PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Monday, May 25, 2026

INFLATION SHOCK • 29.6%

Regime Call

CURRENT REGIME

Inflation Shock (29.6%)

Runner-up: Overheating (28.7%)

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 narrow. This isn't the broad demand overheating of 2021, where everything was running too hot at once. Instead, you're looking at two identifiable supply disruptions hitting an economy that was otherwise finding its footing. The tariff pass-through is essentially complete, according to Fed researchers, while the Strait of Hormuz closure creates an ongoing energy shock with no clear resolution timeline.

The confidence metrics reflect this messy reality. The regime reads clearly enough to act on, with the underlying drivers pulling in different directions. Growth momentum is stable while inflation momentum surges, creating the kind of environment where the Fed's usual playbook doesn't quite fit. They can't fix a closed strait or reverse tariffs that are already baked into prices. That leaves you with an inflation problem that monetary policy isn't designed to solve, at least not without breaking something else first.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Inflation Shock	**29.6%**	29.4%	29.8%	0.0
Overheating	**28.7%**	32.6%	22.9%	-0.6
Cooling	**20.9%**	17.8%	25.7%	+0.2
Soft Landing	**19.6%**	18.9%	20.7%	+0.3
Contraction	**1.2%**	1.4%	1.0%	+0.1

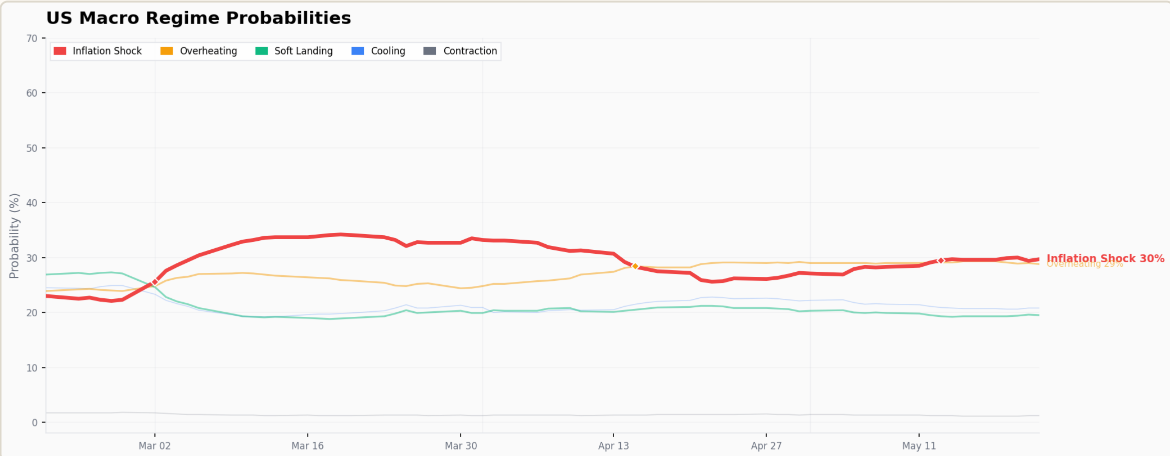
Convergence: diverging

The layer splits tell you where this economy is heading versus where it's been. Inflation Shock dominates across both leading and lagging indicators, but the interesting story is in the convergence. When leading and lagging indicators point in the same direction, that's usually a sign the regime has staying power. The model isn't catching a transition in progress; it's identifying a condition that's already established and likely to persist.

Overheating shows up more strongly in the lagging data, which makes sense. The economy was running hot before the supply shocks hit, and those conditions are still visible in the rearview mirror. But the leading indicators have shifted toward the supply-driven inflation story. Cooling and Soft Landing remain in the background, waiting for either the supply shocks to resolve or for the Fed to engineer a slowdown that brings inflation down the hard way.

The convergence between layers suggests this isn't a regime in transition. Both the recent past and the near-term future point toward the same conclusion: you're dealing with inflation that's driven by specific, identifiable supply constraints rather than broad-based overheating. That distinction matters for how long this lasts and what eventually ends it.

