

Personal **Stakes**

WEEKLY MACRO REPORT

Tuesday, May 05, 2026

OVERHEATING • 29.0%

Regime Call

CURRENT REGIME

Overheating (29.0%)

Runner-up: Inflation Shock (27.9%)

Confidence: Moderate (clarity 0.06, fit 0.63, market 0.8)

The model calls Overheating as the most likely regime, though the gap to the runner-up is narrow enough to keep you honest. This isn't a blowout call where you can set your portfolio and forget about it. The confidence metrics reflect a regime that's established but not entrenched, with enough uncertainty in the mix to make the next few data points genuinely consequential.

What Overheating means right now is an economy running hot enough to generate persistent inflation pressure, but not so hot that it's obviously unsustainable. Think of it as the uncomfortable middle ground where growth is strong enough to keep pushing prices higher, but not strong enough to force an immediate policy response that would cool things down quickly. The narrow margin over the

alternatives tells you this regime could shift with the right combination of data surprises.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	29.0%	33.1%	22.5%	-0.1
Inflation Shock	27.9%	27.8%	29.8%	+1.6
Cooling	21.8%	18.1%	26.3%	-0.7
Soft Landing	20.0%	19.6%	20.3%	-0.7
Contraction	1.3%	1.4%	1.1%	-0.1

Convergence: diverging

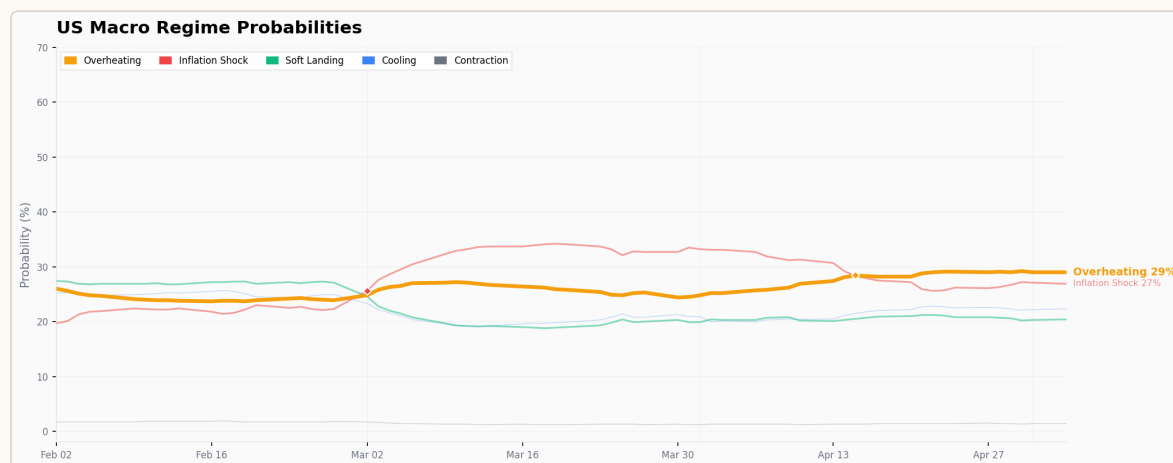
The layer splits reveal an economy caught between what's happening now and what's coming next. The leading indicators show a different story than the lagging ones, and that divergence is where the real information lives. When leading and lagging layers disagree this sharply, you're looking at an economy in transition, not one that's settled into a stable pattern.

Inflation Shock shows particular strength in the leading layer, which makes sense given the supply disruptions hitting the system right now. But the lagging layer tells a more mixed story, reflecting the fact that the underlying demand dynamics haven't shifted as dramatically as the headline numbers suggest. This is exactly what you'd expect from shock-driven inflation rather than demand-driven overheating.

The convergence score captures this tension. When the layers disagree, it usually means the regime call is about to shift, or the current regime is being sustained by temporary factors rather than fundamental

economic momentum. Either way, it's a yellow flag that says pay attention to the next month of data.

