PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Monday, May 18, 2026

INFLATION SHOCK • 29.6%

Regime Call

CURRENT REGIME

Inflation Shock (29.6%)

Runner-up: Overheating (29.3%)

Confidence: Low (clarity 0.02, fit 0.53, 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 the narrow gap between the top two regimes tells you something important: we're in the messy middle of an economic transition where multiple outcomes remain plausible.

The confidence metrics reflect this uncertainty. When the leading regime holds only a slim advantage over its nearest competitor, the model is essentially saying "inflation pressures are dominant, but the growth picture could still tip this either direction." That's exactly what you'd expect when tariff pass-through and energy supply shocks are doing most of the inflation damage while the underlying economy shows mixed signals. The regime call captures the immediate threat, but the tight race warns you that small changes in growth momentum or financial conditions could quickly shift the balance.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Inflation Shock	**29.6%**	30.0%	28.9%	+1.1
Overheating	**29.3%**	33.3%	23.2%	+0.3
Cooling	**20.7%**	17.0%	26.2%	-0.7
Soft Landing	**19.3%**	18.4%	20.8%	-0.5
Contraction	**1.1%**	1.2%	1.0%	-0.2

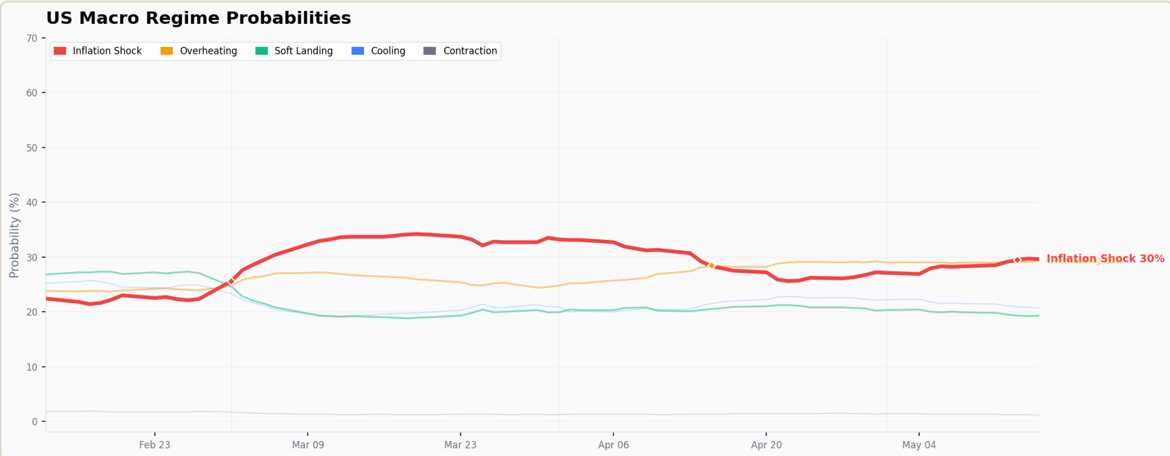
Convergence: diverging

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 inflation pressures are forward-looking, driven by supply disruptions and policy changes that haven't fully worked through the system yet. Meanwhile, the lagging indicators still reflect the demand-driven growth patterns that characterized the previous regime.

Cooling shows the opposite pattern, stronger in lagging than leading indicators. The growth deceleration is already visible in the rearview mirror, but the forward-looking data suggests that cooling process may be stalling out. Soft Landing maintains relatively balanced scores across layers, which makes sense for a regime that depends on everything going just right at just the right time.

The convergence score captures how much the layers agree with each other. When convergence is low, as it is now, you're in a transition period where the economy's future direction differs meaningfully from its recent past. That's precisely the environment where regime changes happen, and where the model's confidence appropriately reflects genuine economic uncertainty rather than measurement error.

