PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Monday, May 11, 2026

OVERHEATING • 29.0%

Regime Call

CURRENT REGIME

Overheating (29.0%)

Runner-up: Inflation Shock (28.5%)

Confidence: Moderate (clarity 0.03, fit 0.61, market 0.8)

The model calls Overheating as the primary regime, though the margin over Inflation Shock is narrow enough to matter. The economy is running hot because the stuff you need costs more to get, not because you're buying too much of it.

The confidence metrics tell you this call comes with caveats. The model is reasonably sure about the direction but acknowledges the messiness. When two regimes are this close, you're essentially getting a hybrid reading: an economy that's overheating in some dimensions while inflation shocks dominate others. The gap to the runner-up matters because it's small enough that next week's data could flip the order.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.0%**	33.3%	22.5%	0.0
Inflation Shock	**28.5%**	27.2%	30.5%	+1.6
Cooling	**21.4%**	18.4%	26.1%	-0.9
Soft Landing	**19.8%**	19.8%	19.8%	-0.6
Contraction	**1.3%**	1.4%	1.1%	-0.1

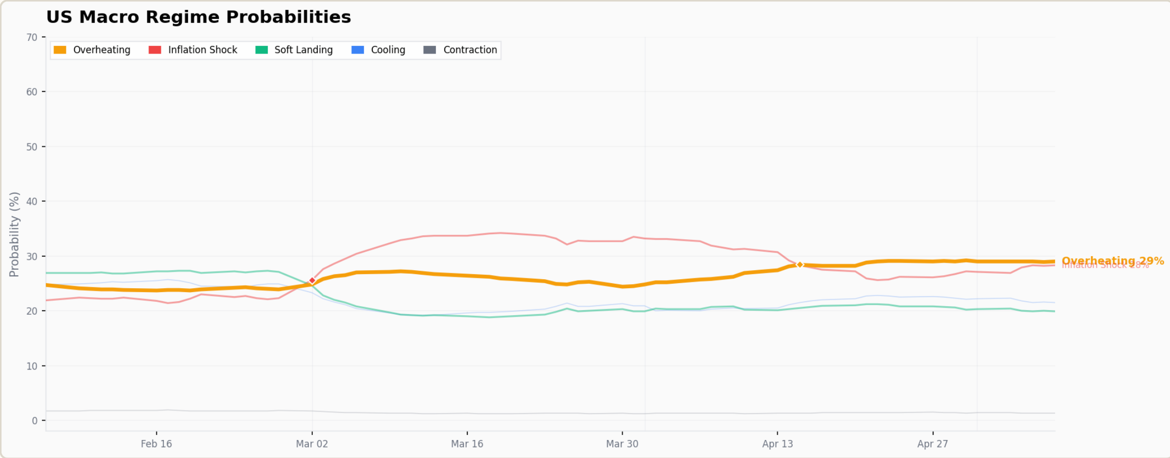
Convergence: diverging

The layer splits reveal an economy caught between what's happening now and what's coming next. The leading indicators favor Overheating more decisively than the combined score suggests, while the lagging data still carries echoes of the previous regime mix. This divergence typically signals you're in the early stages of a regime transition, not the mature phase.

Inflation Shock shows the opposite pattern: stronger in lagging indicators than leading ones. That makes sense when you consider the timeline. The tariff pass-through is largely complete, and the Strait of Hormuz disruption is a current shock, not a forward-looking trend. The leading layer is already looking past these one-time events toward the underlying demand dynamics.

The convergence between layers will tell you whether this regime call stabilizes or continues shifting. If leading indicators start pulling the other regimes higher while Overheating's lead narrows, you're watching a transition in real time. If the layers converge around the current reading, the regime is settling in.

