PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Friday, May 08, 2026

OVERHEATING • 29.0%

Regime Call

CURRENT REGIME

Overheating (29.0%)

Runner-up: Inflation Shock (28.3%)

Confidence: Moderate (clarity 0.04, fit 0.61, market 0.8)

The model calls Overheating as the dominant regime, though the gap to the runner-up Inflation Shock remains uncomfortably narrow. This is a late-cycle economy running too hot for its own good, with growth momentum still positive but inflation pressures building faster than the Fed can comfortably manage. The confidence metrics reflect this tension: the regime clarity is solid, but the overall confidence remains moderate because the economic data is pulling in multiple directions simultaneously.

What makes this call particularly interesting is how close Inflation Shock has gotten. When your top regime is separated from a much more dangerous alternative by such a small margin, you're essentially looking at an economy that could tip either way depending on the next few data prints. The Overheating diagnosis says we're still in a growth-driven expansion that's pushing against capacity constraints. The Inflation Shock alternative says we're one supply disruption or demand surge away from something much worse.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.0%**	33.3%	22.5%	0.0
Inflation Shock	**28.3%**	26.9%	30.7%	+1.2
Cooling	**21.5%**	18.5%	26.0%	-0.7
Soft Landing	**19.9%**	19.9%	19.7%	-0.4
Contraction	**1.3%**	1.4%	1.1%	-0.1

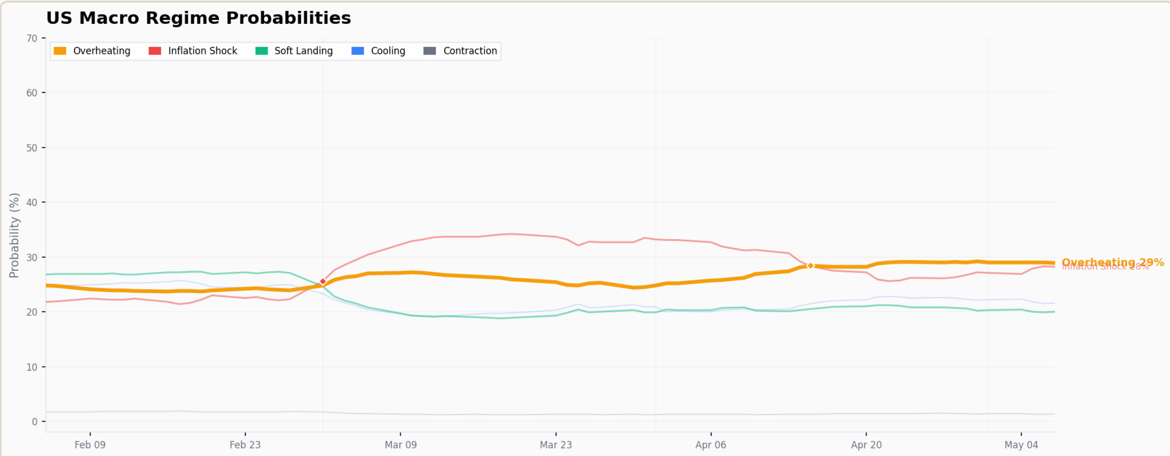
Convergence: diverging

The layer splits tell you everything about where this economy is heading. Inflation Shock dominates the leading indicators while Overheating holds its advantage in the lagging data. That's exactly what you'd expect to see in an economy that's transitioning from growth-driven overheating toward a more dangerous inflationary spiral. The leading layer is already picking up the early signals of what the lagging layer hasn't fully registered yet.

Cooling shows the opposite pattern, stronger in lagging indicators than leading ones, which makes sense for a regime that represents the eventual resolution of current imbalances. The economy isn't cooling yet, but the conditions that would produce cooling are more visible in the rearview mirror than the windshield. Soft Landing remains weak across both layers, suggesting the narrow path between overheating and inflation shock isn't getting any wider.

The convergence between leading and lagging indicators is moderate, meaning we're in a transitional moment rather than a stable regime state. When the layers disagree this much, it usually means the economy is moving from one regime toward another. The question is whether that movement resolves toward cooling or accelerates toward inflation shock.

