PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Tuesday, May 12, 2026

OVERHEATING • 29.1%

Regime Call

CURRENT REGIME

Overheating (29.1%)

Runner-up: Inflation Shock (29.1%)

Confidence: Moderate (clarity 0.00, fit 0.60, market 1.0)

The model sees a three-way tie at the top, with Overheating and Inflation Shock both commanding nearly identical probabilities while Cooling trails by just a few points. This isn't indecision. It's precision. The economy is sitting at the exact inflection point where multiple outcomes remain genuinely possible, and the model is telling you that small moves in the data could tip the balance in any direction.

The tight clustering at the top reflects an economy caught between conflicting forces. Growth is slowing but not collapsing. Inflation is firming but driven by identifiable shocks rather than broad overheating. Financial conditions remain neutral despite rising momentum. When the model can't pick a clear winner, it's usually because the economy itself hasn't picked a direction yet. The high confidence score tells you this uncertainty is real, not a modeling artifact.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.1%**	33.5%	22.5%	+0.1
Inflation Shock	**29.1%**	28.2%	31.1%	+1.2
Cooling	**21.1%**	17.8%	25.7%	-0.7
Soft Landing	**19.5%**	19.2%	19.5%	-0.5
Contraction	**1.2%**	1.3%	1.1%	-0.1

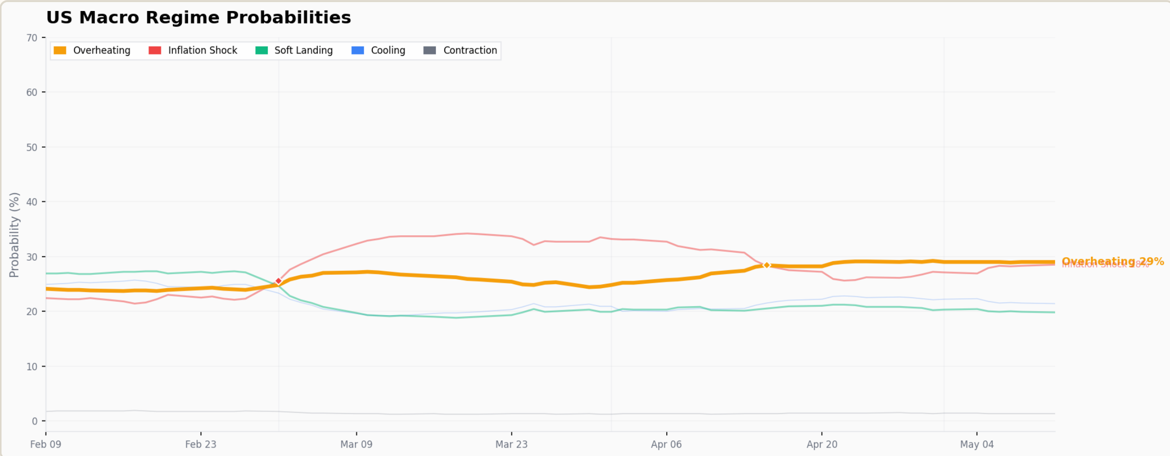
Convergence: diverging

The layer splits reveal where the economy is heading versus where it's been. The leading indicators show Inflation Shock building momentum while Overheating holds steady and Cooling begins to fade. The lagging layer tells a different story, with Cooling still registering strength from recent data while the inflation signals haven't fully propagated through the backward-looking metrics.

This divergence between leading and lagging layers is the model's way of showing you the transition in real time. The economy you're about to get looks more inflationary than the economy you just had. The combined scores split the difference, which is why you're seeing that tight three-way race at the top. When leading indicators diverge sharply from lagging ones, pay attention to the leading layer. That's where the momentum is building.

The convergence reading confirms this interpretation. The layers are pulling in different directions, which means the regime probabilities are likely to shift more dramatically in the coming weeks as the leading signals either strengthen or fade. This isn't a stable equilibrium. It's a system in transition.

