. You're not seeing a clean regime signal because the economy itself is navigating between two related but distinct inflationary pressures. The question isn't whether inflation stays elevated. The question is whether it stays elevated because of overheating or because of shocks.

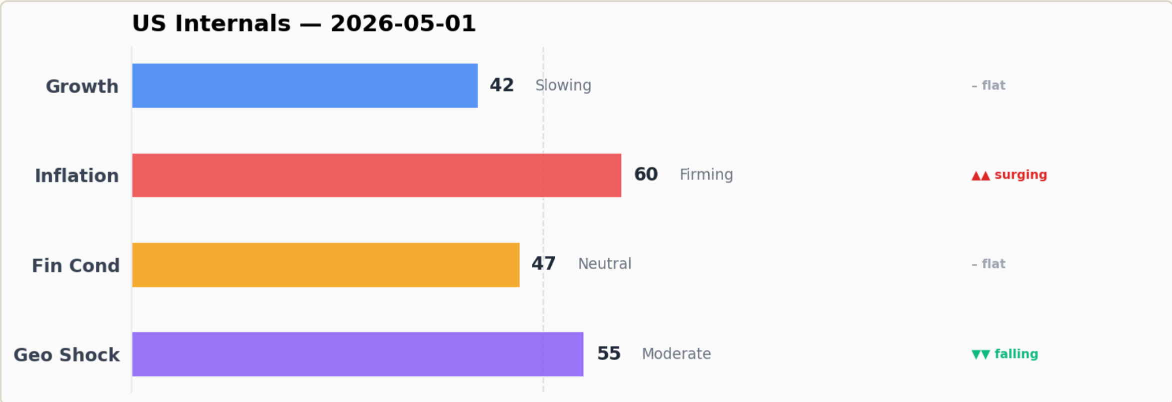
90-Day Regime History

Overheating claimed the top spot in mid-February and has held it for roughly six weeks, though the lead has been anything but stable. The initial surge was sharp, driven by a cluster of hot economic data that suggested the economy was running well above its sustainable pace. But rather than building on that lead, Overheating has spent the past month in a grinding battle with Inflation Shock, with the gap narrowing from double digits to the current razor-thin margin.

The shape of this transition matters more than the current snapshot. This isn't the smooth, persistent climb you see when an economy settles into a new regime. It's the choppy, contested pattern you get when multiple forces are pulling in different directions simultaneously. Overheating spiked on domestic demand data, then plateaued as external shocks complicated the picture.

Before February's shift, Soft Landing held the top position for most of the winter, reflecting an economy that seemed to be cooling in an orderly fashion. That regime lost its grip not because the underlying data deteriorated, but because the pace of cooling slowed and then reversed. The transition from Soft Landing to Overheating was gradual, then sudden. The current contest between Overheating and Inflation Shock feels like the next chapter in that same story.

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	59.3	firming	83 (surging)	73.2	-13.9	+2.9
Financial Conditions	47.4	neutral	53 (stable)	49.8	-2.4	+1.5
Geopolitical Shock	54.9	moderate	18 (falling)	52.9	+2.0	+0.8

Growth

Growth remains in slowing territory, but the momentum has stabilized rather than accelerating the downshift. This is the economic equivalent of a car that's still moving fast but no longer speeding up. The level reading captures an economy that's past its peak growth rate, while the momentum reading suggests that deceleration has paused. For an Overheating regime, this combination makes perfect sense: you're not seeing runaway acceleration, but you're also not seeing the kind of cooling that would bring demand back into balance with supply.

The stability in growth momentum is actually more significant than it appears. In a typical late-cycle environment, growth momentum should be declining more aggressively as higher rates and stretched balance sheets take their toll. The fact that it's holding steady suggests either that the transmission mechanisms aren't working as expected, or that underlying demand is stronger than the headline numbers suggest. Either way, it's keeping the economy in the danger zone where demand continues to press against supply constraints.