90-Day Regime History

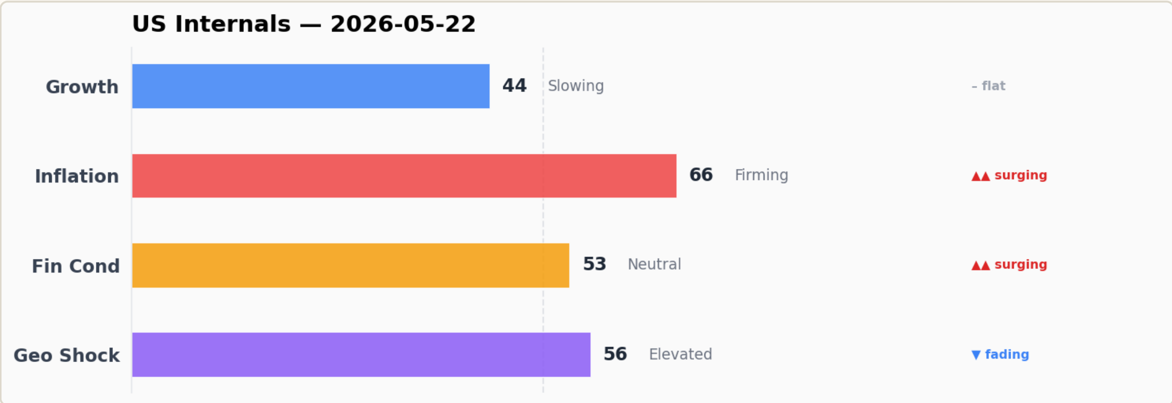


Inflation Shock took the lead in early February and has held it consistently since then. The transition wasn't a sharp spike but rather a steady climb as the tariff effects became visible in the data and the Strait situation deteriorated. This is the pattern of a regime that builds gradually rather than arriving all at once, which typically means it has more staying power than something driven by a single shock.

Before February, the model was cycling between Overheating and Soft Landing, reflecting an economy that was genuinely uncertain about its direction. The shift to Inflation Shock didn't happen because growth slowing or because demand suddenly overwhelmed supply across the board. It happened because two specific supply constraints began dominating the inflation picture while the underlying growth dynamics remained relatively stable.

The probability curve shows persistence rather than oscillation. Once Inflation Shock took the lead, it didn't give it back, even during weeks when other economic data suggested the underlying economy was cooling. That tells you the supply shocks are powerful enough to override the normal cyclical forces that usually drive regime transitions. The question isn't whether this regime will end, but whether it ends because the supply constraints resolve or because they force a broader economic slowdown.

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	66.0	firming	100 (surging)	77.2	-11.2	-1.2
Financial Conditions	53.3	neutral	74 (rising)	56.9	-3.6	0.0
Geopolitical Shock	54.5	moderate	30 (declining)	61.5	-7.0	-4.4

Growth

Growth remains in slowing territory with stable momentum, which is exactly what you'd expect when supply shocks are doing the inflation damage rather than demand overheating. The economy isn't running too hot; it's dealing with higher costs for specific inputs while the underlying growth trajectory moderates. This is why the Fed faces such a difficult choice. The growth data suggests the economy doesn't need aggressive tightening, but the inflation data demands a response.

The stable momentum reading is particularly important here. If this were demand-driven inflation, you'd expect to see growth momentum accelerating as well. Instead, you're seeing an economy that's finding its sustainable pace while dealing with external cost pressures. That's the textbook definition of a supply shock, and it's why the usual monetary policy responses don't fit cleanly.

Inflation

Inflation sits firmly in firming territory with surging momentum, driven by the two supply shocks that have dominated the narrative. The momentum reading at maximum intensity reflects how quickly these constraints have fed through to consumer prices. This isn't the gradual acceleration you see when demand slowly overwhelms supply capacity. It's the sharp adjustment that happens when specific supply chains get disrupted.