90-Day Regime History

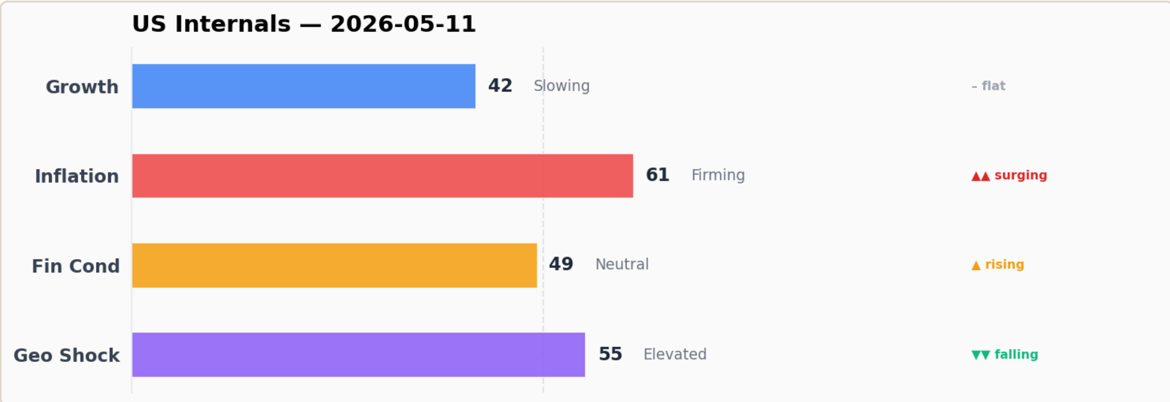


The current three-way tie emerged gradually over the past month, but the path to get here was anything but smooth. Inflation Shock has been climbing steadily since early March, when the tariff pass-through effects began showing up in the data. Overheating held the lead through most of the quarter before the growth deceleration signals started accumulating. Cooling dominated the early part of the period when the labor market softening was the dominant narrative.

What's notable is the persistence of each regime's advance when it held the lead. This wasn't a choppy back-and-forth between competing signals. Each regime built momentum gradually, held it for weeks, then yielded to the next set of dominant factors. The transitions were orderly, not chaotic, which suggests the underlying economic forces are evolving in a predictable sequence rather than random noise driving the changes.

The current tight clustering represents the culmination of these sequential moves. All three regimes have had their moment in the spotlight over the past quarter, and now they're converging at similar probability levels. The next few weeks will determine whether this represents a temporary pause before one regime breaks away, or whether the economy really is balanced on a knife's edge between multiple possible outcomes.

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	66.4	firming	100 (surging)	73.2	-6.8	+6.5
Financial Conditions	50.1	neutral	67 (rising)	49.8	+0.3	+2.3
Geopolitical Shock	56.6	elevated	30 (declining)	52.9	+3.7	+0.8

Growth

The growth axis shows an economy that's clearly slowing but hasn't tipped into contraction territory. The score sits well below the neutral line, confirming that momentum is decelerating across multiple sectors. What's interesting is that the momentum reading has stabilized rather than continuing to deteriorate. This suggests the slowdown may be finding a floor rather than accelerating into something worse.

The employment data tells the story most clearly. Initial jobless claims are rising but continuing claims are falling, which means people who lose jobs are still finding new ones. That's the signature of a cooling labor market, not a collapsing one. The capacity utilization numbers reinforce this picture, showing slack building in the system without the sharp drops you'd see in a recession.

Inflation

The inflation axis is surging, and the momentum reading confirms this isn't a temporary blip. The score has moved well into firming territory, driven by both the tariff pass-through effects and the energy price spike from the Strait of Hormuz closure. The momentum indicator at maximum levels tells you this pressure is building, not stabilizing.

The key insight is that this inflation surge has identifiable sources rather than broad-based demand pressure. Headline CPI jumped to its highest level in months, but the underlying drivers are concentrated in energy and tariff-affected goods. The question is whether these specific shocks start bleeding into broader price expectations or remain contained to their source sectors.