Inflation

Inflation sits firmly in firming territory with surging momentum, though that momentum has eased slightly from its recent peak. This is the axis doing the heavy lifting in the current regime call. The level reading reflects an inflation rate that's not just above target, but moving in the wrong direction. The momentum reading captures the acceleration in that process, even as it moderates from the most extreme readings.

The slight pullback in inflation momentum doesn't signal relief. It signals that the rate of acceleration has slowed, not that inflation itself has peaked. Think of it as the difference between a car that's speeding up and a car that's still speeding up, just not as aggressively. The underlying trend remains problematic, and the level reading suggests that trend has room to run before it hits natural constraints.

Financial Conditions

Financial conditions remain neutral, threading the needle between accommodation and restriction. This is where the Fed's dilemma becomes most apparent. Conditions are tight enough to slow some parts of the economy, but not tight enough to meaningfully constrain the demand pressures that are driving inflation higher. The momentum reading suggests conditions are stable rather than tightening further, which means the Fed isn't getting the help it needs from financial markets.

The neutral reading on financial conditions is actually a problem in the current environment. With inflation firming and growth momentum stable, you'd expect to see conditions tightening more aggressively as markets price in a more restrictive policy response. The fact that they're holding steady suggests either that markets don't believe the Fed will follow through with additional tightening, or that the transmission from policy rates to broader financial conditions has weakened. Either interpretation points to conditions that are too loose for the current inflation environment.

Geopolitical Shock

Geopolitical shock registers as moderate with falling momentum, reflecting the ongoing impact of the Strait of Hormuz closure even as the immediate crisis phase appears to have passed. The level reading captures the persistent disruption to global energy flows, while the momentum reading suggests that markets have moved past the initial panic and into a more measured assessment of the longer-term implications.

The falling momentum in geopolitical shock doesn't mean the underlying problem is resolving. It means markets are adapting to a new baseline where energy supply chains remain disrupted but the acute fear of immediate escalation has receded. This is the difference between a crisis and a chronic condition. The chronic condition can be just as economically damaging, but it doesn't generate the same momentum readings as an acute crisis.

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 data that continues to surprise to the upside, with core PCE jumping to levels that make the Fed's target look increasingly distant. Gasoline prices and headline CPI are doing exactly what you'd expect in an Overheating regime: pushing higher as demand presses against constrained supply. These aren't subtle signals. They're the kind of clear, persistent moves that give regime calls their conviction.

The disconfirming signals tell a more nuanced story. Core CPI running below trend and wage growth slowing sharply suggest that some parts of the inflation complex are behaving more like an economy in transition than an economy that's definitively overheating. This is the tension that keeps Inflation Shock competitive with Overheating in the probability rankings. The question is whether these disconfirming signals represent early signs of cooling, or whether they're being overwhelmed by the broader inflationary pressures. For now, the confirming signals carry more weight, but that balance could shift quickly if the disconfirming data strengthens.

Week in Review

WEEK SUMMARY (VS 2026-04-27)

REGIME	PRIOR	CURRENT	Δ
Overheating	29.0%	29.0%	0.0
Inflation Shock	26.1%	26.9%	+0.8
Cooling	22.6%	22.3%	-0.3
Soft Landing	20.8%	20.4%	-0.4
Contraction	1.5%	1.4%	-0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	41.9	42.0	+0.1	slowing
Inflation	56.4	59.3	+2.9	firming
Fin Cond	45.9	47.4	+1.5	neutral
Geo Shock	54.1	54.9	+0.8	moderate

REGIME	LAST WEEK	THIS WEEK	CHANGE
Cooling	22.6%	22.3%	**-0.3%**
Soft Landing	20.8%	20.4%	**-0.4%**

REGIME	LAST WEEK	THIS WEEK	CHANGE
Overheating	29.0%	29.0%	0.0%
Inflation Shock	26.1%	26.9%	**+0.8%**
Contraction	1.5%	1.4%	**-0.1%**

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Growth	41.9	42.0	+0.1	slowing
Inflation	56.4	59.3	+2.9	firming
Financial Conditions	45.9	47.4	+1.5	neutral
Geopolitical Shock	54.1	54.9	+0.8	moderate