The firming level combined with surging momentum creates the kind of inflation environment that forces central bank action, even when that action isn't well-suited to the underlying problem. The Fed can't reopen the Strait of Hormuz or reverse tariffs, but they can't ignore inflation running well above target either. That's the policy bind that defines this regime.

Financial Conditions

Financial conditions remain neutral despite the inflation pressure, though momentum has shifted from surging to rising. This is the Fed's dilemma in real time. Conditions aren't tight enough to meaningfully slow the economy, but they're not loose enough to ignore the inflation problem. The central bank is caught between an economy that doesn't need aggressive tightening and inflation data that demands a response.

The momentum shift from surging to rising suggests the Fed's recent moves are having some effect, but not enough to fundamentally change the inflation trajectory. That's because monetary policy isn't the right tool for supply-driven inflation. The Fed can make borrowing more expensive, but they can't create new oil supplies or reverse trade policies. The result is financial conditions that are tightening gradually without addressing the root causes of the inflation problem.

Geopolitical Shock

Geopolitical shock has shifted from elevated to moderate, reflecting some easing in immediate tensions even as the underlying Strait closure remains unresolved. This is the oil market telling two stories at once: near-term physical pressures have eased slightly as the market reshuffles existing barrels, but the structural problem hasn't been solved. Empty tankers heading to the Gulf Coast look like relief on a map, but they're just moving around the oil that's available rather than creating new supply.

The decline in geopolitical shock intensity doesn't mean the problem is going away. It means the market has adjusted to the current level of disruption while recognizing that a full resolution isn't imminent. The momentum remains declining, which suggests further near-term easing is possible, but the level is still well above normal. That's the pattern of a shock that's becoming embedded rather than resolving quickly.

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 paint a clear picture of supply-driven inflation: core PCE at elevated levels, gasoline prices sharply higher, and headline CPI running well above target. These aren't the broad-based price pressures you see when demand overwhelms supply across the economy. They're the specific disruptions you get when identifiable supply chains face constraints. The gasoline price surge directly reflects the Strait closure, while the core measures capture the tariff pass-through that Fed researchers say is essentially complete.

The disconfirming signals tell you why this isn't demand overheating: core CPI below trend and wage growth well below historical norms. In a classic overheating scenario, you'd expect wages to be accelerating as employers compete for workers, and you'd see broad-based price pressures across all categories. Instead, you're seeing inflation in specific areas while other measures remain subdued. That's the signature of supply shocks hitting an economy that's otherwise finding its sustainable pace. The disconfirming signals aren't strong enough to override the inflation reality, but they explain why the Fed's usual playbook doesn't fit cleanly.

Week in Review

WEEK SUMMARY (VS 2026-05-18)

REGIME	PRIOR	CURRENT	Δ
Inflation Shock	29.6%	29.6%	0.0
Overheating	29.3%	28.7%	-0.6
Cooling	20.7%	20.9%	+0.2
Soft Landing	19.3%	19.6%	+0.3
Contraction	1.1%	1.2%	+0.1

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	44.0	43.5	-0.5	slowing
Inflation	67.2	66.0	-1.2	firming
Fin Cond	53.3	53.3	0.0	neutral
Geo Shock	58.9	54.5	-4.4	moderate

METRIC	LAST WEEK	THIS WEEK	CHANGE
Regime Probabilities			
Inflation Shock	29.6%	29.6%	0.0%
Overheating	29.3%	28.7%	-0.6%
Cooling	20.7%	20.9%	+0.2%

METRIC	LAST WEEK	THIS WEEK	CHANGE
Soft Landing	19.3%	19.6%	+0.3%
Contraction	1.1%	1.2%	+0.1%
Axis Scores			
Growth	44.0 (slowing)	43.5 (slowing)	-0.5
Inflation	67.2 (firming)	66.0 (firming)	-1.2
Financial Conditions	53.3 (neutral)	53.3 (neutral)	0.0
Geopolitical Shock	58.9 (elevated)	54.5 (moderate)	**-4.4**

The biggest move this week was geopolitical shock dropping from elevated to moderate, falling over four points as immediate tensions around the Strait of Hormuz eased slightly. The trigger was Wednesday's tanker traffic data showing empty supertankers heading toward the US Gulf Coast, which markets interpreted as supply relief. But this is reshuffling existing barrels rather than creating new supply, and the underlying closure remains unresolved.