90-Day Regime History

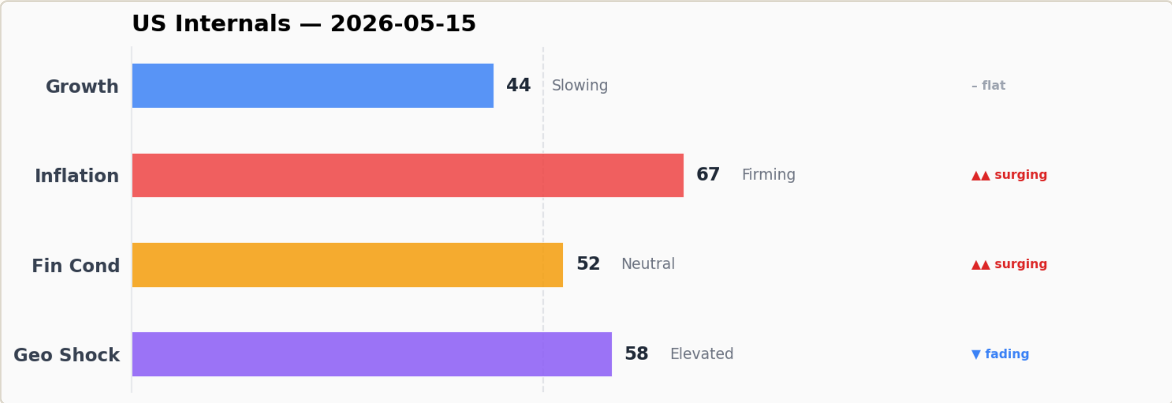


Inflation Shock has been building momentum gradually over the past month, but this week marked the decisive break above Overheating. The transition wasn't a sharp spike triggered by a single event, but rather a steady accumulation of evidence that supply-side inflation pressures were becoming the dominant force. The regime probability curve shows a persistent climb rather than the volatile oscillations you'd see if markets were just reacting to daily headlines.

Before this recent shift, Overheating held the top position for most of the past quarter, reflecting the demand-driven growth story that characterized the earlier part of the year. That regime peaked in mid-February and has been gradually losing ground as the inflation data accumulated and energy supply concerns intensified. The handoff between regimes has been orderly rather than chaotic, suggesting the underlying economic forces are evolving in a predictable direction.

What's notable about this transition is its persistence. Inflation Shock hasn't just spiked and faded, it's maintained its momentum even as oil prices pulled back from their peaks. That staying power suggests the regime change reflects structural factors like tariff pass-through and supply chain disruptions, not just temporary market volatility. The probability curve's steady upward slope indicates the model sees these forces as durable rather than transitory.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	INFLATION SHOCK CENTROID	VS CENTROID	WEEK Δ
Growth	44.0	slowing	56 (stable)	48.7	-4.7	+2.2
Inflation	67.2	firming	100 (surging)	77.2	-10.0	+6.3
Financial Conditions	53.3	neutral	80 (surging)	56.9	-3.6	+4.1
Geopolitical Shock	58.9	elevated	41 (declining)	61.5	-2.6	+3.8

Growth

The growth axis remains in slowing territory but has actually strengthened slightly this week. That might seem counterintuitive given the inflation concerns, but it reflects the reality that consumer spending has remained resilient even as real incomes get squeezed. The momentum score shows stability rather than acceleration, suggesting the economy is settling into a slower but sustainable pace rather than falling off a cliff.

What's driving the score is the mixed picture in employment and consumption data. Initial jobless claims rose but continuing claims fell, indicating people who lose jobs are still finding new ones. Consumer spending was strong in February even as real incomes turned negative. That's the signature of an economy that's cooling from a position of strength rather than collapsing from weakness. The growth axis captures that nuance in a way that simple recession/expansion labels cannot.

Inflation

The inflation axis sits firmly in firming territory with surging momentum, and this week's CPI data only reinforced that trajectory. The score reflects not just the headline numbers but the breadth of price pressures across categories. When the Bloomberg Commodity Index hits new highs with over eighty percent of components in uptrends, you're seeing inflation forces that extend well beyond energy and tariffs.