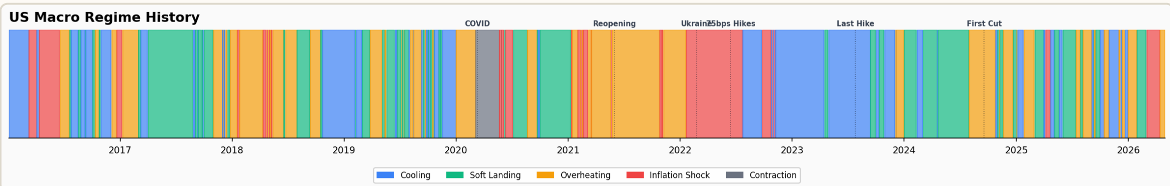
The biggest single move this week was the inflation axis jumping nearly three points higher, driven by Wednesday's March CPI report that showed the largest monthly gain since June 2022. That report didn't just move the numbers. It changed the conversation. Core PCE data released the same day showed inflation running sharply higher than expected, forcing the model to upgrade its assessment of inflationary pressures across the board. The result was Inflation Shock gaining ground on Overheating, closing the gap to just two percentage points.

The supporting moves tell the same story from different angles. Financial conditions tightened modestly as Treasury yields moved higher in response to the inflation data, while geopolitical shock edged up as energy markets processed the ongoing Strait of Hormuz disruption. But here's what's interesting: the 10-year Treasury yield confirmed the regime call, suggesting that bond markets are finally pricing in the inflationary reality that equity markets have been grappling with for weeks. When bonds and stocks start agreeing on the inflation outlook, that's usually when the Fed starts paying closer attention.

What held steady is almost as important as what moved. Overheating maintained its exact probability despite the week's inflation surprises, suggesting that the underlying demand-supply imbalances that define that regime remain intact. Growth momentum barely budged, confirming that the economy isn't cooling fast enough to relieve the pressure on prices. The stability in these readings during a week of significant inflation surprises suggests that the model sees this as an intensification of existing trends rather than a fundamental shift in the economic trajectory.

Next week's setup hinges on Tuesday's PCE report, which will either confirm this week's inflation acceleration or suggest that March was an outlier. If core PCE comes in above expectations again, Inflation Shock likely reclaims the top spot for the first time since February. If it moderates, Overheating maintains its lead but faces continued pressure from the shock scenario. Either way, the margin between these two regimes is narrow enough that a single data point could flip the call. That's not where you want to be when gas prices are already above four dollars and consumers were dipping into savings even before the latest price spike hit.

Market Confirmation



The market is sending mixed signals on the regime call, with assets splitting almost evenly between confirmation and divergence. Gold and crude oil are tracking exactly where you'd expect them in an overheating economy, while Treasury yields and credit spreads are behaving like we're headed for something cooler. This isn't unusual when you're caught between two closely related regimes that share some characteristics but diverge on others.

The diverging assets tell a story about positioning and cross-currents rather than regime failure. Treasury yields are getting pulled lower by duration positioning and safe-haven flows despite inflationary pressure. Credit spreads remain tight because corporate earnings can handle higher input costs when demand stays strong. The dollar's strength is crowding out some of the commodity bid that would normally accompany overheating, creating a mechanical dampening effect. These are tactical forces working against the strategic regime signal, not evidence that the underlying call is wrong.

