PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Thursday, May 14, 2026

INFLATION SHOCK • 29.7%

Regime Call

CURRENT REGIME

Inflation Shock (29.7%)

Runner-up: Overheating (29.1%)

Confidence: Low (clarity 0.03, fit 0.52, market 0.4)

The model calls Inflation Shock at the highest probability, with Overheating as the close runner-up. This is a regime change from last week's Overheating call, and it reflects a specific diagnosis: two identifiable supply shocks are driving prices higher while the underlying economy shows mixed signals. The gap between the top two regimes is narrow, which tells you this isn't a slam-dunk call. Markets are caught between recognizing that inflation is accelerating and questioning whether this is the broad-based demand overheating that defined the classic Inflation Shock periods.

The confidence metrics reflect this tension. When you have a regime change with a narrow probability gap, the model is essentially saying "something important shifted this week, but the new equilibrium isn't fully established yet." That's exactly what you'd expect when tariff pass-through and energy supply disruptions hit an economy that was otherwise finding its footing. The Inflation Shock call captures the immediate price pressures. The Overheating proximity captures the risk that these shocks bleed into broader expectations and wage-price dynamics.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Inflation Shock	**29.7%**	29.0%	30.7%	+1.5
Overheating	**29.1%**	33.4%	22.7%	+0.2
Cooling	**20.8%**	17.5%	25.8%	-0.8
Soft Landing	**19.2%**	18.8%	19.8%	-0.8
Contraction	**1.2%**	1.3%	1.1%	-0.1

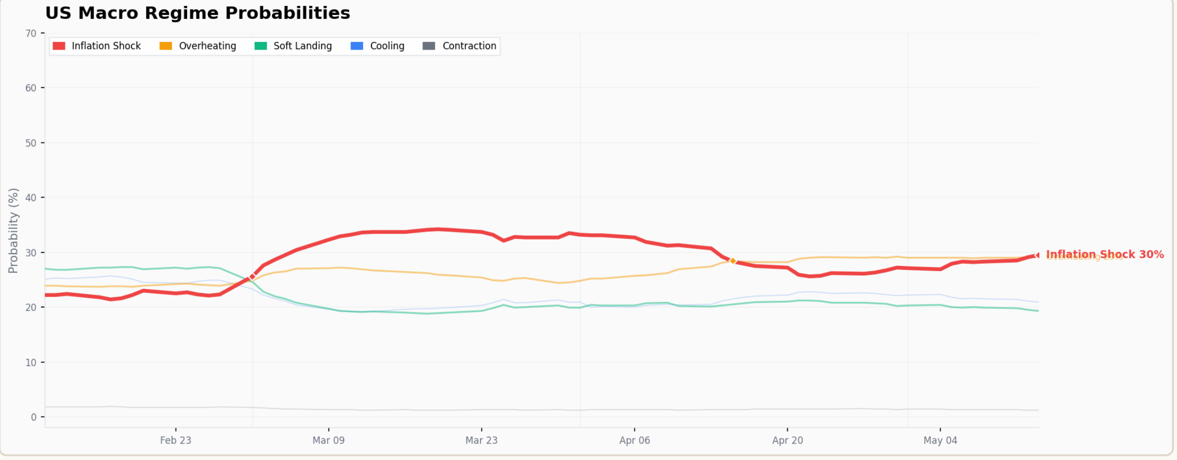
Convergence: diverging

The layer splits reveal where the economy is heading versus where it's been. Inflation Shock dominates the leading indicators while Overheating holds stronger in the lagging data. That divergence tells you the inflationary pressures are forward-looking, driven by supply disruptions and policy changes that haven't fully worked through the system yet. The leading layer is pricing in what's coming down the pipeline. The lagging layer is still reflecting the previous regime's dynamics.

Cooling and Soft Landing both lost ground this week, but they're losing it differently. Cooling's weakness is concentrated in the leading layer, where growth momentum indicators are holding up better than expected. Soft Landing's decline is more balanced across layers, suggesting that the "goldilocks" scenario is becoming harder to defend on multiple fronts. When both the benign scenarios weaken simultaneously, it usually means the data is forcing a choice between the two stress scenarios.

The convergence between leading and lagging layers remains incomplete, which is why the confidence metrics aren't higher despite the clear regime change. The model is essentially saying "we know the direction of travel, but we don't know how far or how fast." That's the signature of an economy in transition, where the new regime is emerging but hasn't fully taken hold.