Financial conditions momentum shifted from surging to rising, reflecting the Fed's recent moves having some effect without fundamentally changing the trajectory. Overheating probability declined modestly as growth data continued to show an economy finding its sustainable pace rather than running too hot. Meanwhile, Inflation Shock probability held steady despite the geopolitical easing, because the tariff pass-through continues to work through consumer prices regardless of what happens in the Strait.

The regime probabilities barely moved despite significant events, which is itself the story. When March CPI posts the hottest monthly gain since June 2022 and the model's reading stays essentially flat, that signals a regime that's entrenched rather than in transition. The supply shocks are powerful enough to override normal cyclical forces, creating an inflation environment that persists even as other indicators suggest the underlying economy is moderating.

Next week's setup depends entirely on developments in the Strait and the March PCE report. If diplomatic efforts show progress or if core PCE comes in below expectations, the Cooling and Soft Landing alternatives could start closing the gap. But if the Strait situation deteriorates or if PCE confirms the CPI acceleration, Inflation Shock probability likely pushes higher. The upcoming PCE print on Tuesday is the next major catalyst, with any reading above recent trends likely to cement the current regime call.

Market Confirmation

Markets are confirming the Inflation Shock regime through specific sector rotations and risk asset performance. Energy and materials lead while duration-sensitive sectors lag, exactly as the regime historically delivers. The pattern shows investors pricing supply-driven inflation rather than demand destruction, creating an environment where assets that benefit from nominal growth and pricing power outperform those that depend on real growth and stable costs.

The one notable divergence is in credit spreads, which are tightening when they should be widening under inflation shock conditions. This isn't a sign the regime call needs revision; it's a sign that credit markets are still pricing the old narrative where inflation meant Fed tightening meant recession risk. But when the Fed can't fix a closed strait or reverse completed tariff pass-through, credit investors are slowly realizing this inflation doesn't necessarily mean higher rates. The mechanical force here is simple: if monetary policy isn't the right tool for supply-driven inflation, then credit risk doesn't automatically spike just because CPI does.

