PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Wednesday, May 06, 2026

OVERHEATING • 29.0%

Regime Call

CURRENT REGIME

Overheating (29.0%)

Runner-up: Inflation Shock (28.3%)

Confidence: Moderate (clarity 0.04, fit 0.62, market 1.0)

The model calls Overheating as the dominant regime, though the margin over Inflation Shock has narrowed to a razor's edge. This is an economy running too hot on multiple cylinders: growth momentum that refuses to cool despite higher rates, inflation that's accelerating rather than moderating, and financial conditions that remain surprisingly accommodative given the Fed's efforts.

The tight race between Overheating and Inflation Shock tells you something important about the current moment. We're not in a clean, textbook expansion where demand growth stays within the economy's speed limit. We're in that messy zone where overheating bleeds into price pressures, where the same underlying forces drive both outcomes. The model's high confidence reading suggests this isn't a coin flip between two unrelated scenarios. It's two faces of the same underlying reality: an economy that's running too fast for its own good.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.0%**	33.2%	22.5%	0.0
Inflation Shock	**28.3%**	27.8%	29.9%	+1.6
Cooling	**21.5%**	18.1%	26.2%	-0.8
Soft Landing	**19.9%**	19.5%	20.2%	-0.7
Contraction	**1.3%**	1.4%	1.1%	-0.1

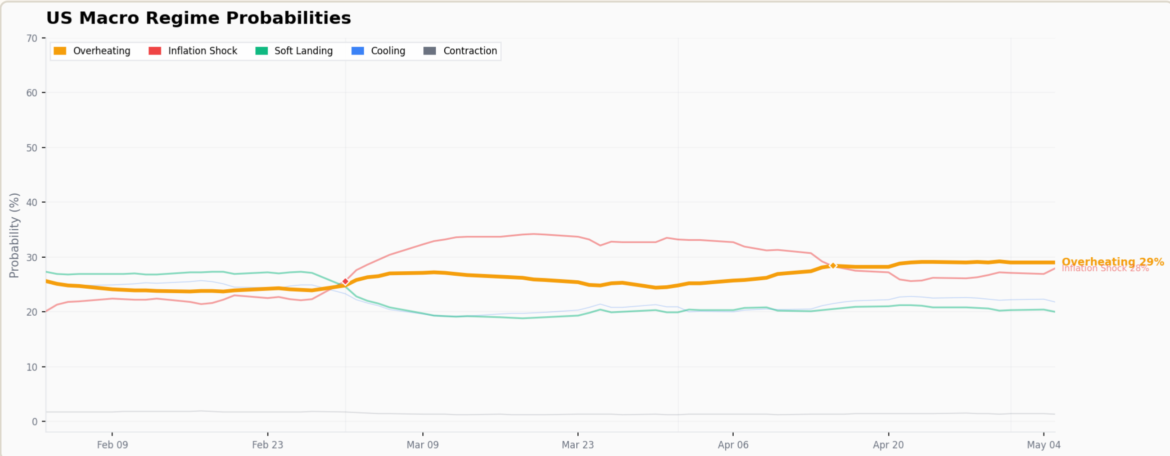
Convergence: diverging

The layer splits reveal an economy caught between what's happening now and what's coming next. The leading indicators still lean toward Overheating, suggesting the economic data that typically predicts the future sees the economy running too hot. The lagging indicators show an even split between Overheating and Inflation Shock, reflecting the current reality where price pressures compete with demand-driven heat.

This divergence between leading and lagging layers is the key tension in the current call. Inflation Shock dominates the lagging layer because that's where you see the price pressures that have already materialized. The tariff pass-through is complete, the energy disruption is real, and core PCE is running hotter than anyone wants to admit. Meanwhile, the leading layer still holds out hope that the underlying demand dynamics will eventually cool.

