PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Friday, May 22, 2026

INFLATION SHOCK • 29.7%

Regime Call

CURRENT REGIME

Inflation Shock (29.7%)

Runner-up: Overheating (28.8%)

Confidence: Low (clarity 0.05, fit 0.52, market 0.4)

The model calls Inflation Shock as the most probable regime, though the margin over Overheating remains razor-thin. This is a regime defined by supply disruptions and policy-driven price pressures rather than demand overheating, which explains why the Fed's traditional tools feel inadequate for the moment. The confidence metrics reflect a model that sees the economic picture clearly but recognizes the inherent uncertainty when two regimes are essentially tied for the lead.

The narrow gap to the runner-up matters more than usual here. When Inflation Shock and Overheating are separated by less than a percentage point, you're looking at an economy that could tip either direction based on how the current shocks resolve. If the Strait of Hormuz reopens and tariff pass-through completes without bleeding into expectations, Overheating becomes the dominant story. If supply disruptions persist and start affecting wage negotiations, Inflation Shock solidifies its lead.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Inflation Shock	**29.7%**	29.9%	29.8%	+0.1
Overheating	**28.8%**	32.6%	22.9%	-0.5
Cooling	**20.8%**	17.5%	25.7%	+0.1
Soft Landing	**19.5%**	18.7%	20.7%	+0.2
Contraction	**1.2%**	1.4%	1.0%	+0.1

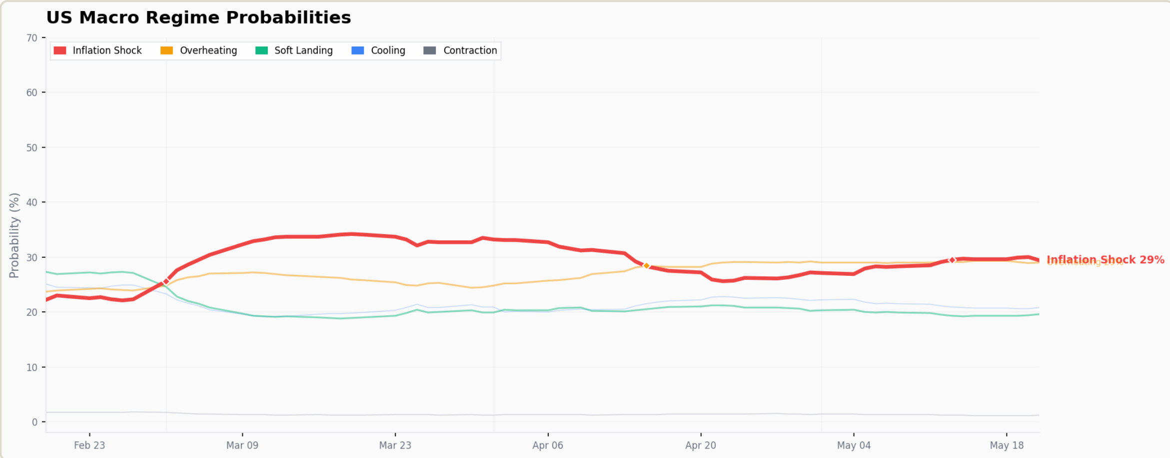
Convergence: diverging

The layer splits reveal an economy caught between what's happening now and what's coming next. The leading indicators still lean toward Overheating, suggesting the underlying demand dynamics remain strong. But the lagging indicators have shifted decisively toward Inflation Shock, reflecting the reality that supply disruptions and tariff pass-through are already showing up in the price data.

This divergence between leading and lagging layers is exactly what you'd expect when one-time shocks hit an otherwise resilient economy. The forward-looking data sees through the temporary disruptions to the underlying growth momentum. The backward-looking data captures the immediate price impact. The combined score splits the difference, which is why the top two regimes are so close.

Cooling and Soft Landing remain well behind, but their persistence in the probability mix reflects the labor market's continued looseness. Even with inflation running hot, unemployment is higher than the Fed would prefer, creating the policy dilemma that defines this moment. Contraction stays near the floor, suggesting the economy's underlying strength isn't in question despite the price pressures.