The surging momentum captures something important about the current inflation episode: it's not just elevated, it's accelerating. The monthly CPI gain was the largest since June 2022, and the underlying drivers suggest more pressure ahead. Tariff pass-through is essentially complete according to Fed researchers, but energy supply disruptions are ongoing. The axis reading tells you this isn't a temporary spike that will quickly reverse, but a sustained shift in the inflation environment.

Financial Conditions

Financial conditions remain neutral in level but show surging momentum toward restriction. This is where the Fed's dilemma becomes most apparent. The central bank typically tightens financial conditions to combat inflation, but the current inflation surge stems from supply shocks and trade policy rather than excess demand. Tightening into this environment risks creating unnecessary economic damage without addressing the root causes of price pressures.

The momentum shift from rising to surging reflects markets beginning to price in the possibility that the Fed might feel compelled to act despite the supply-side nature of the inflation problem. Bond yields have been volatile, credit spreads are widening, and equity volatility has picked up. The financial conditions axis is essentially measuring the market's growing anxiety about policy mistakes, not just policy responses. When the cure might be worse than the disease, financial conditions tighten preemptively.

Geopolitical Shock

The geopolitical axis remains elevated but shows declining momentum as markets have partially adapted to the new reality of a closed Strait of Hormuz. The initial shock of the supply disruption has given way to a more measured assessment of the long-term implications. Oil prices pulled back this week not because the problem was solved, but because the market found ways to reshuffle existing barrels and manage the immediate crisis.

However, the elevated level score reflects the ongoing structural risk. Empty supertankers heading to the Gulf Coast look like relief but represent reshuffling rather than new supply creation. The geopolitical shock axis captures both the immediate market adaptation and the persistent underlying vulnerability. As long as the Strait remains closed without a credible diplomatic framework for reopening, the shock level stays high even if the momentum moderates.

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
- core CPI at 2.7% YoY, below trend

The confirming signals center on the inflation data that triggered this week's regime change. Headline CPI jumping to its highest level since May 2024, combined with gasoline prices surging past four dollars per gallon, provides clear evidence that price pressures are intensifying rather than moderating. These aren't subtle statistical signals buried in seasonal adjustments, they're the kind of numbers that show up in household budgets immediately.

The disconfirming signals tell a different story about underlying economic health. Core CPI running below trend and wage growth well below historical norms suggest the inflation surge isn't being driven by an overheated economy. That creates the central tension in the current environment: inflation is accelerating, but not for the reasons that would typically justify aggressive policy tightening. The disconfirming data isn't strong enough to override the regime call, but it's sufficient to explain why confidence remains moderate and why the gap to alternative regimes stays narrow.

Week in Review

WEEK SUMMARY (VS 2026-05-11)

REGIME	PRIOR	CURRENT	Δ
Inflation Shock	28.5%	29.6%	+1.1
Overheating	29.0%	29.3%	+0.3
Cooling	21.4%	20.7%	-0.7
Soft Landing	19.8%	19.3%	-0.5
Contraction	1.3%	1.1%	-0.2

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	41.8	44.0	+2.2	slowing
Inflation	60.9	67.2	+6.3	firming
Fin Cond	49.2	53.3	+4.1	neutral
Geo Shock	55.1	58.9	+3.8	elevated

The regime call flipped from Overheating to Inflation Shock this week as March CPI posted its largest monthly gain since June 2022. The trigger was Tuesday's inflation report showing a 0.9% monthly jump that pushed year-over-year CPI to 3.3%. That single data release shifted the model's assessment from demand-driven growth pressures to supply-side inflation dominance, moving Inflation Shock probability above Overheating for the first time since February.

The supporting moves painted a picture of an economy grappling with external shocks rather than internal overheating. The inflation axis surged higher as commodity prices continued their broad-based rally, while financial conditions momentum shifted from rising to surging as markets began pricing in policy uncertainty. Oil prices actually declined on the week despite ongoing Strait of Hormuz closures, but the geopolitical shock axis remained elevated as the market recognized that reshuffling existing barrels doesn't solve the underlying supply constraint. Consumer sentiment data showed households were already stretching financially before the latest gas price spike hit.