90-Day Regime History



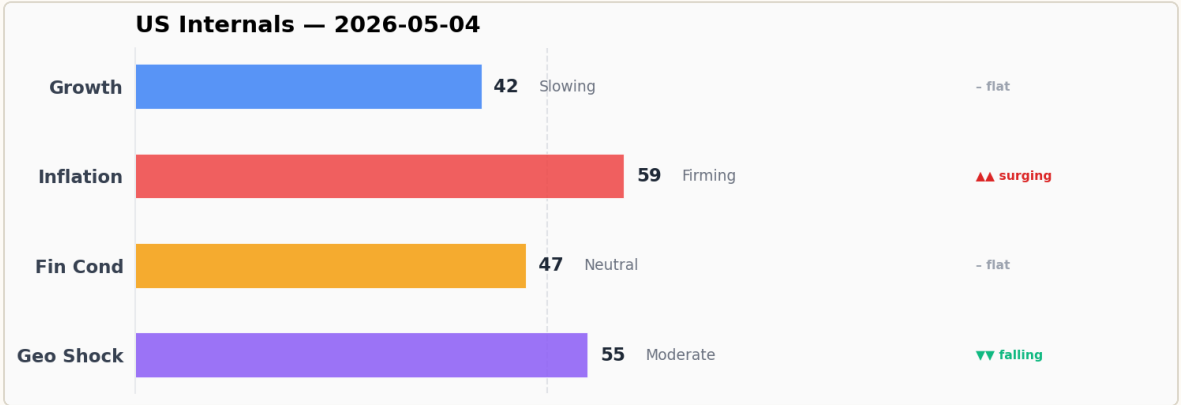
Overheating took the lead gradually rather than in a sharp spike, which tells you this wasn't driven by a single dramatic event but by a steady accumulation of evidence. The transition happened over several weeks as growth data held up better than expected while inflation pressures built. That's a different pattern than you'd see from a financial shock or a sudden policy shift.

Before this regime took hold, the probabilities were more evenly distributed across the alternatives, with Soft Landing and Cooling trading the lead depending on which data dominated any given week. The shift to Overheating wasn't a collapse of those alternatives but a steady erosion as the evidence mounted that the economy wasn't cooling as quickly as the models initially expected.

The shape of the probability curve shows persistence rather than volatility. Once Overheating established its lead, it's held that position even as individual data points have surprised in both directions. That suggests the regime is being driven by fundamental economic forces

rather than noise, though the narrow margins mean it wouldn't take much to shift the balance.

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	59.9	firming	85 (surging)	73.2	-13.3	+3.2
Financial Conditions	47.8	neutral	54 (stable)	49.8	-2.0	+2.1
Geopolitical Shock	55.8	elevated	17 (falling)	52.9	+2.9	+1.7

Growth

The growth axis sits in slowing territory, but the momentum reading shows stability rather than acceleration in either direction. This is the economic equivalent of a car that's decelerating but not hitting the brakes. The underlying data reflects an economy that's lost some of its earlier momentum but hasn't tipped into contraction territory.

What's driving this reading is a combination of employment data that's softened but not collapsed, consumer spending that's holding up despite higher prices, and business investment that's become more selective. The score would move higher with a sustained pickup in hiring or capital expenditure, or lower if consumer spending finally cracks under the weight of higher costs.

Inflation

The inflation axis shows firming conditions with surging momentum, which captures both the recent price acceleration and the underlying forces that are likely to keep pushing prices higher. This isn't just about the monthly CPI surprise but about the broader set of pressures that are building in the system.

The momentum reading reflects supply chain disruptions that are getting worse rather than better, wage pressures that haven't fully dissipated, and housing costs that continue to work their way through the system. The score would moderate if energy prices stabilized or if services inflation showed signs of cooling, but right now the momentum is clearly in the wrong direction from the Fed's perspective.

Financial Conditions

Financial conditions remain neutral despite the recent tightening, which tells you the Fed's policy stance isn't yet restrictive enough to meaningfully constrain economic activity. The modest tightening reflects higher yields and some credit spread widening, but not enough to change the fundamental calculus for borrowers and investors.

This is where the Fed's dilemma becomes most apparent. Monetary policy typically works through financial conditions, but those conditions aren't tight enough to address inflation that's being driven by supply shocks rather than excess demand. The Fed could tighten more aggressively, but that would risk creating unnecessary economic

damage without addressing the root causes of the current inflation pressure.

Geopolitical Shock

The geopolitical axis has shifted to elevated status, reflecting the ongoing disruption from the Strait of Hormuz closure and its cascading effects on global energy markets. The momentum shows falling rather than rising, which suggests the immediate shock impact may have peaked even though the underlying situation remains unresolved.

This reading captures not just the direct energy price effects but the broader uncertainty that geopolitical crises create for business planning and investment decisions. The score would decline if diplomatic progress emerged or if alternative supply routes proved more effective than currently expected, but would spike higher if the crisis expanded beyond energy markets.