90-Day Regime History

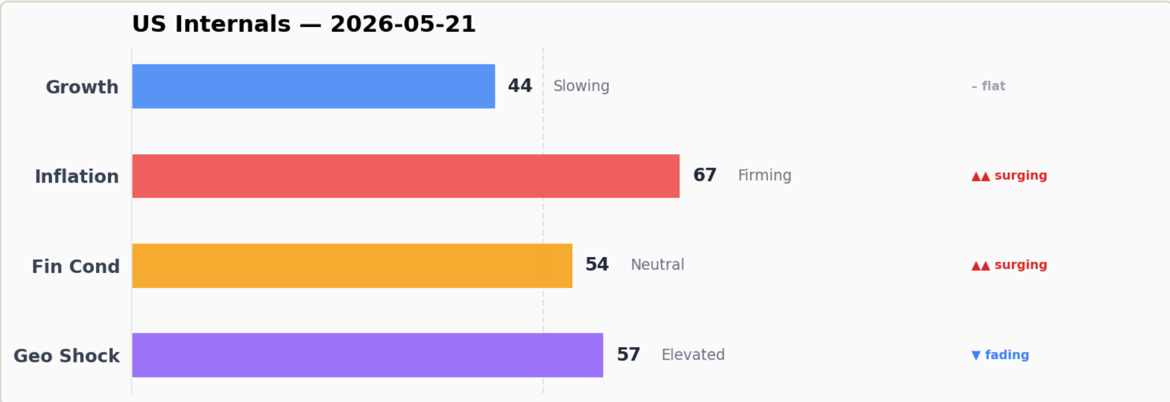


Inflation Shock took the lead in mid-February and has held it through a series of escalating supply disruptions. The transition wasn't sharp or sudden like a financial crisis would produce, but rather a steady climb as tariff pass-through showed up in the data and geopolitical tensions began affecting energy markets. The probability curve shows persistence rather than volatility, suggesting the regime call is driven by structural factors rather than market panic.

What's notable is how Overheating has stayed within striking distance throughout this period. In previous Inflation Shock episodes, you typically see other regimes fade as supply constraints dominate the narrative. This time, the underlying demand strength keeps Overheating relevant, creating the unusual situation where two regimes are essentially co-dominant.

The pace of change has been moderate and consistent rather than dramatic, which matches the nature of the current shocks. Tariff pass-through happens over months, not days. Supply chain disruptions build gradually until they reach critical thresholds. The model is tracking a slow-motion crisis rather than a sudden break, and the probability evolution reflects that measured deterioration.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	INFLATION SHOCK CENTROID	VS CENTROID	WEEK Δ
Growth	43.5	slowing	54 (stable)	48.7	-5.2	-0.5
Inflation	66.2	firming	100 (surging)	77.2	-11.0	-0.8
Financial Conditions	53.2	neutral	78 (surging)	56.9	-3.7	+0.8
Geopolitical Shock	55.7	elevated	27 (declining)	61.5	-5.8	-2.6

Growth

Growth remains in slowing territory with stable momentum, reflecting an economy that's decelerating but not collapsing. The consumer spending strength in February, even as real incomes turned negative, shows the kind of resilience that keeps growth from falling off a cliff.

But that same dynamic, spending outpacing income, sets up the deceleration that the axis is already detecting.

The stable momentum suggests this isn't a growth scare but rather a managed slowdown. Labor markets are loosening without breaking, and business investment remains positive even if it's not accelerating. This is what a cooling economy looks like when it's not being forced into recession by monetary policy but rather being slowed by external shocks.

Inflation

The inflation axis sits firmly in firming territory with surging momentum, capturing both the immediate impact of supply shocks and the building pressure from multiple sources. The March CPI print that jumped nearly a full percentage point in a single month is exactly what surging momentum looks like in the data. This isn't gradual price drift but rather sharp acceleration driven by identifiable factors.

What makes this reading particularly concerning is that it reflects both completed pass-through from tariffs and ongoing disruption from energy markets. The firming state suggests this isn't a temporary spike but rather a sustained shift in the inflation trajectory. The surging momentum indicates the pace of change is accelerating, not stabilizing.

Financial Conditions

Financial conditions remain neutral despite the inflation surge, with momentum that's surging in the restrictive direction. This captures the Fed's dilemma perfectly: conditions aren't tight enough to combat inflation, but they're tightening fast enough to threaten growth. The central bank is caught between an economy that needs easier conditions to support employment and tighter conditions to control prices.

