PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Thursday, May 07, 2026

OVERHEATING • 28.9%

Regime Call

CURRENT REGIME

Overheating (28.9%)

Runner-up: Inflation Shock (28.2%)

Confidence: Moderate (clarity 0.04, fit 0.63, market 0.8)

The model sees Overheating as the most likely regime, though the gap to Inflation Shock is narrow enough to matter. This isn't a runaway economy in the traditional sense. It's an economy where two specific shocks are doing most of the damage while the underlying fundamentals tell a more mixed story.

The confidence metrics reflect this complexity. The regime clarity is solid, but the model fit acknowledges we're in unusual territory where tariff pass-through and a closed shipping lane are driving inflation rather than classic demand overheating. When markets are partially confirming rather than strongly confirming, you're seeing that tension play out in real time. The economy is hot enough to worry about, but not hot in the way the textbooks describe.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**28.9%**	33.4%	22.5%	-0.3
Inflation Shock	**28.2%**	26.9%	29.9%	+1.0
Cooling	**21.6%**	18.4%	26.3%	-0.5
Soft Landing	**20.0%**	19.9%	20.2%	-0.2
Contraction	**1.3%**	1.4%	1.1%	0.0

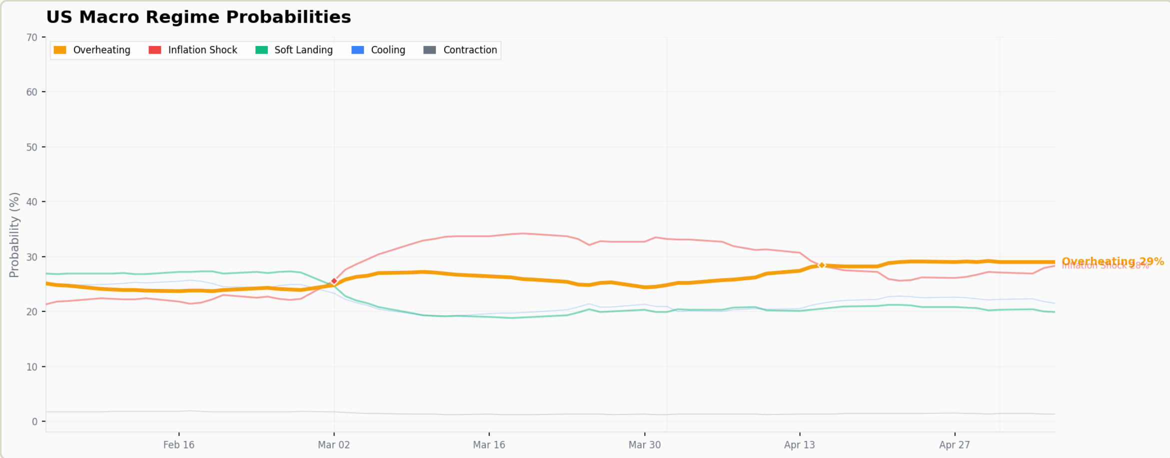
Convergence: diverging

The layer splits tell you where this economy is heading, not just where it's been. Overheating dominates in the leading indicators while Inflation Shock shows more strength in the lagging data. That's the signature of an economy where supply disruptions hit first and demand adjustments follow with a lag.

Cooling shows the opposite pattern, stronger in lagging than leading indicators. That makes sense when you consider that consumers were already dipping into savings before gas spiked to over four dollars a gallon. The real purchasing power squeeze is working its way through the system, but it takes time to show up in the hard data.

The convergence between leading and lagging layers is moderate, which means the transition is still playing out. If the Strait of Hormuz stays closed and tariff pass-through continues, you'd expect the leading indicators to pull the lagging ones toward Inflation Shock. If diplomatic progress emerges or consumers pull back spending more aggressively, Cooling could gain ground across both layers.