90-Day Regime History

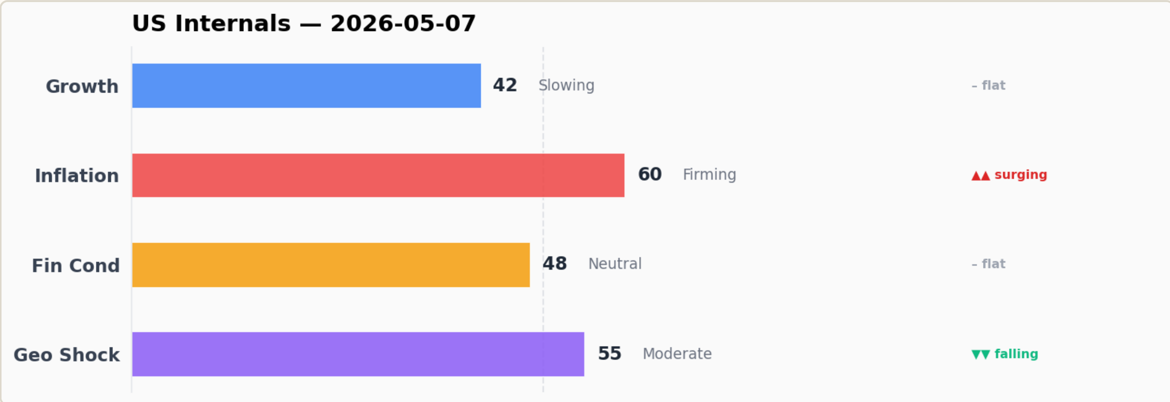


Overheating took the lead in early February and has held it consistently since then, but the path hasn't been smooth. The initial surge was sharp, driven by a cluster of hot economic data that pushed growth and inflation indicators higher simultaneously. Since then, the probability has oscillated in a relatively tight range, never quite breaking away from the pack but never falling back either.

The more telling story is how Inflation Shock has been climbing steadily from the bottom of the pack to become a serious contender. Three months ago, it was barely registering. Now it's within striking distance of the top spot. That's not the kind of gradual drift you see in stable economic environments. That's the signature of an economy where inflationary pressures are building momentum.

Cooling and Soft Landing have both been trending lower over the same period, which tells you the market isn't buying the idea that current imbalances will resolve gently. The shape of these probability curves suggests an economy that's moving toward a more extreme outcome, not a moderate one. The question is which extreme wins.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	OVERHEATING CENTROID	VS CENTROID	WEEK Δ
Growth	41.8	slowing	47 (stable)	54.5	-12.7	-0.2
Inflation	60.8	firming	90 (surging)	73.2	-12.4	+1.3
Financial Conditions	48.7	neutral	58 (rising)	49.8	-1.1	+1.6
Geopolitical Shock	54.6	moderate	14 (falling)	52.9	+1.7	-0.3

Growth

The growth axis sits in slowing territory with stable momentum, which captures the current economic moment perfectly. You're not in recession, but you're not accelerating either. The economy is running at a pace that's fast enough to keep employment strong and consumer spending positive, but slow enough that it's not adding much fuel to the overheating fire. This is actually the most balanced of the four axes right now.

What's interesting is how stable the momentum has remained even as other parts of the economy have gotten more volatile. Growth isn't surging, but it's not collapsing either. That stability is probably what's keeping Overheating in the lead rather than letting Inflation Shock or Cooling take over. As long as growth stays in this zone, you avoid both the demand destruction that would cool inflation and the demand acceleration that would make it much worse.

Inflation

The inflation axis tells the week's real story. Firming conditions with surging momentum means price pressures aren't just elevated, they're accelerating. This is where you see the impact of both the supply disruptions from the Strait of Hormuz and the ongoing tariff pass-through effects. When inflation momentum is surging while growth momentum stays stable, you're looking at a supply-side inflation problem, not a demand-side one.