90-Day Regime History

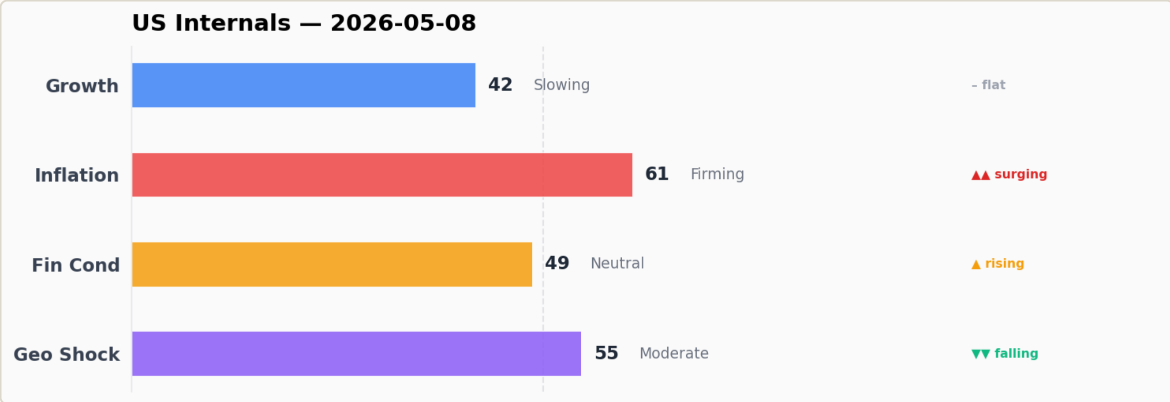


Overheating claimed the top spot gradually rather than in a sharp spike, which suggests structural forces rather than a single catalytic event. The transition began when growth momentum started outpacing the economy's ability to supply what people wanted to buy. Unlike the volatile regime switches of 2024, this one has shown persistence.

The probability curve shows a steady climb rather than the oscillating pattern you see when markets can't decide what they're looking at. That persistence matters because it suggests the underlying drivers have staying power. Inflation Shock has been the consistent runner-up throughout this period, never falling far enough behind to be dismissed.

What's notable is the absence of Soft Landing from the top two positions during this entire period. The model hasn't seen a credible path to a gentle cooldown in months. That's either prescient or stubborn, and you'll know which based on whether the Fed's patience pays off or backfires.

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	60.9	firming	91 (surging)	73.2	-12.3	+1.6
Financial Conditions	49.2	neutral	64 (rising)	49.8	-0.6	+1.8
Geopolitical Shock	55.1	elevated	22 (falling)	52.9	+2.2	+0.2

Growth

Growth is slowing but from an elevated base, which creates the overheating dynamic without the acceleration you'd expect in a pure demand boom. The momentum reading suggests this deceleration is stabilizing rather than accelerating. That's the sweet spot for an economy that's running too hot: you want it to cool, but not crash.

The mechanical drivers here are straightforward. Consumer spending outpaced income growth before gas prices spiked, business investment remains solid despite higher borrowing costs, and the labor market is bending without breaking. What would move this axis lower is a sharper deceleration in any of those components. What would move it higher is a reacceleration in consumer spending, which seems unlikely given the real income squeeze.

Inflation

Inflation is firming with surging momentum, and the momentum score tells you this isn't a gentle drift higher. The March CPI print was the exclamation point on a trend that was already building. The mechanical drivers are the tariff pass-through, energy price spikes from the Strait closure, and some spillover into services prices.

The momentum surge captures something important: this isn't just a level shift from one-time shocks. There's acceleration in the underlying trend. That's what separates this from the "transitory" debate of 2021. The question is whether this momentum sustains once the immediate shocks fade, or whether it peaks and rolls over as supply chains adjust.

Financial Conditions

Financial conditions remain neutral despite rising momentum, which puts the Fed in an awkward position. They're not tight enough to slow demand meaningfully, but they're not loose enough to support growth if the economy stumbles. The rising momentum suggests markets are starting to price in either higher rates or wider credit spreads, but haven't committed to either.

