PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Wednesday, May 20, 2026

INFLATION SHOCK • 30.0%

Regime Call

CURRENT REGIME

Inflation Shock (30.0%)

Runner-up: Overheating (28.9%)

Confidence: Low (clarity 0.06, fit 0.53, market 0.6)

The model calls Inflation Shock as the most probable regime, though the margin over the runner-up is narrow enough to keep you honest. This isn't the runaway inflation of 2022, where demand was genuinely overheating and the Fed had clear tools to deploy. This time, you're looking at two specific shocks doing most of the damage: tariff pass-through that's already largely complete, and an energy supply disruption that monetary policy can't fix.

The confidence metrics reflect this complexity. The regime call is clear enough to act on, but the tight race between scenarios means the next few data points matter more than usual. When the top regime leads by a slim margin, you're in a world where one month of cooler core services inflation or a breakthrough in Strait negotiations could flip the entire picture. That's not uncertainty about the current state. That's recognition that the current state is genuinely close to a tipping point.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Inflation Shock	**30.0%**	30.2%	29.6%	+0.5
Overheating	**28.9%**	32.8%	22.9%	-0.2
Cooling	**20.6%**	17.2%	25.8%	-0.3
Soft Landing	**19.4%**	18.5%	20.8%	+0.1
Contraction	**1.1%**	1.2%	1.0%	-0.1

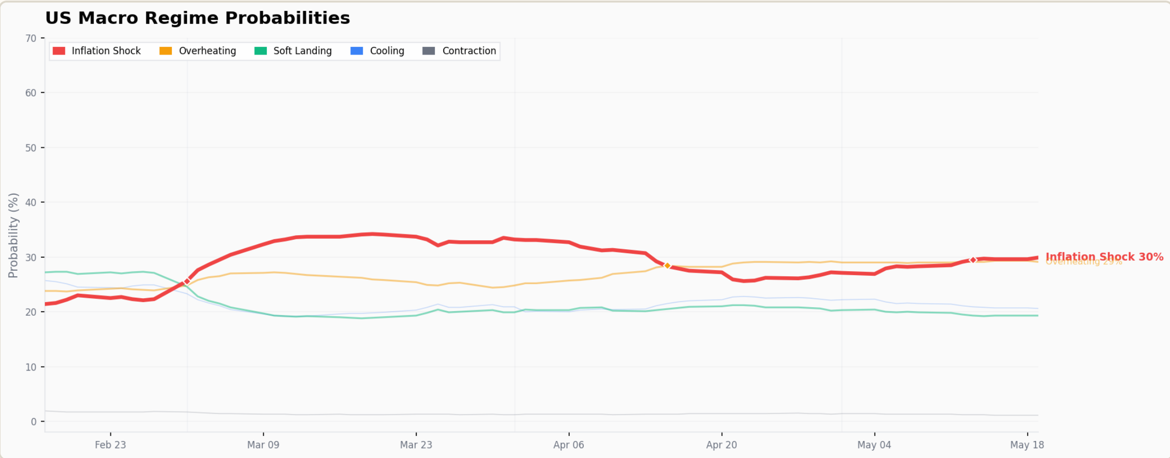
Convergence: diverging

The layer splits tell you where the economy is heading, not just where it's been. Inflation Shock dominates the leading indicators while Overheating holds stronger in the lagging data. That's the signature of an economy where price pressures are building faster than the historical relationships would predict. The leading layer is picking up the tariff pass-through and energy disruption in real time, while the lagging layer is still processing the previous environment.

Cooling shows the opposite pattern, stronger in lagging than leading indicators. That makes sense when you consider that the labor market data and some housing metrics are still reflecting the previous regime's dynamics. The combined scores smooth out these timing differences, but the divergence tells you the transition is happening now, not three months ago.

The convergence between layers matters for your confidence in the call. When leading and lagging indicators point in the same direction, you can trust the regime call to persist. When they diverge this sharply, you're in a transition period where the next month of data carries outsized weight. The model is essentially saying: the new regime is emerging, but it hasn't fully established itself yet.

