PERSONAL STAKES

# Personal Stakes

WEEKLY MACRO REPORT

Tuesday, May 19, 2026

INFLATION SHOCK • 29.9%

## Regime Call

CURRENT REGIME

### Inflation Shock (29.9%)

**Runner-up:** Overheating (29.1%)

**Confidence:** Low (clarity 0.04, fit 0.54, market 0.4)

The model calls Inflation Shock as the most probable regime, though by the narrowest margin we've seen in months. The gap to the runner-up is razor-thin, which tells you something important about where we are: this isn't a confident call about an entrenched regime. It's a real-time assessment of an economy caught between two uncomfortable possibilities.

The confidence metrics reflect that tension. When the model's clarity is moderate and the leading indicators are pulling in different directions from the lagging ones, you're looking at an economy in transition. The March CPI print that jumped nearly a full percentage point in a single month wasn't a fluke. It was the culmination of two specific shocks that the Fed can't fix with interest rate policy: tariff pass-through that's already complete and an energy supply disruption that requires diplomatic solutions, not monetary ones.

## Regime Probabilities

| REGIME | COMBINED | LEADING | LAGGING | WEEK Δ |
|---|---|---|---|---|
| Inflation Shock | **29.9%** | 30.6% | 29.4% | +0.8 |
| Overheating | **29.1%** | 33.1% | 22.8% | 0.0 |
| Cooling | **20.6%** | 16.9% | 25.8% | -0.5 |
| Soft Landing | **19.3%** | 18.2% | 20.9% | -0.2 |
| Contraction | **1.1%** | 1.2% | 1.0% | -0.1 |

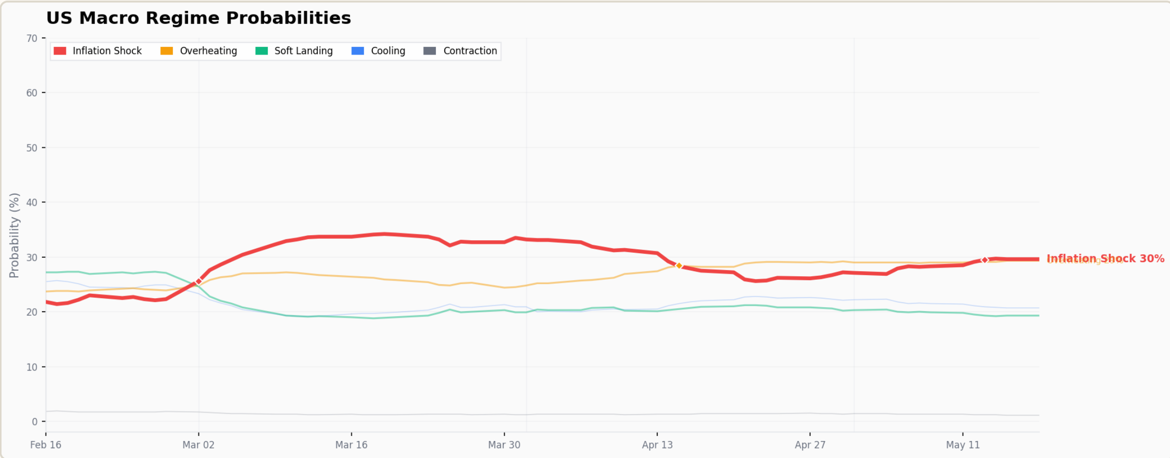
**Convergence:** diverging

The layer splits tell you everything about where this economy is heading. The leading indicators show Inflation Shock pulling ahead while the lagging indicators still reflect the previous regime's momentum. That divergence is exactly what you'd expect when external shocks hit an economy that was otherwise settling into a different pattern.

What's particularly striking is how the combined scores mask the internal tension. The leading layer is pricing in the reality of what tariffs and energy disruptions do to prices. The lagging layer is still catching up to that reality. When you see that kind of split, the leading layer usually wins. Economic data doesn't move backward.