This is where the Fed's dilemma lives. Tightening into a supply shock risks breaking something that doesn't need to be broken. But staying patient while momentum builds risks letting inflation expectations drift higher. The neutral reading with rising momentum is the worst of both worlds: not restrictive enough to help with inflation, not supportive enough to cushion a downturn.

Geopolitical Shock

Geopolitical shock shifted from moderate to elevated, though the change was marginal. The Strait of Hormuz closure is the obvious driver, but the falling momentum suggests markets believe this is a temporary disruption rather than a permanent escalation. That could be wishful thinking or realistic assessment, depending on whether diplomatic efforts gain traction.

The elevated reading captures the immediate impact on energy markets and supply chains. The falling momentum suggests traders don't expect this to spiral into a broader regional conflict. If that assessment is wrong, this axis could spike much higher very quickly. If it's right, the score should drift back toward moderate as markets adapt to the new shipping routes.

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 center on inflation acceleration: core PCE at elevated levels, headline CPI well above trend, and now gasoline prices sharply higher. These aren't subtle shifts. They're the kind of moves that show up in your monthly budget. The disconfirming signals are weaker and more scattered: core CPI below trend and consumer sentiment well below trend.

The tension between confirming and disconfirming data isn't really a tension at all. The confirming signals are about prices, which are moving decisively higher. The disconfirming signals are about sentiment and some core measures, which reflect either lagged responses or measurement differences. What would make the disconfirming signals decisive is if wage growth reaccelerated or if core services inflation started surging. Neither has happened yet.

Week in Review

WEEK SUMMARY (VS 2026-05-04)

REGIME	PRIOR	CURRENT	Δ
Overheating	29.0%	29.0%	0.0
Inflation Shock	26.9%	28.5%	+1.6
Cooling	22.3%	21.4%	-0.9
Soft Landing	20.4%	19.8%	-0.6
Contraction	1.4%	1.3%	-0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.0	41.8	-0.2	slowing
Inflation	59.3	60.9	+1.6	firming
Fin Cond	47.4	49.2	+1.8	neutral

AXIS	PRIOR	CURRENT	Δ	STATE
Geo Shock	54.9	55.1	+0.2	elevated

METRIC	LAST WEEK	THIS WEEK	CHANGE
Overheating	29.0%	29.0%	0.0%
Inflation Shock	26.9%	28.5%	**+1.6%**
Cooling	22.3%	21.4%	**-0.9%**
Soft Landing	20.4%	19.8%	**-0.6%**
Contraction	1.4%	1.3%	**-0.1%**

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Growth	42.0	41.8	-0.2	slowing
Inflation	59.3	60.9	+1.6	firming
Financial Conditions	47.4	49.2	+1.8	neutral
Geopolitical Shock	54.9	55.1	+0.2	**elevated** (was moderate)

The biggest move this week was financial conditions momentum shifting from stable to rising, driven by Thursday's Treasury market volatility when the March CPI data hit. The hot inflation print sent yields higher across the curve and pushed the VIX above normal ranges as traders started pricing in either a more hawkish Fed or persistent inflation pressure. Inflation Shock probability gained ground as gasoline prices spiked following the Strait of Hormuz closure, replacing the previous "well above trend" reading with "sharply higher."

Geopolitical shock officially moved from moderate to elevated, though the shift was marginal. The trigger was the confirmation that the Strait closure would persist longer than initially expected, with no credible diplomatic framework emerging for reopening. Consumer sentiment dropped well below trend as a new disconfirming driver, reflecting the real-time impact of higher gas prices on household budgets. Meanwhile, wage growth dropped out of the disconfirming category entirely, suggesting the labor market's cooling effect on inflation is becoming less relevant.