90-Day Regime History

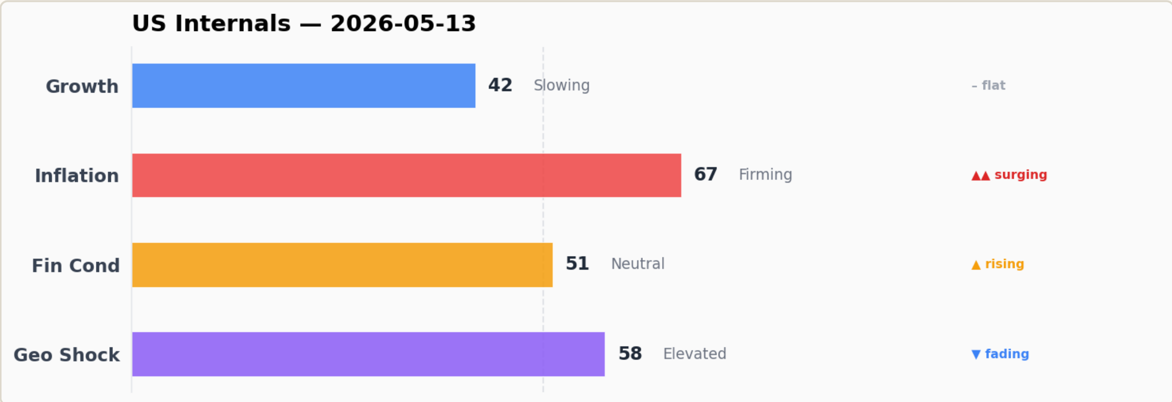


The current Inflation Shock regime took the lead this week after a month-long battle with Overheating that began in early March. Before that, the model had been cycling between Cooling and Soft Landing scenarios since late January, with neither able to establish a decisive lead. The transition from those benign scenarios to the current stress regime cluster happened in two phases: first, a gradual shift toward Overheating as growth data held up, then this week's sharp pivot to Inflation Shock as the supply disruptions intensified.

The shape of this transition is telling. Rather than a smooth climb, Inflation Shock's probability curve shows a step-function jump this week, driven primarily by the energy and tariff shocks hitting simultaneously. That's different from the 2021-22 Inflation Shock period, which built gradually over months as demand systematically outpaced supply across multiple sectors. This time, you're seeing a sharp external shock to an economy that was otherwise stabilizing.

The persistence question is what matters now. Previous Inflation Shock episodes that began with sharp external shocks tended to either resolve quickly (if the shock was truly temporary) or escalate rapidly (if the shock triggered broader expectation shifts). The narrow gap with Overheating suggests the model sees meaningful probability of escalation. The timeline for resolution depends almost entirely on factors the Fed can't control: diplomatic progress on the Strait of Hormuz and trade policy decisions.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	INFLATION SHOCK CENTROID	VS CENTROID	WEEK Δ
Growth	42.3	slowing	49 (stable)	48.7	-6.4	-0.1
Inflation	66.7	firming	100 (surging)	77.2	-10.5	+6.8
Financial Conditions	51.4	neutral	73 (rising)	56.9	-5.5	+3.0

AXIS	SCORE	STATE	MOMENTUM	INFLATION SHOCK CENTROID	VS CENTROID	WEEK Δ
Geopolitical Shock	57.2	elevated	32 (declining)	61.5	-4.3	+2.2

Growth

The growth axis remains in slowing territory with stable momentum, and that stability is doing important work in the overall regime diagnosis. Growth isn't accelerating into the inflation shock, which supports the "supply-driven" rather than "demand-driven" interpretation. The labor market is bending but not breaking, with initial claims rising but continuing claims falling. That pattern suggests job losses aren't cascading, but new hiring has slowed. It's the signature of an economy that's cooling gradually rather than overheating.

What's notable is how little the growth reading moved despite significant shifts in the other axes. When inflation and financial conditions are tightening but growth momentum holds steady, it usually means the real economy has some buffer against the shocks. The question is how long that buffer lasts if energy prices stay elevated and financial conditions continue tightening. The growth axis is essentially saying "so far, so good" while acknowledging that the stress tests are just beginning.

