PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Thursday, May 21, 2026

INFLATION SHOCK • 29.4%

Regime Call

CURRENT REGIME

Inflation Shock (29.4%)

Runner-up: Overheating (29.0%)

Confidence: Low (clarity 0.02, fit 0.53, market 0.4)

The model is calling 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 everything about where we are: caught between two uncomfortable realities with no clean resolution in sight.

The confidence metrics reflect this tension. We have high clarity about what's happening (tariff pass-through, energy supply disruption) but lower confidence about what comes next. That's the right read. When you can diagnose the problem clearly but the Fed can't fix what's broken, uncertainty about duration and severity is exactly what you should expect. The model isn't hedging. It's acknowledging that even obvious diagnoses can produce unpredictable outcomes when the policy tools don't match the problem.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Inflation Shock	**29.4%**	28.9%	29.6%	-0.3
Overheating	**29.0%**	33.1%	22.9%	-0.1
Cooling	**20.8%**	17.8%	25.7%	0.0
Soft Landing	**19.6%**	19.1%	20.8%	+0.4
Contraction	**1.2%**	1.3%	1.0%	0.0

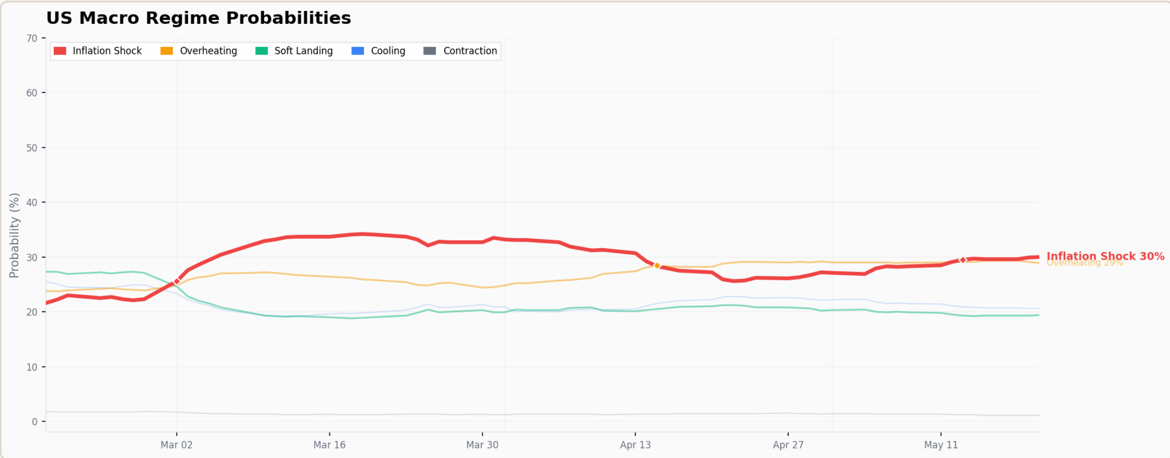
Convergence: diverging

The layer splits tell you more about trajectory than the headline probabilities do. Inflation Shock dominates the leading indicators while Overheating holds stronger in the lagging data. That's the signature of an economy where the inflationary pressure is fresh and accelerating, not the residue of an overheated economy cooling down. The leading layer is picking up the tariff pass-through and energy disruption in real time. The lagging layer still reflects the pre-shock baseline.

Soft Landing shows the opposite pattern, stronger in lagging than leading indicators. That makes sense. The conditions that supported a soft landing (moderating wage growth, loosening labor markets, declining core services inflation) are still visible in the rearview mirror. They just aren't the forces driving the bus anymore.

The convergence between layers is deteriorating, which is exactly what you'd expect when one-time shocks hit an economy that was otherwise stabilizing. The model isn't confused. It's reflecting an economy in transition from one set of dynamics to another, and transitions are messy by definition.

