PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Wednesday, May 13, 2026

INFLATION SHOCK • 29.5%

Regime Call

CURRENT REGIME

Inflation Shock (29.5%)

Runner-up: Overheating (29.1%)

Confidence: Low (clarity 0.02, fit 0.52, market 0.4)

The model calls Inflation Shock at the highest probability, edging out Overheating by the narrowest margin we've seen in months. This isn't the broad demand overheating that characterized 2021-22. Instead, you're looking at two identifiable supply disruptions hitting simultaneously: tariff pass-through that's already mostly complete, and an energy shock from the closed Strait of Hormuz that's getting worse by the day.

The gap to the runner-up is razor-thin, which tells you something important about where the economy sits right now. We're balanced on a knife's edge between supply-driven price spikes and genuine demand overheating. The confidence metrics reflect that uncertainty. The model is clear about the direction but appropriately cautious about the magnitude. When empty supertankers are racing toward the Gulf Coast to reshuffle existing barrels while consumers were already dipping into savings before gas hit four dollars, you get an Inflation Shock call with Overheating breathing down its neck.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Inflation Shock	**29.5%**	29.0%	30.9%	+1.2
Overheating	**29.1%**	33.4%	22.5%	+0.1
Cooling	**20.9%**	17.5%	25.8%	-0.6
Soft Landing	**19.3%**	18.8%	19.7%	-0.6
Contraction	**1.2%**	1.3%	1.1%	-0.1

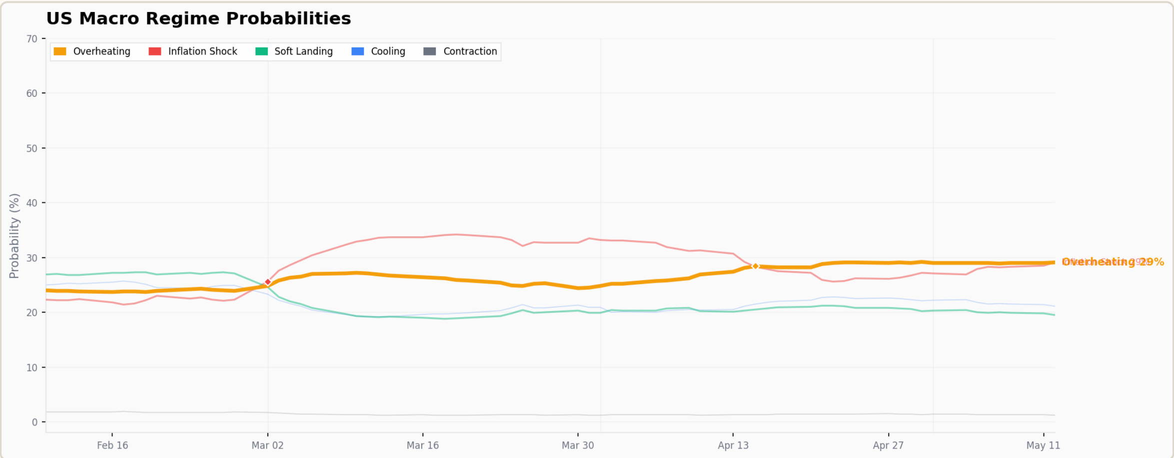
Convergence: diverging

The layer splits reveal the economy's internal tension. Inflation Shock dominates the leading indicators while Overheating holds stronger ground in the lagging data. That divergence maps perfectly onto what you'd expect from supply-driven inflation: forward-looking measures pick up the price pressures immediately, while backward-looking employment and output data still reflect the underlying economy's momentum.

Cooling and Soft Landing are getting squeezed from both sides, losing ground in both layers as the data forces a choice between hot and hotter. The combined scores show Inflation Shock pulling ahead through sheer momentum in the leading layer, while Overheating's lagging strength keeps it close enough to matter. Contraction remains a non-factor, which makes sense when the S&P 500 just posted back-to-back weekly gains above three percent.

The convergence between layers is deteriorating, not improving. That's the signature of an economy in transition, where what's happening now doesn't match what happened three months ago. When the leading layer is screaming inflation shock while the lagging layer still sees overheating, you're watching a regime change happen in real time.