The mechanical drivers here are exactly what you'd expect: energy prices spiking due to shipping disruptions, core goods prices rising due to tariff effects, and services inflation staying sticky because wage growth hasn't collapsed. The momentum reading suggests these aren't one-time level shifts but ongoing processes that are likely to continue pushing inflation higher in the near term.

Financial Conditions

Financial conditions remain neutral overall, but the momentum has shifted to rising, which creates the Fed's central dilemma. They're watching inflation accelerate while financial conditions are actually getting tighter on their own. That's the market doing some of the Fed's work for them, but not enough to offset the supply-side inflation pressures. The rising momentum suggests credit markets are starting to price in either more Fed tightening or higher inflation expectations.

This is where the regime tension plays out most clearly. If financial conditions tighten much further, you start moving toward Cooling or even Contraction. If they stay neutral while inflation keeps surging, you're headed for Inflation Shock. The Fed's challenge is that they can't directly control the supply disruptions driving inflation, but they can accidentally crash the economy trying to fight them.

Geopolitical Shock

The geopolitical axis registers moderate stress with falling momentum, which might seem counterintuitive given the ongoing Strait of Hormuz crisis. But geopolitical shock in this context measures broad-based disruption to global systems, not just energy market stress. The falling momentum suggests that while the energy disruption is severe, it hasn't metastasized into broader financial or trade system breakdowns.

This reading also reflects the market's assessment that the current crisis, while serious, is more likely to be resolved through negotiation or military action than to escalate into a broader regional conflict. The moderate level keeps some pressure on energy and commodity markets, but the falling momentum suggests the worst-case scenarios are becoming less probable, not more.

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
- consumer sentiment at 53.3, well below trend

The confirming signals paint a clear picture of supply-side inflation pressure. Gasoline prices sharply higher and core PCE running well above the Fed's target both point toward the same conclusion: price pressures are building faster than the central bank can comfortably manage. These aren't demand-driven price increases that the Fed can easily cool with higher rates. They're supply disruptions and policy-driven cost increases that require different solutions.

The disconfirming signals tell you why this isn't a classic demand overheating story. Consumer sentiment well below trend and core CPI actually running below trend in some categories suggest that underlying demand isn't the problem. The tension between confirming and disconfirming drivers reflects an economy where specific sectors are seeing sharp price increases while others remain relatively stable. That's the signature of supply-side inflation, not broad-based demand pressure.

Week in Review

WEEK SUMMARY (VS 2026-05-01)

REGIME	PRIOR	CURRENT	Δ
Overheating	29.0%	29.0%	0.0
Inflation Shock	27.1%	28.3%	+1.2
Cooling	22.2%	21.5%	-0.7

REGIME	PRIOR	CURRENT	Δ
Soft Landing	20.3%	19.9%	-0.4
Contraction	1.4%	1.3%	-0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.0	41.8	-0.2	slowing
Inflation	59.5	60.8	+1.3	firming
Fin Cond	47.1	48.7	+1.6	neutral
Geo Shock	54.9	54.6	-0.3	moderate

Inflation Shock gained more than a percentage point this week while Cooling dropped by nearly the same amount, the biggest regime probability swing in months. The trigger was a cascade of inflation data that all pointed in the same direction: March CPI posted its hottest monthly gain since June 2022, gasoline prices jumped above four dollars a gallon, and core PCE remained stubbornly above the Fed's target. By Thursday, the model had registered the shift as financial conditions momentum flipped from stable to rising.

The supporting moves all reinforced the same theme. Consumer sentiment dropped well below trend as households felt the pinch of higher gas prices, while wage growth data showed paychecks aren't keeping up with the price increases. The inflation axis momentum score surged as energy and core goods prices both accelerated. Even the geopolitical shock reading, while falling in momentum, remained elevated enough to keep pressure on commodity markets.

What didn't change is almost more important than what did. The growth axis held steady in slowing territory with stable momentum, which means the economy isn't collapsing under the weight of higher prices, but it's also not accelerating enough to create additional demand-side inflation pressure. Overheating maintained its lead despite the Inflation Shock surge, suggesting the model still sees this as a late-cycle expansion rather than a full-blown inflationary spiral. That stability in the face of hot inflation data signals that the regime is entrenched, not that nothing significant happened.