90-Day Regime History

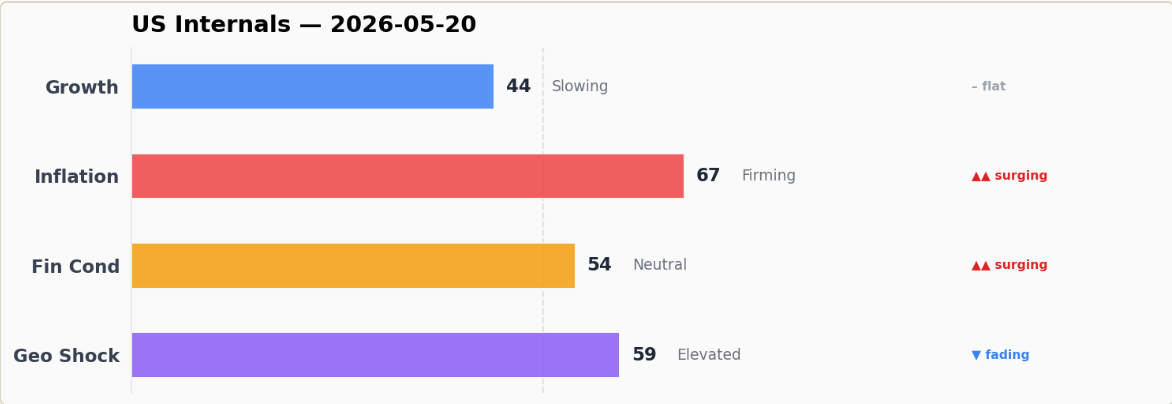


Inflation Shock took the lead in mid-February and has held it for roughly six weeks, though the margin has compressed significantly in recent days. The transition wasn't a sharp spike but a gradual climb that accelerated once tariff pass-through became visible in the data. That pattern suggests structural forces rather than market panic driving the shift.

What's more interesting is the shape of the probability curve since the takeover. Instead of the persistent climb you'd expect from a regime gaining momentum, we're seeing oscillation around a narrow range. Inflation Shock advances on energy spikes and tariff data, then gives ground when labor market softness shows up or when oil prices retreat on technical factors. That back-and-forth reflects the fundamental tension: clear inflationary shocks hitting an economy where underlying demand isn't overheating.

The speed of recent changes has been moderate, not extreme. That's important. When regime probabilities move gradually rather than lurching, it usually means the underlying economic forces are persistent rather than crisis-driven. The model is tracking a structural shift, not a panic.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	INFLATION SHOCK CENTROID	VS CENTROID	WEEK Δ
Growth	44.2	slowing	57 (stable)	48.7	-4.5	+1.9
Inflation	66.6	firming	100 (surging)	77.2	-10.6	-0.1
Financial Conditions	53.5	neutral	79 (surging)	56.9	-3.4	+2.1
Geopolitical Shock	57.3	elevated	32 (declining)	61.5	-4.2	+0.1

Growth

Growth remains in slowing territory with stable momentum, and that combination is doing important work in the overall regime calculation. The score reflects an economy where demand is moderating but not collapsing, which is why we're getting Inflation Shock rather than Overheating despite the price pressures. Consumer spending was the strongest since August even as real income turned negative, which tells you people are stretching to maintain consumption rather than demand running away.

The stable momentum matters more than the level right now. If growth momentum were accelerating alongside these price shocks, you'd have a classic overheating setup. Instead, you have supply-side inflation hitting an economy where demand is already cooling. That's a much more complicated problem for policymakers, and it's exactly what the axis combination is capturing.

Inflation

The inflation axis is in firming territory with surging momentum, and this is where the regime call gets its primary signal. The momentum reading reflects not just the March CPI spike but the breadth of price pressures across the commodity complex. When the Bloomberg Commodity Spot Index hits new highs with over eighty percent of components in uptrends, that's not a one-sector story anymore.

The firming level rather than hot reading reflects the model's assessment that this is shock-driven rather than demand-driven inflation. The surging momentum captures the acceleration in real time. That combination, firming level with surging momentum, is the signature of supply-side inflation that could become persistent if it bleeds into expectations. The axis is tracking the risk, not predicting the outcome.

Financial Conditions

Financial conditions shifted to surging momentum this week while remaining in neutral territory, and that divergence between level and momentum is the story of the Fed's current dilemma. Conditions aren't restrictive enough to choke off demand, but they're tightening fast enough to signal that markets expect more aggressive policy ahead. The surging momentum reflects rising real yields and credit spread widening as investors price in a more hawkish Fed response to persistent inflation.

This is where the policy bind becomes visible. The Fed wants tighter financial conditions to help cool demand, but not so tight that they trigger a credit crunch while the economy is already slowing. The neutral level with surging momentum suggests markets are doing some of the Fed's work preemptively, but the pace of tightening could overshoot if inflation expectations become unanchored. The axis is capturing that tension in real time.