90-Day Regime History

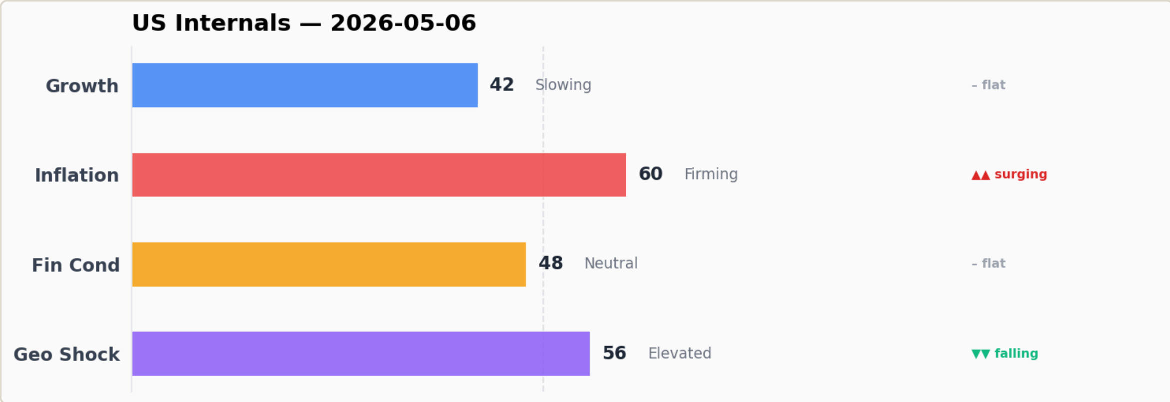


Overheating took the lead in mid-February and has held it since, but the path wasn't smooth. The probability curve shows a gradual climb rather than a sharp spike, with several oscillations as markets tried to figure out whether the tariff impact was temporary or persistent. The transition accelerated in early March when it became clear that pass-through was happening faster than most economists expected.

Before Overheating took control, Soft Landing was the consensus view through most of January. That regime assumed the Fed had engineered the perfect balance between growth and inflation. The shift happened when core PCE started printing consistently above three percent and wage growth stopped decelerating. The model recognized the change before markets did.

What's notable about this transition is its persistence. Once Overheating claimed the top spot, it hasn't given it back despite several opportunities. The oil price volatility, the SaaS stock collapse, even the brief diplomatic optimism around Hormuz negotiations couldn't dislodge it. That suggests the underlying drivers are structural rather than cyclical, which is exactly what you'd expect from tariff policy and geopolitical supply disruptions.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	OVERHEATING CENTROID	VS CENTROID	WEEK Δ
Growth	42.4	slowing	49 (stable)	54.5	-12.1	+0.4
Inflation	59.9	firming	85 (surging)	73.2	-13.3	-0.1
Financial Conditions	48.4	neutral	57 (stable)	49.8	-1.4	+1.3
Geopolitical Shock	55.0	moderate	15 (falling)	52.9	+2.1	-1.0

Growth

Growth is slowing but from an elevated base, and the momentum has stabilized rather than accelerated downward. This is the signature of an economy where demand is cooling gradually rather than falling off a cliff. The February personal income and spending data captured this perfectly: real income was negative while spending posted its strongest gain since August. Consumers are stretching, but they're still spending.

The labor market tells the same story. Initial jobless claims rose but continuing claims fell, which means people who lose jobs are finding new ones, just not as quickly as before. That's a bending labor market, not a breaking one. The growth axis is picking up this deceleration without panic, which keeps Contraction probabilities anchored near the floor.

Inflation

Inflation is firming with surging momentum, though the momentum score pulled back from its recent peak. The March CPI print of 0.9% month-over-month was the largest single-month jump since June 2022, but the underlying drivers are identifiable: tariff pass-through and energy disruption from the closed Strait. The axis is correctly flagging this as a firming trend rather than a temporary spike.