What held steady was more telling than what moved. The growth axis maintained its slowing designation despite the inflation surge, reflecting the reality that consumer spending remained resilient even as real incomes turned negative. Employment data showed initial jobless claims rising but continuing claims falling, suggesting job market cooling rather than collapse. The stability in growth readings during a week of significant inflation data reinforces the supply-side nature of current price pressures rather than demand-driven overheating.

Next week's setup hinges on whether the inflation momentum continues or begins to moderate. The March PCE report due Thursday will provide the Fed's preferred inflation gauge and could either reinforce the Inflation Shock regime or suggest the CPI spike was an outlier. Oil market developments over the weekend will be crucial, as any escalation in Middle East tensions could send crude gapping higher Monday morning. If core PCE comes in above expectations and energy prices resume their climb, Inflation Shock probability likely extends its lead over Overheating. If both moderate, the regime race tightens again.

Market Confirmation

The market is sending mixed signals about the Inflation Shock regime, with energy and defensive assets confirming the call while growth-sensitive sectors diverge. Oil and gold are behaving exactly as you'd expect during supply-driven inflation pressures, with crude holding elevated levels despite weekly volatility and gold posting gains alongside equities. That dual rally in both risk assets and the ultimate safe haven tells you markets aren't treating this as a simple growth story.

The divergence comes from technology stocks, particularly the SaaS collapse that's happened while the broader market stayed flat. This isn't regime disconfirmation, it's sector-specific repricing around AI displacement fears and duration sensitivity. When a presidential endorsement can't stop a stock from falling, you're looking at fundamental revaluation rather than macro-driven selling. The regime expects inflation pressures to weigh on long-duration assets, and that's exactly what's happening, just concentrated in the most vulnerable corners of the market.

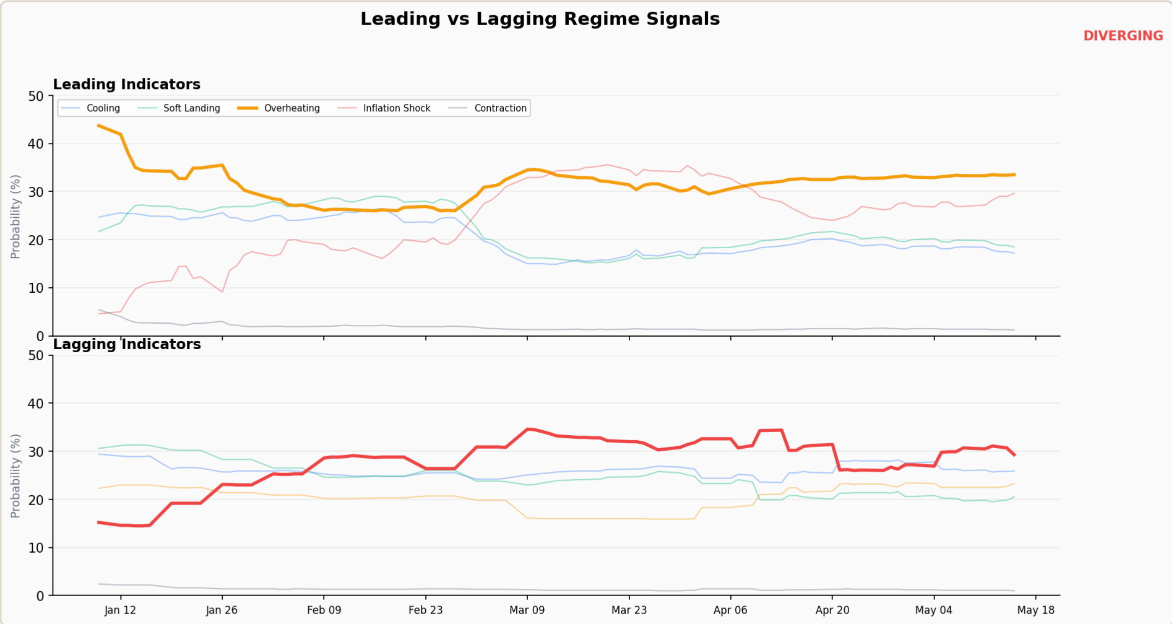
Asset Playbook

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 experiencing the classic inflation shock squeeze: bonds aren't providing the diversification they're supposed to, and equity gains are concentrated in defensive sectors rather than the growth names that drove returns for the past decade. The most surprising stance is the favorable view on gold, which has broken its traditional inverse relationship with equities. When both stocks and gold rally together, your portfolio is getting protection from an unexpected source.