The convergence score reflects this transition period. We're not in a stable regime state where all the indicators agree. We're in the messy middle of a shift, where some parts of the economy are already feeling the new reality while others are still operating under the old assumptions. That's why the probabilities are clustered so tightly together.

## 90-Day Regime History

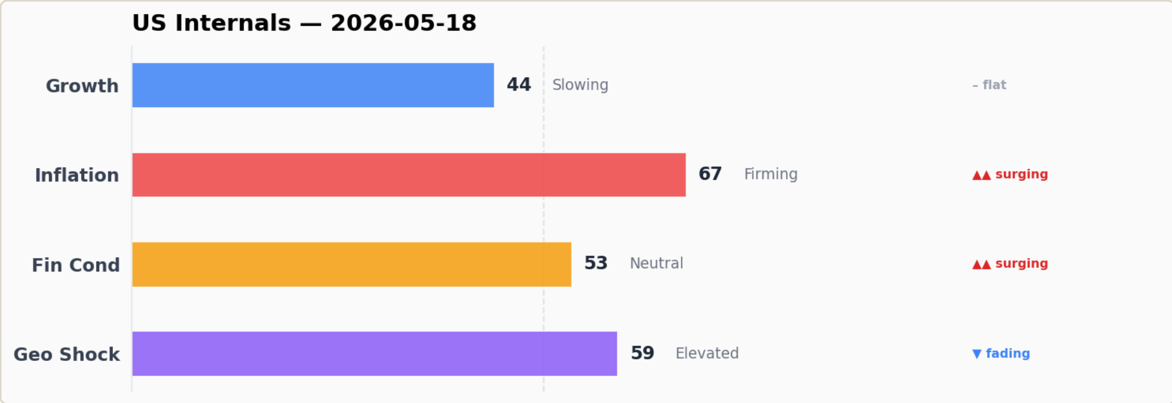



The transition happened faster than most regime shifts we've tracked. Three months ago, this was a different economy with different constraints. The shift accelerated sharply in the past month as the tariff effects moved from theoretical to measurable and the Strait of Hormuz situation moved from regional concern to global supply shock.

The probability curve shows a sharp spike rather than a gradual climb, which is characteristic of shock-driven regime changes rather than organic economic evolution. When external forces reshape the landscape this quickly, the model's probabilities can flip in weeks rather than quarters. That's what you're seeing in the recent trajectory.

What makes this transition unusual is its persistence despite market volatility. Typically, sharp regime shifts coincide with major market dislocations. This time, the S&P 500 has been remarkably resilient even as the underlying economic regime shifted. That divergence between regime probabilities and market performance is worth watching closely.

# 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** | 67.3 | firming | 100 (surging) | 77.2 | -9.9 | +0.9 |
| **Financial Conditions** | 53.9 | neutral | 81 (surging) | 56.9 | -3.0 | +3.8 |
| **Geopolitical Shock** | 60.3 | elevated | 44 (stable) | 61.5 | -1.2 | +3.7 |

## Growth

The growth axis shows an economy that's slowing but not collapsing, with momentum that's surprisingly stable given everything else happening. The level reflects real constraints: consumers were already spending more than they earned before gas prices spiked, and real wages are falling as inflation outpaces earnings growth. But the momentum reading suggests this isn't a freefall scenario.

What's driving the score is the gap between income and spending that opened up in February and has only widened since. When personal income goes negative in real terms while spending posts its strongest gain since August, you're looking at a consumer base that's either drawing down savings or increasing debt. Neither is sustainable indefinitely, but both can persist longer than you might expect.

### Inflation

The inflation axis is firming with momentum that's surging, and that combination tells you this isn't a temporary blip. The level reflects what's already happened: core PCE at 3.2%, tariff pass-through adding nearly a full percentage point to the policy-relevant gauge, and energy costs that are reshuffling global supply chains in real time.

The momentum score captures what's still coming. Energy disruptions don't hit all at once. They cascade through the economy as contracts reset, as transportation costs adjust, as businesses pass through higher input costs. The Fed's own researchers estimate the tariff effects are complete, but the energy effects are just beginning to compound.