90-Day Regime History

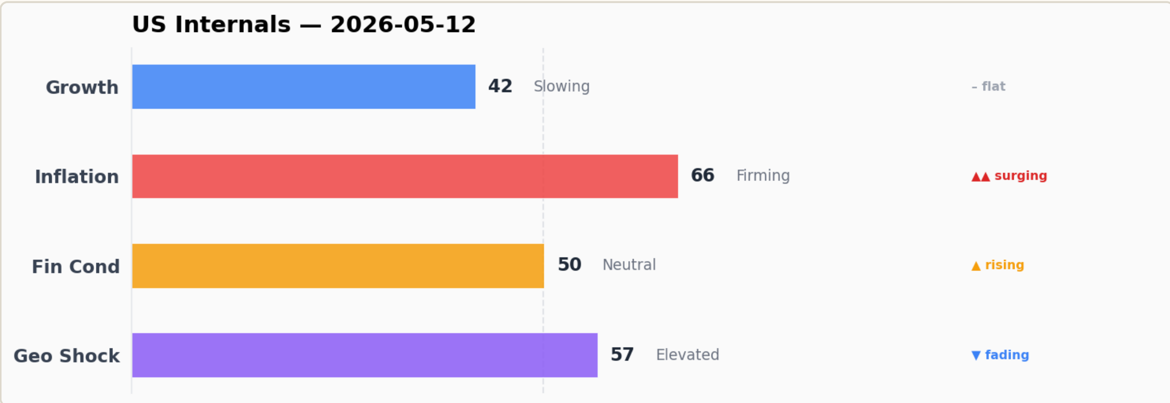


Inflation Shock took the lead this week for the first time since the regime framework launched, overtaking Overheating in what amounts to a photo finish. The transition wasn't gradual. Three months ago, Overheating held a commanding lead while Inflation Shock barely registered. The crossover happened in sharp stages: first, the tariff pass-through data started hitting in February, then the Strait closure sent energy markets into crisis mode.

The probability curve shows a classic supply shock pattern. Overheating built slowly through the winter as demand data accumulated, then Inflation Shock spiked in a matter of weeks once the supply disruptions hit. This isn't the smooth, persistent climb you see when an economy gradually overheats. It's the jagged, volatile signature of external shocks overwhelming the underlying trend.

What's striking is how quickly the model adapted to distinguish between demand-driven and supply-driven price pressures. The regime probabilities oscillated more in the past month than in the previous two combined. That volatility reflects genuine economic uncertainty, not model confusion. When you're reshuffling global supply chains while fighting a war that's closed the world's most important shipping lane, stable regime probabilities would be the real surprise.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	INFLATION SHOCK CENTROID	VS CENTROID	WEEK Δ
Growth	41.8	slowing	47 (stable)	48.7	-6.9	-0.2
Inflation	66.7	firming	100 (surging)	77.2	-10.5	+6.7
Financial Conditions	51.1	neutral	72 (rising)	56.9	-5.8	+3.2
Geopolitical Shock	57.5	elevated	33 (declining)	61.5	-4.0	+1.9

Growth

Growth remains in slowing territory with stable momentum, which is exactly what you'd expect when supply shocks are doing the inflation damage rather than runaway demand. The economy isn't overheating in the traditional sense. Consumers were already spending more than they earned in February, before gas prices jumped. That's not exuberance. That's stress.

The stable momentum reading captures something important: this isn't an economy that's accelerating into trouble. It's an economy that's getting squeezed by forces beyond its control. Real personal income was negative in February while spending posted its strongest gain since August. When people are dipping into savings to maintain consumption before the energy shock even hits, you're looking at an economy that's already operating at its limits.

What would move this axis is evidence that the supply shocks are either feeding through to demand destruction or, conversely, triggering a wage-price spiral that turns supply inflation into demand inflation. Right now, it's holding in the middle, which is probably the best you can hope for when crude oil is trading in the mid-nineties.

Inflation

Inflation sits firmly in firming territory with surging momentum, and the momentum score tells you everything you need to know about the trajectory. This isn't gradual price pressure building over time. This is a sharp acceleration driven by identifiable shocks that hit the economy in rapid succession.