The surging momentum toward restriction reflects markets doing some of the Fed's work through higher long-term rates and tighter credit spreads. But the neutral level suggests this market-driven tightening isn't sufficient to address the inflation problem. The Fed faces the choice between accepting higher inflation or risking a sharper economic slowdown by tightening into an already-cooling economy.

Geopolitical Shock

The geopolitical axis remains elevated but with declining momentum, reflecting a situation where the immediate crisis intensity has moderated even as the underlying problems persist. The Strait of Hormuz remains closed, but markets have had time to adjust expectations and begin working around the disruption. This is what declining momentum looks like when a shock moves from acute crisis to chronic problem.

The elevated level captures the ongoing supply disruption and the risk of escalation, while the declining momentum suggests the worst of the immediate market panic has passed. But this reading doesn't mean the problem is resolving, just that it's becoming a known quantity that markets can price rather than an unknown shock that creates panic.

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 tell a consistent story of supply-driven inflation: core PCE running well above target, gasoline prices surging, and headline CPI at levels not seen since the previous inflation episode. These aren't demand-driven price pressures but rather the direct result of tariff pass-through and energy supply disruption. The drivers confirm Inflation Shock because they point to external factors pushing prices higher rather than an overheated economy pulling them up.

The disconfirming signals highlight why this isn't a traditional inflation episode: core CPI remains below trend and wage growth is well below historical norms. In a classic demand-driven inflation, you'd see wages accelerating as tight labor markets bid up compensation. Instead, you're seeing the opposite, wages growing slowly even as prices surge. This tension between confirming price data and disconfirming wage data is what makes the current regime call complex and keeps Overheating close in the probability rankings.

Week in Review

WEEK SUMMARY (VS 2026-05-15)

REGIME	PRIOR	CURRENT	Δ
Inflation Shock	29.6%	29.7%	+0.1
Overheating	29.3%	28.8%	-0.5
Cooling	20.7%	20.8%	+0.1
Soft Landing	19.3%	19.5%	+0.2
Contraction	1.1%	1.2%	+0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	44.0	43.5	-0.5	slowing
Inflation	67.0	66.2	-0.8	firming
Fin Cond	52.4	53.2	+0.8	neutral
Geo Shock	58.3	55.7	-2.6	elevated

REGIME	LAST WEEK	THIS WEEK	CHANGE
Cooling	20.7%	20.8%	+0.1%
Soft Landing	19.3%	19.5%	+0.2%
Overheating	29.3%	28.8%	**-0.5%**
Inflation Shock	29.6%	29.7%	+0.1%
Contraction	1.1%	1.2%	+0.1%

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Growth	44.0	43.5	-0.5	slowing
Inflation	67.0	66.2	-0.8	firming
Financial Conditions	52.4	53.2	+0.8	neutral
Geopolitical Shock	58.3	55.7	**-2.6**	elevated

The biggest move this week was the geopolitical shock axis declining by nearly three points to 55.7, even as it remained in elevated territory. The trigger was the moderation in oil market panic that began Tuesday, when empty supertankers started heading toward the Gulf Coast and WTI crude began its retreat from the previous week's highs. Markets interpreted the tanker movement as supply relief, though the underlying problem of a closed Strait of Hormuz persists.

Overheating probability dropped by half a percentage point to 28.8% as growth momentum continued to decelerate and financial conditions tightened incrementally. The March CPI data that showed the hottest monthly gain since June 2022 paradoxically hurt Overheating's case because it confirmed supply-driven rather than demand-driven price pressures. Meanwhile, Inflation Shock held steady near 30%, gaining just a tenth of a percentage point despite the dramatic CPI print, because the model had already priced in the tariff pass-through and energy disruption effects.

Next week's setup hinges on whether the oil market's apparent stabilization holds through the weekend. The March PCE report, due Thursday, will provide the Fed's preferred inflation gauge and could shift the regime balance if it shows the price pressures spreading beyond energy and tariff-affected goods. Any escalation in Middle East tensions over the weekend could reverse this week's modest decline in geopolitical shock readings and push crude back toward triple digits when markets reopen Monday.

Market Confirmation

The market is delivering mixed confirmation of the Inflation Shock regime, with assets splitting along predictable lines. Gold and crude oil are behaving as expected, tracking the supply-driven price pressures that define this regime. But equities are diverging from the typical pattern, posting strong gains when Inflation Shock historically pressures risk assets.