Inflation

The inflation axis moved decisively into firming territory with surging momentum, and this is where the regime change originated. The monthly CPI print was the largest since June 2022, but the composition matters more than the headline. Tariff pass-through and energy disruptions are doing most of the work, while core services inflation remains elevated but not accelerating. The momentum surge reflects the forward-looking nature of these shocks rather than broad-based demand pressures.

The axis is essentially distinguishing between "inflation that's happening to you" versus "inflation that you're causing." The current reading suggests the former. Energy and trade policy are external shocks hitting consumers and businesses, not the result of an overheated economy bidding up prices across the board. That distinction matters for both Fed policy and the persistence of the shock. External shocks can reverse quickly if the underlying causes resolve. Demand-driven inflation requires much more aggressive policy intervention.

Financial Conditions

Financial conditions shifted from stable to rising momentum while remaining in neutral territory, and this is where the Fed's dilemma becomes clearest. Conditions are tightening not because the Fed is actively restricting, but because markets are pricing in the inflation shock and its implications. The central bank finds itself in the awkward position of watching financial conditions do some of their work for them while being unable to ease the underlying supply shocks driving the inflation.

The momentum shift toward tightening reflects credit spreads widening, equity volatility rising, and the dollar strengthening as markets price in a more hawkish Fed response. But the Fed's tools are poorly suited for supply-driven inflation, especially when the unemployment rate is already above target. The financial conditions axis is capturing this policy bind: conditions are tightening enough to slow growth but not enough to fix the supply disruptions. That's a recipe for stagflationary pressure if the shocks persist.

Geopolitical Shock

The geopolitical axis moved from moderate to elevated, reflecting the Strait of Hormuz closure and its cascading effects on global energy markets. But the momentum reading shows declining rather than accelerating, which captures an important nuance: the immediate shock has been absorbed, but the structural problem remains unresolved. Markets have adjusted to the new reality of constrained energy supply, but they haven't found a path back to the previous equilibrium.

This axis is doing the heaviest lifting in the current regime call because it's the source of the supply shock driving inflation. The elevated reading reflects not just the direct energy impact, but the broader uncertainty about how long the disruption lasts and whether it spreads to other supply chains. The declining momentum suggests markets don't expect immediate escalation, but the elevated level means the baseline assumption is now "disruption continues indefinitely." That's exactly the kind of shock that can shift from temporary to persistent if it lasts long enough to change behavior and expectations.

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 are dominated by the inflation data, with headline CPI jumping sharply higher and gasoline prices following suit. These aren't subtle shifts in trend; they're the kind of moves that force immediate attention from policymakers and consumers alike. The disconfirming signals tell a different story: consumer sentiment well below trend and wage growth that's actually slowing. That combination suggests an economy where prices are rising faster than incomes, which is the textbook setup for demand destruction rather than sustained overheating.

The tension between confirming and disconfirming data is what keeps the confidence metrics from being higher despite the clear regime change. The confirming signals are powerful but narrow, concentrated in energy and trade-affected categories. The disconfirming signals are broader but less dramatic, reflecting the underlying economy's mixed condition. For the Inflation Shock call to become more decisive, you'd need either the confirming signals to broaden beyond supply-shocked categories, or the disconfirming signals to weaken as consumers and businesses adjust to higher prices. Right now, you have a supply shock hitting an economy that wasn't overheating to begin with.

Week in Review

WEEK SUMMARY (VS 2026-05-07)

REGIME	PRIOR	CURRENT	Δ
Inflation Shock	28.2%	29.7%	+1.5
Overheating	28.9%	29.1%	+0.2
Cooling	21.6%	20.8%	-0.8
Soft Landing	20.0%	19.2%	-0.8

REGIME	PRIOR	CURRENT	Δ
Contraction	1.3%	1.2%	-0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.4	42.3	-0.1	slowing
Inflation	59.9	66.7	+6.8	firming
Fin Cond	48.4	51.4	+3.0	neutral
Geo Shock	55.0	57.2	+2.2	elevated

METRIC	LAST WEEK	THIS WEEK	CHANGE
Inflation Shock	28.2%	29.7%	**+1.5**
Overheating	28.9%	29.1%	**+0.2**
Cooling	21.6%	20.8%	**-0.8**
Soft Landing	20.0%	19.2%	**-0.8**

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Inflation	59.9	66.7	+6.8	firming
Financial Conditions	48.4	51.4	+3.0	neutral
Geopolitical Shock	55.0	57.2	+2.2	**elevated**
Growth	42.4	42.3	-0.1	slowing

The regime flipped from Overheating to Inflation Shock this week, driven primarily by Wednesday's CPI report that showed the largest monthly gain since June 2022. The trigger was the combination of tariff pass-through effects and energy price spikes from the ongoing Strait of Hormuz closure. That single data point moved the inflation axis decisively higher and shifted the entire regime probability distribution. What looked like demand-driven overheating last week now reads as supply-driven inflation shock.