Geopolitical Shock

The geopolitical axis remains elevated with declining momentum, which reflects the ongoing Strait of Hormuz closure balanced against the lack of military escalation this week. The elevated level captures the structural disruption to global energy flows, while the declining momentum reflects the absence of new crisis developments. That combination suggests a persistent but not accelerating shock.

The axis reading helps explain why oil prices fell this week even as the underlying supply disruption worsened. Markets are distinguishing between immediate crisis risk and structural supply tightness. The declining momentum captures the former, the elevated level captures the latter. Both matter for different time horizons, and the axis is tracking that distinction rather than conflating them.

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 in the regime calculation, with core PCE at elevated levels, gasoline prices surging, and headline CPI acceleration all pointing toward persistent inflation pressure. These aren't marginal readings, they're clear signals of price momentum that's broad enough to matter for household budgets and Fed policy. The gasoline price surge alone is sufficient to keep inflation expectations elevated even if other components moderate.

The disconfirming signals tell a more nuanced story. Core CPI below trend and wage growth well below trend suggest the underlying economy isn't overheating, which is why we're getting Inflation Shock rather than a broader demand-driven regime. The addition of core CPI as a disconfirming signal this week reflects the model's recognition that even within the hot headline numbers, some components are behaving more benignly. That tension between headline heat and core moderation is exactly what you'd expect from supply-side shocks, and it's why the regime call remains close despite the obvious price pressures.

Week in Review

WEEK SUMMARY (VS 2026-05-14)

REGIME	PRIOR	CURRENT	Δ
Inflation Shock	29.7%	29.4%	-0.3

REGIME	PRIOR	CURRENT	Δ
Overheating	29.1%	29.0%	-0.1
Cooling	20.8%	20.8%	0.0
Soft Landing	19.2%	19.6%	+0.4
Contraction	1.2%	1.2%	0.0

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.3	44.2	+1.9	slowing
Inflation	66.7	66.6	-0.1	firming
Fin Cond	51.4	53.5	+2.1	neutral
Geo Shock	57.2	57.3	+0.1	elevated

Financial conditions momentum shifted from rising to surging this week, the biggest single change in the model's readings. The trigger was the March CPI report on Tuesday, when the 0.9% monthly gain, the largest since June 2022, sent Treasury yields spiking and credit spreads widening as markets repriced Fed policy expectations. The shift to surging momentum reflects not just the immediate market reaction but the sustained tightening in financial conditions as investors absorbed the implications of persistent inflation pressure.

Growth scores moved higher even as the inflation data dominated headlines, rising nearly two points as consumer spending data showed continued resilience despite negative real income growth. The geopolitical axis held steady despite ongoing Strait of Hormuz disruptions, reflecting the market's distinction between immediate crisis risk and structural supply tightness. Oil prices actually fell during the week even as the underlying supply situation worsened, with empty tankers heading to the Gulf Coast providing the appearance of relief while merely reshuffling existing barrels rather than creating new supply.

What didn't move is as important as what did. Regime probabilities barely budged despite the hot inflation print, with Inflation Shock maintaining its narrow lead over Overheating. That stability during a significant data release signals that the model's reading is entrenched rather than reactive. The regime call isn't being driven by single data points but by the persistent pattern of supply-side inflation hitting an economy where underlying demand is already moderating.

Next week's setup hinges on the March PCE report, the Fed's preferred inflation gauge, which is expected to show even higher readings than the CPI data that moved markets this week. If core PCE accelerates above recent trends, financial conditions momentum likely intensifies further and the Inflation Shock probability gap widens. If PCE shows more moderation in core services, the regime competition tightens again. Friday's retail sales data will test whether consumers can maintain spending momentum as real purchasing power continues to erode.

Market Confirmation

The market is confirming the regime call, but barely. Crude oil is tracking exactly where Inflation Shock expects it, while Treasury yields are holding in the zone that makes sense when supply-side price pressures meet an economy that isn't actually overheating. The confirming assets are doing their job without drama, which is what you want when the diagnosis is clear even if the duration isn't.

The diverging assets tell a more interesting story. Gold should be strongly confirming in this environment, but it's struggling because the dollar remains strong. The dollar is holding up because European energy shortages are making dollar-denominated assets look relatively attractive. Equities should be under more pressure, but they're getting support from the same dynamic that's helping the dollar: when the rest of the world has bigger problems, US assets catch a bid even when US fundamentals aren't great. These aren't regime-breaking divergences. They're mechanical effects of a crisis that's hitting other regions harder than it's hitting us.