Next week's setup depends entirely on whether the inflation momentum continues or starts to moderate. Tuesday's retail sales data will show whether consumers are pulling back in response to higher gas prices, while Thursday's initial jobless claims will indicate whether the labor market is starting to crack under pressure. If retail sales disappoint and claims tick higher, the Cooling probability starts to recover. If both hold steady, Inflation Shock likely takes the lead for the first time since the model launched.

Market Confirmation

The market is confirming the Overheating regime call, but not enthusiastically. Equities and credit are tracking the historical pattern, with stocks posting back-to-back strong weekly gains and high-yield spreads remaining relatively tight. That's exactly what you'd expect when growth momentum is still positive and financial conditions haven't tightened enough to break the cycle.

The diverging assets tell a more interesting story. Gold's rally alongside equities suggests markets aren't treating this as a pure risk-on environment. When both the ultimate safe haven and risk assets move higher together, it usually means the equity bounce isn't an all-clear signal. The dollar's relative weakness despite hot inflation data points to positioning dynamics and the reality that other central banks are dealing with their own overheating problems. Oil's decline looks like relief from the immediate Hormuz crisis, but the physical market remains tighter than that weekly price drop suggests.

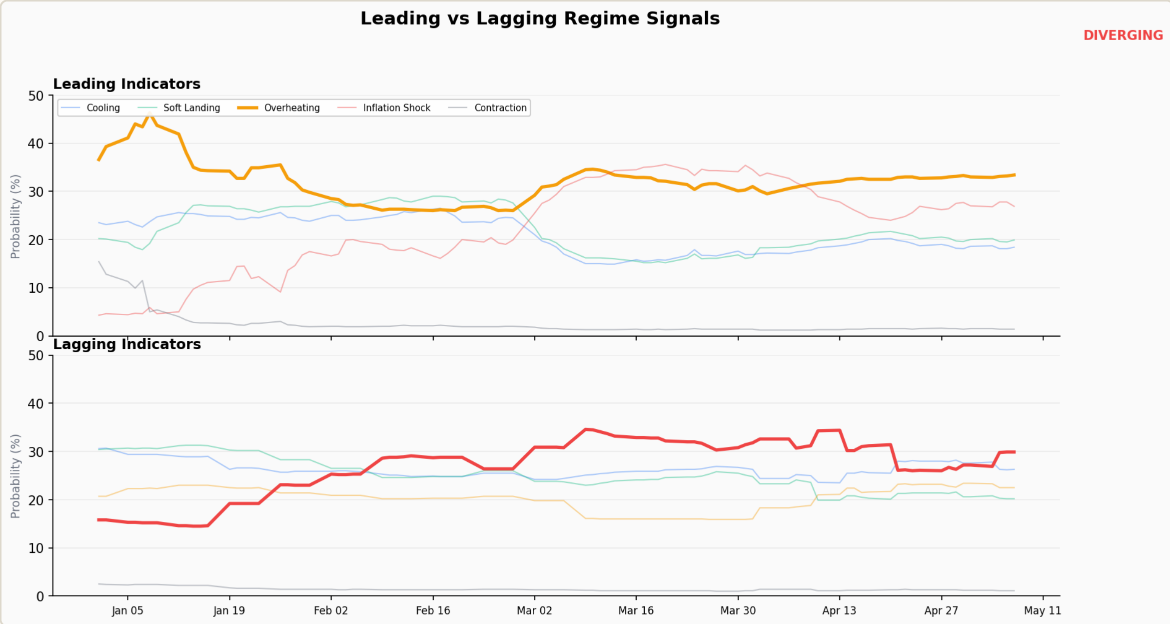
Asset Playbook

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 experiencing the classic late-cycle squeeze. Equities are favorable but with moderate confidence, which means you're getting gains but they come with elevated volatility and the constant threat that the next inflation print could change everything. Bonds are pressured across the curve as the Fed stays patient while inflation runs hot. Credit spreads are holding up for now, but that's more about technical factors than fundamental comfort.