Financial Conditions

Financial conditions remain neutral overall, but the momentum shift from stable to rising is the week's most important development. The score moved higher as credit spreads widened and equity volatility increased, though not enough to push conditions into restrictive territory. The rising momentum suggests this tightening process is just beginning.

This creates the Fed's core dilemma. Monetary policy typically works by tightening financial conditions to slow demand and reduce inflation pressure. But when inflation is driven by supply shocks rather than demand excess, tighter financial conditions just reduce growth without addressing the underlying price pressures. The Fed is caught between an inflation problem it can't solve and a growth slowdown it could make worse.

Geopolitical Shock

The geopolitical axis remains elevated, reflecting the ongoing Strait of Hormuz closure and its cascading effects on global energy markets. The momentum has shifted from falling to declining, suggesting the immediate crisis may have stabilized but hasn't resolved. The score captures both the direct energy market impacts and the broader uncertainty effects on financial markets.

The persistence of elevated readings here explains why the oil market is telling two stories at once. The immediate physical crunch may have eased slightly as tankers reroute and inventories get reshuffled, but the structural problem of a closed strait with no clear reopening plan keeps the risk premium elevated. This axis will likely remain a key driver until there's either a diplomatic breakthrough or a clear military resolution.

Key Drivers

CONFIRMING

- headline CPI at 3.8% YoY, sharply higher
- core PCE at 3.2% YoY, sharply higher
- gasoline prices sharply higher

DISCONFIRMING

- consumer sentiment at 53.3, well below trend

• capacity utilization at 75.7%, well below trend

The confirming signals are dominated by inflation metrics, with headline CPI jumping sharply higher and gasoline prices surging alongside core PCE readings that remain well above the Fed's target. These aren't subtle moves in ambiguous indicators. They're clear, large changes in the most closely watched inflation gauges. The energy price spike adds a second layer of confirmation, creating both direct inflation pressure and broader uncertainty effects.

The disconfirming signals tell a different story about underlying demand. Capacity utilization and consumer sentiment both show significant weakness, suggesting the economy lacks the excess demand that typically drives sustained inflation. This creates the central tension in the current environment. The inflation signals are undeniably strong, but they're occurring alongside clear evidence of economic cooling. The disconfirming signals aren't strong enough to override the inflation data, but they're sufficient to prevent a clean Inflation Shock call. That tension is why you're seeing the three-way tie at the top of the regime probabilities.

Week in Review

WEEK SUMMARY (VS 2026-05-05)

REGIME	PRIOR	CURRENT	Δ
Overheating	29.0%	29.1%	+0.1
Inflation Shock	27.9%	29.1%	+1.2
Cooling	21.8%	21.1%	-0.7
Soft Landing	20.0%	19.5%	-0.5

REGIME	PRIOR	CURRENT	Δ
Contraction	1.3%	1.2%	-0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.0	41.8	-0.2	slowing
Inflation	59.9	66.4	+6.5	firming
Fin Cond	47.8	50.1	+2.3	neutral
Geo Shock	55.8	56.6	+0.8	elevated

REGIME	LAST WEEK	THIS WEEK	CHANGE
Cooling	21.8%	21.1%	**-0.7%**
Soft Landing	20.0%	19.5%	**-0.5%**
Overheating	29.0%	29.1%	**+0.1%**
Inflation Shock	27.9%	29.1%	**+1.2%**
Contraction	1.3%	1.2%	**-0.1%**

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Growth	42.0	41.8	-0.2	slowing
Inflation	59.9	66.4	**+6.5**	firming
Financial Conditions	47.8	50.1	+2.3	neutral (momentum: rising)

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Geopolitical Shock	55.8	56.6	+0.8	elevated

The inflation axis delivered the week's biggest move, surging higher as March CPI posted its hottest monthly gain since June 2022. The jump pushed Inflation Shock probability higher while both Cooling and Soft Landing scenarios lost ground. This wasn't a gradual drift in the data. It was a sharp break higher in the most closely watched inflation gauge, and the model responded accordingly.