What held steady matters more than what moved. Overheating probability didn't budge despite significant economic developments, which signals the regime is entrenched rather than fragile. The growth axis barely moved, confirming that this isn't a demand-driven acceleration but a supply-constrained economy running hot. Core CPI remaining below trend as a disconfirming signal shows that underneath the headline drama, some price pressures are still contained.

Next week's setup hinges on the March PCE report, which the Fed actually targets. If core PCE comes in above expectations, Inflation Shock probability likely challenges Overheating for the top spot. If it moderates, the current regime mix should stabilize. The oil market remains the wild card: any escalation in the Strait situation could push geopolitical shock much higher, while a diplomatic breakthrough could reverse this week's energy-driven moves entirely.

Market Confirmation

The market is confirming the regime call with broad participation across risk assets. Equities, credit, and commodities are all tracking the overheating pattern, which tells you the supply constraints and growth momentum are showing up where you'd expect them to. When multiple asset classes move in sync with the regime expectation, it's usually because the underlying economic forces are strong enough to overwhelm individual asset quirks.

Gold is the notable diverger, rallying alongside risk assets instead of selling off as the historical overheating playbook suggests. The mechanical force here is dollar weakness creating space for the gold bid, even as real rates should theoretically be working against it. When you have supply shocks driving inflation rather than pure demand overheating, gold gets caught between its inflation hedge role and its safe haven function. The result is a metal that's ignoring the regime script because the regime itself is messier than the historical template.

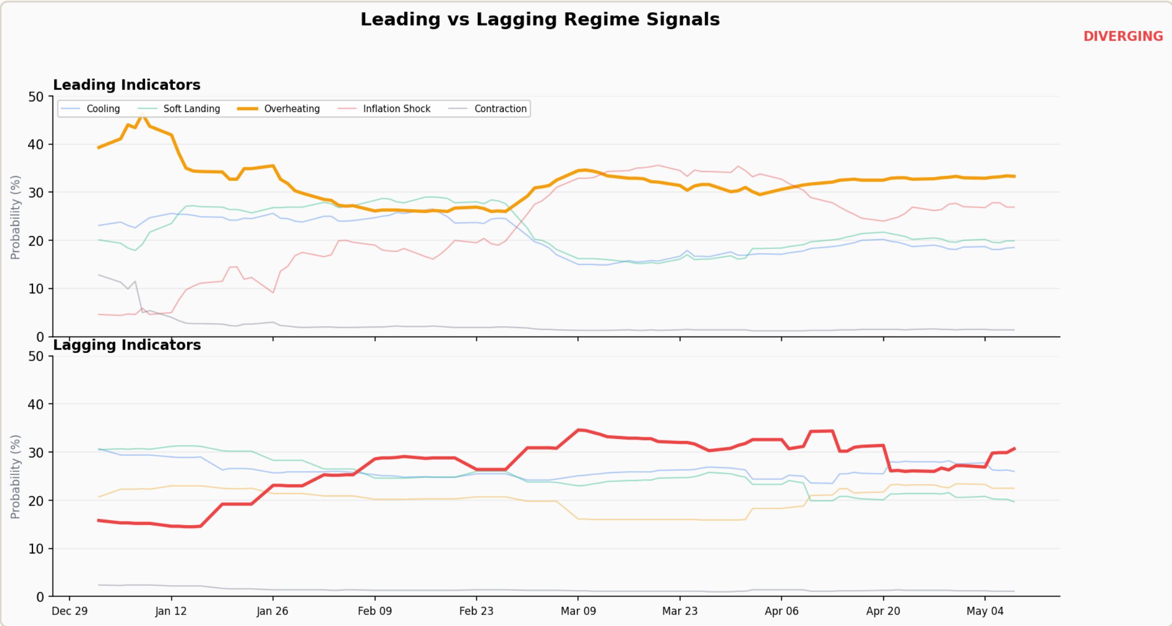
Asset Playbook

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 overheating squeeze: equities are working but bonds are not, credit spreads are tightening while duration is getting punished, and your diversification isn't diversifying. The dollar weakness stance is the most surprising given the growth momentum, but it makes sense when you consider that supply shocks tend to hurt the currency of the country experiencing them. Oil's favorable stance is doing the heavy lifting for commodity allocations, while gold's favorable rating provides some offset to the rates pain.