The convergence reading suggests these layers are moving toward each other, which means either the leading indicators start reflecting the inflationary reality, or the lagging indicators begin to show the cooling that forward-looking data expects. Given that the Fed doesn't have good tools for supply-driven inflation, the smart money is on the leading layer capitulating to the lagging layer's story.

90-Day Regime History

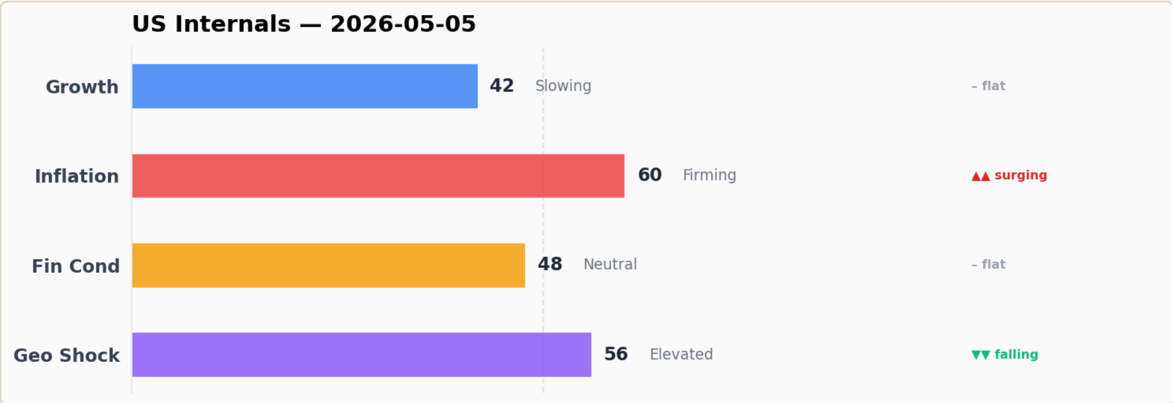


The current regime took hold gradually rather than in a sharp break, which tells you this isn't a crisis-driven shift but a fundamental change in the economy's operating temperature. Overheating has been building its lead over the past month as each data release confirmed that the economy isn't cooling as expected and inflation isn't moderating as hoped.

What's notable about this transition is its persistence rather than its speed. We're not seeing the sharp spikes and quick reversals that characterize crisis periods or policy shock responses. Instead, the probability curve shows a steady climb as the weight of evidence accumulates. That pattern suggests the underlying drivers are structural rather than temporary, which makes sense when you consider that tariff pass-through and supply chain disruptions don't resolve quickly.

The shape of this transition also explains why the model's confidence is high despite the tight race at the top. When regime probabilities move gradually and persistently in the same direction, that's typically more reliable than sudden jumps that can reverse just as quickly. The economy is telling a consistent story, even if that story is uncomfortable.

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	60.0	firming	86 (surging)	73.2	-13.2	+2.7
Financial Conditions	47.9	neutral	55 (stable)	49.8	-1.9	+1.3
Geopolitical Shock	55.6	elevated	17 (falling)	52.9	+2.7	-0.3

Growth

Growth remains in slowing territory, but the momentum has stabilized rather than accelerated the deceleration. This is the axis that's most at odds with the overall regime call, and it's worth understanding why. The growth data is showing an economy that's cooling from very high levels, but cooling slowly and unevenly. Consumer spending was the strongest since August even as real incomes turned negative, which suggests households are financing current consumption through savings drawdowns or credit.

The stable momentum reading is actually more concerning than reassuring in this context. If growth were decelerating quickly, it would provide a natural brake on inflationary pressures. Instead, we're getting the worst of both worlds: growth that's slow enough to keep the labor market from tightening further, but fast enough to prevent inflation from moderating. That's the sweet spot for stagflationary outcomes.

Inflation

The inflation axis is surging, and the momentum reading confirms this isn't a temporary spike. Core PCE running hotter than CPI, tariff pass-through showing up in the data, and energy prices spiking all point to broad-based price pressures. What makes this particularly challenging is that the inflation is coming from multiple sources simultaneously: supply disruptions, trade policy, and residual demand strength.