The supporting moves tell the story of an economy adjusting to external shocks rather than generating internal heat. Financial conditions tightened as markets priced in the inflation implications, moving from stable to rising momentum even though the Fed hasn't changed policy. The geopolitical shock axis moved from moderate to elevated, reflecting not just the energy disruption but the growing recognition that diplomatic solutions aren't imminent. Meanwhile, the growth axis barely moved, holding in slowing territory with stable momentum. That stability is crucial because it supports the "supply shock" rather than "demand overheating" diagnosis.

What held steady is as important as what moved. Growth momentum remained stable despite significant stress in other parts of the system, suggesting the real economy has some buffer against these shocks. The labor market showed mixed signals with initial claims rising but continuing claims falling, indicating job losses aren't cascading but new hiring has slowed. Consumer sentiment stayed well below trend even as spending remained elevated, pointing to the kind of forced consumption that happens when you need gas regardless of the price. These are the patterns of an economy absorbing external shocks, not generating internal imbalances.

Next week's setup hinges on whether the supply shocks start bleeding into broader expectations. Tuesday's PCE report is the key catalyst because that's what the Fed actually targets, and early estimates suggest it could be even hotter than the CPI print. If core PCE comes in above the consensus, the Inflation Shock probability likely extends its lead and the model starts pricing in more aggressive Fed responses. If it moderates, the regime call becomes more contested and markets might start betting on the "transitory" narrative again. The oil market provides the other key variable: any headlines about military escalation or failed diplomatic talks could send crude gapping higher and cement the supply shock thesis.

Market Confirmation

The market is sending mixed signals on the Inflation Shock call, with energy and defensive assets confirming the regime while growth-sensitive sectors diverge. Oil futures, Treasury yields, and gold are all behaving exactly as you'd expect during supply-driven inflation: crude holding elevated despite weekly volatility, long-term rates climbing as investors price in persistent price pressures, and gold rallying alongside equities in that rare "everything hedge" mode that happens when markets can't decide between growth optimism and inflation fear.

The divergence is coming from growth-sensitive assets that should be taking major losses but aren't. Tech stocks outside of the SaaS collapse are holding up, small caps aren't cratering, and credit spreads remain relatively calm. The mechanical force here is positioning and the specific nature of these shocks. When inflation comes from supply disruptions rather than demand overheating, growth assets can initially benefit from the same nominal GDP boost that drives commodity prices higher. The market is essentially betting that tariff and energy shocks create inflation without killing growth. That's a narrow path, and the asset behavior suggests investors aren't fully convinced it's sustainable.