The equity divergence has a mechanical explanation: this isn't demand-driven overheating that threatens corporate margins. It's supply-side disruption hitting an economy with underlying growth momentum still intact. The S&P 500's resilience reflects that distinction. When inflation comes from tariffs and closed shipping lanes rather than wage spirals and capacity constraints, stocks can rally even as prices rise. The dollar's behavior reinforces this read, staying strong enough to provide some offset to import price pressures without collapsing under policy uncertainty.

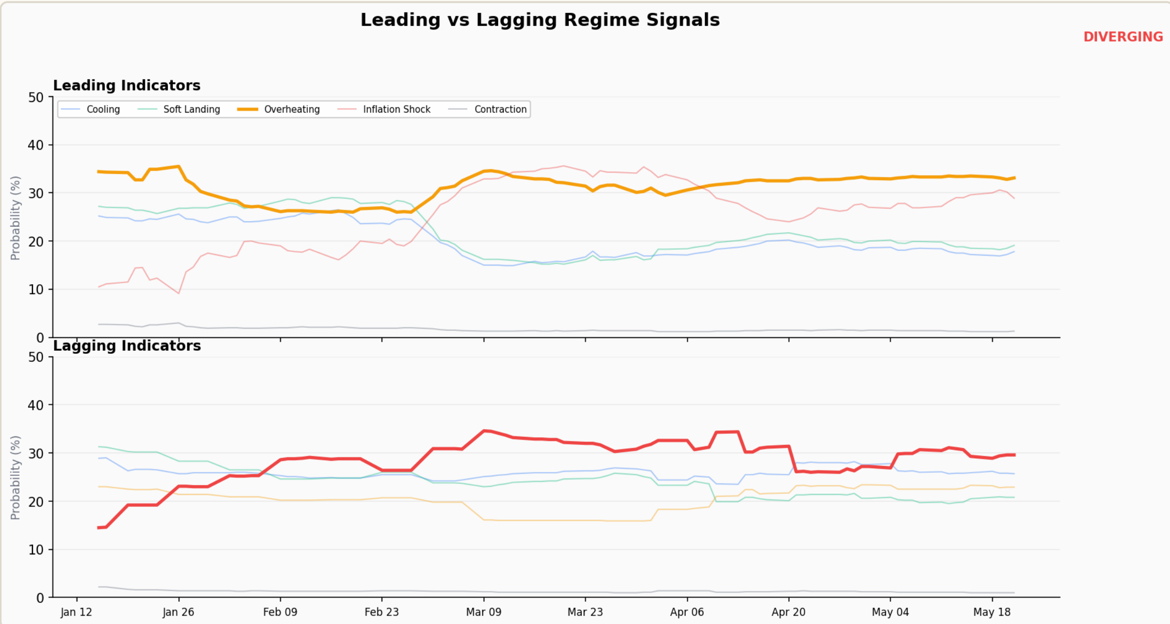
Asset Playbook

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

The model's asset stances reflect an economy caught between supply shocks and underlying resilience, creating a playbook that would challenge any traditional 60/40 allocation. Your equity exposure is getting favorable treatment while your bond allocation faces continued pressure from persistent inflation expectations. Credit sits in neutral territory, benefiting from the growth momentum that keeps default risk contained while facing pressures from the rate environment that supply-driven inflation creates.

The most surprising stance might be gold's favorable rating alongside equities. That combination typically signals deep uncertainty about policy effectiveness rather than a clear directional bet. When both risk assets and the ultimate hedge get favorable treatment, the model is essentially saying the traditional correlations don't apply to supply-driven inflation episodes. Your portfolio experiences this as a rare moment when diversification actually works, though the underlying tensions that create this dynamic aren't necessarily sustainable.

Leading / Lagging Signal Alignment



The leading and lagging layers are telling different stories, creating a divergence that captures the essential tension of this moment. Leading indicators still lean toward Overheating, reflecting the demand dynamics and growth momentum that persist beneath the surface disruptions. Lagging indicators have shifted decisively toward Inflation Shock, capturing the price pressures that are already showing up in the data. This split is exactly what you'd expect when one-time supply shocks hit an otherwise resilient economy.