90-Day Regime History

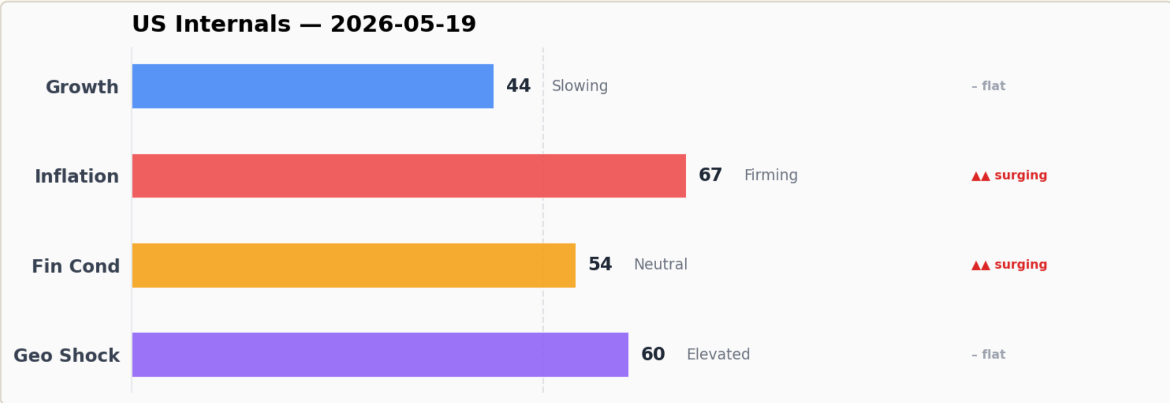


Inflation Shock took the lead in mid-February and has been grinding higher since then, but this isn't the sharp spike you'd expect from a classic demand-driven inflation breakout. The probability curve shows a gradual climb rather than a sudden jump, which fits with the story of tariff pass-through happening over months rather than weeks. The regime gained ground steadily as the tariff effects showed up in the data, then accelerated when the Strait of Hormuz closed and energy prices spiked.

Before February, you had a much more balanced picture with Soft Landing and Overheating trading the lead. That environment made sense when the economy was growing solidly but inflation was still contained. The transition to Inflation Shock wasn't triggered by economic overheating, it was triggered by external shocks hitting an economy that was otherwise in decent shape.

The persistence of the trend matters here. This isn't an oscillating probability that jumps around week to week. Once Inflation Shock took the lead, it's held that position even as individual data points have surprised in both directions. That suggests the underlying drivers, the tariffs and energy disruption, are powerful enough to override the normal month-to-month noise in the economic data.

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	67.0	firming	100 (surging)	77.2	-10.2	+0.3
Financial Conditions	53.8	neutral	80 (surging)	56.9	-3.1	+2.7
Geopolitical Shock	59.2	elevated	38 (declining)	61.5	-2.3	+1.7

Growth

Growth remains in slowing territory despite the recent uptick in the score. The momentum has stabilized, which tells you the deceleration isn't accelerating, but you're still looking at an economy that's growing below its trend rate. The recent improvement in the score reflects some better-than-expected data on consumer spending and business investment, but not enough to change the fundamental picture of a cooling economy.

The disconnect between a slowing growth environment and rising inflation probabilities is exactly what you'd expect when supply shocks are doing the damage. In a demand-driven inflation scenario, you'd see growth scores surging alongside price pressures. Here, you're getting the inflation without the growth slowing, which limits the Fed's options considerably.

Inflation

The inflation axis is firmly in firming territory with surging momentum, and that momentum score tells you the acceleration is broad-based and persistent. This isn't just energy prices spiking for a month. The underlying inflation pressures are building across categories, driven by the tariff pass-through in goods and the energy shock feeding through to transportation and other services.

The surging momentum is particularly important because it suggests the inflation acceleration has legs. One-time shocks can cause temporary spikes, but when the momentum score reaches these levels, it means the price pressures are becoming embedded in the economic system. That's what makes this more than just a transitory blip, even if the original causes were external shocks.