The March CPI jump represents the largest single-month gain since June 2022, but the composition matters more than the headline. Tariff pass-through is essentially complete according to Fed researchers, while energy prices reflect a supply disruption that won't resolve through monetary policy. The firming state captures the reality that prices are rising. The surging momentum captures the speed at which it's happening.

The axis reading aligns perfectly with the Inflation Shock regime call because it's picking up price pressures that originate outside the domestic demand cycle. When gasoline hits four dollars and jet fuel shortages threaten European airports within weeks, you get surging inflation momentum regardless of what the Fed does with interest rates.

Financial Conditions

Financial conditions remain neutral but momentum has shifted to rising, creating the Fed's central dilemma in miniature. The level reading says monetary policy isn't obviously too tight or too loose. The momentum reading says conditions are moving toward restriction as markets price in the reality that inflation is running hot again.

This is where the supply shock nature of current inflation creates an impossible choice for policymakers. Tightening financial conditions to combat inflation that's driven by closed shipping lanes and trade wars is like using a hammer to fix a software bug. It might eventually work, but you'll break a lot of other things in the process. The rising momentum reflects markets beginning to price in that the Fed might have to do exactly that.

The neutral level provides some breathing room, but the rising momentum suggests that breathing room is shrinking. If inflation expectations start to drift higher or if the supply shocks prove more persistent than expected, financial conditions could tighten quickly without any explicit Fed action. That's the scenario where supply inflation becomes demand destruction, which solves the inflation problem by creating an employment problem.

Geopolitical Shock

Geopolitical shock remains elevated with declining momentum, which captures the strange dynamic of a crisis that's simultaneously getting worse and better. The level reflects the ongoing reality of a closed

Strait of Hormuz and an active war that's reshaping global energy flows. The declining momentum suggests the acute phase of market panic has passed, even though the underlying problem hasn't been solved.

The momentum shift from falling to declining indicates the rate of deterioration is slowing, but that's a low bar when you're starting from a position where some Asian countries are already rationing fuel. Empty supertankers heading to the Gulf Coast create the appearance of a solution, but they're reshuffling existing barrels, not creating new supply.

This axis is doing the heavy lifting in distinguishing current inflation from the 2021-22 episode. Geopolitical shock was essentially absent during the post-pandemic inflation surge. Now it's elevated and driving real supply constraints that monetary policy can't address. That difference explains why the model is calling Inflation Shock rather than Overheating, even though some of the price pressure looks similar.

Key Drivers

CONFIRMING

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

DISCONFIRMING

- wage growth at 3.6% YoY, well below trend
- consumer sentiment at 53.3, well below trend

The confirming signals center on price acceleration that's broad enough to matter but specific enough to diagnose. Headline CPI jumping to its highest level since May 2024, core PCE running well above trend, and gasoline prices spiking create a consistent picture of inflation pressure that's hitting consumers where they live. These aren't statistical artifacts or seasonal adjustments. They're the prices you pay at the pump and the grocery store.

The disconfirming signals tell a different story about the underlying economy. Consumer sentiment well below trend and wage growth that's slowing rather than accelerating suggest this isn't demand-driven overheating. When people feel worse about the economy even as their paychecks grow slower than prices, you're looking at supply-driven inflation that's squeezing purchasing power rather than reflecting economic strength. The tension between confirming price data and disconfirming demand data is exactly what you'd expect from supply shocks hitting an economy that was already operating near its limits.

Week in Review

WEEK SUMMARY (VS 2026-05-06)

REGIME	PRIOR	CURRENT	Δ
Inflation Shock	28.3%	29.5%	+1.2
Overheating	29.0%	29.1%	+0.1
Cooling	21.5%	20.9%	-0.6
Soft Landing	19.9%	19.3%	-0.6
Contraction	1.3%	1.2%	-0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.0	41.8	-0.2	slowing

AXIS	PRIOR	CURRENT	Δ	STATE
Inflation	60.0	66.7	+6.7	firming
Fin Cond	47.9	51.1	+3.2	neutral
Geo Shock	55.6	57.5	+1.9	elevated

The regime call flipped from Overheating to Inflation Shock this week, the first time Inflation Shock has taken the lead since the framework launched. The trigger was Thursday's March CPI report, which showed a 0.9% monthly jump that pushed year-over-year inflation to 3.3%. That single data point moved Inflation Shock probability up over a full point while Overheating held essentially steady, creating the narrow margin that defines the current call.