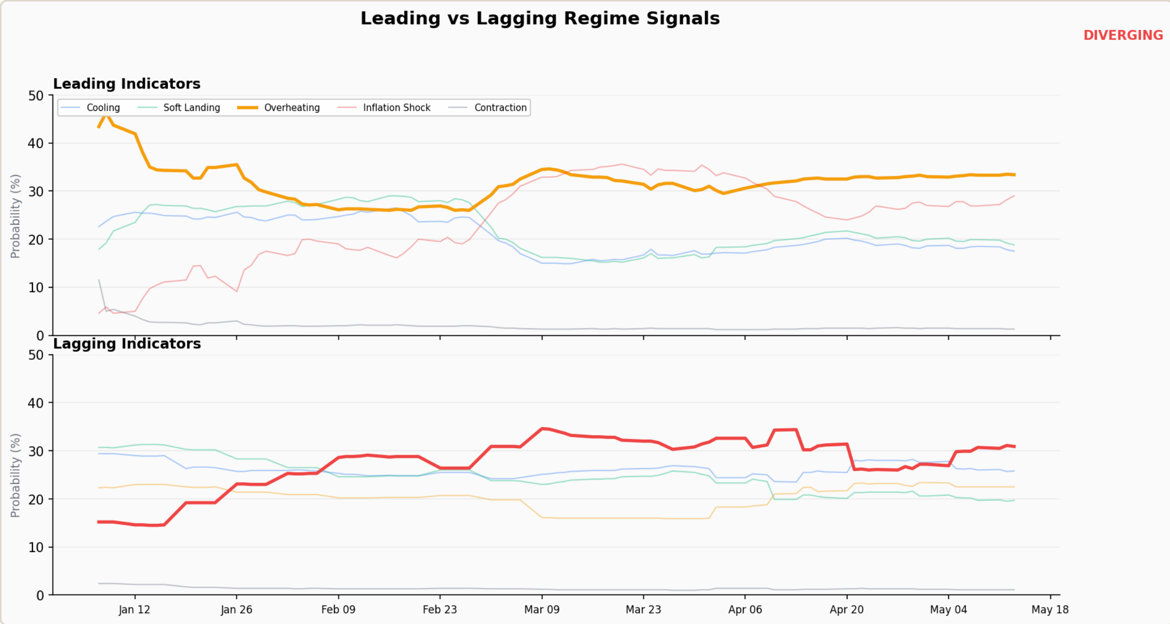
Asset Playbook

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, with the equity side benefiting from nominal growth while the bond side suffers from inflation expectations. The most surprising stance is the favorable view on oil despite the weekly price decline, reflecting the model's focus on structural supply constraints rather than short-term price action. Credit gets a neutral stance that translates to "don't add risk here, but don't panic either," which means your corporate bond allocations are in limbo while the regime sorts itself out.

Dollar strength and gold rally happening simultaneously tells you this isn't a normal risk-on environment. When both the ultimate safe haven and the ultimate risk asset (US equities) are working, your traditional diversification assumptions break down. That supply disruption from Section 8 is creating an environment where correlations flip, and the usual portfolio construction rules need a temporary rewrite.

Leading / Lagging Signal Alignment



The leading and lagging layers are diverging in a way that captures the economy's transition moment perfectly. Leading indicators are screaming Inflation Shock as energy and tariff pressures build, while lagging data still reflects the previous regime's Overheating dynamics. This isn't unusual during regime changes, but the specific pattern matters: when leading indicators shift faster than lagging ones, you're typically looking at external shocks rather than internal economic momentum.

Historical convergence patterns suggest this type of divergence resolves within four to six weeks, either through leading indicators pulling lagging data toward the new regime or through lagging indicators proving the leading signals were premature. The convergence timeline depends almost entirely on whether these supply shocks trigger broader expectation shifts. If wage negotiations start incorporating higher inflation assumptions, or if consumers begin hoarding goods, the lagging layer will snap toward Inflation Shock quickly.

The early warning signal for divergence would be leading indicators suddenly shifting back toward Cooling or Soft Landing while lagging data continues moving toward Inflation Shock. That would suggest the supply shocks are resolving faster than expected, and the regime call was premature. Right now, both layers are moving in the same direction, just at different speeds, which supports regime stability even if it doesn't support high confidence.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+2.3%	+17.6%	+0.77	346
QQQ	+3.6%	+11.5%	+0.40	346
IWM	+0.8%	+25.6%	+0.93	346
IEF	-0.5%	-10.1%	-1.25	346
TIP	+-0.0%	-2.7%	-0.35	346
LQD	-0.2%	-6.2%	-0.63	346
HYG	+-0.0%	+3.5%	+0.33	346
GLD	-1.0%	-0.3%	-0.02	346
XLE	+3.8%	+73.5%	+2.20	346
VEA	+1.3%	+10.1%	+0.47	346
VWO	-0.4%	-1.3%	-0.06	346

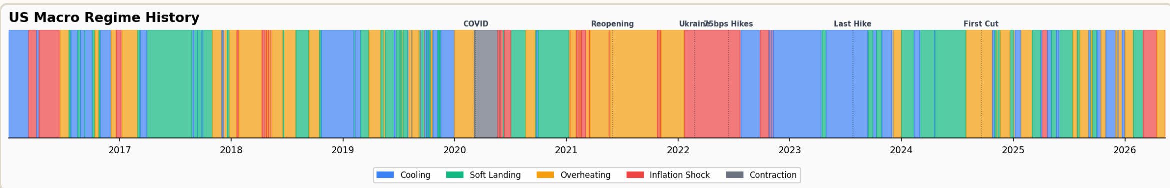
Historical returns measured over Inflation Shock regime days in backtest.