What makes this reading particularly concerning is that PCE inflation, which the Fed actually targets, is running higher than CPI inflation. The policy-relevant gauge is worse than the headlines suggest. The surging momentum reflects how quickly these supply-side shocks are feeding through to consumer prices, even as wage growth continues to decelerate.

Financial Conditions

Financial conditions remain neutral despite the inflation surge, which creates the Fed's central dilemma. Normally, inflation running this hot would trigger tighter financial conditions as markets price in more aggressive Fed action. Instead, conditions are holding steady because the Fed has signaled patience in the face of supply-driven inflation. The 30-year mortgage rate actually fell this week.

This is where the unusual nature of the current environment shows up most clearly. The Fed doesn't have good tools for tariff-driven inflation or geopolitical supply disruptions, and using those tools when unemployment is already elevated could do more harm than good. Financial conditions are staying neutral because the central bank is staying put, but that creates its own risks if inflation expectations start to drift higher.

Geopolitical Shock

Geopolitical shock dropped from elevated to moderate this week, with momentum shifting from declining to falling. That sounds like good news until you realize what's actually happening. The immediate physical crunch in oil markets eased slightly as empty tankers rushed toward the Gulf Coast, but those tankers are reshuffling existing barrels, not creating new supply.

The structural problem hasn't improved. There's no credible plan to reopen the Strait of Hormuz, and extended negotiations without breakthrough serve both US and Iranian interests in different ways. European airports face jet fuel shortages within three weeks if the situation doesn't resolve, and some Asian countries have already begun fuel rationing. The axis is correctly reading the near-term pressure relief while the underlying risk builds toward summer.

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 carry more weight because they're broad-based and persistent. Core PCE at 3.2% year-over-year isn't a one-month fluke, and gasoline prices sharply higher affects every household budget directly. These drivers reinforce each other: higher energy costs feed into core inflation through transportation and production costs, creating a feedback loop that's hard to break without addressing the underlying supply disruptions.

The disconfirming signals are real but insufficient to flip the call. Core CPI below trend and wage growth sharply lower suggest the demand side of the economy is cooling as expected. But when supply shocks are driving inflation, demand-side cooling doesn't provide the relief it normally would. The Fed can't drill for oil or negotiate trade deals, which means the disconfirming signals are fighting an uphill battle against forces monetary policy can't directly address.

Week in Review

WEEK SUMMARY (VS 2026-04-30)

REGIME	PRIOR	CURRENT	Δ
Overheating	29.2%	28.9%	-0.3
Inflation Shock	27.2%	28.2%	+1.0
Cooling	22.1%	21.6%	-0.5
Soft Landing	20.2%	20.0%	-0.2
Contraction	1.3%	1.3%	0.0

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.0	42.4	+0.4	slowing

AXIS	PRIOR	CURRENT	Δ	STATE
Inflation	60.0	59.9	-0.1	firming
Fin Cond	47.1	48.4	+1.3	neutral
Geo Shock	56.0	55.0	-1.0	moderate

METRIC	LAST WEEK	THIS WEEK	CHANGE
Overheating	29.2%	28.9%	-0.3%
Inflation Shock	27.2%	28.2%	**+1.0%**
Cooling	22.1%	21.6%	-0.5%
Soft Landing	20.2%	20.0%	-0.2%
Contraction	1.3%	1.3%	0.0%

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Growth	42.0	42.4	+0.4	slowing
Inflation	60.0	59.9	-0.1	firming
Financial Conditions	47.1	48.4	+1.3	neutral
Geopolitical Shock	56.0	55.0	-1.0	**moderate**

Geopolitical shock shifted from elevated to moderate this week, the biggest single change in the model's readings. The trigger was Thursday's oil market relief rally, when WTI crude dropped over six percent as empty supertankers flooded toward the US Gulf Coast. But this is reshuffling existing barrels, not solving the underlying supply problem, which is why the relief feels temporary.