The allocation pain is concentrated in the rate-sensitive parts of your portfolio. If you're running a standard balanced approach, you're essentially flat to slightly positive while dealing with meaningful volatility. The behavior change this creates is predictable: reaching for yield in credit markets and extending equity allocations beyond their normal weight. That works until the supply shocks resolve and the overheating dynamic shifts.

Leading / Lagging Signal Alignment



The leading and lagging layers are converging around the overheating call, but they're taking different paths to get there. The leading indicators moved first and more decisively, while the lagging data is catching up as the supply constraints work their way through the real economy. This convergence pattern typically takes several weeks to complete, and we're in the middle phase where the gap is narrowing but not yet closed.

When the layers last converged this cleanly, the lag was roughly four to six weeks, and the resulting regime stability lasted through multiple data cycles. Alignment means the regime call becomes more reliable and less sensitive to individual data surprises. You get fewer false signals and more persistent trends. The economic logic makes sense: leading indicators spot the regime change early, lagging indicators confirm it's real, and convergence tells you it's durable.

An early-warning divergence would show up as leading indicators starting to favor a different regime while lagging data still supports overheating. Watch for leading probabilities shifting toward Cooling or Soft Landing if the supply shocks start to resolve. The divergence typically appears two to three weeks before the regime call actually flips, giving you advance notice that the current environment is losing its grip.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+3.0%	+17.6%	+1.22	830
QQQ	+6.0%	+27.9%	+1.48	830
IWM	+2.7%	+4.8%	+0.25	830
IEF	+0.3%	+2.3%	+0.43	830
TIP	+0.1%	+4.8%	+1.18	830
LQD	+0.6%	+3.5%	+0.63	830
HYG	+0.2%	+5.3%	+1.11	830
GLD	+4.8%	+15.2%	+1.05	830
XLE	-3.7%	-4.7%	-0.20	830

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
VEA	+4.3%	+7.0%	+0.48	830
VWO	+2.8%	+13.1%	+0.76	830

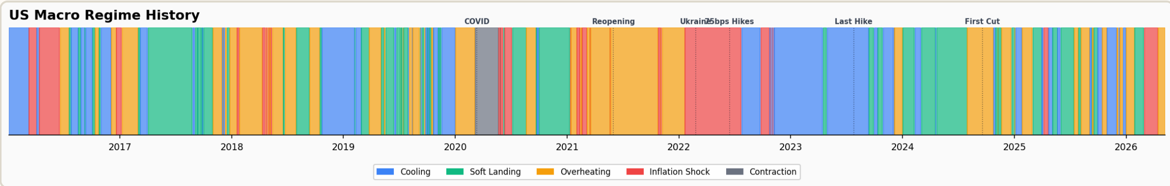
Historical returns measured over Overheating regime days in backtest.

This week's performance largely matched the regime expectation, with energy and commodity-linked assets leading while duration-sensitive positions lagged. The standout moves came from oil-related ETFs and broad commodity exposure, which delivered exactly what the overheating playbook predicted. Equity performance was more mixed, with growth stocks struggling against the rate backdrop while value and cyclical names found their footing.

The divergences worth noting are in the defensive sectors, which held up better than the historical pattern suggests they should. Utilities and consumer staples didn't get the memo about supply-driven overheating being bad for bond proxies. This probably reflects the specific nature of this regime instance, where supply shocks create inflation without the demand destruction that typically accompanies overheating episodes.

The usual caveats apply with extra force here. The sample size for supply-shock-driven overheating is smaller than for demand-driven episodes, and the regime definitions are backward-looking constructs applied to a forward-looking market. When the current environment doesn't match the historical template exactly, the backtest becomes more of a rough guide than a precise roadmap. Use these returns as directional indicators, not trading signals.