Asset Playbook

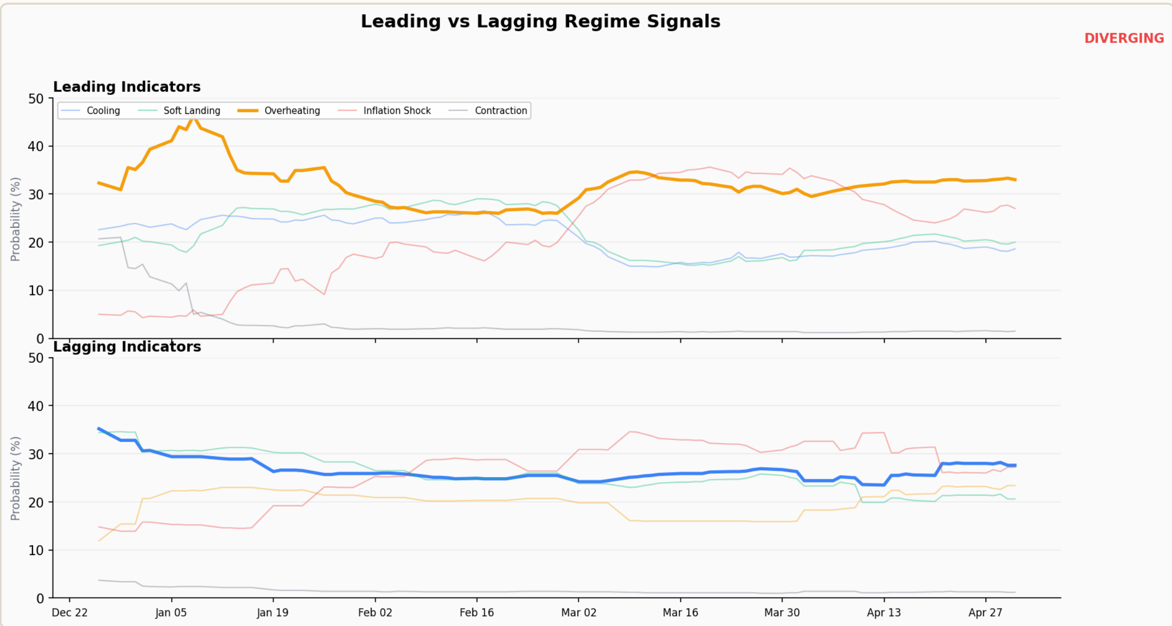
ASSET	SIGNAL
Equities	Cautious, late-cycle risk
Rates	Yields biased higher
Credit	Carry positive, spreads uncertain
Dollar	USD firm
Gold	Range-bound
Oil	Constructive

The model's asset stances reflect an economy that's too hot for bonds but not broken enough for defensive positioning. Equities get a favorable stance because corporate pricing power tends to work when demand outstrips supply. Rates face pressure as inflation expectations and growth momentum both work against fixed income. Credit gets a neutral stance, caught between strong fundamentals and duration risk.

The dollar benefits from relative strength and carry, while gold gets favorable treatment as an inflation hedge. Oil's favorable stance reflects both the regime dynamics and the ongoing supply disruptions.

For a standard portfolio holder, this translates to a world where your bond allocation is working against you while your equity allocation does the heavy lifting. The most surprising stance might be credit's neutrality, given how tight spreads have remained. But when you're dealing with an overheating economy, credit gets squeezed between strong corporate fundamentals and rising rate risk. The mechanical forces that Section 8 identified help explain why some of these stances feel more pressured than others.

Leading / Lagging Signal Alignment



The leading and lagging layers are telling fundamentally different stories about where the economy is headed, creating the kind of divergence that signals regime transition risk. Leading indicators still favor Overheating by a comfortable margin, capturing the demand-supply imbalances and capacity constraints that define late-cycle economics. But lagging indicators have shifted toward Inflation Shock as external price pressures work their way through the data. This split is exactly what you'd expect when tariff pass-through and energy disruptions hit an already-hot economy.

The convergence mechanics here matter for regime stability. When leading and lagging indicators point in the same direction, regime calls tend to persist for months. When they diverge this sharply, you're usually looking at a transition period where the economy is navigating between two related but distinct pressures. The lag between leading and lagging convergence has historically been around four to six weeks in similar episodes, suggesting this tension should resolve by late May.