The convergence mechanics here are unusual because the divergence isn't about timing lags in the normal sense. It's about different types of economic forces operating simultaneously. The forward-looking data sees through temporary disruptions to underlying strength. The backward-looking data captures immediate price impact. Historical episodes suggest this type of divergence can persist for months when supply shocks are ongoing rather than one-time events.

An early-warning signal for regime instability would be the leading layer shifting toward Inflation Shock, indicating that supply disruptions are starting to affect business investment and hiring decisions. Conversely, if lagging indicators begin rotating back toward Overheating, it would suggest the price shocks are translating into demand-driven acceleration rather than remaining supply-constrained. The current divergence actually supports regime stability by showing that each layer is responding appropriately to its relevant time horizon.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+0.9%	+17.0%	+0.75	352
QQQ	+1.2%	+11.1%	+0.39	352
IWM	+2.7%	+25.4%	+0.93	352
IEF	+0.4%	-10.2%	-1.26	352
TIP	-0.2%	-3.0%	-0.40	352
LQD	+0.5%	-6.2%	-0.63	352
HYG	+0.6%	+3.4%	+0.33	352
GLD	-0.8%	-2.5%	-0.14	352
XLE	+0.1%	+74.0%	+2.23	352
VEA	+2.0%	+9.8%	+0.46	352

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
VWO	+0.9%	-2.4%	-0.10	352

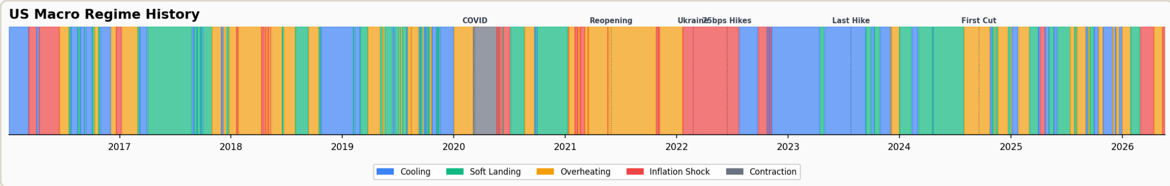
Historical returns measured over Inflation Shock regime days in backtest.

This week's market action shows the complexity of navigating supply-driven inflation, with performance patterns that don't match the clean historical playbook. Energy and commodity-exposed assets led the week's gains, while technology and duration-sensitive sectors faced continued pressure. The divergence between this week's winners and the broader historical returns during Inflation Shock episodes reflects the unique nature of the current supply disruptions.

Where this week's returns most clearly diverge from historical patterns is in the equity market's resilience. Traditional Inflation Shock episodes typically pressure risk assets more consistently, but the underlying growth momentum and the specific nature of current supply shocks are creating different dynamics. The commodity complex is performing exactly as the historical data would suggest, while fixed income continues to face the pressures that define this regime.

The usual caveats about backtesting apply with extra force here. Inflation Shock episodes are relatively rare in the historical sample, and each one has been driven by different combinations of supply disruptions, policy responses, and underlying economic conditions. The current episode's unique characteristics, particularly the combination of tariff pass-through and geopolitical supply constraints, may not map perfectly to historical precedents.

10-Year Regime History



The decade-long view reveals that Inflation Shock episodes tend to cluster around major supply disruptions and policy shifts, with the 2021-2022 period representing the most recent extended episode before the current one. That earlier episode was driven by pandemic-related supply chain disruptions combined with unprecedented fiscal and monetary stimulus, creating price pressures that persisted until supply chains normalized and monetary policy tightened aggressively. The current episode shares the supply disruption element but operates in a very different policy environment.

The historical pattern suggests Inflation Shock episodes resolve through some combination of supply normalization and demand cooling, but the current episode's unique characteristics make the resolution path less predictable. Unlike previous episodes that had clear policy levers or natural healing processes, today's supply disruptions require diplomatic solutions and trade policy changes that operate on different timelines than traditional economic adjustments.