The oil stance reflects the supply disruption mechanics rather than demand growth, which means energy exposure works as an inflation hedge but comes with weekend headline risk. Credit remains under pressure as the regime expects financial conditions to tighten, making corporate bonds a source of portfolio drag rather than stability. The dollar strength crowds out some of the gold bid, but not enough to override the inflation protection demand.

Leading / Lagging Signal Alignment



The leading and lagging layers are telling different stories right now, with convergence scores reflecting the transition period we're navigating. Leading indicators point toward Inflation Shock while lagging data still shows traces of the previous Overheating regime. This divergence is normal during regime changes, but it creates uncertainty about how durable the new regime will prove to be.

When the layers converged during previous regime transitions, the lag typically lasted four to six weeks before the signals aligned. We're in week two of this particular divergence, which means you should expect continued volatility in regime probabilities until the lagging indicators catch up to what the forward-looking data is already showing. The inflation pressures are real and building, but they haven't fully worked through all the economic relationships yet.

An early warning divergence would show up as leading indicators starting to weaken while lagging data remains strong for Inflation Shock. That would suggest the supply disruptions are resolving faster than expected, or that demand is cracking under the inflation pressure. Right now, momentum in both layers is moving toward greater alignment, which supports regime stability over the coming weeks.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	-0.1%	+16.5%	+0.73	348
QQQ	-1.0%	+10.1%	+0.35	348
IWM	-3.3%	+23.3%	+0.85	348
IEF	-1.2%	-10.6%	-1.31	348
TIP	-0.7%	-3.0%	-0.39	348
LQD	-1.2%	-6.7%	-0.68	348
HYG	-0.6%	+3.2%	+0.30	348
GLD	-3.7%	-1.8%	-0.09	348

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
XLE	+6.0%	+76.1%	+2.29	348
VEA	-1.8%	+9.0%	+0.41	348
VWO	-3.2%	-3.1%	-0.13	348

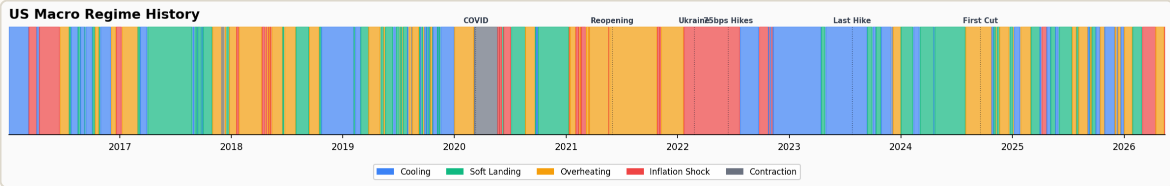
Historical returns measured over Inflation Shock regime days in backtest.

This week's performance largely matched what the Inflation Shock regime historically delivers, with energy and defensive assets leading while growth-sensitive sectors lagged. The standout was gold's strong performance alongside equity gains, which aligns with the regime's expectation that inflation hedges outperform during supply-driven price pressures. Oil's weekly decline might look like regime disconfirmation, but the historical pattern shows energy volatility is normal during these episodes.

The biggest divergence from historical patterns came in technology, where the SaaS collapse exceeded what the regime typically produces. This reflects the current episode's unique characteristics around AI displacement and duration sensitivity, factors that weren't present in previous Inflation Shock periods. The regime captures the broad inflation dynamics, but sector-specific forces can create performance gaps that go beyond the historical template.