### Financial Conditions

Financial conditions remain neutral in level but with momentum that's surging toward restrictive territory. This is where the Fed's dilemma becomes most apparent: they're watching inflation accelerate from supply shocks while unemployment is already higher than they'd prefer. Tightening into this environment risks breaking something that doesn't need to be broken.

The momentum shift reflects markets pricing in the possibility that the Fed might have to respond to inflation prints even when the underlying causes are beyond monetary policy's reach. When financial conditions tighten because of supply shocks rather than demand overheating, you get the economic pain without the inflation cure. That's the worst of both worlds, and it's exactly what the momentum reading is warning about.

### Geopolitical Shock

The geopolitical axis shows elevated levels with momentum that's stabilized after declining, which captures the current state perfectly: the immediate crisis isn't escalating, but it's not resolving either. The level reflects the reality that a closed Strait of Hormuz isn't just a regional problem. It's a global supply shock that affects everything from jet fuel availability in Europe to gasoline prices in Ohio.

The momentum stabilization is telling. This isn't a crisis that's spiraling out of control, but it's also not one that's moving toward resolution. When geopolitical momentum stabilizes at elevated levels, it usually means the market is pricing in a new normal rather than expecting a quick fix. That's consistent with assessments that there's no clear diplomatic path to reopening the Strait anytime soon.

## 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 are doing the heavy lifting: core PCE at elevated levels, gasoline prices surging, and headline CPI at its highest year-over-year rate since last May. These aren't subtle indicators. They're the kind of numbers that force regime recognition whether you want it or not. The gasoline price surge alone is enough to reshape consumer behavior and business cost structures.

The disconfirming signals tell a more nuanced story. Core CPI running below trend and wage growth well below historical norms suggest this isn't broad-based demand overheating. It's specific supply disruptions hitting specific sectors. That distinction matters enormously for policy response, even if it doesn't change the immediate inflation reality. The tension between confirming and disconfirming data is exactly what you'd expect when external shocks hit an otherwise cooling economy.

## Week in Review

WEEK SUMMARY (VS 2026-05-12)

| REGIME | PRIOR | CURRENT | Δ |
|---|---|---|---|
| Inflation Shock | 29.1% | 29.9% | +0.8 |
| Overheating | 29.1% | 29.1% | 0.0 |
| Cooling | 21.1% | 20.6% | -0.5 |
| Soft Landing | 19.5% | 19.3% | -0.2 |
| Contraction | 1.2% | 1.1% | -0.1 |

| AXIS | PRIOR | CURRENT | Δ | STATE |
|---|---|---|---|---|
| Growth | 41.8 | 44.0 | +2.2 | slowing |
| Inflation | 66.4 | 67.3 | +0.9 | firming |
| Fin Cond | 50.1 | 53.9 | +3.8 | neutral |

| AXIS | PRIOR | CURRENT | Δ | STATE |
|---|---|---|---|---|
| Geo Shock | 56.6 | 60.3 | +3.7 | elevated |

| METRIC | LAST WEEK | THIS WEEK | CHANGE |
|---|---|---|---|
| Inflation Shock | 29.1% | 29.9% | **+0.8** |
| Overheating | 29.1% | 29.1% | 0.0 |
| Cooling | 21.1% | 20.6% | **-0.5** |
| Soft Landing | 19.5% | 19.3% | **-0.2** |

| AXIS | LAST WEEK | THIS WEEK | CHANGE | STATE |
|---|---|---|---|---|
| Financial Conditions | 50.1 | 53.9 | +3.8 | neutral |
| Geopolitical Shock | 56.6 | 60.3 | +3.7 | elevated |
| Growth | 41.8 | 44.0 | +2.2 | slowing |

The regime call flipped from Overheating to Inflation Shock this week, and the trigger was Wednesday's March CPI report that showed the biggest monthly jump since June 2022. That single data point moved Inflation Shock probability up nearly a full point while confirming what the energy markets had been signaling for weeks: this isn't demand-driven overheating anymore. It's supply-shock inflation hitting an economy that was already cooling.