Key Drivers

CONFIRMING

- core PCE at 3.2% YoY, sharply higher
- headline CPI at 3.3% YoY, well above trend
- gasoline prices sharply higher

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's running well above the Fed's target, with both headline and core measures showing persistence rather than the gradual decline that policymakers had

hoped for. The disconfirming signals focus on wage growth that's actually slowing and core CPI that's running below the headline rate, suggesting the inflation pressure isn't broad-based across all categories.

The tension between these signals reflects the unusual nature of the current inflation episode. The confirming data captures the reality that prices are rising faster than the Fed wants, while the disconfirming data suggests this isn't the kind of demand-driven inflation that typically characterizes an overheating economy. The confirming signals carry more weight right now because inflation expectations matter more than inflation sources for near-term economic outcomes, but the disconfirming signals would become decisive if they persisted for several more months.

Week in Review

WEEK SUMMARY (VS 2026-04-28)

REGIME	PRIOR	CURRENT	Δ
Overheating	29.1%	29.0%	-0.1
Inflation Shock	26.3%	27.9%	+1.6
Cooling	22.5%	21.8%	-0.7
Soft Landing	20.7%	20.0%	-0.7
Contraction	1.4%	1.3%	-0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	41.9	42.0	+0.1	slowing

AXIS	PRIOR	CURRENT	Δ	STATE
Inflation	56.7	59.9	+3.2	firming
Fin Cond	45.7	47.8	+2.1	neutral
Geo Shock	54.1	55.8	+1.7	elevated

Geopolitical shock shifted from moderate to elevated this week, the biggest single change in the model's readings. The trigger was the continued closure of the Strait of Hormuz and mounting evidence that the disruption is deeper and more persistent than initially expected. By midweek, reports emerged that European airports could face jet fuel shortages within three weeks if the situation doesn't improve, while some Asian countries have already begun fuel rationing.

Inflation Shock probability climbed while both Cooling and Soft Landing declined, driven by the March CPI report that showed a 0.9% monthly gain, the largest since June 2022. The inflation axis score jumped higher as core PCE data came in at 3.2% year-over-year, well above expectations, while gasoline prices spiked to over \$4 per gallon. Financial conditions also tightened modestly as Treasury yields rose in response to the hotter inflation data.

What held steady was more telling than what moved. The growth axis barely budged despite significant economic news, reflecting an economy that's neither accelerating nor decelerating rapidly. Employment data showed initial jobless claims rising but continuing claims falling, suggesting labor market churn rather than deterioration. Consumer spending remained resilient even as real incomes turned negative, indicating households are drawing down savings or increasing credit usage to maintain their spending patterns.

Next week's setup hinges on whether the geopolitical situation stabilizes or escalates further. The March PCE report due Tuesday will

be the key domestic catalyst, with core PCE above 3.2% likely pushing Inflation Shock probability toward 27.9% while a reading closer to 2.8% would give the cooling scenarios more breathing room. On the international front, any diplomatic progress on reopening the Strait would immediately ease energy price pressures, while further escalation could push crude oil toward triple digits and shift the entire regime calculus.

Market Confirmation

The market is delivering mixed signals on the Overheating call, with enough confirmation to keep the regime intact but enough divergence to keep you paying attention. The confirming assets are doing exactly what they should: energy names are catching a bid from the supply disruption, financials are benefiting from the higher-for-longer rate environment, and value stocks are outperforming as investors rotate toward earnings that can handle inflation pressure.

The diverging assets tell a more interesting story. Tech's underperformance isn't about the regime call being wrong, it's about duration repricing hitting long-duration assets when rate cut expectations evaporate. That SaaS collapse we covered earlier is the extreme version of this dynamic. Meanwhile, gold's strength alongside equities suggests the market is pricing both growth momentum and inflation hedging simultaneously. That's not a contradiction of Overheating, it's confirmation that this regime comes with embedded tensions that create unusual cross-asset behavior.