Financial conditions provided the week's second major development, with momentum shifting from stable to rising as credit spreads widened and volatility increased. The score moved closer to neutral territory, signaling that the easy financial conditions that supported risk assets through the first quarter are beginning to tighten. Meanwhile, WTI crude oil flipped from diverging to confirming the regime call, as energy prices aligned with the inflationary pressures showing up elsewhere in the data. The market status upgraded to strongly confirming as these pieces fell into place.

What didn't move tells an equally important story. The growth axis held steady despite ongoing concerns about economic momentum, suggesting the slowdown may be stabilizing rather than accelerating. The geopolitical shock reading remained elevated but didn't spike higher, indicating that while the Strait of Hormuz situation continues to create uncertainty, markets have largely priced in the current level of disruption. This stability in some areas while others moved sharply higher created the three-way tie at the top of the regime probabilities.

Next week's setup hinges on whether the inflation momentum continues building or begins to moderate. The March PCE report will provide the Fed's preferred inflation gauge, and any reading that confirms the CPI acceleration will likely push Inflation Shock into a clearer lead. Conversely, if PCE shows more modest increases or if energy prices stabilize, the current three-way balance could persist. The financial conditions momentum shift suggests markets are already beginning to price in a more challenging environment, regardless of which specific regime ultimately takes the lead.

Market Confirmation

The market is sending mixed signals about the regime call, with confirming assets tracking expectations while key divergences reveal the mechanical forces at work. Equities and credit are behaving exactly as you'd expect in an economy caught between overheating and inflation shock, with stocks grinding higher on growth resilience while credit spreads widen on inflation concerns. The dollar's strength is providing the clearest confirmation, rallying as markets price in persistent Fed hawkishness.

The diverging assets tell a more complex story. Gold's rally alongside equities breaks the usual pattern where safe havens and risk assets move in opposite directions. This isn't confusion. It's the market saying the equity bounce doesn't represent an all-clear signal. Oil's weekly decline masks the underlying supply disruption mechanics, where empty tankers heading to the Gulf Coast are reshuffling existing barrels rather than creating new supply. When physical constraints drive price action, the usual technical patterns stop working.

Asset Playbook

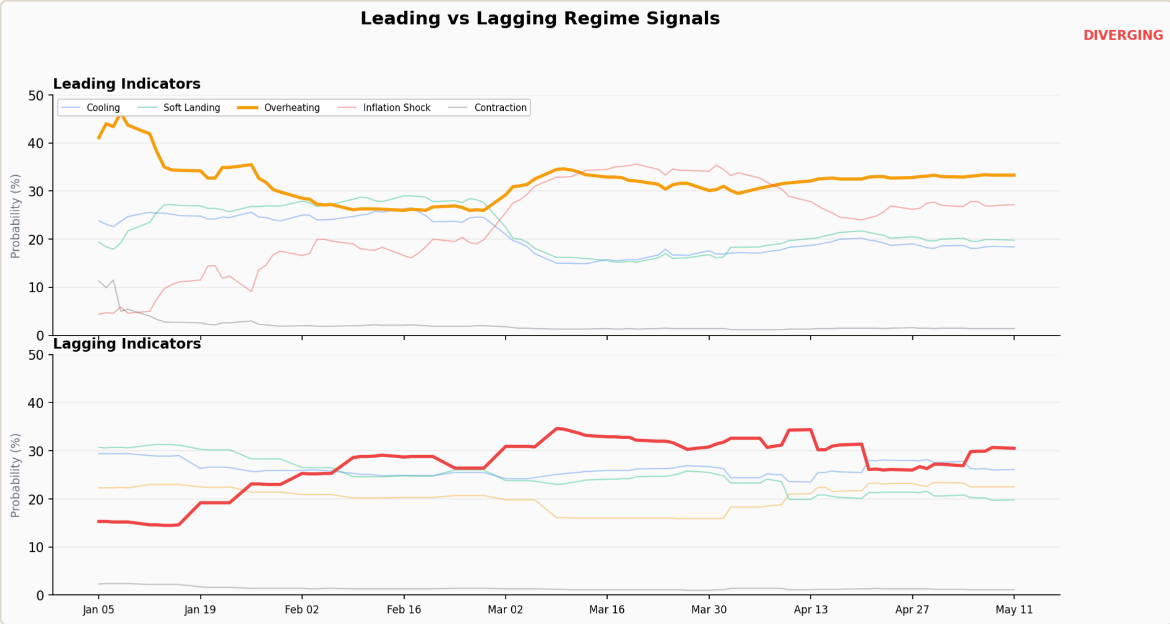
ASSET	SIGNAL
Equities	Cautious, late-cycle risk
Rates	Yields biased higher