The surging momentum suggests these pressures are accelerating rather than stabilizing. That's the difference between a one-time level shift in prices and an ongoing inflationary process. When you see momentum this strong on the inflation axis, it typically means the price pressures are becoming self-reinforcing through expectations and wage-price dynamics.

Financial Conditions

Financial conditions remain neutral despite the Fed's efforts to tighten, and that's the core of the Fed's dilemma. The central bank has raised rates aggressively, but credit is still flowing, asset prices are still rising, and the dollar's strength is providing only modest disinflationary pressure. This is what happens when fiscal policy is running counter to monetary policy and when supply-side inflation reduces the effectiveness of demand-side tools.

The stable momentum on financial conditions means the Fed isn't getting the transmission mechanism it needs. Normally, higher rates would tighten financial conditions, which would cool demand, which would reduce inflation. But when inflation is driven by supply factors and fiscal policy is expansionary, that transmission mechanism breaks down. The Fed can raise rates, but it can't force financial conditions to tighten if other forces are working in the opposite direction.

Geopolitical Shock

The geopolitical axis remains elevated, but the momentum has shifted from declining to falling, suggesting the acute phase of the current crisis may be moderating. However, this is the axis where the gap between current readings and forward-looking risks is largest. The Strait of Hormuz remains closed with no credible diplomatic framework for reopening, and the physical oil market is tighter than the recent price decline suggests.

The falling momentum reflects the market's assessment that immediate escalation risks have decreased, but that doesn't address the underlying structural problem. Empty tankers heading to the Gulf Coast look like a solution, but they're just reshuffling existing barrels rather than creating new supply. If the Strait isn't reopened soon, the summer driving season could trigger another spike in energy prices that would push this axis back into surging territory.

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 are dominated by inflation data that keeps coming in hotter than expected, with core PCE and gasoline prices both showing sharp acceleration. These aren't marginal misses against consensus; they're material upward revisions to the inflation trajectory that force you to reconsider the underlying dynamics. The headline CPI reading provides additional confirmation that price pressures are broad-based rather than concentrated in a few categories.

The disconfirming signals tell a different story about the labor market and wage dynamics, with core CPI running below trend and wage growth showing sharp deceleration. This creates an unusual tension where goods and energy inflation are surging while services inflation remains relatively contained. Normally, you'd expect these to move together, but supply-driven inflation can create exactly this kind of divergence. The disconfirming signals aren't strong enough to override the inflation story, but they do suggest the inflationary pressures aren't yet becoming self-reinforcing through wage-price spirals.

Week in Review

WEEK SUMMARY (VS 2026-04-29)

REGIME	PRIOR	CURRENT	Δ
Overheating	29.0%	29.0%	0.0
Inflation Shock	26.7%	28.3%	+1.6
Cooling	22.3%	21.5%	-0.8
Soft Landing	20.6%	19.9%	-0.7
Contraction	1.4%	1.3%	-0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	41.9	42.0	+0.1	slowing
Inflation	57.3	60.0	+2.7	firming
Fin Cond	46.6	47.9	+1.3	neutral
Geo Shock	55.9	55.6	-0.3	elevated

Inflation Shock gained significant ground this week, rising by more than a percentage point while both Cooling and Soft Landing scenarios lost probability. The trigger was the March CPI report showing a monthly gain that was the largest since June 2022, driven by both energy price spikes and continued tariff pass-through effects. The inflation axis score jumped nearly three points as core PCE data confirmed that the policy-relevant inflation gauge is running even hotter than the headline CPI numbers suggest.