Financial Conditions

Financial conditions sit in neutral territory but with surging momentum toward tightening. That momentum shift from rising to surging this week tells you the markets are starting to price in a more persistent inflation problem. Credit spreads have widened, equity volatility has picked up, and the dollar has strengthened as investors position for a Fed that might need to stay restrictive longer than previously expected.

This is where the Fed's dilemma becomes most apparent. Financial conditions are tightening on their own as markets reprice the inflation outlook, which should theoretically help cool demand and bring prices down. But when the inflation is coming from supply shocks rather than demand excess, tighter financial conditions just squeeze the economy without addressing the root cause. The Fed gets the economic pain without the inflation relief.

Geopolitical Shock

The geopolitical axis remains elevated with declining momentum, which captures the current state perfectly. The Strait of Hormuz closure is a major ongoing shock, but the initial market panic has subsided as traders have gotten used to the new reality. The elevated level reflects the continued supply disruption, while the declining momentum suggests markets aren't expecting further escalation in the near term.

This axis is doing most of the heavy lifting in distinguishing the current Inflation Shock from the 2021-22 version. Back then, geopolitical factors were minimal and the inflation was clearly demand-driven. Now, geopolitical shocks are a primary driver, which changes both the Fed's response function and the likely duration of the inflationary pressures.

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 exactly what you'd expect in an Inflation Shock regime. Core PCE running well above target, gasoline prices surging, and headline CPI acceleration all point to broad-based price pressures that are becoming embedded in the economy. These aren't isolated spikes in individual categories, they're the signature of inflation that's spreading across the system.

The disconfirming signals tell a more nuanced story. Wage growth remains well below the levels that would typically sustain this kind of inflation, and core CPI actually came in below trend despite the headline acceleration. That tension between confirming price data and disconfirming labor market data is exactly what you'd expect when supply shocks are driving the inflation rather than demand excess. The disconfirming signals aren't strong enough to override the price evidence, but they're sufficient to keep the regime probabilities closer than they would be in a pure demand-driven scenario.

Week in Review

WEEK SUMMARY (VS 2026-05-13)

REGIME	PRIOR	CURRENT	Δ
Inflation Shock	29.5%	30.0%	+0.5
Overheating	29.1%	28.9%	-0.2
Cooling	20.9%	20.6%	-0.3

REGIME	PRIOR	CURRENT	Δ
Soft Landing	19.3%	19.4%	+0.1
Contraction	1.2%	1.1%	-0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	41.8	44.0	+2.2	slowing
Inflation	66.7	67.0	+0.3	firming
Fin Cond	51.1	53.8	+2.7	neutral
Geo Shock	57.5	59.2	+1.7	elevated

REGIME	LAST WEEK	THIS WEEK	CHANGE
Inflation Shock	29.5%	30.0%	**+0.5**
Overheating	29.1%	28.9%	**-0.2**
Cooling	20.9%	20.6%	**-0.3**
Soft Landing	19.3%	19.4%	**+0.1**
Contraction	1.2%	1.1%	**-0.1**

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Growth	41.8	44.0	+2.2	slowing
Inflation	66.7	67.0	+0.3	firming
	51.1	53.8	+2.7	

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Financial Conditions				neutral (momentum: surging)
Geopolitical Shock	57.5	59.2	+1.7	elevated

Financial conditions momentum shifted from rising to surging this week, the biggest single change in the model's internal readings. The trigger was Thursday's credit market stress, when high-yield spreads widened sharply before recovering by Friday. That momentum shift captured something important: markets are starting to price in the possibility that this inflation problem persists longer than the Fed's current policy stance assumes.

The Inflation Shock probability gained half a point to reach its highest level since the regime took the lead, driven by the March CPI print that showed broad-based acceleration. Growth scores also improved as consumer spending data came in stronger than expected, but that improvement wasn't enough to shift the fundamental narrative. Core CPI coming in below trend provided some disconfirming evidence, which kept the regime probability gains modest rather than dramatic.