Market Context

Weekly ETF returns as of 2026-05-22 (vs 2026-05-15).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
IWM	Russell 2000	$277.60	$285.12	+2.7%
VEA		$69.08	$70.46	+2.0%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
	Developed Markets			
QQQ	Nasdaq 100	$708.93	$717.54	+1.2%
SPY	S&P 500	$739.17	$745.64	+0.9%
VWO	Emerging Markets	$58.44	$58.98	+0.9%
HYG	HY Corporate	$79.46	$79.91	+0.6%
LQD	IG Corporate	$107.86	$108.37	+0.5%
IEF	7-10Y Treasury	$93.51	$93.88	+0.4%
XLE	Energy	$59.44	$59.49	+0.1%
TIP	TIPS	$110.61	$110.38	-0.2%
GLD	Gold	**Positive but conflicted**	$413.82	-0.8%

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):** $+17,000/yr on $100K (historical Inflation Shock regime returns)
- **This week:** $+900 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure before your portfolio does. The jump at the pump happened fast, and it's not done. If the shipping disruption persists through summer driving season, you're looking at sustained pressure on everything that moves by truck or plane, which is most of what you buy.

Your mortgage got slightly cheaper this week as bond markets decided inflation shocks aren't the same as growth overheating. The Fed isn't hiking into a supply crisis, so long-term rates can ease even while prices spike. That relief could reverse quickly if the supply disruptions start bleeding into wage negotiations.

Your 401(k) posted its best two-week stretch in months, riding the wave of investors who think supply shocks are temporary and growth momentum is intact. The historical odds favor that bet, but history didn't have to deal with a closed strait and an escalating trade war at the same time.

Your grocery bill is about to reflect the tariff pass-through that's been working through the system since January. The Fed estimates that process is nearly complete, which means the worst of the policy-driven price increases should be behind you by summer. The energy-driven increases are just getting started.

Your real purchasing power turned negative in February, before gas prices spiked. Paychecks are growing slower than prices, and the gap is widening. The labor market is loose enough that wage acceleration isn't likely, which means your spending power depends on how quickly these supply shocks resolve.

Signal vs. Noise

Signal:

- March CPI posting the biggest monthly jump since June 2022 - Consumer spending outpacing income growth for consecutive months -

Empty tankers heading to Gulf Coast ports while timespreads stay elevated - Gold rallying alongside equities, suggesting the stock bounce isn't an all-clear - Core services inflation accelerating despite loose labor markets

Noise:
- Weekly oil price volatility while the underlying supply constraint persists - SaaS sector collapse while broader markets hold steady - Presidential social media endorsements that can't stop individual stock slides - Diplomatic theater between major powers with no near-term resolution timeline - Fed officials repeating patience talking points while data deteriorates

The distinction right now comes down to duration. The signals reflect structural problems that take months to resolve: supply chain disruptions, tariff pass-through, geopolitical standoffs. The noise reflects daily market positioning, sector rotation, and political messaging that changes faster than the underlying economic reality.

What to Watch

April 15: March PCE inflation report. This is the number that actually moves Fed expectations, and it's running hotter than the CPI data you've been seeing. **April 18**: Consumer credit report for February. Spending outpaced income before gas prices spiked, so watch whether credit card balances and delinquencies are accelerating. **Any weekend**: Military escalation headlines from the Strait of Hormuz. Oil markets are pricing in partial reopening by summer. Any news suggesting that timeline is optimistic sends crude gapping higher on Monday. **May 2**: April employment report. If wage growth re-accelerates above recent trends, it means the supply shocks are bleeding into expectations. That flips the Fed's calculus from patience to concern. **Ongoing**: Jet fuel availability in European airports. The three-week countdown started this week. Actual rationing or flight cancellations would confirm the supply crisis is deeper than markets are pricing.

What Would Change My Mind

The regime call assumes these are identifiable one-time shocks hitting an otherwise resilient economy. Two things would flip that view.

First, if core services inflation accelerates for two consecutive months while stripping out energy and tariff-affected goods. That would mean the shocks are bleeding into wage negotiations and rent-setting behavior. The Fed's patience becomes complacency, and you're looking at a 1970s-style expectations spiral rather than a temporary supply disruption. The model would shift decisively toward persistent Inflation Shock within sixty days.

Second, if a credible diplomatic framework emerges for reopening the Strait of Hormuz, or if Saudi Arabia announces meaningful production increases to offset the lost barrels. Either development breaks the summer spike thesis and returns focus to the underlying demand dynamics. The regime probabilities would flip back toward Overheating within weeks, not months.

The price of being wrong on the first scenario is missing the transition from temporary to persistent inflation, which historically requires much more aggressive Fed action. The price of being wrong on the second is overestimating the duration of supply constraints and missing the return to demand-driven growth dynamics. Both mistakes are expensive, but in opposite directions.

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