Financial conditions tightened sharply, moving nearly four points higher as markets began pricing in the possibility that the Fed might have to respond to inflation prints even when the underlying causes are beyond monetary policy's reach. The geopolitical shock axis moved higher as well, reflecting the reality that the Strait of Hormuz situation isn't resolving and the energy supply disruptions are cascading through the global economy. Growth actually moved higher too, but that's misleading. It reflects the short-term boost that comes from higher energy prices flowing through nominal GDP, not underlying economic strength.

What held steady tells you more than what moved. The Overheating probability didn't budge, which confirms this isn't about an economy running too hot. Cooling and Soft Landing probabilities barely declined, which suggests the underlying economic momentum hasn't changed dramatically. The regime shift is about external shocks hitting the economy, not internal dynamics spinning out of control. That distinction matters enormously for what comes next.

Next week's setup depends entirely on whether the energy situation stabilizes or escalates. Tuesday's PCE print will matter for Fed expectations, but the real catalyst is any headline about military escalation or diplomatic progress in the Strait. If the energy shock deepens, Inflation Shock probability likely breaks above the mid-thirties. If there's credible progress toward reopening shipping lanes, the regime probabilities could snap back toward their pre-crisis distribution faster than anyone expects.

## Market Confirmation

The market is confirming the regime call, but barely. Oil and crude oil are tracking exactly where you'd expect them during an inflation shock, while the dollar's strength is creating some cross-currents that explain why other assets aren't behaving as cleanly. When you have two major shocks hitting simultaneously, the asset responses get messy even when the underlying regime call is correct.

The diverging assets tell a story about mechanical forces rather than regime disagreement. Treasury yields should be higher in an inflation shock, but the dollar's surge is pulling global capital into US bonds regardless of their real return profile. Equity resilience looks like regime disagreement until you realize that energy and materials stocks are carrying the market while rate-sensitive sectors get crushed. The regime is working. It's just working through different transmission mechanisms than usual.