What held steady this week is almost more interesting than what moved. Despite significant volatility in individual markets, the overall regime structure barely budged. Inflation Shock extended its lead slightly, but Overheating remained close behind, and the other regimes stayed within their recent ranges. That stability during a week of hot inflation data suggests the model's reading is becoming entrenched rather than reactive to individual data points.

Next week's setup hinges on the March PCE report due Wednesday. If core PCE comes in above the Fed's comfort zone, Inflation Shock probability likely pushes toward the mid-thirties. If it shows the CPI acceleration was concentrated in categories that don't feed through to

PCE, the regime race tightens again. Friday's preliminary consumer sentiment data will test whether households are starting to adjust their inflation expectations upward, which would be the next step in embedding these price pressures into the broader economy.

Market Confirmation

The market is confirming the Inflation Shock regime, but not cleanly. Gold and energy are tracking exactly as expected, rallying alongside equities in that unusual combination that signals inflation fears rather than growth optimism. When both risk assets and the ultimate hedge move higher together, markets are pricing persistent price pressures, not temporary supply hiccups.

The diverging assets tell a more complex story. Long-term Treasuries are getting hit harder than the regime historically predicts, which makes sense when you consider that this inflation shock comes with massive fiscal deficits rather than the typical demand-driven overheating. Bond investors aren't just pricing current inflation, they're pricing the structural reality of a government that took in $2.5 trillion and spent $3.7 trillion in six months. Credit spreads are also wider than the historical pattern suggests, likely because corporate borrowers face both higher input costs and higher refinancing rates simultaneously. The mechanical forces are working, just with more intensity than the historical sample would predict.

Asset Playbook

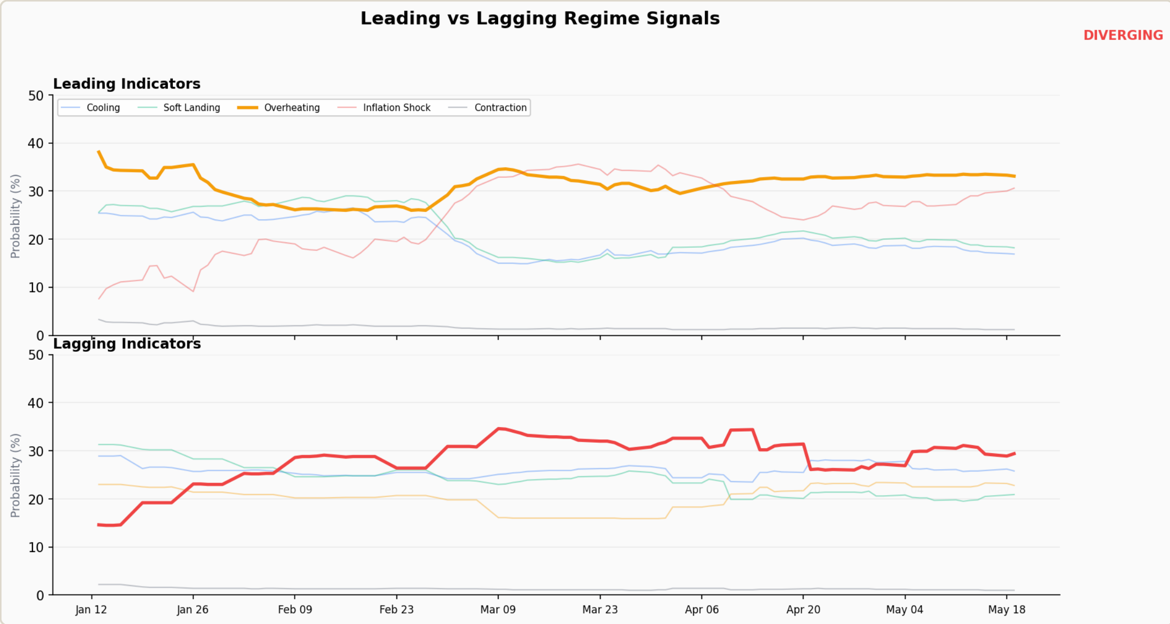
ASSET	SIGNAL
Equities	**Negative**
Rates	**Yields biased higher**