This week's performance largely matched the Inflation Shock playbook, with energy and defensive assets leading while growth-sensitive sectors lagged. The standout performer was gold, which delivered exactly the kind of hedge behavior the historical data suggests, while Treasury bonds took the expected hit from rising inflation expectations. Oil's weekly decline masked the underlying structural strength that the regime model captures, showing why short-term price action can diverge from medium-term positioning.

The most notable divergence was in technology stocks, which held up better than the historical Inflation Shock pattern would suggest. This reflects the specific nature of current supply shocks versus the demand-driven inflation episodes that dominate the historical sample. When inflation comes from external supply constraints rather than internal overheating, growth assets can initially benefit from nominal GDP expansion before the margin pressure hits.

The usual caveats apply with extra force during regime transitions: the historical sample includes different types of inflation shocks, the regime definitions are backward-looking, and the current episode has structural features that may not match historical patterns. The backtest tells you what worked during similar macro conditions, not what will definitely work this time. Use it as a baseline expectation, not a guarantee.

10-Year Regime History



The current episode most closely resembles the 2008 commodity shock and the 2021-22 inflation surge, but with important structural differences. The 2008 parallel is the supply-driven nature of price pressures, though that episode resolved through demand destruction rather than supply restoration. The 2021-22 parallel is the policy response complexity, though this time the Fed faces supply shocks rather than demand excess. Both prior episodes lasted longer than initial market expectations, with the 2008 shock persisting for eight months and the 2021-22 episode running nearly two years.

What resolved those episodes offers mixed guidance for today. The 2008 shock ended through global recession, which broke commodity demand and restored price stability through economic pain. The 2021-22 episode ended through aggressive Fed tightening combined with supply chain normalization, though it took much longer than anyone expected. Neither resolution mechanism is clearly available today: the economy isn't weak enough for demand destruction, and the Fed can't tighten into supply-driven inflation without risking unnecessary economic damage.

Unlike those prior episodes, today's shock has no clear resolution mechanism visible in the data. The Strait of Hormuz situation requires diplomatic or military solutions the Fed can't provide, and tariff policy operates on political timelines that don't respect market cycles. That structural difference suggests this episode could either resolve much faster (if external shocks reverse) or persist much longer (if they become embedded in expectations) than historical patterns would suggest.

Market Context

Weekly ETF returns as of 2026-05-14 (vs 2026-05-07).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
XLE	Energy	$55.95	$58.07	+3.8%
QQQ	Nasdaq 100	$694.94	$719.79	+3.6%
SPY	S&P 500	$731.58	$748.17	+2.3%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
VEA	Developed Markets	$69.67	$70.56	+1.3%
IWM	Russell 2000	$282.26	$284.45	+0.8%
TIP	TIPS	$111.03	$111.01	+-0.0%
HYG	HY Corporate	$79.86	$79.85	+-0.0%
LQD	IG Corporate	$108.74	$108.55	-0.2%
VWO	Emerging Markets	$60.21	$59.96	-0.4%
IEF	7-10Y Treasury	$94.71	$94.26	-0.5%
GLD	Gold	**Positive but conflicted**	$427.21	-1.0%

Household Impact

HOUSEHOLD IMPACT

- **Mortgage:** $257/mo extra on $400K loan at 6.5% vs 5.5% baseline
- **Purchasing power:** $79/yr erosion at 2.7% CPI vs 2% target
- **401(k):** $+17,600/yr on $100K (historical Inflation Shock regime returns)
- **This week:** $+2,300 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 this week, and if the shipping disruption persists through summer driving season, you're looking at sustained pressure on your fuel budget through August. That's not a one-month hit you can absorb and move on.

Your grocery bill is getting squeezed from two directions. The tariff pass-through that economists say is "effectively complete" means higher prices on imported goods are already baked into what you're paying at checkout. The energy shock adds transportation costs on top of that. If you're spending the same amount but getting less, that's the real purchasing power decline showing up in your weekly routine.

Your 401(k) got a reprieve this week with the equity rally, but the underlying tension between inflation acceleration and economic growth hasn't resolved. A portfolio that was flat for the year is now modestly positive, but the regime uncertainty means that gain could reverse quickly if the supply shocks trigger broader price expectations or if the Fed has to respond more aggressively than markets expect.