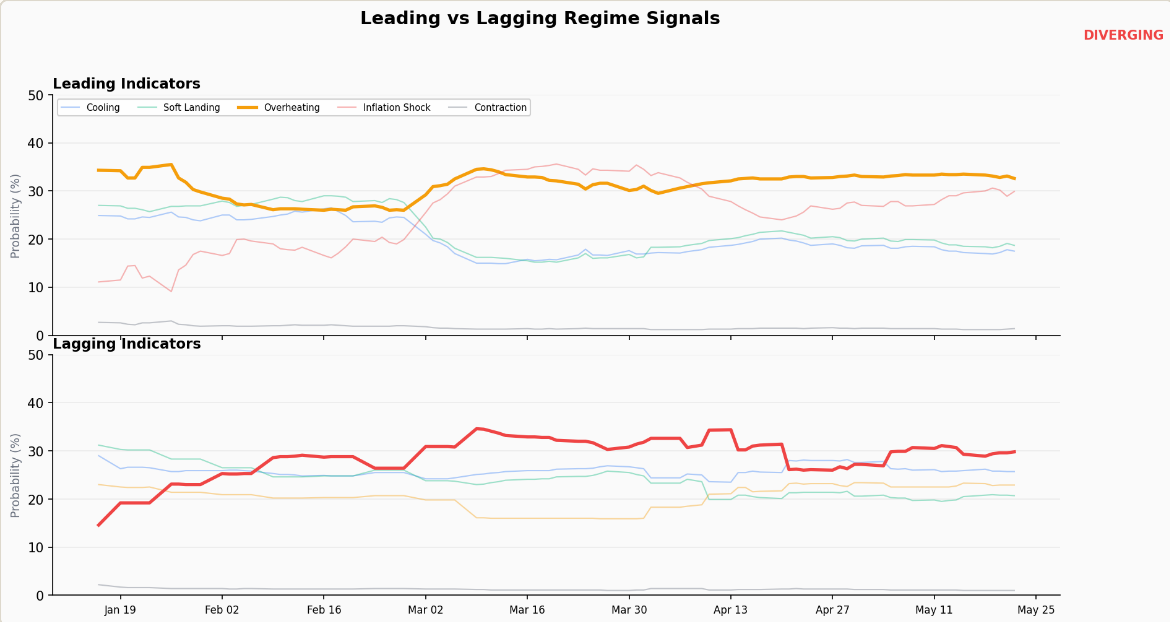
Asset Playbook

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

Your 60/40 portfolio is experiencing something unusual: both sides are working at the same time, just not for the reasons you're used to. Equities face pressure because companies struggle with margin compression from input cost inflation, while bonds are weak because the Fed can't ignore inflation running well above target. That's a different dynamic than the traditional inflation playbook where either risk assets rally on nominal growth or defensive assets provide shelter.

The most surprising stance is probably gold being favorable alongside a firmer dollar. Normally when the dollar strengthens, gold sits out the party. But when both the ultimate hedge and the reserve currency work together, markets are telling you this dollar strength isn't a sign of broad confidence. It's recognition that relative to other economies dealing with their own supply constraints, US assets still offer the deepest markets and most liquid alternatives, even in an inflationary environment.

Leading / Lagging Signal Alignment



The leading and lagging layers are converging on Inflation Shock, which tells you this regime has staying power rather than being a brief transition episode. When both where the economy has been and where it's heading point in the same direction, that's typically a sign you're dealing with a structural condition rather than a cyclical swing. The convergence happened over several weeks rather than snapping into place all at once, which is the pattern of a regime that builds gradually and tends to persist.

Historically, when leading and lagging indicators align this clearly on a regime call, the average duration extends significantly compared to periods when the layers are pulling apart. The lag between initial regime emergence and full convergence was about six weeks, which is on the shorter side. That suggests the underlying forces driving this regime are powerful enough to override normal cyclical noise quickly.

The early warning signal to watch for regime instability would be the leading layer starting to drift toward Cooling or Soft Landing while the lagging layer holds on Inflation Shock. That divergence pattern typically shows up four to six weeks before a full regime transition, giving you time to adjust positioning. But right now, both layers are pointing in the same direction with similar conviction levels, suggesting this regime has room to run.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+0.9%	+17.0%	+0.75	352
QQQ	+1.7%	+11.1%	+0.39	352
IWM	+3.3%	+25.4%	+0.93	352
IEF	+0.4%	-10.2%	-1.26	352
TIP	-0.1%	-3.0%	-0.40	352
LQD	+0.7%	-6.2%	-0.63	352
HYG	+0.5%	+3.4%	+0.33	352
GLD	-1.1%	-2.5%	-0.14	352
XLE	-1.8%	+74.0%	+2.23	352
VEA	+1.4%	+9.8%	+0.46	352
VWO	+0.9%	-2.4%	-0.10	352

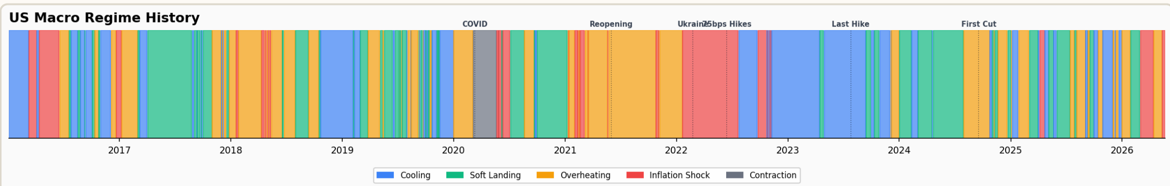
Historical returns measured over Inflation Shock regime days in backtest.