The backtest limitations matter here: the sample size for Inflation Shock episodes is smaller than other regimes, and the current combination of tariff pass-through plus energy supply disruption hasn't been tested in this exact form before. The historical returns provide directional guidance, but the magnitude and timing of moves may differ from what the data suggests, particularly in sectors undergoing structural changes.

10-Year Regime History



The closest historical parallel to today's environment is the 2021-22 inflation surge, but with crucial differences in both cause and resolution mechanism. That episode combined massive fiscal stimulus with supply chain disruptions, creating broad-based demand pressure that eventually required aggressive Fed tightening to resolve. Today's shock is more targeted, driven by tariff pass-through and energy supply constraints rather than economy-wide overheating.

Previous Inflation Shock episodes typically lasted three to six months before transitioning to either Cooling (if policy tightened successfully) or Overheating (if inflation expectations became unanchored). The 2008 commodity spike resolved through demand destruction, while the 1970s episodes required multiple policy cycles to break. What's structurally different now is that the Fed's tools aren't well-suited to address supply-side shocks, and the unemployment rate is already elevated rather than too low.

The regime history shows that Inflation Shock periods create the conditions for their own resolution, either through demand adjustment or supply recovery. Unlike 2022, today's shock has no clear resolution mechanism beyond diplomatic progress on the Strait of Hormuz and potential tariff policy changes. That makes this episode potentially more persistent than the historical average, but also more vulnerable to sudden shifts if the underlying supply constraints ease.

Market Context

Weekly ETF returns as of 2026-05-18 (vs 2026-05-11).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
XLE	Energy	$57.17	$60.58	+6.0%
SPY	S&P 500	$739.30	$738.65	-0.1%
HYG	HY Corporate	$79.98	$79.54	-0.6%
TIP	TIPS	$111.31	$110.48	-0.7%
QQQ	Nasdaq 100	$713.29	$705.88	-1.0%
IEF	7-10Y Treasury	$94.64	$93.47	-1.2%
LQD	IG Corporate	$108.93	$107.66	-1.2%
VEA	Developed Markets	$70.82	$69.52	-1.8%
VWO	Emerging Markets	$60.39	$58.48	-3.2%
IWM	Russell 2000	$285.33	$275.97	-3.3%
GLD	Gold	**Positive but conflicted**	$418.43	-3.7%

Household Impact

HOUSEHOLD IMPACT

- **Mortgage:** $283/mo extra on $400K loan at 6.6% vs 5.5% baseline

- **Purchasing power:** $79/yr erosion at 2.7% CPI vs 2% target
- **401(k):** $+16,500/yr on $100K (historical Inflation Shock regime returns)
- **This week:** $-100 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure more than any other single economic force right now. The jump to over four dollars per gallon happened before the March inflation data even hit, and if the shipping disruption persists through summer driving season, you're looking at sustained pressure on your transportation budget through August. The mechanism is straightforward: when tankers can't move freely through the world's most important oil chokepoint, the cost gets passed directly to every gallon you pump.

Your grocery bill is absorbing the tariff pass-through that Fed researchers say is now essentially complete. 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 headlines improve. The higher baseline costs for imported food, household goods, and materials are the new normal until trade policy changes or domestic alternatives scale up, which typically takes years, not months.

Your paycheck is losing ground to inflation in real terms, and that squeeze intensified in March. Average hourly earnings are growing slower than the cost of living, which means your purchasing power is shrinking even if your nominal pay stays steady. The gap between what you earn and what things cost is widening, and consumers were already dipping into savings or turning to credit cards before energy prices spiked.

Your mortgage rate environment got slightly less punishing this week, with thirty-year fixed rates pulling back from their recent peaks. The improvement reflects bond market expectations that the Fed might need to stay patient rather than aggressive given the supply-driven nature of current inflation pressures. But the relief is modest, and rates remain elevated compared to the ultra-low environment that prevailed just a few years ago.