The supporting moves tell a consistent story of an economy that's not cooling as expected. Growth momentum declined slightly but remained stable overall, suggesting the deceleration that many expected isn't materializing. Financial conditions tightened modestly but stayed in neutral territory, confirming that the Fed's rate increases aren't getting the transmission they need. Meanwhile, geopolitical shock momentum shifted from declining to falling as oil prices dropped despite the underlying supply disruption remaining unresolved.

What held this week was more telling than what moved. The Overheating regime maintained its lead despite significant inflation data that could have pushed Inflation Shock to the top. This stability reflects the model's assessment that we're seeing two faces of the same underlying problem: an economy running too hot, with the choice being whether that manifests as demand-driven overheating or supply-constrained inflation shock. The market's strong confirmation of the regime call, with both equities and commodities rallying, suggests investors are positioning for continued economic strength rather than stagflationary weakness.

Next week's setup hinges on the March PCE report, which will determine whether the inflation acceleration continues or begins to moderate. If core PCE comes in above expectations, Inflation Shock likely takes the lead as the dominant regime. If it shows signs of cooling, the current Overheating call gets reinforced as the economy demonstrates it can grow strongly without triggering runaway inflation. The oil market remains the wild card, with any escalation in the Strait of Hormuz situation capable of pushing energy prices sharply higher and tipping the balance toward the inflation scenario.

Market Confirmation

The market is delivering a mixed verdict on the Overheating call, with equities and credit confirming the regime while rates and the dollar tell a different story. The S&P 500's back-to-back weekly gains above 3% fit the pattern of an overheated economy where risk assets keep climbing despite obvious warning signs. High-yield credit spreads are tightening when they should be widening, which makes sense when you remember that corporate earnings can initially benefit from the same demand pressures that eventually cause problems.

The diverging assets reveal the mechanical forces working against a clean regime expression. Treasury yields are falling when they should be rising because the Fed can't actually tighten into supply-driven inflation without breaking something important. The dollar is weakening when it should be strengthening because other central banks are dealing with their own versions of the same supply disruptions. These aren't signs that the regime call is wrong. They're signs that policy tools are poorly matched to the underlying problem, creating cross-currents that prevent textbook asset behavior.