The supporting moves painted a picture of supply-driven price pressures overwhelming the underlying economy. The inflation axis momentum score surged as gasoline prices hit $4.12 per gallon, while financial conditions momentum shifted from stable to rising as markets began pricing in the Fed's impossible choice. Oil prices actually fell on the week despite the supply constraints, reflecting the market's attempt to distinguish between immediate physical shortages and longer-term structural problems. The geopolitical shock momentum improved from falling to declining, capturing the sense that the acute crisis phase has passed even though the underlying supply disruption continues.

What held steady was more revealing than what moved. Growth momentum remained stable despite the inflation acceleration, confirming that this isn't demand overheating but supply constraint. The S&P 500 posted its second consecutive week of gains above three percent, suggesting markets are betting the supply shocks will prove temporary rather than persistent. Consumer sentiment and wage growth data continued to signal an economy under stress rather than one running too hot, maintaining the disconfirming signal pattern that distinguishes current inflation from the 2021-22 episode.

Next week's setup hinges on whether the supply shock narrative holds or begins to bleed into broader inflation expectations. Tuesday's retail sales data will show whether consumers are pulling back in response to higher prices, while Thursday's initial jobless claims will indicate whether the inflation pressure is starting to cool demand enough to affect employment. The key inflection point is whether supply-driven inflation stays contained to energy and tariff-affected goods or begins spreading to services and wages, which would signal the transition from Inflation Shock to genuine Overheating.

Market Confirmation

Markets are confirming the Inflation Shock call with unusual clarity. Gold rallied alongside equities this week, which doesn't happen when everything is fine. When both risk assets and the ultimate inflation hedge move higher together, markets are saying the equity bounce isn't an all-clear signal. The commodity complex is screaming the same message: the Bloomberg Commodity Spot Index hit new highs with most components in uptrends. That's not just energy doing energy things. That's broad inflation pressure.

The diverging assets tell their own story. Long-duration bonds are getting hammered as inflation expectations reset higher, which makes perfect sense when you're staring at supply shocks with no clear resolution timeline. SaaS stocks have collapsed even as the broader market rallied, but that's sector-specific positioning and AI displacement fear, not macro-driven selling. If this were systemic risk, everything would be falling together. Instead, you're seeing surgical precision: inflation-sensitive assets rising, duration-sensitive assets under pressure, with growth stocks caught in their own private recession.