Your retirement account indexed to the S&P 500 posted strong gains this week, but the sustainability depends heavily on geopolitical developments you can't control. The equity rally occurred alongside rising gold prices, which historically signals that markets view the stock gains as fragile rather than foundational. If the Strait situation deteriorates or inflation expectations become unanchored, those portfolio gains could reverse quickly.

Signal vs. Noise

Signal:
- The S&P 500 posting back-to-back weekly gains above three percent, which historically produces above-average forward returns - Personal income turning negative in real terms while spending accelerated, indicating consumers were stretching before energy prices spiked - The commodity complex showing broad-based strength with over eighty percent of components in uptrends - Gold rallying alongside equities, suggesting markets view the stock bounce as fragile rather than an all-clear signal - Core services inflation potentially accelerating beyond the direct effects of energy and tariffs

Noise:
- Individual stock reactions to political endorsements when broader sector fundamentals are deteriorating - The SaaS collapse while the broad market holds steady, indicating sector-specific rather than systemic forces - Short-term diplomatic theater between major powers without concrete policy changes - Weekly oil price volatility when the underlying supply constraint remains unresolved - Currency fluctuations driven by positioning rather than fundamental economic divergences

The distinction right now comes down to whether forces are structural or cyclical. The signal is coming from supply-side constraints, fiscal dynamics, and real purchasing power trends that don't reverse quickly. The noise is coming from sentiment swings, sector rotations, and political developments that grab headlines but don't change the underlying economic mechanics. When you're in an Inflation Shock regime driven by identifiable supply disruptions, the structural factors matter more than the daily market mood.

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 direct tariff and energy effects, that's evidence the supply shocks are bleeding into broader price expectations. **Weekly petroleum status reports through May.** The Energy Information Administration data will show whether the tanker reshuffling is actually alleviating supply constraints or just moving the same limited barrels around. Watch the days of supply metric for gasoline and distillates, not just the headline inventory numbers. **Consumer credit data for March, due April 28th.** Consumers were already spending more than they earned in February. The credit card delinquency rates and revolving credit growth will tell you whether that gap widened after gas prices jumped and before any potential income adjustments kicked in. **Any credible diplomatic framework for Strait of Hormuz reopening.** This is the variable that could most quickly change the inflation trajectory. Watch for multilateral initiatives rather than bilateral posturing, and concrete timelines rather than aspirational statements. **Core services inflation in the April CPI report, due May 14th.** Strip out energy and tariff-affected goods to see if the underlying demand-driven inflation is accelerating. Two consecutive months of acceleration would suggest the supply shocks are becoming demand shocks.

What Would Change My Mind

The Inflation Shock regime call rests on the view that current price pressures stem from identifiable supply disruptions rather than broad demand overheating, and that the Fed's best response is patience rather than aggression. Two scenarios would flip that assessment quickly.

First, if core services inflation accelerates for two consecutive months while stripping out energy and tariff effects, that would indicate the supply shocks are bleeding into wage and rent dynamics. The mechanism would be clear: temporary price spikes become permanent when they shift expectations and bargaining behavior. If that happens, the Fed would need to respond aggressively to prevent an expectations spiral, and the regime would shift toward Overheating as demand-side forces take over. The model would catch this shift within one to two monthly data releases.

Second, if the labor market tightens meaningfully while inflation pressures persist, that would suggest the economy has less slack than the current data indicates. Watch for initial jobless claims falling consistently below recent ranges while wage growth re-accelerates. That combination would mean the economy is running too hot rather than just dealing with supply constraints, and monetary policy would need to create more cooling than currently expected. The regime probability would shift toward Overheating within weeks of seeing that labor market data.

The oil thesis assumes the physical market is tighter than recent price action suggests, with summer spike risk elevated due to the Strait closure. What changes that view: either a credible diplomatic solution with concrete reopening timelines, or Saudi Arabia announcing meaningful production increases to offset the supply disruption. Either development would break the structural constraint driving the inflation pressures and allow the regime to shift back toward Soft Landing as supply and demand rebalance. The model would respond to credible supply announcements within days, though it would wait for actual delivery confirmation before fully shifting probabilities.