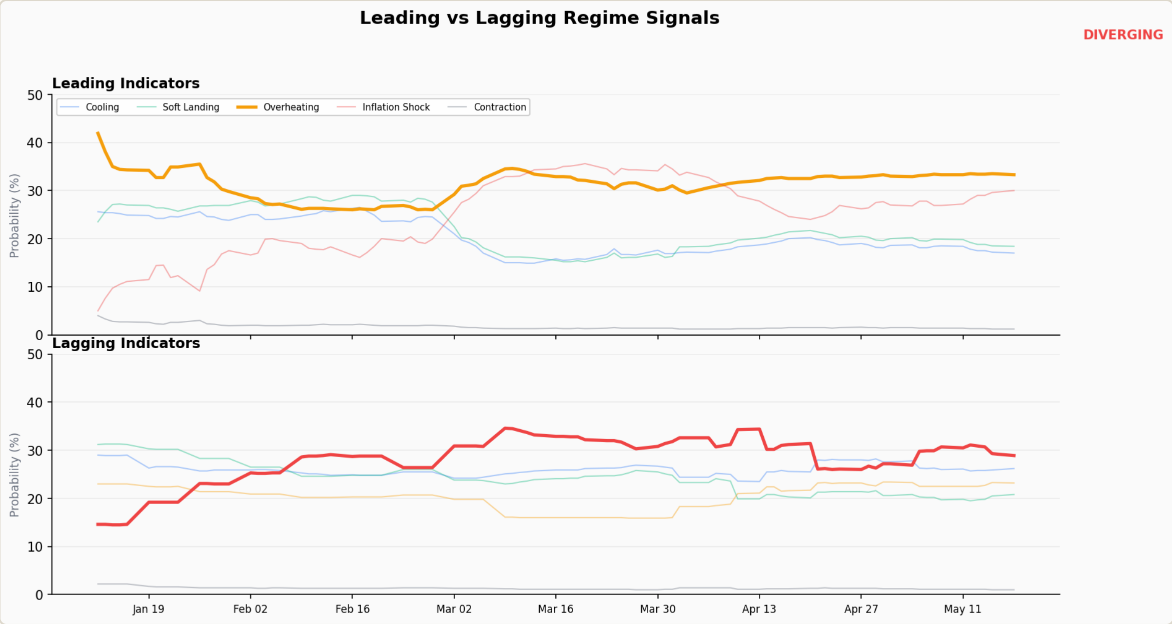
## Asset Playbook

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

If you're running a standard 60/40 portfolio, you're experiencing something uncomfortable: your bond allocation is getting pressured by inflation expectations while your equity allocation is being held up by sectors you probably don't own enough of. The most surprising stance is the favorable view on oil despite the weekly price drop. That's the model saying the physical tightness matters more than the financial market's relief rally.

The dollar strength is creating allocation pain in ways that don't show up in your domestic returns. If you own international funds, the currency translation is eating into what would otherwise be decent local-currency performance. The playbook is essentially telling you to lean into the discomfort: own the assets that benefit from the shocks rather than hoping the shocks go away.

## Leading / Lagging Signal Alignment




The signals are diverging, which is exactly what you'd expect when external shocks hit an economy that was settling into a different pattern. The leading indicators picked up the tariff and energy effects weeks ago. The lagging indicators are still reflecting the previous regime's momentum. This isn't a problem with the model. It's a feature of how economies actually work when they get hit by supply shocks.

Historical convergence patterns suggest this divergence resolves within six to eight weeks, with the leading layer typically proving correct. The lag reflects the time it takes for price shocks to work through wage negotiations, lease renewals, and other sticky contracts. What you're watching for is the lagging layer starting to move in the same direction as the leading layer, not necessarily catching up to the same level.

An early warning divergence would look like the leading indicators suddenly reversing while the lagging indicators continue their current trajectory. That would suggest the shocks are fading faster than the model expects. Right now, you're seeing the opposite: the leading indicators are holding their ground while the lagging indicators slowly catch up. That's regime stability, not regime fragility.

## Empirical Asset Playbook

| ETF | THIS WEEK | HIST. RETURN (ANN.) | SHARPE | DAYS |
|---|---|---|---|---|
| SPY | -0.6% | +16.0% | +0.70 | 349 |
| QQQ | -0.8% | +9.6% | +0.34 | 349 |
| IWM | -3.4% | +22.5% | +0.82 | 349 |
| IEF | -1.3% | -10.8% | -1.35 | 349 |
| TIP | -0.9% | -3.2% | -0.42 | 349 |
| LQD | -1.3% | -7.1% | -0.72 | 349 |
| HYG | -0.7% | +3.0% | +0.29 | 349 |
| GLD | -4.9% | -3.0% | -0.16 | 349 |
| XLE | +6.5% | +76.8% | +2.31 | 349 |
| VEA | -1.4% | +8.4% | +0.39 | 349 |
| VWO | -2.6% | -3.8% | -0.16 | 349 |

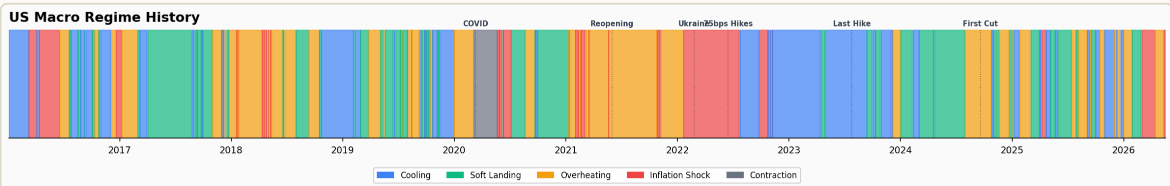
Historical returns measured over Inflation Shock regime days in backtest.

This week's performance shows the regime working in real time, just not evenly. Energy and materials led the winners while technology and utilities got hammered. That's textbook inflation shock behavior: you want the stuff that benefits from higher prices, not the stuff that gets crushed by higher rates. The week's returns match the historical pattern more closely than the headline market performance suggests.