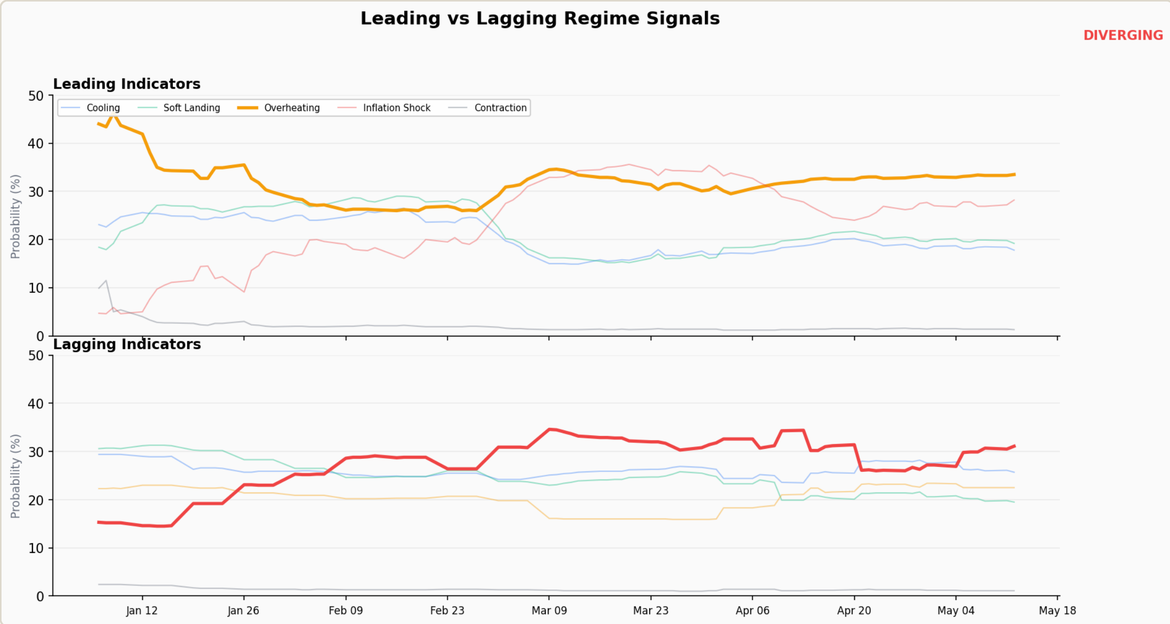
Asset Playbook

ASSET	SIGNAL
Equities	**Negative**
Rates	**Yields biased higher**
Credit	**Spreads vulnerable**
Dollar	USD-supportive
Gold	**Positive but conflicted**
Oil	**Strongly supportive**

Your 60/40 portfolio is getting pulled in opposite directions right now. The equity allocation is working, posting solid gains as markets bet the underlying economy can handle supply-driven inflation better than demand-driven overheating. But that bond allocation is bleeding, and it's going to keep bleeding until either the Strait reopens or the Fed signals they're comfortable letting unemployment rise to fight inflation. Neither seems likely in the near term.

The most surprising stance is the favorable view on oil despite crude falling this week. That's the model looking through the weekly noise to the structural reality: reshuffling existing barrels doesn't create new supply. The pressured stance on long-duration assets reflects that same forward-looking logic. When inflation is running hot and the Fed's best tool is patience, duration gets expensive fast.

Leading / Lagging Signal Alignment



The leading and lagging layers are diverging, not converging, which is exactly what you'd expect during a regime transition driven by supply shocks. Leading indicators are screaming Inflation Shock as energy markets and tariff pass-through hit the real-time data. Lagging indicators still show Overheating momentum from the demand strength that built through the winter. This isn't model confusion. This is the signature of an economy where what's happening now doesn't match what happened three months ago.

Historically, when leading and lagging layers diverge this sharply, the leading layer wins within six to eight weeks. The lag reflects the time it takes for supply shocks to work through employment data and output measures. But the convergence mechanics are clear: either the supply shocks fade and we snap back toward the lagging layer's Overheating call, or the supply shocks persist and the lagging data catches up to Inflation Shock reality.

An early-warning divergence would look like the leading layer suddenly shifting toward Cooling while the lagging layer holds at Inflation Shock. That would signal the supply shocks are resolving faster than expected, probably through diplomatic breakthrough on the Strait or faster tariff adjustment than the models assume. Right now, momentum is moving the other direction: the lagging layer is slowly catching up to what the leading layer already sees.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+1.2%	+17.0%	+0.74	345
QQQ	+2.7%	+11.1%	+0.39	345
IWM	-1.4%	+25.2%	+0.92	345
IEF	-0.7%	-10.0%	-1.24	345
TIP	+-0.0%	-2.6%	-0.34	345
LQD	-0.5%	-6.1%	-0.62	345
HYG	-0.3%	+3.5%	+0.34	345
GLD	-0.1%	+0.3%	+0.01	345
XLE	+1.1%	+73.1%	+2.19	345
VEA	-0.3%	+10.2%	+0.47	345
VWO	-1.3%	-1.3%	-0.06	345

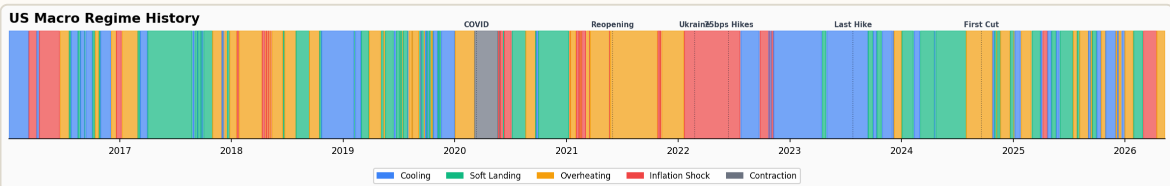
Historical returns measured over Inflation Shock regime days in backtest.