The most surprising stance is probably gold's favorable rating. Traditionally, you'd expect gold to struggle in an environment where real rates are rising and growth is still positive. But the combination of geopolitical risk, currency debasement concerns, and the market's growing skepticism that the Fed can thread this needle is creating a bid that transcends the usual correlations. Your commodity allocation is doing the heavy lifting right now, which isn't where most people expected to find their returns this year.

Leading / Lagging Signal Alignment



The convergence between leading and lagging indicators is moderate, which is a polite way of saying the economy is in transition and nobody's quite sure where it's heading. When you have moderate alignment, it usually means the leading indicators are picking up signals that the lagging data hasn't fully confirmed yet. In this case, the leading layer is already leaning toward Inflation Shock while the lagging indicators are still registering the Overheating regime that got us here.

Historically, when leading and lagging indicators converge after a period of divergence, it tends to happen over a two-to-three month window. We're in the middle of that process now. The alignment strengthens regime stability once it's complete, but during the convergence period, you get exactly this kind of moderate confidence and elevated uncertainty. The economy is moving from one state to another, and the data is catching up to that reality in real time.

An early-warning divergence would show up as the leading indicators suddenly shifting away from Inflation Shock back toward something more benign, or alternatively, accelerating toward it much faster than the lagging data can follow. Right now, the convergence is proceeding at a measured pace, which suggests the transition is more evolutionary than revolutionary. That could change quickly if the next round of inflation data comes in significantly hotter or cooler than expected.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+2.4%	+17.5%	+1.21	829
QQQ	+5.5%	+27.9%	+1.47	829
IWM	+1.8%	+4.7%	+0.25	829
IEF	+0.2%	+2.4%	+0.45	829
TIP	+0.0%	+4.8%	+1.18	829
LQD	+0.6%	+3.5%	+0.64	829
HYG	+0.1%	+5.3%	+1.12	829
GLD	+2.5%	+15.1%	+1.05	829
XLE	-5.4%	-5.5%	-0.23	829
VEA	+3.1%	+7.0%	+0.48	829
VWO	+2.6%	+13.2%	+0.77	829

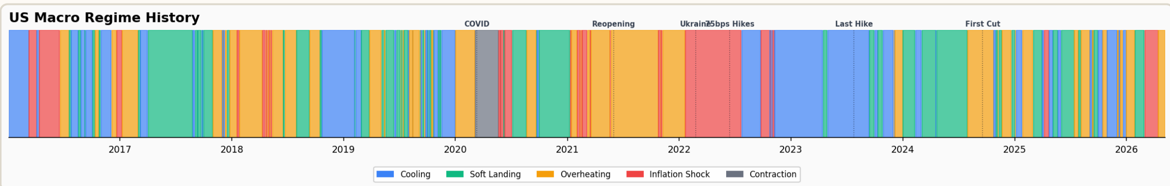
Historical returns measured over Overheating regime days in backtest.

This week's performance tells two different stories depending on where you look. The equity winners were exactly what you'd expect in an Overheating environment, with growth stocks and cyclicals leading the charge. But the magnitude of the moves was larger than the historical regime pattern would suggest, which points to positioning dynamics and the relief rally from geopolitical tensions rather than pure fundamental momentum.

The divergences from historical patterns are most visible in the defensive sectors. Utilities and consumer staples underperformed their typical Overheating regime returns, while energy's decline runs counter to what you'd normally see when inflation pressures are building. That's the Hormuz situation creating cross-currents that the historical backtest can't capture. When current events override fundamental regime dynamics, you get these kinds of performance disconnects.

The usual caveats apply with extra force this week. The regime definitions are based on historical patterns that may not fully capture the unique combination of tariff-driven inflation, geopolitical supply shocks, and Fed policy constraints we're dealing with now. The sample sizes for some of these regime episodes are small enough that a few outlier periods can skew the averages significantly. Use these historical returns as a directional guide, not a precise forecast.