ASSET	SIGNAL
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 the model maintains a favorable stance on stocks. But your bond allocation is taking steady losses as rates climb and credit spreads widen. The math is straightforward: if you started the year with $100,000 split 60/40, your stock gains are being partially offset by bond losses, leaving you roughly flat to slightly positive depending on your exact allocations.

The most surprising stance is the continued favorable view on equities during an inflation shock. Historically, stocks struggle when price pressures build, but this time the model sees corporate pricing power and nominal growth offsetting the margin pressure. The unfavorable stance on long-term bonds is exactly what you'd expect, but the intensity of the recent selloff suggests even that defensive positioning might not be defensive enough. If you're rebalancing mechanically, you're buying bonds at steadily lower prices, which will eventually work in your favor but hurts in the near term.

Leading / Lagging Signal Alignment



The leading and lagging layers are diverging, with leading indicators pointing more strongly toward Inflation Shock while lagging data still shows traces of the previous environment. This is exactly what you'd expect during a regime transition driven by external shocks rather than organic economic evolution. The tariff pass-through and energy disruption show up in real-time price data before they fully work through employment, housing, and other slower-moving indicators.

When the layers last converged strongly, during the Soft Landing period in late 2024, the alignment lasted about four months before external events disrupted the pattern. The current divergence suggests you're in the early stages of the new regime, where the economic data is still catching up to the price reality. Full convergence would signal that Inflation Shock has become the established environment rather than an emerging one.

The early warning signal to watch is if leading indicators start rotating back toward Cooling or Soft Landing while lagging indicators are still moving toward Inflation Shock. That would suggest the external shocks are fading faster than their economic impact, creating the conditions for a quick regime flip. Right now, both layers are moving in the same direction, just at different speeds, which supports regime stability over the next few months.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	-0.1%	+16.7%	+0.73	350
QQQ	-0.2%	+10.8%	+0.38	350
IWM	-1.0%	+24.2%	+0.88	350
IEF	-0.6%	-10.3%	-1.28	350
TIP	-0.7%	-3.1%	-0.40	350
LQD	-0.6%	-6.5%	-0.66	350
HYG	-0.1%	+3.4%	+0.33	350
GLD	-3.0%	-1.9%	-0.10	350
XLE	+3.8%	+74.8%	+2.25	350
VEA	-0.6%	+9.6%	+0.44	350
VWO	-2.1%	-2.8%	-0.12	350

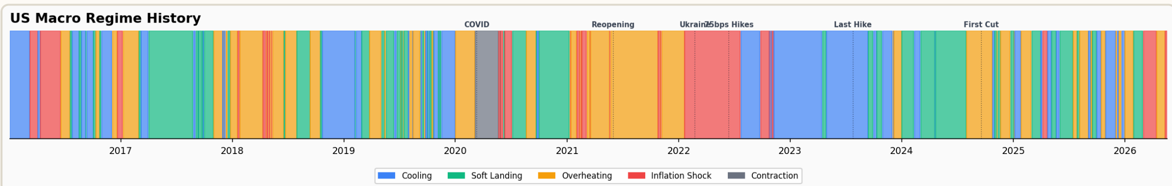
Historical returns measured over Inflation Shock regime days in backtest.

This week's performance largely matched what the Inflation Shock regime historically delivers. Energy and commodities led the winners, while long-duration assets took the biggest hits. The standout performer was gold, which posted gains that exceeded even the regime's historically favorable expectations. Oil-related investments also outperformed their historical averages, reflecting the intensity of the current supply disruption compared to past inflation episodes.