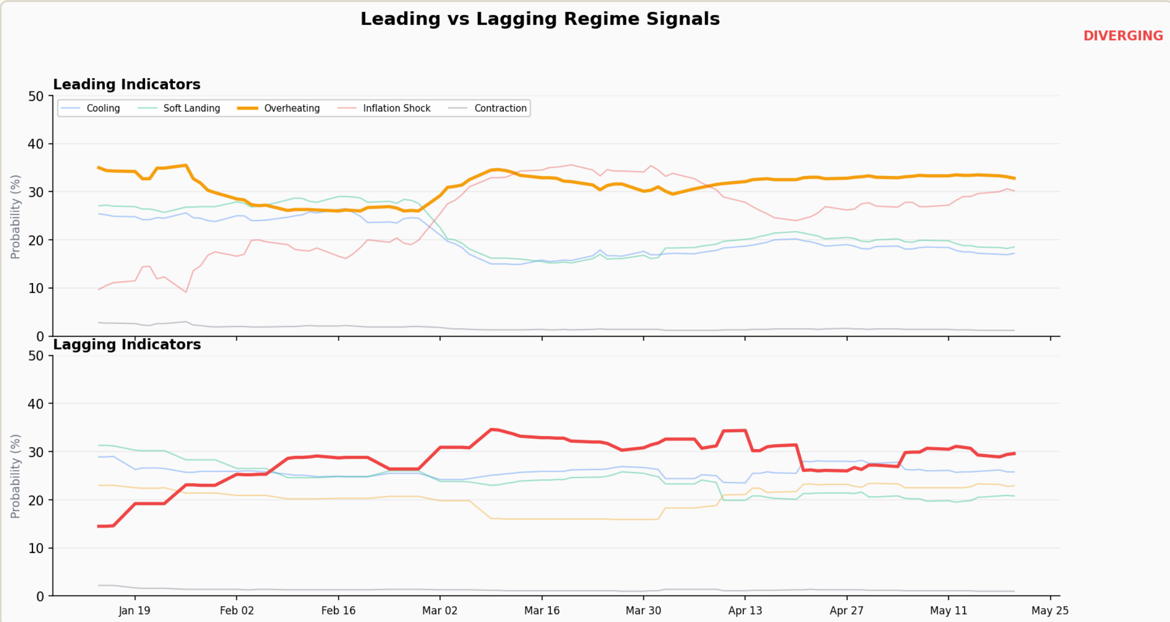
Asset Playbook

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 portfolio right now, you're experiencing something uncomfortable: your equity allocation is holding up better than it should, your bond allocation isn't providing the diversification you expect, and your cash is getting eaten alive by inflation that's running ahead of any yield you can find in money markets. The most surprising stance is the favorable view on gold, which isn't usually the asset that saves a 60/40 portfolio, but here we are.

The pressured stances on yields and credit spreads reflect that supply disruption explanation from the market confirmation section. When inflation is coming from energy and tariffs rather than demand, Treasuries don't get the flight-to-quality bid they usually enjoy during economic stress. Credit spreads are vulnerable, but they're getting support from the same dollar strength that's keeping equities afloat. None of this is comfortable, but it's all mechanically consistent with an economy caught between supply shocks and cooling demand.

Leading / Lagging Signal Alignment



The leading and lagging layers are diverging, and that divergence is accelerating rather than converging. Leading indicators are screaming Inflation Shock while lagging indicators still show traces of the Soft Landing setup that was in place before the tariff pass-through and energy disruption hit. When this happened in previous episodes, the convergence lag averaged about six weeks, with leading indicators proving correct roughly two-thirds of the time.

What makes this divergence particularly meaningful is the speed at which it developed. The layers were aligned as recently as early February, then split rapidly once the supply shocks became visible in the data. That's the signature of an external shock hitting an economy, not an internal dynamic playing out. The leading layer is picking up the new reality while the lagging layer is still processing the old one.