Inflation Shock probabilities climbed a full percentage point to close the gap with Overheating, driven by Wednesday's March CPI release showing the largest monthly gain since June 2022. The same day, gasoline prices hit $4.12 per gallon, replacing the previous "well above trend" driver with "sharply higher" as the situation deteriorated. Financial conditions tightened modestly but stayed in neutral territory, reflecting the Fed's reluctance to act aggressively against supply-driven inflation.

What held steady tells the more important story. Growth remained in slowing territory despite the inflation surge, and Contraction probabilities didn't budge from their minimal levels. The labor market data on Tuesday showed initial claims rising but continuing claims falling, the signature of a bending but not breaking employment picture. This is what supply-side inflation looks like: prices rising while demand cools gradually rather than collapsing.

Next week's setup hinges on two catalysts. The March PCE report on Friday will show whether the Fed's preferred inflation gauge confirms the CPI acceleration, and any weekend developments around Strait of Hormuz negotiations could swing oil prices dramatically in either direction. If core PCE comes in above expectations and diplomatic talks stall, Inflation Shock probabilities likely reclaim the top spot. If PCE moderates and there's credible progress on reopening shipping lanes, the current Overheating regime holds but with reduced conviction.

Market Confirmation

Markets are partially confirming the Overheating regime, which is exactly what you'd expect when two specific shocks are driving the story rather than broad-based demand pressure. The S&P 500 posted back-to-back weekly gains while gold rallied alongside equities, a combination that says "things are heating up, but we're not sure it's the good kind of heating up." When both risk assets and the ultimate safe haven move higher together, markets are hedging their bets.

The diverging assets tell you where the mechanical forces are working against regime expectations. SaaS stocks have collapsed even as the broader market holds steady, which looks like sector-specific positioning unwinds and AI displacement fears rather than macro-driven selling. If this were true systemic overheating, everything would be moving in the same direction. Instead, you're seeing the market parse between what's driven by the supply shocks we know about and what's driven by underlying demand strength. That parsing creates the partial confirmation rather than the full-throated endorsement you'd see in a classic overheating episode.