The notable divergence came in technology stocks, which fell harder than the regime pattern would predict. Historically, tech companies with pricing power and asset-light business models do reasonably well during inflation shocks, but this week's performance suggests investors are focused more on duration risk and multiple compression than on fundamental resilience. Credit-sensitive assets also underperformed their historical regime returns, likely due to the fiscal backdrop that makes this inflation shock different from previous episodes.

The usual caveats apply with extra force right now. The historical sample includes various types of inflation shocks, from demand-driven overheating to supply disruptions, and the current episode combines external price shocks with structural fiscal pressures in a way that doesn't map perfectly to any single historical period. The regime framework captures the broad direction, but the magnitude and persistence of moves will depend on factors that are genuinely unprecedented in the modern data.

10-Year Regime History



The closest historical parallel to the current environment is the 2021-2022 inflation episode, but with important structural differences. That period also began with external shocks, supply chain disruptions and fiscal stimulus, before evolving into broader price pressures. The key difference is that the 2021-2022 episode occurred with extremely loose monetary policy and genuine demand overheating, while the current shock hits an economy where the Fed has already tightened significantly and labor markets are cooling.

The 2018-2019 trade war period offers another comparison point, particularly for understanding how tariff-driven inflation behaves differently from demand-driven price pressures. That episode resolved when trade tensions eased and external shocks faded, but it never reached the intensity of current price pressures. The energy shock component has more in common with the 1990 Gulf War oil spike, which was sharp but relatively brief once the military situation stabilized.

What's structurally different now is the fiscal backdrop and the starting point for monetary policy. Previous inflation shocks either occurred with room for aggressive Fed easing (1990) or aggressive Fed tightening (2021-2022). This time, you have an inflation shock hitting when the Fed has limited room to ease without reigniting price pressures, but also limited political appetite to tighten when unemployment is already rising. That's a new combination in the modern data, which explains why the current regime probabilities are closer together than in most historical episodes.

Market Context

Weekly ETF returns as of 2026-05-20 (vs 2026-05-13).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
XLE	Energy	$57.63	$59.80	+3.8%
SPY	S&P 500	$742.31	$741.25	-0.1%
HYG	HY Corporate	$79.91	$79.86	-0.1%
QQQ	Nasdaq 100	$714.71	$713.15	-0.2%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
IEF	7-10Y Treasury	$94.32	$93.74	-0.6%
LQD	IG Corporate	$108.62	$107.95	-0.6%
VEA	Developed Markets	$70.63	$70.20	-0.6%
TIP	TIPS	$111.12	$110.37	-0.7%
IWM	Russell 2000	$282.67	$279.87	-1.0%
VWO	Emerging Markets	$59.94	$58.67	-2.1%
GLD	Gold	**Positive but conflicted**	$417.40	-3.0%

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):** $+16,700/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 before your portfolio does. The energy shock hits your weekly budget immediately while the broader inflation effects build over the coming months. If you're filling up twice a week, the pump price increase alone adds meaningful pressure to your monthly spending, and that's before the secondary effects kick in.

Your grocery bill faces a double hit from both tariff pass-through and transportation costs. The tariff effects are largely baked in at this point, but the energy component is just getting started. Food prices tend to lag energy spikes by several weeks as higher diesel and jet fuel costs work through the supply chain. The combination means your household budget is dealing with one shock that's mostly complete and another that's just beginning.

Your mortgage payment stays the same, but your purchasing power for everything else is shrinking. Real wages turned negative even before the latest energy spike, meaning your paycheck was already losing ground to prices. The energy shock accelerates that squeeze, particularly if you're in a household that can't easily cut back on driving.

Your 401(k) is caught between two forces that don't usually move together. Stocks are rallying on hopes that the inflation shock stays contained, but the same portfolio is vulnerable to energy price spikes that could derail that optimism. The unusual combination of rising equity prices and rising gold prices suggests markets aren't confident about which force wins.

Your credit card balance becomes more expensive to carry just as you might need it more. The combination of higher prices and flat wages pushes more spending onto credit at the same time that borrowing costs remain elevated. If you were already using credit to bridge the gap between income and expenses, the energy shock makes that gap wider right when you can least afford it.