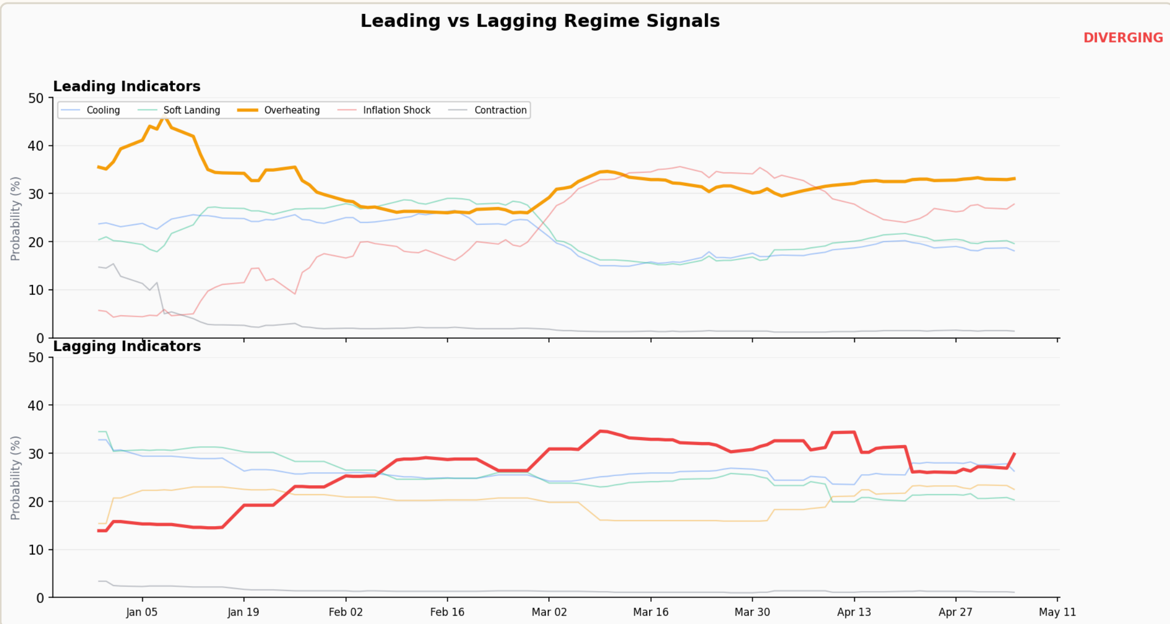
Asset Playbook

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 living through the exact scenario it wasn't designed for: both stocks and bonds getting pressured by the same underlying force. The equity stance remains favorable, but that's a momentum call in an overheating environment, not a fundamental value story. Credit gets a favorable rating because corporate balance sheets can handle higher input costs better than households can handle higher everything costs. Rates face pressure as the Fed discovers that raising rates into supply shocks just makes the demand destruction worse without fixing the supply problem.

The most surprising stance is probably gold's favorable rating alongside equities. That combination usually doesn't happen, but it makes sense when both inflation hedges and risk assets are responding to the same underlying driver. Your allocation pain is coming from the places you thought were safe: long-duration bonds and cash are getting destroyed by inflation that monetary policy can't easily fix.

Leading / Lagging Signal Alignment



The leading and lagging layers are converging, but not in the direction anyone hoped. When this convergence process started, there was still a reasonable chance that the leading indicators would pull the lagging ones toward cooling. Instead, the lagging layer's inflationary reality is winning the argument. The convergence timeline has been running for about six weeks, which is typical for regime transitions that build gradually rather than snap into place.

This type of convergence usually takes two to three months to complete, and we're roughly halfway through that process. The alignment mechanics work through data releases that either confirm the leading layer's cooling thesis or validate the lagging layer's overheating story. Each hot inflation print and each resilient growth number moves the leading indicators closer to the lagging layer's position.

What makes this convergence particularly stable is that it's driven by supply-side forces that don't respond quickly to demand-side policy tools. An early-warning divergence would show up as a sharp reversal in the leading layer back toward cooling, which would require either a credible resolution to the supply disruptions or a much more aggressive Fed response that prioritizes inflation over employment. Neither seems likely in the near term.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+3.1%	+17.4%	+1.21	827
QQQ	+5.2%	+27.3%	+1.44	827
IWM	+5.4%	+5.0%	+0.26	827
IEF	+0.5%	+2.4%	+0.45	827
TIP	+0.3%	+4.8%	+1.17	827
LQD	+0.8%	+3.5%	+0.65	827
HYG	+0.6%	+5.4%	+1.13	827

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
GLD	+3.2%	+15.0%	+1.04	827
XLE	-3.4%	-4.8%	-0.20	827
VEA	+5.6%	+7.0%	+0.48	827
VWO	+4.6%	+13.4%	+0.77	827

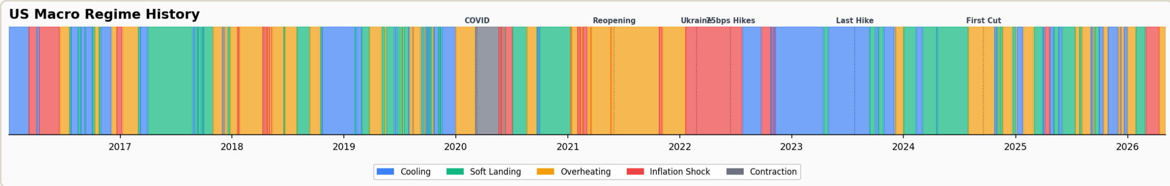
Historical returns measured over Overheating regime days in backtest.