Asset Playbook

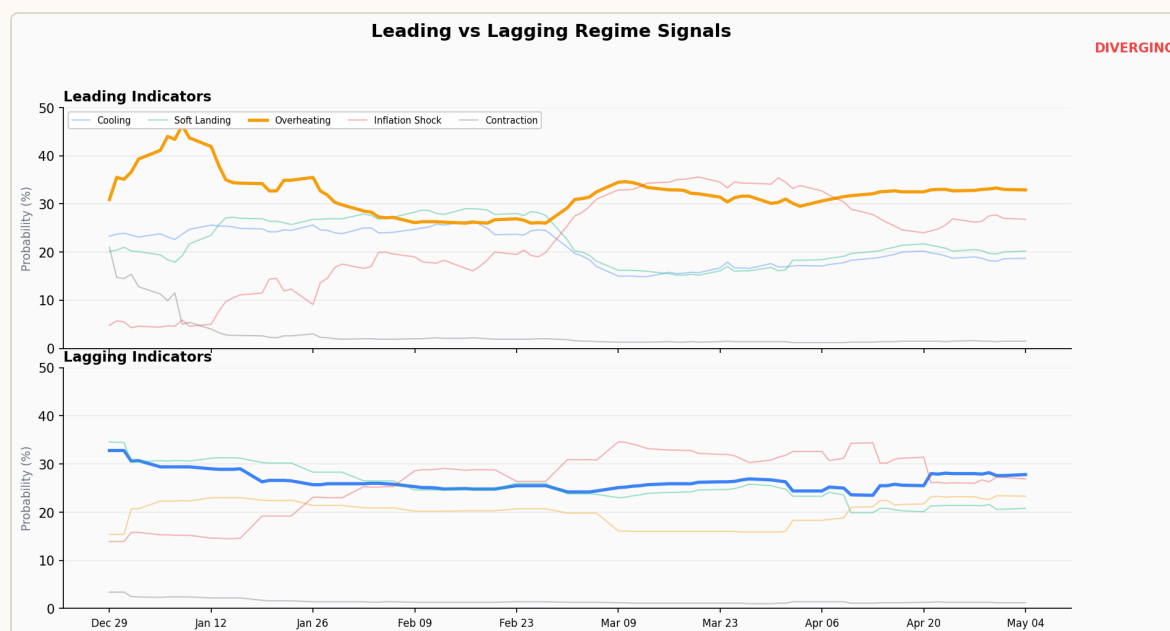
ASSET	SIGNAL
Equities	Cautious, late-cycle risk

ASSET	SIGNAL
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 right now, you're experiencing the full weight of regime uncertainty. Your equity allocation is getting whipsawed between growth momentum and duration sensitivity, while your bond allocation is providing exactly zero diversification benefit. The most surprising stance in the current playbook is probably the cautious approach to traditional safe havens, which reflects an environment where the usual hedges don't work the way they're supposed to.

The positioning that's causing the most pain is anything with long duration exposure, whether that's growth stocks or long-term bonds. The regime is rewarding assets that can handle inflation pressure and punishing anything that depends on falling rates to justify its valuation. If you've been waiting for the Fed to rescue your duration trades, the current environment is telling you that rescue isn't coming anytime soon.

Leading / Lagging Signal Alignment



The leading and lagging layers are telling different stories right now, and that divergence is the most important dynamic to watch for regime stability. When we've seen this kind of split historically, the convergence usually takes between four and eight weeks, with the leading layer typically pulling the lagging layer toward its view rather than the other way around. The current gap suggests we're in the middle of that convergence process, not at the beginning or end of it.

What makes this alignment particularly important is that the leading layer is showing more Inflation Shock characteristics while the lagging layer is more mixed. If the leading indicators are right, we're heading toward a more intense version of the current regime rather than a resolution of it. The convergence mechanics suggest that either the leading layer pulls the lagging layer higher, confirming a shift toward Inflation Shock, or the lagging layer's resistance forces a reversion back toward the alternatives.

An early warning divergence would show up as the leading layer suddenly shifting away from inflation-sensitive regimes while the lagging layer continues to firm. That would suggest the forward-looking indicators are picking up something the backward-looking data hasn't

captured yet. Right now, both layers are moving in the same direction, just at different speeds, which supports regime persistence rather than regime change.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+1.7%	+17.0%	+1.18	826
QQQ	+3.7%	+26.7%	+1.41	826
IWM	+3.2%	+4.6%	+0.24	826
IEF	-0.4%	+2.2%	+0.42	826
TIP	-0.1%	+4.7%	+1.17	826
LQD	-0.2%	+3.4%	+0.62	826
HYG	-0.1%	+5.3%	+1.11	826
GLD	-0.9%	+14.1%	+0.98	826
XLE	+3.0%	-3.6%	-0.15	826
VEA	+1.8%	+6.2%	+0.43	826
VWO	+1.8%	+12.7%	+0.73	826

Historical returns measured over Overheating regime days in backtest.