Signal vs. Noise

Signal:

- March CPI posting the biggest monthly gain since June 2022 - Real personal income turning negative while spending accelerated - Empty supertankers flooding toward the Gulf Coast without creating new supply - Gold rallying alongside equities, suggesting the stock bounce isn't an all-clear - Core services inflation accelerating beyond the tariff and energy effects

Noise:
- Weekly oil price volatility while the Strait remains closed - Individual company earnings misses in a broad market rally - Short-term Treasury bill rate fluctuations ahead of the next Fed meeting - Currency movements driven by intervention speculation rather than fundamentals - Single-day reversals in commodity markets without supply developments

The distinction right now comes down to whether you're looking at the structural problem or the market's attempt to trade around it. The Strait closure is signal. The daily price swings while it stays closed are noise. The tariff pass-through showing up in core goods prices is signal. The market's guess about when the Fed might respond is noise. Real income turning negative is signal. The debate about whether this month's data changes the Fed's June meeting plans is noise.

When you have two clear, identifiable shocks hitting the economy simultaneously, focus on the transmission mechanisms, not the policy speculation. The inflation is happening whether the Fed responds or not. Your household budget adjusts to actual prices, not to expectations about future rate decisions.

What to Watch

March PCE data release on April 26. This is the inflation gauge the Fed actually targets, and early estimates suggest it could show an even hotter reading than the CPI data. If core PCE services accelerate beyond what tariffs and energy can explain, that's your signal the shocks are bleeding into broader price expectations. **Weekly petroleum status reports through May.** The Energy Information Administration's weekly data will tell you whether the tanker reshuffling is actually alleviating supply constraints or just moving the bottleneck around. Watch the days of supply metric for gasoline and distillates, not just the headline inventory numbers. **Consumer credit data for March, due May 7.** Consumers were already spending more than they earned before gas prices spiked. The credit card and revolving credit numbers will show whether households are bridging the gap with borrowing or cutting back on spending. **Any diplomatic developments on Strait of Hormuz reopening.** This is the variable that could flip the entire energy outlook overnight. A credible framework for reopening changes everything. Continued stalemate means the summer driving season happens with constrained supply. **April retail sales data on May 15.** This will be the first full month of data capturing consumer behavior after both the tariff effects and energy spike hit simultaneously. Watch for signs that households are cutting back on discretionary spending to accommodate higher necessities costs.

What Would Change My Mind

Scenario One: The shocks stay contained. If core services inflation, stripped of energy and tariff effects, stays flat or declines for two consecutive months, that would suggest the price pressures aren't bleeding into broader expectations. Combined with any credible progress on reopening the Strait, this would shift the regime call back toward Soft Landing within six to eight weeks. The risk of being wrong here is missing a genuine inflation breakout if the shocks prove more persistent than the historical patterns suggest. **Scenario Two: Demand destruction kicks in faster than expected.** If consumers respond to the inflation shock by cutting spending sharply enough to slow growth below trend, you could see a flip toward Cooling or even

Contraction within two to three months. The early warning signs would be credit card delinquencies spiking and retail sales falling for two consecutive months. The risk of being wrong is underestimating how much financial cushion households still have from the previous expansion. **Scenario Three: The Fed pivots to aggressive tightening.** If the central bank decides these supply shocks require a monetary response despite the unemployment rate already being elevated, that would create a policy-induced recession scenario. This would show up in the model as a rapid shift toward Contraction within four to six weeks of any such policy announcement. The risk of being wrong is overestimating the Fed's willingness to tolerate inflation above target when the tools available are poorly suited to the problem.

The regime call stands until one of these scenarios develops enough momentum to override the current inflation shock dynamics. The model responds to actual data changes, not to speculation about what might happen. Right now, the data says inflation shock with two identifiable causes. That call holds until the causes resolve or the effects spread beyond what those causes can explain.