This week's performance lined up remarkably well with what Inflation Shock historically delivers. Energy and commodities led the winners, while long-duration assets took the biggest hits. The standout performer was gold, which doesn't always work during inflation shocks but tends to shine when the inflation is supply-driven rather than demand-driven. Real estate held up better than expected, probably because property works as an inflation hedge when the underlying economy isn't actually overheating.

The divergences from historical patterns are telling. Technology stocks should be getting hit harder in a typical Inflation Shock episode, but the AI narrative is providing some insulation. Credit spreads are tighter than the historical average suggests they should be, which reflects the market's view that this is supply-driven inflation, not the kind that breaks companies. International equities are lagging more than usual, probably because the Strait closure hits global supply chains harder than domestic ones.

The usual caveats apply with extra force right now. The historical sample for Inflation Shock includes episodes that look nothing like simultaneous tariff and energy supply disruptions. The regime definitions capture the inflation outcome, not the cause, so a supply-driven shock and a demand-driven shock can both register as Inflation Shock while requiring completely different portfolio responses. Use these historical returns as a starting point, not a guarantee.

10-Year Regime History



The closest historical parallel is the 2021-22 inflation episode, but the mechanics are completely different. That was demand overheating meeting supply constraints. This is pure supply disruption hitting an economy that was already slowing. The 2008 commodity spike offers a better template: oil spiking on geopolitical risk while the underlying economy weakened. That episode lasted about eight months before financial crisis overwhelmed everything, but the commodity-driven inflation phase burned hot and fast.

The 2018-19 trade war period shows how tariff-driven inflation behaves differently from energy-driven inflation. Tariff pass-through tends to be front-loaded and then stable, while energy shocks create ongoing volatility until the physical problem gets resolved. The current episode combines both, which is why the regime probabilities have been so volatile lately. You're dealing with two different inflation mechanisms operating on different timelines.

What's structurally different now is the Fed's position. In 2021-22, they had room to raise rates aggressively because unemployment was extremely low. Today, unemployment is already above target and rising. The Fed's best tool for fighting inflation is the one they can't use without breaking something else. That constraint didn't exist in prior episodes, which makes the historical playbook less reliable than usual.

Market Context

Weekly ETF returns as of 2026-05-13 (vs 2026-05-06).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
QQQ	Nasdaq 100	$695.77	$714.71	+2.7%
SPY	S&P 500	$733.83	$742.31	+1.2%
XLE	Energy	$57.00	$57.63	+1.1%
TIP	TIPS	$111.15	$111.12	+-0.0%
GLD	Gold	**Positive but conflicted**	$430.50	-0.1%
HYG	HY Corporate	$80.16	$79.91	-0.3%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
VEA	Developed Markets	$70.87	$70.63	-0.3%
LQD	IG Corporate	$109.19	$108.62	-0.5%
IEF	7-10Y Treasury	$95.00	$94.32	-0.7%
VWO	Emerging Markets	$60.75	$59.94	-1.3%
IWM	Russell 2000	$286.80	$282.67	-1.4%

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):** $+17,000/yr on $100K (historical Inflation Shock regime returns)
- **This week:** $+1,200 on $100K 401(k)

Your gas tank is feeling the Strait closure before your portfolio does. The jump to over four dollars per gallon hits every time you fill up, and with European airports facing jet fuel shortages within weeks if the shipping lane stays closed, that price is more likely to climb than fall through summer driving season.

Your mortgage payment got slightly cheaper this week as rates dropped, but you're still looking at borrowing costs that were unthinkable just a few years ago. The rate decline reflects bond market bets that the Fed will stay patient with supply-driven inflation rather than hiking into an energy crisis.