This week's performance delivered a mixed message about whether markets are following the historical Overheating script. Equities posted strong gains that align with the regime's historical pattern, while energy and commodities moved in ways that fit the underlying supply disruption story. The week's biggest winners were the assets that typically benefit from demand running ahead of supply, which matches what you'd expect in an overheating environment.

The divergences from historical patterns show up in the defensive assets and duration trades. Bonds and utilities didn't provide the hedge they typically offer during overheating episodes, which makes sense when the inflation component is driven by supply constraints rather than pure demand excess. Gold's performance alongside equities is unusual historically but fits the current environment where both inflation hedges and risk assets face the same underlying driver.

The backtest limitations matter more than usual here because the current episode combines classic overheating dynamics with supply-side inflation shocks that weren't common in the historical sample. The regime definitions capture the demand-side overheating well, but the supply-side component creates asset behavior that doesn't always match the historical averages. Sample sizes for pure supply-driven inflation episodes are small, which means the historical returns may not fully capture what you should expect going forward.

10-Year Regime History



The closest historical parallel to the current episode is the 2021-2022 period, when supply chain disruptions combined with demand-side pressures to create an overheating environment that eventually shifted into full inflation shock. That episode lasted roughly eight months before resolving through aggressive Fed action and supply chain normalization. The 2008 commodity spike offers another comparison point, though that was driven more by financial speculation than fundamental supply constraints.

What resolved those prior episodes was either policy intervention that successfully cooled demand or supply-side improvements that eased the underlying constraints. The 2021-2022 episode ended when the Fed's aggressive tightening finally slowed demand growth enough to bring it back in line with constrained supply. The 2008 episode resolved when financial market stress forced commodity position unwinding and demand destruction simultaneously.

The structural difference this time is that the supply constraints are geopolitically driven rather than logistically driven, which makes them harder to resolve through normal market mechanisms or policy tools. Unlike the 2021-2022 episode, where supply chains could eventually adapt and normalize, the current disruptions require diplomatic or military solutions that operate on different timelines than economic policy.

Market Context

Weekly ETF returns as of 2026-05-06 (vs 2026-04-29).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
VEA	Developed Markets	$67.08	$70.87	+5.6%
IWM	Russell 2000	$272.08	$286.80	+5.4%
QQQ	Nasdaq 100	$661.57	$695.77	+5.2%
VWO	Emerging Markets	$58.08	$60.75	+4.6%
GLD	Gold	Range-bound	$430.96	+3.2%
SPY	S&P 500	$711.58	$733.83	+3.1%
LQD	IG Corporate	$108.31	$109.19	+0.8%
HYG	HY Corporate	$79.71	$80.16	+0.6%
IEF	7-10Y Treasury	$94.49	$95.00	+0.5%
TIP	TIPS	$110.83	$111.15	+0.3%
XLE	Energy	$59.03	$57.00	-3.4%

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):** $+17,400/yr on $100K (historical Overheating regime returns)
- **This week:** $+3,100 on $100K 401(k)

Your gas tank is feeling the energy disruption first and most directly. The price spike at the pump translates to higher costs for your daily commute and weekend trips, with the impact compounding over the coming months if the supply situation doesn't resolve. This isn't a temporary blip that reverses next week.

Your grocery bill faces pressure from multiple directions. The tariff pass-through that's already worked its way through the system hits imported food items, while higher transportation costs from energy prices affect domestic goods. The combination builds over the next several months as retailers adjust pricing.

Your mortgage payment stays elevated as the Fed holds rates higher to combat the inflation they can't actually fix with monetary policy. The central bank's limited toolkit for supply-driven price pressures means borrowing costs remain restrictive even as the underlying problems require different solutions.

Your paycheck loses purchasing power as wage growth trails the accelerating price increases. Real income turned negative even before this month's energy spike, and the gap widens as inflation outpaces earnings growth through the spring and summer.

Your investment portfolio benefits from the equity rally driven by nominal growth, but the gains come with inflation risk attached. The unusual combination of rising stocks and rising gold suggests markets are pricing both growth optimism and currency debasement concerns simultaneously.