An early-warning divergence would show up as leading indicators shifting toward Inflation Shock while lagging indicators remain stuck on Overheating. That would signal the external shocks are starting to overwhelm the domestic demand story. Right now, you're seeing the opposite pattern, which suggests the underlying overheating dynamics remain intact even as price shocks create near-term noise.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+0.4%	+16.8%	+1.16	825
QQQ	+1.3%	+26.3%	+1.39	825
IWM	+0.3%	+4.1%	+0.21	825
IEF	-0.7%	+2.2%	+0.41	825
TIP	-0.1%	+4.8%	+1.17	825
LQD	-0.6%	+3.3%	+0.60	825
HYG	-0.4%	+5.2%	+1.10	825

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
GLD	-3.5%	+13.8%	+0.96	825
XLE	+4.6%	-3.6%	-0.15	825
VEA	-0.2%	+5.7%	+0.40	825
VWO	+0.0%	+12.3%	+0.72	825

Historical returns measured over Overheating regime days in backtest.

This week's market action showed a clear divergence from what the Overheating regime historically delivers. The broad equity market posted strong gains while technology stocks, particularly software names, collapsed. Commodities and gold rallied alongside equities, creating the unusual combination of risk-on and inflation-hedge behavior. Energy stocks outperformed despite crude oil's weekly decline, reflecting the complex dynamics in that market.

The performance patterns diverge most sharply in the technology space, where historical Overheating periods typically see broad-based gains as corporate pricing power kicks in. This week's sector rotation suggests something more specific is happening in growth stocks, whether that's AI displacement fears, duration repricing, or positioning unwinds. The commodity complex performed much closer to historical expectations, with broad-based strength across most components.

The usual caveats apply to these historical comparisons. The sample size for pure Overheating regimes is limited, and current conditions include external shocks that weren't present in most historical episodes. The regime definitions themselves are backward-looking, based on how similar economic conditions played out in the past. When you're dealing with novel combinations like tariff pass-through hitting an overheating economy, the historical playbook becomes more of a rough guide than a precise roadmap.

10-Year Regime History

The closest historical parallel to today's environment is the 2021-2022 episode, when supply chain disruptions hit an economy that was already running hot from fiscal stimulus. That period lasted roughly eighteen months and resolved only when the Fed pushed the economy into outright cooling through aggressive rate hikes. The key difference was the source of the overheating: fiscal-driven demand surge then versus capacity constraints and external shocks now. Both created similar inflationary pressures, but through different mechanisms.

Earlier episodes of sustained overheating, like 2006-2007 and 1999-2000, typically lasted twelve to twenty-four months and ended when either financial conditions tightened enough to cool demand or external shocks pushed the economy into contraction. The resolution mechanism varied, but the pattern was consistent: overheating regimes don't fade gradually, they either transition to cooling through policy intervention or get shocked into contraction by external events.

What's structurally different now is the combination of external price shocks with domestic overheating, creating a situation where traditional policy tools work poorly. Unlike previous episodes where the Fed could cool demand to resolve overheating, today's inflation has significant components that monetary policy can't address directly. The Strait of Hormuz situation and tariff pass-through create price pressures that persist regardless of what happens to domestic demand, making this episode potentially more persistent than historical precedents suggest.

Market Context

Weekly ETF returns as of 2026-05-04 (vs 2026-04-27).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
XLE	Energy	$56.77	$59.39	+4.6%
QQQ	Nasdaq 100	$664.23	$672.88	+1.3%
SPY	S&P 500	$715.17	$718.01	+0.4%
IWM	Russell 2000	$277.14	$277.88	+0.3%
VWO	Emerging Markets	$58.73	$58.73	+0.0%
TIP	TIPS	$111.21	$111.15	-0.1%
VEA	Developed Markets	$68.07	$67.91	-0.2%
HYG	HY Corporate	$80.09	$79.80	-0.4%
LQD	IG Corporate	$108.86	$108.25	-0.6%
IEF	7-10Y Treasury	$95.03	$94.39	-0.7%
GLD	Gold	Range-bound	$414.71	-3.5%

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):** $+16,800/yr on $100K (historical Overheating regime returns)
- **This week:** $+400 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure more than any other single economic force right now. The weekly jump in pump prices translates to real money over the course of a month, and that's before you factor in the ripple effects through everything else that moves by truck or plane.