An early-warning divergence would look like leading indicators starting to move back toward Soft Landing while lagging indicators are still catching up to Inflation Shock. That would suggest the supply shocks are temporary and the underlying economy is reasserting itself. We're not seeing that yet. The leading layer is holding firm on Inflation Shock, which means the regime has room to run even if the lagging indicators eventually catch up.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	-0.7%	+16.8%	+0.74	351
QQQ	-0.7%	+10.9%	+0.38	351
IWM	-0.7%	+24.8%	+0.90	351
IEF	-0.5%	-10.3%	-1.27	351
TIP	-0.6%	-3.0%	-0.40	351
LQD	-0.4%	-6.3%	-0.64	351
HYG	+0.1%	+3.5%	+0.33	351
GLD	-2.4%	-2.0%	-0.11	351
XLE	+1.8%	+73.8%	+2.22	351
VEA	+0.2%	+10.1%	+0.47	351
VWO	-2.1%	-2.8%	-0.12	351

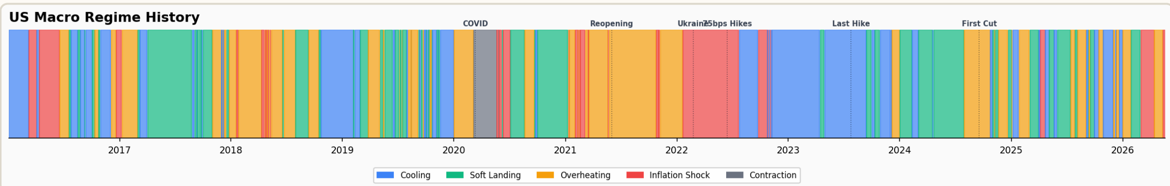
Historical returns measured over Inflation Shock regime days in backtest.

This week's performance looked nothing like what the regime historically delivers. Energy and precious metals were the big winners while technology got hammered, which is exactly backwards from what you'd expect in a typical Inflation Shock episode. The divergence tells you this isn't a typical episode. When supply disruption drives the inflation rather than demand overheating, you get sector rotation that doesn't match the historical playbook.

The most striking divergence is in technology, which historically holds up reasonably well during Inflation Shock periods but got crushed this week. That's the AI displacement fear and duration repricing doing work that has nothing to do with the regime. Energy's outperformance, on the other hand, is exactly what you'd expect when oil supply disruption is driving the inflationary pressure. The regime is working, but it's working through different channels than the historical average suggests.

The usual caveats apply with extra force this time. The historical sample includes episodes where inflation came from demand overheating, supply chain disruptions, monetary policy mistakes, and geopolitical shocks. This episode combines tariff pass-through with energy supply disruption, which is a relatively rare combination in the historical data. The regime framework is sound, but the specific asset rotation patterns might not match what happened in 1979 or 2008 or 2021.

10-Year Regime History



The closest historical parallel is the 2021-22 episode, but even that comparison breaks down quickly. Both periods featured supply-side inflation hitting an economy where policymakers were initially reluctant to respond aggressively. Both saw energy prices as a major driver. But the 2021-22 episode had massive fiscal stimulus and ultra-loose monetary policy amplifying the supply shocks. This time, you have supply shocks hitting an economy where demand was already cooling and fiscal policy is tightening.

The 2008 episode offers a different kind of parallel: geopolitical energy disruption combined with financial system stress. That episode lasted about four months before transitioning to Contraction as the financial crisis overwhelmed the inflationary pressures. The resolution mechanism was brutal but clear: demand destruction solved the inflation problem. The 1979-80 episodes were longer, lasting six to eight months, and resolved through aggressive monetary tightening that eventually broke the inflation psychology.

What's structurally different now is that the Fed doesn't have the same tools or the same willingness to use them. Unlike 1979, the unemployment rate is already above target. Unlike 2008, the financial system isn't the source of the problem. Unlike 2021, fiscal policy isn't adding fuel to the fire. The supply shocks are real, but the amplification mechanisms that made previous episodes so persistent aren't in place. That could mean a shorter duration, but it also means less clarity about what resolves it.

Market Context

Weekly ETF returns as of 2026-05-21 (vs 2026-05-14).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
XLE	Energy	$58.07	$59.13	+1.8%
VEA		$70.56	$70.69	+0.2%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
	Developed Markets			
HYG	HY Corporate	$79.85	$79.90	+0.1%
LQD	IG Corporate	$108.55	$108.17	-0.4%
IEF	7-10Y Treasury	$94.26	$93.80	-0.5%
TIP	TIPS	$111.01	$110.37	-0.6%
SPY	S&P 500	$748.17	$742.72	-0.7%
QQQ	Nasdaq 100	$719.79	$714.51	-0.7%
IWM	Russell 2000	$284.45	$282.49	-0.7%
VWO	Emerging Markets	$59.96	$58.70	-2.1%
GLD	Gold	**Positive but conflicted**	$416.99	-2.4%

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):** $+16,800/yr on $100K (historical Inflation Shock regime returns)
- **This week:** $-700 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure before your portfolio does. The jump at the pump translates directly to higher commuting costs, and if you're driving anything close to average miles, that's real money over the next few months. The timing is particularly rough because consumers were already spending more than they earned before energy prices spiked.