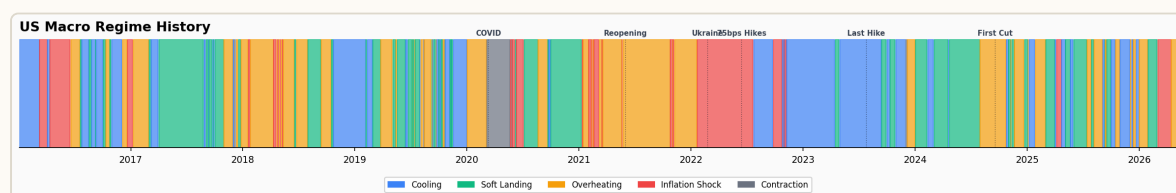
This week's performance delivered a mixed verdict on the regime expectations, with energy and commodities leading the way while technology continued its slide. The week's biggest winners aligned with what Overheating historically delivers, but the magnitude of the moves in both directions suggests more volatility than the historical averages would predict. When you see this kind of dispersion, it usually means

the regime is being driven by specific shocks rather than broad-based economic momentum.

The most notable divergence from historical patterns is the simultaneous strength in both risk assets and traditional hedges. The regime playbook doesn't typically produce that combination, which suggests we're dealing with a version of Overheating that's being complicated by supply disruptions and policy uncertainty. The energy sector's outperformance is exactly what you'd expect, but the defensive positioning in other parts of the market reflects investor uncertainty about how long this regime lasts.

The usual caveats apply here: these historical returns are based on regime definitions that may not perfectly capture the current environment, and the sample sizes for some regimes are smaller than you'd like for statistical confidence. The backtest assumes you can identify regimes in real time, which is obviously harder than it looks in hindsight. But the patterns are consistent enough to provide directional guidance, even if the exact magnitudes should be taken with appropriate skepticism.

10-Year Regime History



The closest historical parallel to the current environment is the 2021-2022 episode, when supply chain disruptions and fiscal stimulus combined to create persistent inflation pressure that the Fed initially underestimated. That episode lasted roughly eighteen months and only resolved when the Fed shifted to aggressive tightening and external shocks (particularly energy) began to reverse. The key difference is that the 2021-2022 period had clear policy tools available, while the

current situation involves geopolitical supply disruptions that monetary policy can't directly address.

The other relevant comparison is the 2008 commodity spike, which was driven by supply constraints and emerging market demand rather than domestic overheating. That episode resolved quickly once global growth concerns took hold, but it required a full-scale financial crisis to break the commodity momentum. The pattern suggests that supply-driven inflation episodes tend to persist until either the supply constraint resolves or demand destruction becomes severe enough to overwhelm the supply effect.

What's structurally different now is the combination of geopolitical supply disruptions, trade policy uncertainty, and a Fed that's already signaled reluctance to use aggressive tightening as a first response. Unlike previous episodes where either supply or demand dominated the inflation story, the current environment has both supply constraints and demand resilience working in the same direction. That combination historically produces longer-lasting regime episodes, but also creates more opportunities for sudden reversals when one of the supporting factors shifts unexpectedly.

Market Context

Weekly ETF returns as of 2026-05-05 (vs 2026-04-28).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
QQQ	Nasdaq 100	\$657.55	\$681.61	+3.7%
IWM	Russell 2000	\$273.91	\$282.56	+3.2%
XLE	Energy	\$57.71	\$59.45	+3.0%
VEA		\$67.73	\$68.98	+1.8%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
	Developed Markets			
VWO	Emerging Markets	\$58.32	\$59.36	+1.8%
SPY	S&P 500	\$711.69	\$723.77	+1.7%
TIP	TIPS	\$111.17	\$111.07	-0.1%
HYG	HY Corporate	\$79.98	\$79.92	-0.1%
LQD	IG Corporate	\$108.91	\$108.65	-0.2%
IEF	7-10Y Treasury	\$94.94	\$94.53	-0.4%
GLD	Gold	Range-bound	\$418.27	-0.9%

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):** \$+17,000/yr on \$100K (historical Overheating regime returns)
- **This week:** \$+1,700 on \$100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure first and hardest. The price spike hits immediately, but the duration depends on how long it takes to either reopen the shipping lane or find alternative supply

routes. If this drags into summer driving season, you're looking at sustained pressure on your household budget through August.