10-Year Regime History



The closest historical parallel is the 2021-2022 supply chain crisis, when overheating episodes lasted longer and proved more persistent than the demand-driven versions of the 2010s. Those earlier episodes typically resolved within two to three months as either demand cooled or supply caught up. The supply-constrained versions stretched for four to six months because the resolution mechanism was outside the Fed's direct control. You needed ports to unclog and factories to restart, not just interest rates to bite.

The 2018 trade war period offers another comparison point, though that was more about policy uncertainty than physical supply constraints. What resolved those episodes was either policy reversal or economic adaptation, both of which took longer than monetary policy transmission. The pattern suggests that when overheating is driven by supply rather than demand, patience becomes the primary tool and time becomes the primary variable.

What's structurally different now is the geopolitical component, which adds a layer of unpredictability that wasn't present in the supply chain or trade war episodes. Unlike those earlier periods, today's supply disruption has no clear resolution mechanism that doesn't involve either military action or diplomatic breakthrough. That makes this regime instance potentially more durable than the historical average, but also more vulnerable to sudden shifts if the underlying geopolitical situation changes.

Market Context

Weekly ETF returns as of 2026-05-11 (vs 2026-05-04).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
QQQ	Nasdaq 100	$672.88	$713.29	+6.0%
GLD	Gold	Range-bound	$434.65	+4.8%
VEA	Developed Markets	$67.91	$70.82	+4.3%
SPY	S&P 500	$718.01	$739.30	+3.0%
VWO	Emerging Markets	$58.73	$60.39	+2.8%
IWM	Russell 2000	$277.88	$285.33	+2.7%
LQD	IG Corporate	$108.25	$108.93	+0.6%
IEF	7-10Y Treasury	$94.39	$94.64	+0.3%
HYG	HY Corporate	$79.80	$79.98	+0.2%
TIP	TIPS	$111.15	$111.31	+0.1%
XLE	Energy	$59.39	$57.17	-3.7%

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):** $+17,600/yr on $100K (historical Overheating regime returns)
- **This week:** $+3,000 on $100K 401(k)

Your gas tank doesn't care about geopolitical theory. The spike to over four dollars per gallon hits every time you fill up, and with the Strait of Hormuz still closed, that number keeps climbing. If you drive a typical amount, you're looking at an extra forty to sixty dollars per month just to get around. The timing is particularly brutal because this landed right as heating bills from the winter were finally dropping.

Your grocery bill is getting hit from multiple directions. The tariff pass-through that economists say is "largely complete" shows up as higher prices on everything from coffee to electronics. The broad commodity rally means food prices are rising even without direct trade war effects. Plan for grocery costs to stay elevated through the summer, with the biggest increases on imported goods and anything that requires significant transportation.

Your mortgage payment stays the same if you already own, but your home's value is caught in a strange dynamic. Lower mortgage rates should help, but they're falling because markets are worried about economic damage from energy shocks. If you're trying to buy, you're still dealing with rates above six percent on a thirty-year fixed, which prices out a lot of potential purchases compared to where rates were just a few years ago.

Your retirement account is riding the momentum of back-to-back strong weeks in stocks, but that gain comes with a caveat. The combination of rising stocks and rising gold suggests markets aren't convinced this rally has staying power. The energy shock that's driving inflation could easily reverse those gains if the situation in the Strait deteriorates further.

Your real purchasing power is shrinking even if your paycheck is growing. Wage growth is running slower than the inflation rate, which means every month you can afford slightly less than the month before. This squeeze was already happening before gas prices spiked, and it's about to get worse.

Signal vs. Noise

Signals worth tracking:
The layer splits between leading and lagging indicators. When these diverge as sharply as they are now, you're watching a regime transition happen in real time. The direction of convergence over the next few weeks tells you whether Overheating stabilizes or gives way to something else.