Signal vs. Noise

Signals worth tracking:
The layer divergence between leading and lagging indicators. When forward-looking data still expects cooling while backward-looking data shows overheating, one side eventually capitulates. Given the Fed's limited tools for supply shocks, watch for leading indicators to abandon the cooling narrative.

Real income turning negative while spending accelerates. Consumers financing current consumption through savings or credit creates a sustainability question that resolves within quarters, not years.

The commodity complex showing broad-based strength beyond just energy. When most raw materials are rising simultaneously, that's a structural inflation signal rather than a sector-specific disruption.

Gold rallying alongside equities. This unusual correlation suggests markets are pricing both nominal growth and currency concerns, which typically doesn't persist without resolution in one direction.

Noise to ignore:
Individual stock moves in response to political commentary. When presidential endorsements can't stop sector-specific selling, the real drivers are structural rather than political.

Weekly oil price volatility around the underlying supply disruption. The physical market tightness matters more than day-to-day price swings driven by headline risk and positioning.

Diplomatic theater between major powers without concrete policy changes. Long-term geopolitical positioning rarely moves markets until it becomes actual policy or military action.

The distinction right now comes down to sustainability. Signals reflect underlying economic forces that compound over time. Noise reflects positioning, sentiment, and political theater that reverses without changing the fundamental picture.

What to Watch

March PCE inflation data release on April 26. This is the Fed's preferred gauge, and it's been running hotter than CPI. If core PCE accelerates beyond the tariff and energy effects, that changes the "temporary shock" narrative entirely. **Weekly petroleum inventory reports through May.** The physical oil market tells the real story about supply tightness. Watch crude inventories at Cushing and gasoline stocks heading into driving season. Empty tankers reshuffling barrels aren't the same as new supply. **Consumer credit data for March, released May 7.** Households were already spending more than they earned in February. Credit card balances and delinquency rates will show whether the gap is widening as gas prices spike. **Any diplomatic developments around the Strait of Hormuz through April.** Weekend headlines about military escalation or failed negotiations move oil markets more than inventory data right now. The physical disruption needs a political solution. **Core services inflation in the April CPI report on May 14.** Strip out energy and tariff-affected goods to see if the price pressures are bleeding into the broader economy. Two consecutive months of acceleration would signal the shocks are becoming embedded.

What Would Change My Mind

Scenario one: The supply shocks stay contained. If core services inflation excluding energy and trade-affected goods stays moderate for two consecutive months, and wage growth continues decelerating, then this really is just reshuffling from identifiable one-time disruptions. The Fed's patience becomes wisdom rather than complacency. I'd expect the leading layer's cooling narrative to eventually win out, and the regime call would shift back toward the disinflationary scenarios within two to three months. **Scenario two: A credible solution emerges for the energy disruption.** Either a diplomatic framework for reopening the Strait that both sides can accept, or Saudi Arabia announcing meaningful production increases to offset the lost barrels. The oil market's summer spike thesis breaks immediately, energy prices retreat, and the inflation shock component of the regime call fades within weeks. The model would likely shift toward pure overheating rather than the current inflation shock competition. **Scenario three: The shocks become embedded in expectations.** If businesses start raising prices preemptively based on inflation fears rather than actual cost increases, or if wage negotiations begin incorporating higher inflation assumptions, then we're in a different game entirely. The temporary becomes permanent through the expectations channel. The model would lock into inflation shock as the dominant regime, and the Fed would face the uncomfortable choice between tolerating higher inflation or engineering a recession to break the cycle.

The price of being wrong on containment is high. If these supply shocks trigger a broader inflation psychology shift, the Fed's limited toolkit becomes a real constraint, and the economy faces either persistent inflation or a policy-induced downturn to restore price stability.

Personal Stakes

WHY MARKETS MOVE · WHY IT MATTERS TO YOU