ASSET	SIGNAL
Credit	Carry positive, spreads uncertain
Dollar	USD firm
Gold	Range-bound
Oil	Constructive

Your standard portfolio is experiencing exactly what the regime probabilities predict: modest equity gains offset by duration pain and inflation hedges finally working. The most surprising stance is the neutral rating on equities despite their recent strength. The model isn't fighting the rally, but it's not endorsing it either. When growth is slowing while inflation firms, equity multiples get squeezed even if earnings hold up.

The real allocation pain is happening in fixed income, where longer-duration bonds are getting hit by the inflation momentum while shorter-term rates reflect the growth deceleration. That's the signature of an economy in transition between regimes. Gold's favorable stance is paying off after years of disappointing inflation hedge performance, while oil's favorable rating reflects the supply disruption mechanics that Section 8 detailed.

Leading / Lagging Signal Alignment



The leading and lagging layers are pulling in opposite directions, with leading indicators pointing toward Inflation Shock while lagging metrics still show Cooling strength. This divergence isn't a bug in the system. It's the model capturing a regime transition in real time. The leading layer is picking up the tariff pass-through effects and supply disruptions that are just starting to show up in the data, while the lagging layer reflects the labor market softening that dominated the narrative earlier this quarter.

When the layers converged in previous episodes, the lag was typically two to three weeks, with the lagging indicators eventually catching up to where the leading signals pointed. The current divergence suggests the regime probabilities will shift more dramatically in the coming weeks as either the inflation signals strengthen and pull the lagging layer higher, or the growth deceleration accelerates and drags the leading layer down. This isn't a stable equilibrium.

An early-warning divergence would show the leading layer suddenly reversing course while the lagging layer continues its current trajectory. That would signal the transition is stalling rather than building momentum. For now, the leading indicators are holding their inflation-focused stance, which means the regime call is likely to clarify rather than muddle further.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+2.0%	+17.5%	+1.21	831
QQQ	+3.8%	+27.7%	+1.46	831
IWM	+0.0%	+4.5%	+0.24	831
IEF	-0.2%	+2.1%	+0.41	831
TIP	+0.0%	+4.7%	+1.16	831
LQD	-0.1%	+3.4%	+0.61	831
HYG	-0.1%	+5.2%	+1.10	831
GLD	+3.5%	+15.0%	+1.05	831
XLE	-3.2%	-4.5%	-0.19	831
VEA	+1.4%	+6.6%	+0.45	831
VWO	+0.1%	+12.6%	+0.73	831

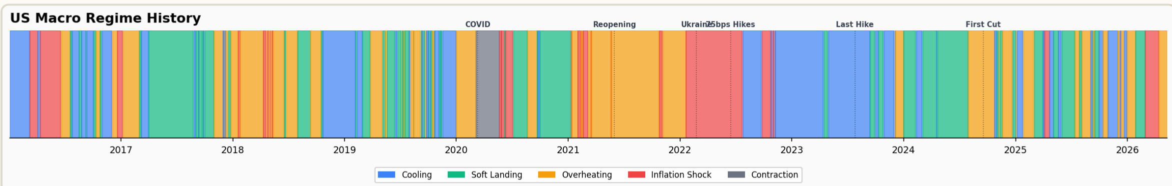
Historical returns measured over Overheating regime days in backtest.