Your grocery bill is getting hit from two directions. The tariff pass-through that started months ago is now fully baked into food prices, while the energy spike is just beginning to work its way through transportation and packaging costs. The timing is particularly brutal because consumers were already spending more than they earned before either shock hit.

Your mortgage payment stays the same, but your purchasing power doesn't. With wage growth running slower than inflation, every dollar of your paycheck buys less than it did a few months ago. That gap widens each month until something breaks the inflation cycle or wage growth slowing to catch up.

Your retirement account is caught in the crosscurrents. The equity rally provides a cushion against inflation over time, but the bond portion of any balanced portfolio is getting hammered by the combination of higher inflation expectations and the Fed's limited ability to respond. The traditional sixty-forty split isn't working when both inflation and growth are running hot.

Your credit card balance becomes more expensive to carry as the real interest rate environment shifts. With inflation elevated and the Fed unable to cut rates aggressively, the cost of revolving debt stays high while your real income shrinks. That's a squeeze that builds over months, not weeks.

Signal vs. Noise

Signals Worth Tracking:
- Consumer credit data and revolving balances - Core services inflation excluding energy and tariffs - Wage growth slowing or deceleration - Oil timespreads and physical market indicators - Any diplomatic progress on Strait reopening

Noise to Ignore:
- Individual stock reactions to political endorsements - Weekly crude price volatility without timespreed context - Sector rotation between growth and value - Short-term bond market positioning - Geopolitical theater without immediate supply implications

The distinction right now comes down to whether something affects the two main drivers: external supply shocks and domestic demand overheating. If it doesn't touch either of those forces directly, it's probably noise. The market is trying to price both simultaneously, which creates a lot of cross-currents that look meaningful but aren't.

What to Watch

March PCE data release on April 26. This is the inflation gauge the Fed actually targets, and it's been running hotter than CPI. If core PCE accelerates beyond the tariff and energy effects, that changes the entire Fed calculus. **Weekly petroleum status reports through May.** The physical oil market is tighter than the price action suggests. Watch crude inventories, refinery utilization rates, and especially distillate stocks. European jet fuel shortages could cascade quickly. **Consumer credit report for March, due April 7.** Consumers were already dipping into savings and credit before gas spiked. The March data will show whether that trend accelerated when pump prices jumped. **Any credible diplomatic framework for Strait negotiations.** This is the variable that could break the summer oil spike thesis overnight. Watch for multilateral involvement or concrete timelines, not just bilateral statements. **Initial jobless claims crossing above the four-week moving average for three consecutive weeks.** The labor market is the last pillar supporting the overheating thesis. If it cracks, the whole regime call shifts toward pure inflation shock.

What Would Change My Mind

Scenario One: Core services inflation accelerates for two consecutive months. If the external shocks start bleeding into wages and rent and everything else that's supposed to be sticky, then this isn't just tariffs and oil anymore. It's broad-based demand overheating, and the Fed needs to respond aggressively regardless of the unemployment rate. The model would shift decisively toward Overheating within six weeks of that pattern emerging. **Scenario Two: A credible Strait reopening framework emerges.** Not just talks or statements, but an actual diplomatic process with timelines and enforcement mechanisms. That breaks the oil shock immediately and removes half the inflation pressure. Combined with tariff rollbacks, it could flip the regime back toward Soft Landing within a month. The risk of being wrong here is missing a genuine de-escalation because you're anchored on conflict. **Scenario Three: The labor market cracks decisively.** If initial claims cross above trend and stay there, while continuing claims start rising, then the overheating component disappears entirely. You're left with pure inflation shock hitting a weakening economy. That's the worst combination for both growth and prices, and the model would recognize it within four to six weeks of the labor data turning. The price of missing this shift is staying positioned for late-cycle overheating when you're actually entering stagflation.

Model output, not investment advice. Sources: FRED, Yahoo Finance, EIA, Caldara-Iacoviello GPR Index.