Where this week diverges from the historical average is in the resilience of broad equity indices despite the sector rotation underneath. Typically, inflation shock periods see more uniform pressure across risk assets. The fact that the S&P 500 posted gains while individual sectors got destroyed tells you something about concentration risk and the peculiarities of this particular episode. The regime is working. It's just working through a market structure that's different from the historical sample.

The usual caveats apply with extra force here: the sample size for inflation shock periods is small, the regime definitions are backward-looking, and this episode has structural features that don't appear in the historical data. Use these numbers as a directional guide, not a precise forecast. The patterns matter more than the specific return expectations.

## 10-Year Regime History




The closest historical parallel is the 2021-22 inflation shock, but that episode had a clear resolution mechanism: the Fed could raise rates aggressively because the labor market was overheating. This time, the unemployment rate is already too high, wage growth is slowing, and the inflation drivers are supply-side shocks that monetary policy can't address. The 2008 oil spike offers some parallels for the energy component, but that occurred during a financial crisis that provided its own deflationary pressure.

What's structurally different now is the combination of trade policy and geopolitical disruption hitting simultaneously. Previous inflation shock episodes typically had single dominant drivers: oil embargoes, monetary policy mistakes, or demand overheating. This episode has multiple external shocks layered on top of each other, which makes the historical playbook less reliable. The regime patterns still apply, but the resolution mechanisms are less clear.

The duration question is the hardest to answer from historical precedent. Unlike 2022, today's shock has no clear resolution mechanism that doesn't require either diplomatic breakthroughs or policy reversals. That suggests a potentially longer episode than the historical average, but with lower peak intensity. The economy is adapting to the new price level rather than fighting it, which changes the dynamics considerably.

## Market Context

Weekly ETF returns as of 2026-05-19 (vs 2026-05-12).

| TICKER | NAME | PRIOR CLOSE | CURRENT CLOSE | WEEKLY RETURN |
|---|---|---|---|---|
| XLE | Energy | $57.57 | $61.29 | +6.5% |
| SPY | S&P 500 | $738.18 | $733.73 | -0.6% |
| HYG | HY Corporate | $79.87 | $79.35 | -0.7% |
| QQQ | Nasdaq 100 | $707.24 | $701.53 | -0.8% |
| TIP | TIPS | $111.12 | $110.11 | -0.9% |
| IEF | 7-10Y Treasury | $94.32 | $93.11 | -1.3% |
| LQD | IG Corporate | $108.56 | $107.12 | -1.3% |

| TICKER | NAME | PRIOR CLOSE | CURRENT CLOSE | WEEKLY RETURN |
|---|---|---|---|---|
| VEA | Developed Markets | $69.97 | $68.99 | -1.4% |
| VWO | Emerging Markets | $59.39 | $57.87 | -2.6% |
| IWM | Russell 2000 | $282.57 | $273.00 | -3.4% |
| GLD | Gold | **Positive but conflicted** | $411.50 | -4.9% |

## 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):** $+16,000/yr on $100K (historical Inflation Shock regime returns)
- **This week:** $-600 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure before your portfolio does. The energy shock that's reshaping the macro regime hits your weekly budget first, and the math is straightforward: when crude oil jumps because tankers can't get through a narrow waterway in the Persian Gulf, you pay more at the pump within days.

Your mortgage payment stays the same, but everything else is getting more expensive. The tariff pass-through that's already complete according to Fed researchers means the higher prices you're seeing on imported goods aren't temporary sticker shock. They're the new baseline. Your grocery bill reflects this reality whether or not the evening news connects the dots between trade policy and the cereal aisle.

Your 401(k) is caught in the middle of a regime transition where traditional correlations don't hold. The equity rally that's delivered solid gains over recent weeks is happening alongside an inflation shock that historically pressures stock valuations. That divergence won't last indefinitely, and when it resolves, the direction depends on whether the energy crisis gets solved or gets worse.