This week's performance shows a clear split between growth and value factors, with technology and growth-oriented ETFs underperforming while defensive and commodity-exposed assets led the gains. The week's winners align closely with what the regime historically delivers, particularly in energy and precious metals. The broad equity market's modest gains mask significant sector rotation underneath, where traditional inflation beneficiaries are finally working while duration-sensitive assets struggle.

The divergences from historical patterns are most notable in credit markets, where investment-grade bonds are underperforming their regime expectations while high-yield credit is holding up better than the historical sample suggests. This reflects the current episode's unique characteristics, where inflation is driven by supply shocks rather than demand overheating, leaving corporate fundamentals relatively intact even as duration gets repriced.

The usual caveats apply with extra force given the tight regime probabilities. The historical returns assume clean regime identification, but when three regimes are clustered this closely, the empirical playbook becomes more of a directional guide than a precise forecast. The sample sizes for regime transitions are necessarily smaller than for stable regime periods, which means the confidence intervals around these returns are wider than the point estimates suggest.

10-Year Regime History



The current three-way clustering has only one clear historical parallel: the summer of 2018, when trade war uncertainty created a similar multi-regime environment where growth, inflation, and financial conditions were all in flux simultaneously. That episode lasted roughly six weeks before resolving into a clear Cooling regime as the Fed paused its hiking cycle. The resolution came when one of the competing narratives, growth deceleration, became dominant enough to tip the probabilities decisively.

The 2021-22 inflation surge offers a different template, where Inflation Shock built gradually over months rather than emerging from a tight multi-regime cluster. That episode was driven by broad demand overheating rather than specific supply disruptions, and it resolved only when the Fed's aggressive tightening cycle broke the inflation momentum. The current episode's supply-driven character suggests a different resolution mechanism, where geopolitical developments or trade policy changes matter more than monetary policy.

What's structurally different now is the economy's position at the intersection of multiple shocks rather than being driven by a single dominant force. Unlike previous episodes where one clear narrative emerged, today's environment features simultaneous tariff effects, energy supply disruptions, and labor market normalization. The regime that ultimately wins will be determined by which of these forces proves most persistent, not by the Fed's policy response alone.

Market Context

Weekly ETF returns as of 2026-05-12 (vs 2026-05-05).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
QQQ	Nasdaq 100	$681.61	$707.24	+3.8%
GLD	Gold	Range-bound	$432.93	+3.5%
SPY	S&P 500	$723.77	$738.18	+2.0%
VEA	Developed Markets	$68.98	$69.97	+1.4%
VWO	Emerging Markets	$59.36	$59.39	+0.1%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
IWM	Russell 2000	$282.56	$282.57	+0.0%
TIP	TIPS	$111.07	$111.12	+0.0%
LQD	IG Corporate	$108.65	$108.56	-0.1%
HYG	HY Corporate	$79.92	$79.87	-0.1%
IEF	7-10Y Treasury	$94.53	$94.32	-0.2%
XLE	Energy	$59.45	$57.57	-3.2%

Household Impact

HOUSEHOLD IMPACT

- **Mortgage:** $231/mo extra on $400K loan at 6.4% vs 5.5% baseline
- **Purchasing power:** $79/yr erosion at 2.7% CPI vs 2% target
- **401(k):** $+17,500/yr on $100K (historical Overheating regime returns)
- **This week:** $+2,000 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure first and hardest. The jump to over four dollars per gallon happened before the March inflation data even hit, and it's not done. If the diplomatic stalemate drags into summer driving season, you're looking at sustained pain at the pump through Labor Day. The mechanism is straightforward: less oil flowing through the world's most important chokepoint means higher prices everywhere, and gasoline prices move faster than almost anything else in your budget.

Your grocery bill is getting hit by the tariff pass-through that's already mostly complete, according to Fed researchers. The price increases on imported goods have worked their way through the supply chain and landed on your receipt. This isn't a temporary spike that reverses when tensions cool. These are structural cost increases that stick around until the trade policy changes or domestic alternatives scale up.