Your grocery bill is getting hit from two directions. The tariff pass-through that started showing up in February is now working through food imports, while higher diesel costs are pushing up transportation expenses for everything that moves by truck. The combination means your weekly shopping trip costs more even before you change what you buy.

Your 401(k) got a temporary boost from the equity rally, but that gain is sitting on top of an inflation problem the Fed can't easily solve. The real question is whether your portfolio can grow faster than your cost of living over the next year, and right now that's not a given.

Your mortgage payment stays the same if you're locked into a fixed rate, which makes you one of the winners in this environment. If you're renting or shopping for a home, you're dealing with the worst of both worlds: higher rates than a year ago and higher costs for everything else.

Your paycheck is losing ground to prices for the first time in months. Even if you get a raise this year, it's likely to lag behind the inflation you're experiencing at the gas pump and grocery store. That squeeze gets worse before it gets better.

Signal vs. Noise

Signal:

- Consumer credit stress indicators and spending-versus-income gaps - Energy timespreads and physical market tightness beyond flat price moves - Core services inflation trends that strip out the obvious one-time shocks - Labor market momentum changes, particularly in wage growth slowing - Commodity complex breadth, not just energy-driven moves

Noise:
- Individual stock reactions to political endorsements or sector rotation
- Daily oil price volatility without corresponding physical market changes - Short-term diplomatic headlines without concrete reopening frameworks - Technical chart patterns in equity indices during regime transitions - Currency moves driven by positioning rather than fundamental flows

The key distinction right now is separating supply-side shocks from demand-side acceleration. The former requires patience; the latter requires policy response. Most of the daily market noise is trying to guess which one you're looking at, but the underlying economic data makes the distinction clearer than the price action suggests.

What to Watch

March PCE data release on April 25. This is the inflation number that actually moves Fed policy. If core PCE accelerates beyond what tariff pass-through and energy can explain, that changes the entire patience-versus-action debate. **Weekly petroleum status reports through May.** Focus on product inventories, not just crude. Jet fuel and diesel shortages show up in these numbers before they hit consumer prices, and the timeline for European airport disruptions is measured in weeks. **Consumer credit data for March, due April 28.** Consumers were already borrowing to maintain spending before gas prices jumped. The credit card delinquency trends and revolving credit growth will tell you whether that gap is widening into something systemic. **Any concrete diplomatic framework for Strait reopening by May 1.** Not just talks or meetings, but actual operational agreements with timelines. Without that, the summer driving season becomes a much bigger problem than current oil prices suggest. **Core services inflation excluding shelter for the next two months.** This strips out both the energy shock and the tariff effects to show whether underlying demand pressures are building. Two consecutive months of acceleration would signal the shocks are bleeding into broader expectations.

What Would Change My Mind

If core services inflation accelerates for two consecutive months while wage growth re-accelerates above recent trends. That would mean the supply-side shocks are bleeding into demand-side expectations, and the Fed's patience becomes dangerous complacency. The model would shift toward Overheating within weeks, and the entire "wait it out" thesis collapses. The risk is that temporary shocks become permanent if they change how people think about future inflation. **If Saudi Arabia announces meaningful production increases or a credible diplomatic framework emerges for reopening the Strait.** Either development breaks the energy supply constraint that's driving half the inflation problem. Oil prices would fall not just on technical factors but on fundamental supply relief, and the summer spike risk disappears. The model would likely shift back toward Soft Landing as the tariff effects work through the system without energy amplification. **If the labor market deteriorates faster than inflation moderates.** Right now, unemployment is rising gradually while inflation spikes from identifiable shocks. But if jobless claims start climbing consistently while prices stay elevated, you get the worst of both worlds: stagflation dynamics where the Fed can't ease because inflation is too high and can't tighten because employment is too weak. That scenario doesn't fit cleanly into any of the five regimes, which is exactly why it would be so dangerous.

Personal Stakes

WHY MARKETS MOVE · WHY IT MATTERS TO YOU

Model output, not investment advice. Sources: FRED, Yahoo Finance, EIA, Caldara-Iacoviello GPR Index.