Your grocery bill faces a double hit from both energy costs and tariff pass-through. The energy component shows up in transportation costs within weeks, while the tariff effects are already mostly baked into prices. The timing matters because these aren't temporary spikes that reverse quickly, they're level shifts that stick around until the underlying problems get solved.

Your mortgage payment benefits from the flight to safety in bonds, but the relief is modest compared to where rates were just a few years ago. The bigger question is whether this rate environment persists if inflation stays elevated, which would keep housing affordability stretched for anyone trying to buy.

Your retirement account gets pulled in two directions. The equity rally helps, but the inflation pressure erodes the real value of fixed-income holdings. The portfolio effect depends on your allocation, but most people are seeing their purchasing power squeezed even as their account balances hold steady or rise modestly.

Your real wages are losing ground to prices, and that gap is widening. The income data from before the latest price spike already showed consumers dipping into savings or turning to credit. Add higher gas and food costs on top of that, and the household financial picture gets tighter through the spring.

Signal vs. Noise

Signals worth tracking:

The layer splits between leading and lagging indicators. When they disagree this sharply, you're watching a regime in transition rather than

one that's settled. The next month of data will tell you whether the leading indicators pull the lagging ones forward or vice versa.

Consumer spending holding up despite negative real income growth. That's unsustainable math, and the credit data will show you how long households can bridge the gap.

The commodity complex moving in broad synchronization. When most raw materials are rising together, that's a structural inflation signal, not just an energy story.

Gold rallying alongside equities. When both risk assets and safe havens move up together, markets are saying the good news isn't an all-clear signal.

Noise to ignore:

Individual stock moves in response to political commentary. When presidential endorsements can't stop a stock from falling, that tells you where the real power lies.

Sector rotation between growth and value styles. The SaaS collapse while the broader market holds steady suggests positioning unwinds and duration repricing rather than macro-driven selling.

Short-term diplomatic theater around geopolitical tensions. The real signal comes from actual policy changes or military movements, not from meeting announcements or negotiation updates.

The distinction right now comes down to persistence versus volatility. The signals reflect fundamental economic forces that build over time and don't reverse quickly. The noise reflects sentiment, positioning, and political messaging that can shift dramatically without changing the underlying economic picture.

What to Watch

March PCE inflation data, due April 26. This is the number that actually moves Fed expectations, and it's been running higher than CPI. If the divergence continues, the policy implications get more complicated. **Consumer credit report for March, due May 7.** Consumers were already spending more than they earned before gas prices spiked. The credit card data will show whether that gap is widening or if spending is finally adjusting down. **Any headlines about Strait of Hormuz negotiations or military escalation over the weekend.** The oil market is pricing in partial reopening hopes, and any news that changes those odds will move crude prices sharply on Monday. **Weekly petroleum inventory data, every Wednesday.** Watch the timespreads and regional differentials, not just the headline inventory number. The physical market is tighter than the recent price drop suggests. **April employment report, due May 2.** If wage growth re-accelerates while the labor market stays tight, that would signal the inflation shocks are bleeding into broader expectations rather than staying contained.

What Would Change My Mind

The core thesis here is that inflation is driven by two identifiable supply shocks rather than broad demand overheating, and that the Fed's best move is patience while those shocks work through the system.

What flips that view: if core services inflation, stripping out energy and tariff-affected goods, accelerates for two consecutive months. That would mean the shocks are bleeding into expectations and wage-setting behavior, turning temporary price spikes into persistent inflation momentum. The Fed would need to respond more aggressively, and patience would become complacency.

On the oil market, the belief is that physical tightness is worse than the recent price decline suggests, setting up potential summer spikes if the Strait stays closed. What changes that: either a credible diplomatic framework for reopening the shipping lane, or Saudi Arabia announcing meaningful production increases to offset the lost barrels. Either development would break the supply constraint and eliminate the summer spike risk.

The regime call assumes this overheating episode stays manageable because it's supply-driven rather than demand-driven. What makes that wrong: if consumer spending accelerates despite higher prices, or if business investment picks up significantly. That would signal genuine demand overheating on top of the supply shocks, creating a much more dangerous inflation dynamic that would force aggressive policy tightening.

Personal Stakes

WHY MARKETS MOVE · WHY IT MATTERS TO YOU

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