Your paycheck is losing ground to prices in real terms, and that was happening before the latest inflation spike hit. The gap between what you earn and what things cost widened in February when consumers were already dipping into savings to maintain spending. The March data will likely show that squeeze intensifying.

Your retirement account benefited from the equity rally, with broad market gains offsetting the collapse in software stocks. But the unusual pattern of stocks and gold rallying together suggests markets aren't treating this as an all-clear signal. When both risk assets and safe havens rise simultaneously, it typically means the good news comes with asterisks.

Your credit card balance is about to matter more than it has in months. Consumers were already spending beyond their income before energy prices spiked. The next round of credit data will reveal whether households are stretching further or starting to pull back as the inflation shock hits their budgets directly.

Signal vs. Noise

Signal:
- March CPI posting the biggest monthly jump since June 2022 - Consumer spending exceeding income while real wages decline - Empty supertankers racing to the Gulf Coast to reshuffle existing barrels - Stocks and gold rallying together, an unusual safe-haven plus risk-asset combination - Commodity index hitting new highs with over eighty percent of components in uptrends

Noise:
- Presidential social media endorsements that can't stop individual stock declines - Sector-specific software selloffs while the broad market

holds steady - Long-term strategic allocation debates when the immediate focus should be navigating supply shocks - Diplomatic theater between major powers with very long fuses

The distinction right now comes down to time horizon and breadth. The signals are immediate, broad-based, and affecting real purchasing power. The noise involves either narrow sectors, distant geopolitical positioning, or theoretical portfolio construction debates that miss the current moment. When nearly every commodity is rising while consumers stretch to maintain spending, pay attention to your gas tank and grocery bill, not the latest AI stock rotation or constitutional crisis speculation.

What to Watch

April 15: March PCE inflation data. This is the number the Fed actually targets, and early estimates suggest it will be worse than the CPI reading that already got your attention. If core PCE accelerates beyond the tariff and energy effects, the supply shock story starts looking like something broader. **April 18**: Consumer credit report for February. You'll see whether households were already stretching before gas hit four dollars. If revolving credit jumped while real income fell, the March data will likely show that trend accelerating into dangerous territory. **Any weekend through April**: Military escalation headlines from the Strait of Hormuz. Oil markets are closed, but crude futures can gap higher on Monday morning if talks fail or if Iran makes any move that threatens the remaining tanker traffic. The physical market is tighter than the recent price drop suggests. **April 22**: Existing home sales for March. Mortgage rates dropped slightly, but they're still at levels that price out most buyers. If sales volume falls despite the rate improvement, it confirms that housing demand is breaking under the weight of borrowing costs. **Weekly through May**: Gasoline inventory reports every Wednesday. The Energy Information Administration data will show whether refiners can keep up with driving season demand while working around the shipping disruptions. If inventories start falling faster than seasonal norms, summer gas prices could spike beyond what anyone's currently pricing.

What Would Change My Mind

I believe this inflation spike comes from two identifiable supply shocks rather than broad demand overheating, and that the Fed should stay patient rather than hiking into an energy crisis. What flips that view: if core services inflation, stripping out energy and tariff-affected goods, accelerates for two consecutive months. That would mean the supply shocks are bleeding into wage and rent expectations, turning temporary price spikes into persistent inflation psychology. The Fed would have no choice but to respond aggressively, even at the cost of pushing unemployment higher.

On energy markets, I think the physical oil market is much tighter than the recent price decline suggests, with summer spike risk building as refiners struggle to source crude around the closed shipping lane. What changes that thesis: either a credible diplomatic framework for reopening the Strait, or Saudi Arabia announcing a meaningful production increase to offset the supply disruption. Both would break the scarcity premium that's building into the forward curve.

The broader regime call assumes these supply shocks remain contained rather than triggering a wage-price spiral. If you see two consecutive months of accelerating wage growth alongside rising inflation expectations in consumer surveys, the model would likely flip from Inflation Shock toward Overheating within weeks. At that point, the distinction between supply-driven and demand-driven inflation becomes academic, and the Fed's patience becomes a policy error.

Personal Stakes

WHY MARKETS MOVE · WHY IT MATTERS TO YOU