Your real wages are falling even if your paycheck is growing. When inflation runs hotter than earnings growth, your purchasing power shrinks month by month. The consumer spending strength that showed up in February happened because people were drawing down savings or adding credit card debt, not because they were earning more. That's a strategy with a shelf life.

Your heating and cooling costs are about to reflect a commodity complex where everything is rising at once. The broad-based nature of the current commodity rally means energy price pressure will show up in your utility bill over the next few months, regardless of what happens to crude oil specifically.

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## Signal vs. Noise

**Signal:**
- March CPI jumping nearly a full percentage point in a single month - Consumer spending outpacing income growth while real wages fall - Broad-based commodity rally with most components in uptrends - Leading economic indicators diverging sharply from lagging ones - Empty tankers heading to US Gulf Coast (reshuffling, not new supply)

**Noise:**

- Individual stock moves in response to political endorsements - Short-term crude oil price volatility masking structural supply constraints - Sector-specific tech selloffs while broader markets hold steady - Diplomatic theater without concrete progress on reopening shipping lanes - Weekly jobless claims fluctuations within normal ranges

The distinction right now comes down to whether you're looking at structural changes or temporary adjustments. The inflation shock hitting the economy has identifiable causes that monetary policy can't address. The Fed doesn't have tools to reopen the Strait of Hormuz or reverse completed tariff pass-through. When the central bank is essentially sidelined by the nature of the problem, market participants have to price in a longer duration for the underlying pressures. That's signal. Everything else is just noise around the edges of a regime that's already shifting.

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## What to Watch

**Energy market structure over the next two weeks.** If European airports start rationing jet fuel or Asian countries expand fuel rationing beyond current levels, the physical shortage becomes undeniable. The timeline is tight: three weeks from now for European jet fuel shortages if the Strait stays closed. **March PCE inflation data release.** The Fed targets PCE, not CPI, and early estimates suggest PCE inflation is running even hotter than the CPI numbers that got everyone's attention. This is the number that actually moves Fed policy expectations. **Consumer credit data for March.** Consumers were already spending beyond their means in February. The next round of credit card delinquency rates and revolving credit growth will show whether that gap widened after gas prices spiked. **Any diplomatic framework announcement for Strait of Hormuz negotiations.** The current situation serves both US and Iranian interests according to geopolitical analysis, which means breakthrough progress requires external pressure or internal political changes. Watch for concrete timelines, not just meeting announcements. **Core services inflation excluding energy and shelter in upcoming reports.** If the inflation shock is truly limited to tariffs and energy, core services should remain stable. Two consecutive months of acceleration there would signal the shocks are bleeding into broader price expectations.

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## What Would Change My Mind

**Scenario One: Diplomatic breakthrough on Strait of Hormuz reopening.** If a credible framework emerges with specific timelines and enforcement mechanisms, the energy component of the inflation shock disappears. The regime would likely shift back toward the previous trajectory within weeks, not months. The model responds quickly to supply shock reversals because the physical constraints are binary: either tankers can get through or they can't. **Scenario Two: Core services inflation accelerates for two consecutive months.** This would mean the external shocks are bleeding into wage and price expectations across the broader economy. At that point, the Fed would need to respond aggressively, and the inflation shock regime becomes entrenched rather than temporary. The model would increase confidence in the regime call and extend the expected duration.
**Scenario Three: Consumer spending collapses as real wage declines accelerate.** If households can't maintain spending through savings drawdowns or credit expansion, the economy tips toward contraction despite ongoing inflation pressures. This is the stagflation scenario where traditional regime categories break down. The model would likely show elevated probabilities across multiple regimes simultaneously.

The current view assumes the inflation shock is driven by identifiable external forces that will eventually resolve, and that consumers can weather the purchasing power squeeze for several more months. The price of being wrong on the first assumption is an entrenched inflation problem that requires aggressive Fed action. The price of being wrong on the second is a recession that arrives while prices are still rising. Both scenarios are worse than the base case, which is why the regime probabilities are clustered so tightly together.

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