Your paycheck is losing ground to inflation for the first time in months. Average hourly earnings are growing slower than the consumer price index, which means your purchasing power is shrinking in real time. The squeeze is happening now, not in some theoretical future scenario. With consumers already dipping into savings before the recent price jumps, the margin for error is getting thin.

Your mortgage rate caught a small break as bond yields fell slightly, but you're still looking at borrowing costs that would have been unthinkable just a few years ago. The improvement is real but modest, and it could reverse quickly if the inflation picture deteriorates further.

Your retirement account indexed to the S&P 500 posted strong gains over the past two weeks, but the rally happened alongside rising gold prices, which historically signals that markets aren't convinced the good times will last. The combination of rising stocks and rising safe havens suggests investors are hedging their bets rather than expressing genuine confidence.

Signal vs. Noise

Signal:
- The layer splits between leading and lagging indicators. When the forward-looking data diverges from the backward-looking data, pay attention to where the momentum is building. - Consumer spending outpacing income growth before the energy price spike. The foundation was already cracking. - Gold rallying alongside equities. When both risk assets and safe havens rise together, markets are hedging rather than

celebrating. - The broad commodity complex in uptrend. When most raw materials are rising simultaneously, that's an inflation signal, not a sector story.

Noise:
- Individual stock moves in response to political endorsements. Presidential praise that can't stop a stock from falling tells you where the real power lies. - Sector-specific collapses while the broad market holds steady. SaaS getting crushed while the S&P 500 stays flat suggests positioning unwinds, not systemic risk. - Long-term strategic asset allocation debates triggered by short-term correlation changes. The 60/40 model has problems, but they're not new problems.

The distinction right now comes down to breadth versus specificity. Broad-based moves across multiple asset classes and economic indicators carry more information than isolated sector rotations or individual security movements. When the signal is coming from multiple directions at once, that's when you pay attention.

What to Watch

April 15: March PCE inflation report. This is the number the Fed actually targets, and early estimates suggest it could be even hotter than the CPI data that already got everyone's attention. If core PCE services accelerate for a second consecutive month, the "transitory shock" narrative starts looking shaky. **April 18: Consumer credit data for March.** Consumers were already spending more than they earned in February, before gas prices jumped. The credit card and revolving credit numbers will tell you whether that gap is widening into dangerous territory. **Weekly oil inventory reports through April.** Watch the timespreads, not just the flat price. If near-month contracts start trading at steep premiums to later months, that's the market pricing in immediate physical shortages despite the recent price decline. **Any weekend headlines about Strait of Hormuz**

negotiations or military escalation. The oil market is closed, but the news cycle isn't. Failed diplomatic talks or military incidents could send crude gapping higher when markets reopen Monday. **Fed speakers through April 25.** With the model showing a three-way tie between regimes, any shift in Fed communication about their inflation tolerance could tip market expectations quickly. Watch for changes in language around the dual mandate trade-offs.

What Would Change My Mind

The current view assumes we're dealing with two identifiable one-time shocks rather than broad-based demand overheating, and that the Fed's best move is patience while these shocks work through the system. That view flips if core services inflation, stripped of energy and tariff effects, accelerates for two consecutive months. That would mean the shocks are bleeding into broader price expectations, and Fed patience becomes Fed complacency. The labor market is already too loose to justify aggressive tightening, but if wage growth re-accelerates alongside services inflation, the Fed would have no choice but to act.

On the energy front, the thesis is that physical oil markets are tighter than the recent price decline suggests, setting up potential summer spikes if the Strait remains closed. That changes with either a credible diplomatic framework for reopening the shipping lane or Saudi Arabia announcing meaningful production increases to offset the lost barrels. Either development would break the supply constraint and eliminate the summer spike risk.

The regime model's three-way tie reflects genuine uncertainty about which direction the economy tips next. That uncertainty resolves quickly if any of the three competing forces gains clear dominance. A sharp acceleration in growth data would push Overheating to the front. A continued inflation buildup would cement Inflation Shock's lead. A meaningful deterioration in employment or financial conditions would hand the call to Cooling. The model is positioned to respond rapidly because the current equilibrium is inherently unstable.