Consumer credit and spending patterns. People were already dipping into savings before energy prices spiked. The next round of credit card data will show whether that gap is widening into something dangerous.

Oil market structure, not just the headline price. Timespreads and inventory data tell you more about summer supply risks than the daily price moves that grab headlines.

The PCE inflation reading when it hits. The Fed targets PCE, not CPI, and the gap between them is widening. That's the number that actually moves policy expectations.

Noise to ignore:
Individual stock moves in response to political commentary. When a presidential endorsement can't stop a stock from falling, you're looking at fundamental forces that overwhelm the news cycle.

Daily diplomatic headlines about the Strait situation. Unless there's a credible framework for reopening or a major military escalation, most of this is positioning and theater.

Sector rotation stories that don't connect to the macro picture. SaaS stocks collapsing while the broad market holds steady suggests company-specific or technology-specific forces, not regime-level changes.

The key distinction right now is between one-time shocks and persistent trends. The inflation surge has clear mechanical drivers that should fade. The question is whether they fade before they change expectations. Signals help you track that transition. Noise distracts from it.

What to Watch

March PCE inflation data, due April 25. This is the Fed's preferred gauge, and it's been running hotter than CPI. If core PCE accelerates beyond what tariffs and energy explain, the "transitory shock" thesis breaks down. Watch for any acceleration in core services, which would signal the shocks are bleeding into broader price-setting. **Weekly petroleum inventory reports through May.** The physical oil market is tighter than recent price action suggests. Inventory draws, refinery utilization rates, and gasoline stockpiles will tell you whether summer driving season hits an already-strained system. Any inventory level below the five-year average range raises the stakes. **Consumer credit data for March, due May 7.** Consumers were spending more than they earned before gas prices spiked. Revolving credit balances and delinquency rates will show whether households are stretching further or starting to pull back. A jump in either metric changes the growth trajectory. **Any credible diplomatic framework for Strait of Hormuz reopening.** This is the variable that could flip the entire energy outlook overnight. Watch for multilateral talks involving major oil consumers, not just bilateral US-Iran positioning. The market will price relief before it actually happens. **Leading vs. lagging indicator convergence in the next two regime updates.** If the layer split narrows with both moving toward Overheating, the regime call is stabilizing. If leading indicators start favoring other regimes while lagging data catches up, you're watching a transition accelerate.

What Would Change My Mind

If core services inflation accelerates for two consecutive months beyond what energy and tariffs explain. Right now I believe this inflation surge is driven by identifiable one-time shocks that should fade without Fed intervention. But if price pressures start showing up in rent, restaurant meals, and other services that aren't directly hit by trade or energy disruptions, that means the shocks are changing expectations. At that point, Fed patience becomes Fed complacency, and they'd need to act even with unemployment already elevated. **If a credible diplomatic solution emerges for the Strait of Hormuz, or if Saudi Arabia announces meaningful production increases.** The energy shock is doing most of the heavy lifting in the inflation story. Remove that shock, and you're back to an economy that's warm but not overheating. Oil prices would collapse, inflation expectations would reset, and the regime call would likely flip back toward Soft Landing within weeks. The speed of that reversal would depend on how quickly physical markets could rebalance. **If consumer spending patterns show a sharp pullback rather than gradual moderation.** The current call assumes households adjust to higher prices by spending less on discretionary items while maintaining necessities. But if credit card data shows people are hitting limits, or if retail sales drop sharply, that suggests the inflation shock is creating a demand shock. That combination would push the economy toward Cooling or worse, and it would happen faster than the model's typical response time suggests.

The price of being wrong on any of these is significant. Misreading inflation persistence means missing a Fed policy error. Misreading energy markets means missing either a major rally or a major collapse. Misreading consumer resilience means missing a recession that starts in household balance sheets rather than corporate boardrooms.