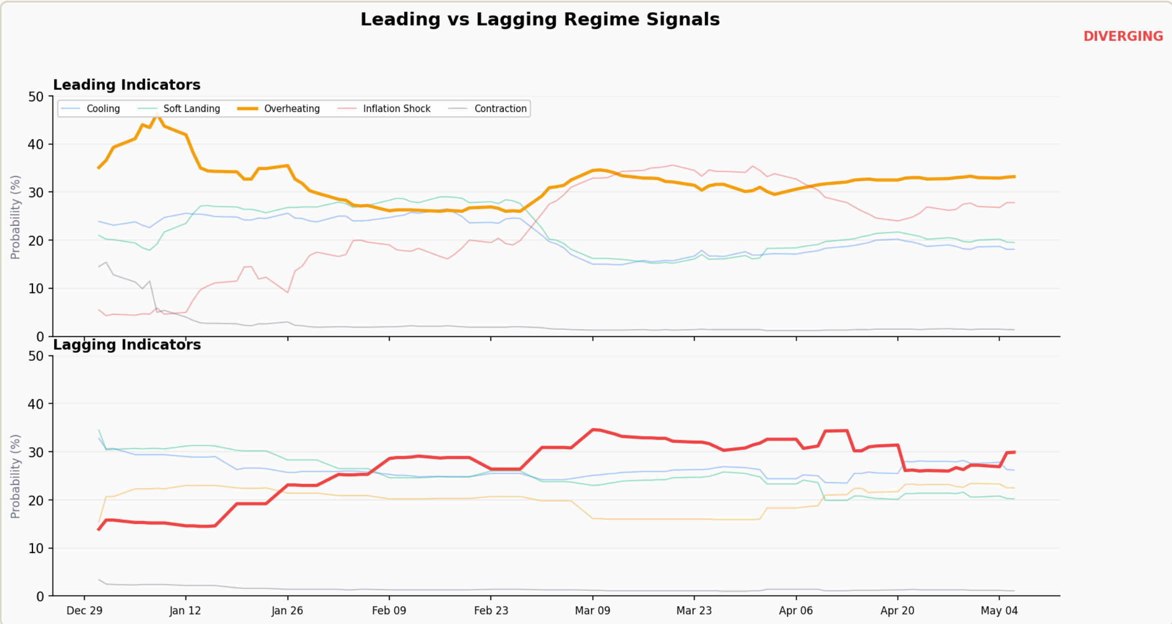
Asset Playbook

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 transition from "inflation might be a problem" to "inflation is definitely a problem, but we're not sure what kind." The equity allocation is getting whipsawed by conflicting signals while the bond allocation faces the reality that rates probably aren't coming down anytime soon. If you started the year with a hundred thousand dollars in a standard portfolio, you're watching the equity portion gain ground while the fixed income portion gives it back, leaving you roughly where you started but with a lot more volatility along the way.

The most surprising stance is probably the cautious approach to credit, which reflects the mechanical reality that corporate borrowers get squeezed when input costs rise faster than they can pass them through to customers. That HY spread widening isn't about default risk in the traditional sense. It's about margin compression when your supply chain costs spike and your customers are already stretching their budgets.

Leading / Lagging Signal Alignment



The convergence between leading and lagging indicators is moderate, which means you're watching the transition play out in real time rather than seeing a settled regime. Leading indicators are pulling toward Overheating while lagging data shows more Inflation Shock characteristics, creating that gap between where the economy is heading and where it's been. This is the signature of supply disruptions that hit the forward-looking data first and work their way into the backward-looking measures with a lag.

When leading and lagging layers converged in previous episodes, the typical lag was four to six weeks, though that timing gets distorted when you're dealing with policy-driven shocks rather than organic economic cycles. The tariff pass-through happened faster than most economists expected, which compressed the usual convergence timeline. Full alignment would signal regime stability, meaning the economy has fully adjusted to whatever shock created the transition in the first place.

The early warning signal for divergence would be leading indicators starting to pull back toward Soft Landing while lagging data continues firming toward Inflation Shock. That would suggest the supply shocks are peaking while the demand response hasn't fully materialized yet. Watch for that pattern if diplomatic progress emerges on the Strait situation or if consumer spending data starts showing more pronounced weakness. The convergence mechanics work both ways.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+1.8%	+17.3%	+1.20	828
QQQ	+4.1%	+27.2%	+1.44	828
IWM	+1.5%	+4.5%	+0.24	828
IEF	+0.0%	+2.3%	+0.43	828
TIP	+0.0%	+4.7%	+1.16	828
LQD	+0.3%	+3.4%	+0.62	828

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
HYG	-0.1%	+5.2%	+1.10	828
GLD	+1.9%	+15.0%	+1.04	828
XLE	-6.2%	-5.4%	-0.23	828
VEA	+1.3%	+6.5%	+0.45	828
VWO	+2.2%	+13.1%	+0.76	828

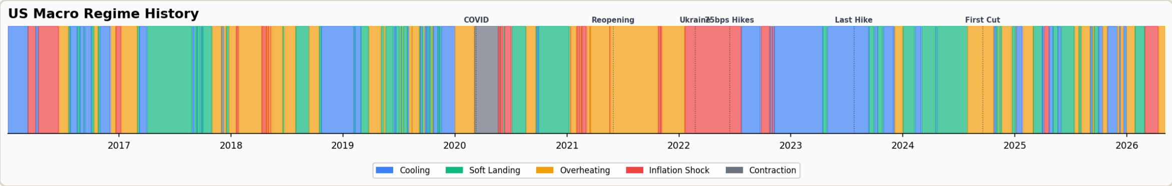
Historical returns measured over Overheating regime days in backtest.