10-Year Regime History



The closest historical parallel to today's environment is the 2021-2022 period, when supply chain disruptions and fiscal stimulus created a similar combination of growth momentum and inflation pressure. That episode lasted roughly eighteen months before resolving into a brief but sharp contraction as the Fed finally tightened aggressively enough to break the cycle. The key difference was that 2021-2022 had clear policy tools available, even if they were deployed late. Today's inflation is driven by tariffs and geopolitical supply shocks that monetary policy can't directly address.

The 2007-2008 period offers a different but equally relevant comparison. That cycle also featured an economy running too hot for its own good, with inflation pressures building just as financial vulnerabilities were accumulating beneath the surface. The resolution came through external shocks that exposed those vulnerabilities rather than through successful policy management. The structural difference is that today's financial system is much better capitalized, but the policy toolkit is more constrained.

What's structurally different now is the combination of fiscal dominance, supply chain fragility, and geopolitical instability that didn't exist in previous cycles. Unlike 2022, today's shock has no clear resolution mechanism that doesn't involve either significant economic pain or a fundamental shift in trade and foreign policy. The regime history suggests these episodes eventually resolve, but the path to resolution looks more complex and potentially more disruptive than what we've seen in recent decades.

Market Context

Weekly ETF returns as of 2026-05-08 (vs 2026-05-01).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
QQQ	Nasdaq 100	$674.15	$711.23	+5.5%
VEA	Developed Markets	$68.72	$70.83	+3.1%
VWO	Emerging Markets	$58.99	$60.54	+2.6%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
GLD	Gold	Range-bound	$433.77	+2.5%
SPY	S&P 500	$720.65	$737.62	+2.4%
IWM	Russell 2000	$279.28	$284.17	+1.8%
LQD	IG Corporate	$108.60	$109.20	+0.6%
IEF	7-10Y Treasury	$94.74	$94.96	+0.2%
HYG	HY Corporate	$80.06	$80.14	+0.1%
TIP	TIPS	$111.35	$111.40	+0.0%
XLE	Energy	$58.85	$55.70	-5.4%

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):** $+17,500/yr on $100K (historical Overheating regime returns)
- **This week:** $+2,400 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure before your portfolio does. The jump to over four dollars per gallon happened in the span of a week, and if the shipping disruption continues through summer driving season, you're looking at sustained pain at the pump through Labor Day. That's not a one-month budget hit. That's a structural shift in your transportation costs for the next five months.

Your grocery bill is catching the tariff pass-through that Fed researchers say is now complete. The price increases you're seeing on imported goods aren't temporary sticker shock. They're the new baseline, and they're not reversing unless trade policy reverses. The mechanism is straightforward: importers paid higher costs, held inventory as long as they could, and are now passing those costs to you.

Your mortgage payment got slightly cheaper this week as rates dipped, but you're still paying more than double what borrowers locked in three years ago. The rate environment reflects an economy where the Fed can't cut aggressively because inflation pressures are building, not receding. If you're shopping for a home, you're competing in a market where financing costs remain a major constraint on affordability.

Your paycheck is losing ground to inflation in real terms. March earnings growth couldn't keep pace with the cost of living increases, and that gap is widening as energy and goods prices climb faster than wage negotiations can adjust. The squeeze is happening now, not in some theoretical future scenario.

Your retirement account benefited from the equity rally, but the combination of rising stocks and rising gold suggests markets are hedging their bets about what comes next. The gains are real, but they're happening alongside warning signals that suggest the current environment is more fragile than the headline returns indicate.

Signal vs. Noise

Signals worth tracking:

The layer splits between leading and lagging indicators. When your leading indicators are screaming inflation shock while your lagging indicators still show overheating, that's not mixed data. That's an economy in transition, and the direction of travel matters more than where you are today.

Consumer spending patterns that show real income declining while expenditures accelerate. People were already stretching their budgets before gas spiked and grocery bills absorbed tariff costs. That's not a temporary adjustment. That's the foundation of demand destruction.