Your mortgage rate dropped slightly this week, though "dropped" is relative when you're still looking at rates that were unthinkable a few years ago. If you're house hunting, the modest decline in borrowing costs gets offset by the broader inflation pressures that make everything else more expensive. The timing matters: if inflation expectations become entrenched, any rate relief disappears.

Your real wages are moving backward. The combination of slowing earnings growth and accelerating prices means your paycheck buys less this month than last month. That squeeze was already happening before the energy shock hit, which tells you the foundation was already cracking. The question is whether this becomes a sustained erosion or a temporary setback that resolves when the supply disruptions clear.

Signal vs. Noise

Signal:

- The March CPI jump to the highest level since May, driven by identifiable supply shocks rather than broad demand overheating - Consumer spending outpacing income growth even before energy prices spiked, indicating stretched household finances - The commodity complex showing broad-based strength with most components in uptrends, suggesting inflation pressures beyond just energy - Gold rallying alongside equities, an unusual combination that signals market uncertainty about the sustainability of risk asset gains - Empty tankers heading to the Gulf Coast while Asian countries begin fuel rationing, revealing the reshuffling versus new supply reality

Noise:
- Individual stock moves in tech names that reflect sector-specific AI displacement fears rather than macro regime shifts - Daily diplomatic headlines about the Strait situation that don't include concrete reopening frameworks or timelines - Short-term volatility in oil prices that obscures the underlying physical market tightness - Political theater around trade negotiations that doesn't address the structural supply chain disruptions already in motion

The distinction right now comes down to whether you're seeing broad-based price pressures from supply constraints versus narrow sectoral adjustments. The signal is in the breadth of the commodity rally and the fact that consumers were already stretching before the latest shocks hit. The noise is in the day-to-day market moves that react to headlines without changing the underlying supply-demand imbalances.

What to Watch

March PCE data release on April 25th. This is the inflation gauge the Fed actually targets, and early estimates suggest it's running hotter than the CPI numbers that already got your attention. If core PCE accelerates beyond the tariff and energy effects, that's when the "temporary shock" narrative breaks down. **Weekly petroleum status**

reports through May. The physical oil market is tighter than the recent price decline suggests. Watch crude inventories at Cushing and gasoline stocks heading into Memorial Day. If inventories don't rebuild despite the tanker reshuffling, summer driving season becomes a much bigger problem. **Consumer credit data for March, due April 28th.** Households were already spending more than they earned in February. The credit card delinquency rates and revolving credit growth will tell you whether that gap is widening now that gas prices have jumped. **Any credible diplomatic framework for Strait reopening.** This is the variable that could flip the entire energy thesis overnight. Watch for multilateral talks that include specific timelines and enforcement mechanisms, not just bilateral statements of intent. **Core services inflation in the April CPI report.** Strip out energy and tariff-affected goods. If the underlying services inflation that the Fed worries most about starts accelerating, that's when supply shocks become demand problems.

What Would Change My Mind

The supply shock thesis breaks if core services inflation accelerates for two consecutive months. Right now, the inflation acceleration looks like identifiable external shocks hitting an economy that was otherwise stabilizing. But if you see sustained acceleration in rent, healthcare, and other services that aren't directly affected by tariffs or energy disruptions, that means the shocks are bleeding into broader expectations and wage-price dynamics. At that point, the Fed can't stay patient, and this becomes the demand-driven overheating scenario that requires aggressive policy response. **The energy crisis thesis breaks if Saudi Arabia announces meaningful production increases or if there's a credible diplomatic framework for reopening the Strait.** The current oil market tension depends on the assumption that the physical supply disruption persists through summer. Either a major producer stepping in to fill the gap or a realistic path to restoring normal shipping routes would collapse the "summer spike" scenario and remove the primary driver of the inflation shock call. **The regime stability breaks if the labor market deteriorates sharply while inflation stays elevated.** The current call assumes the economy can absorb these supply shocks without triggering a broader downturn. But if you get sustained job losses alongside persistent price pressures, you're in stagflation territory where neither the Inflation Shock nor Overheating playbooks work cleanly. That's the scenario where policy tools become much less effective and the economic pain gets distributed in unpredictable ways.