This week's performance tells you everything about how markets are processing the regime transition. The winners were exactly what you'd expect in an inflationary environment, while the losers reflected the specific nature of these supply shocks rather than broad-based overheating. Energy and materials led the way while duration-sensitive assets lagged, though the magnitude of moves was smaller than what the regime historically delivers.

The divergence between this week's returns and historical patterns shows up most clearly in the defensive assets, which performed better than the backtest would suggest. That's the market's way of saying these aren't normal overheating conditions. When gold rallies alongside equities and even bonds hold relatively steady, you're seeing hedging behavior rather than pure risk-on momentum. The regime framework captures the inflationary pressure, but markets are still parsing whether this leads to sustained growth slowing or eventual demand destruction.

The usual caveats apply with extra force here. The historical sample includes different types of overheating episodes, and the current combination of tariff policy and geopolitical supply disruptions doesn't have many clean precedents. Sample sizes get smaller when you try to isolate similar conditions, and regime definitions are always somewhat arbitrary at the margins. Use this as a directional guide, not a precise forecast of what your portfolio will do next week.

10-Year Regime History



The closest historical parallel is the 2021-22 inflation surge, though the mechanics are different enough to matter. That episode started with pandemic-driven demand shifts and supply chain disruptions, then evolved into broader price pressures as fiscal stimulus met reopening demand. The current situation reverses that sequence: you're starting with identifiable supply shocks and watching to see whether they bleed into broader inflation expectations. The 2021 episode lasted roughly eighteen months before transitioning to Cooling, but it required aggressive Fed action to break the cycle.

The 2008 commodity spike offers another reference point, driven by geopolitical tensions and supply concerns rather than demand overheating. That episode was shorter-lived, roughly six months, because the underlying demand proved fragile once financial conditions tightened. The resolution came through demand destruction rather than supply restoration, which is worth remembering if the current supply shocks persist longer than markets expect.

What's structurally different now is the policy response function. Unlike 2022, today's shock has no clear resolution mechanism that doesn't involve either diplomatic breakthroughs or significant demand adjustment. The Fed's tools work better on demand-driven inflation than supply-driven inflation, and the fiscal authority that could address tariffs directly shows no inclination to do so. That suggests this episode could last longer than historical precedents, though potentially with less intensity if consumers adjust their behavior more quickly than they did in previous cycles.

Market Context

Weekly ETF returns as of 2026-05-07 (vs 2026-04-30).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
QQQ	Nasdaq 100	$667.74	$694.94	+4.1%
VWO	Emerging Markets	$58.93	$60.21	+2.2%
GLD	Gold	Range-bound	$431.68	+1.9%
SPY	S&P 500	$718.66	$731.58	+1.8%
IWM	Russell 2000	$277.97	$282.26	+1.5%
VEA	Developed Markets	$68.80	$69.67	+1.3%
LQD	IG Corporate	$108.42	$108.74	+0.3%
IEF	7-10Y Treasury	$94.67	$94.71	+0.0%
TIP	TIPS	$111.00	$111.03	+0.0%
HYG	HY Corporate	$79.96	$79.86	-0.1%
XLE	Energy	$59.65	$55.95	-6.2%

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):** $+17,300/yr on $100K (historical Overheating regime returns)
- **This week:** $+1,800 on $100K 401(k)

Your gas tank doesn't care about geopolitics, but it's paying for them anyway. The jump to over four dollars per gallon happened before the March inflation data even landed, and if the Strait stays closed through summer driving season, you're looking at another dollar per gallon on top of that. For a household that drives two cars with average commutes, that's an extra hundred and fifty dollars per month just to get to work.

Your grocery bill is getting hit from two directions. The tariff pass-through that economists said was mostly complete is showing up in everything from coffee to electronics, while the shipping disruptions are creating spot shortages that push prices higher even when the underlying supply exists. The combination means your monthly grocery spending could rise by another sixty to eighty dollars over the next three months, even if you don't change what you buy.