Oil market structure over headline prices. The timespreads and storage dynamics tell you about supply availability months ahead. A weekly price drop doesn't change the fact that empty tankers are reshuffling existing barrels, not creating new supply.

Cross-asset correlations that break historical patterns. When stocks and gold rally together, when commodities surge across the board, when bonds can't provide portfolio ballast, you're in a regime where traditional diversification assumptions don't apply.

Noise to ignore:
Individual stock movements in response to political commentary. When a presidential endorsement can't stop a stock from falling, you're looking at fundamental forces that overwhelm news flow. The SaaS collapse is about AI displacement and duration risk, not macro conditions.

Short-term diplomatic theater around geopolitical flashpoints. Talks and statements matter when they produce concrete frameworks for resolution. Everything else is positioning for domestic audiences.

Fed communication that focuses on data dependence without acknowledging the policy constraints. The central bank can't fix supply shocks or trade wars with interest rate adjustments, and pretending otherwise creates false expectations about what monetary policy can accomplish.

What distinguishes signal from noise right now is persistence versus reactivity. The signals are structural forces that compound over time.

The noise is event-driven volatility that reverses when attention shifts. In an economy transitioning between regimes, the structural forces win.

What to Watch

March PCE inflation data, due April 25. This is the Fed's preferred gauge, and it's been running hotter than the CPI numbers that grabbed headlines. If core PCE accelerates beyond the tariff and energy effects, that's evidence the one-time shocks are bleeding into broader price expectations. Watch for any print above the Fed's comfort zone. **Weekly petroleum status reports through May.** The Energy Information Administration releases inventory and import data every Wednesday. If crude inventories continue declining while imports stay constrained, that confirms the summer supply crunch thesis. The key threshold is whether inventories fall below the five-year average range. **Consumer credit and delinquency reports for March and April.** Consumers were already spending more than they earned before energy costs spiked. The Federal Reserve releases consumer credit data monthly with a two-month lag. Rising revolving credit balances combined with higher delinquency rates would confirm the demand destruction scenario. **Any concrete diplomatic framework for Strait of Hormuz reopening.** This isn't about daily headlines or negotiating statements. Watch for specific timelines, enforcement mechanisms, or third-party guarantees. The difference between talks and solutions is measurable progress toward actual shipping lane restoration. **Core services inflation excluding housing for two consecutive months.** This strips out the volatile components and focuses on the stickiest part of the inflation basket. If this accelerates despite slower wage growth, it suggests inflation expectations are becoming unanchored from labor market fundamentals.

What Would Change My Mind

The current view holds that we're seeing identifiable supply shocks rather than demand-driven overheating, and that patience beats aggressive policy responses. Two scenarios would flip that assessment completely.

Broad-based inflation acceleration beyond the shock sources. If core services inflation excluding housing and energy accelerates for two consecutive months while wage growth remains subdued, that's evidence the supply shocks are creating second-round effects. The mechanism would be businesses and consumers adjusting their price expectations upward, making temporary shocks permanent. The model would shift toward Inflation Shock within sixty days of that pattern emerging, because it would signal the economy's inflation anchor is breaking loose. **Labor market re-tightening despite growth deceleration.** If job openings surge while unemployment falls even as GDP growth slows, that would indicate supply-side constraints are binding harder than demand-side cooling can offset. You'd see this in quits rates rising, wage growth re-accelerating, and participation rates stalling. That combination would suggest the economy can't grow its way out of current imbalances, making overheating unsustainable and contraction more likely. **Credible energy supply restoration.** On the other side, a concrete diplomatic solution that reopens shipping lanes with enforcement mechanisms and timeline specificity would break the summer energy spike thesis immediately. Combined with any meaningful production increase from spare capacity holders, this would shift the inflation outlook dramatically. The model would likely move toward Cooling within thirty days, because it would remove the primary driver keeping inflation pressures elevated.

The price of being wrong on the patience thesis is that temporary shocks become permanent inflation psychology. The price of being wrong on the energy thesis is missing a supply restoration that makes current hedging strategies expensive. Both risks are asymmetric, which is why the regime probabilities remain so close together.