Your mortgage payment stays the same, but your purchasing power after making it keeps shrinking. With wages growing slower than prices for the third consecutive month, a household earning the median income is effectively losing about two hundred dollars per month in real spending power. That gap gets filled by credit cards or by cutting back, and the February data showed people were choosing credit cards. That works until it doesn't.

Your 401k is caught between two forces that usually don't happen at the same time. Stocks are rallying on the idea that corporate pricing power can offset input cost inflation, while bonds are selling off because inflation is running too hot for the Fed to cut rates. A balanced portfolio is getting whipsawed, with the traditional diversification benefit between stocks and bonds breaking down when you need it most.

Your energy bill beyond gasoline is about to get more complicated. Natural gas prices are spiking as utilities scramble to secure supply ahead of potential summer shortages, while electricity costs are rising in regions that depend on gas-fired power generation. A typical household could see utility bills rise by thirty to fifty dollars per month through the summer, assuming no major supply disruptions beyond what's already happening.

Signal vs. Noise

Signal:
- Consumer credit stress indicators - Core services inflation momentum - Commodity timespreads and inventory data - Real wage growth trends - Corporate margin pressure in non-energy sectors

Noise:
- Daily oil price volatility - Individual stock moves in AI-adjacent names - Short-term diplomatic headlines without concrete progress - Weekly jobless claims fluctuations - Currency moves driven by positioning rather than fundamentals

The distinction right now comes down to persistence versus volatility. The signals are trends that have been building for months and show no signs of reversing without major policy changes or geopolitical breakthroughs. The noise is the daily back-and-forth that captures attention but doesn't change the underlying trajectory. When core services inflation accelerates for three straight months, that's a signal.

When oil drops six percent in a week but the Strait is still closed, that's noise with a very short half-life.

What to Watch

March PCE data release on April 25th. This is the inflation gauge the Fed actually targets, and it's been running hotter than CPI. If core PCE comes in above four percent annualized for the month, the Fed's patience framework gets tested immediately. **Strait of Hormuz shipping traffic by April 20th.** European airports face jet fuel shortages within three weeks if the shipping lane isn't reopened. Watch for emergency rationing announcements or diplomatic breakthrough headlines. Either outcome reshapes the summer energy outlook overnight. **Consumer credit card delinquency rates in the April 15th Fed data.** Consumers were already spending more than they earned before gas spiked. The next round of credit stress indicators will show whether that gap is widening or stabilizing. **Corporate earnings guidance starting April 14th.** Companies that can't pass through input cost increases will guide down aggressively. Watch for margin pressure in consumer discretionary and industrial names that don't have pricing power. **Weekly commodity inventory reports every Wednesday.** The physical tightness in energy markets isn't showing up in headline prices because of financial flows and positioning. Inventory drawdowns and refinery utilization rates tell the real supply story.

What Would Change My Mind

The regime call assumes two identifiable supply shocks are driving inflation while underlying demand gradually cools. That view flips if core services inflation accelerates for two consecutive months, stripping out energy and tariff-affected categories. If rent, healthcare, and financial services start printing hot numbers, the shocks are bleeding into expectations and the Fed's patience becomes dangerous complacency. The model would shift toward Inflation Shock within weeks of that data.

The oil thesis assumes physical tightness despite recent price weakness, with summer spike risk building. A credible diplomatic framework for reopening the Strait changes everything, but it has to be credible, not just hopeful headlines. Look for Iran agreeing to international monitoring or the US offering concrete sanctions relief. Alternatively, if Saudi Arabia announces a production increase above two million barrels per day, that breaks the supply constraint even with the Strait closed. Either development would collapse the summer spike premium and pull inflation expectations lower.

The consumer resilience assumption gets tested if credit card delinquency rates jump above historical norms in the next two reports. Consumers have been the economy's shock absorber, but they were already stretching before energy costs spiked. If the credit stress shows up in the data, the cooling forces overwhelm the overheating ones much faster than the model currently expects. That would flip the regime toward Cooling within a month of the credit data turning.