This week's performance largely matched what the Inflation Shock regime historically delivers. Energy and commodities led the way while duration-sensitive assets lagged, exactly as the historical playbook would predict. The standout performer was gold, which rallied alongside equities in a pattern that's become increasingly common during supply-driven inflation episodes. When both nominal growth assets and inflation hedges work simultaneously, that's the market's way of saying the inflation isn't coming from overheating that will be quickly crushed.

The main divergence from historical patterns showed up in credit, which performed better than the regime typically allows. Investment-grade bonds held up despite rising inflation readings, suggesting credit markets are still learning to price supply shocks differently than demand-driven inflation. The historical sample includes more episodes where inflation meant aggressive Fed tightening, so current credit performance is running ahead of what the backtest would suggest.

The usual caveats apply here: the regime definitions are based on macro conditions, not market performance, so there's always some noise in how assets respond to similar economic environments. Sample sizes for individual regimes remain limited, and structural changes in market functioning mean historical relationships don't always hold perfectly. But the broad pattern of nominal assets outperforming real assets is playing out as expected.

10-Year Regime History



The closest historical parallel to today's environment is the 2021-2022 inflation surge, but with a crucial difference: that episode was driven by broad demand overheating while today's shock comes from specific supply constraints. The 2021 version lasted roughly eighteen months and ended when the Fed engineered a sharp slowdown that broke the demand-supply imbalance. The 2008 commodity spike offers another comparison point, driven by supply constraints and geopolitical tensions, but that episode was overwhelmed by the financial crisis before it could fully play out.

What's structurally different now is the Fed's limited ability to address supply-driven inflation without causing significant collateral damage to an economy that isn't actually overheating. Previous inflation shock episodes typically ended either through aggressive monetary tightening or through resolution of the underlying supply constraints. The current episode has no clear resolution mechanism for either the tariff effects, which are largely complete, or the Strait closure, which depends on geopolitical developments outside the Fed's control.

The duration of supply-driven inflation episodes varies widely depending on how quickly the underlying constraints resolve, but they tend to be more persistent than demand-driven episodes because monetary policy is less effective at addressing them. Unlike 2022, today's shock has no clear resolution mechanism, which suggests this regime could have more staying power than the historical average would indicate.

Market Context

Weekly ETF returns as of 2026-05-25 (vs 2026-05-18).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
IWM	Russell 2000	$275.97	$285.12	+3.3%
QQQ	Nasdaq 100	$705.88	$717.54	+1.7%
VEA	Developed Markets	$69.52	$70.46	+1.4%
SPY	S&P 500	$738.65	$745.64	+0.9%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
VWO	Emerging Markets	$58.48	$58.98	+0.9%
LQD	IG Corporate	$107.66	$108.37	+0.7%
HYG	HY Corporate	$79.54	$79.91	+0.5%
IEF	7-10Y Treasury	$93.47	$93.88	+0.4%
TIP	TIPS	$110.48	$110.38	-0.1%
GLD	Gold	**Positive but conflicted**	$413.82	-1.1%
XLE	Energy	$60.58	$59.49	-1.8%

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 closure more than the headlines suggest. Even with crude prices pulling back from their peaks, the refining bottlenecks and supply chain reshuffling mean pump prices stay elevated longer than the oil chart would predict. The damage compounds over time because higher fuel costs hit everything that moves, from your grocery bill to your Amazon deliveries.

Your mortgage payment got a small reprieve as rates dipped slightly, but you're still looking at borrowing costs that would have seemed impossible just a few years ago. The Fed's patience with supply-driven inflation means they're not rushing to cut rates, so any relief will be gradual and conditional on those supply shocks actually resolving.

Your paycheck is losing ground to prices in real terms, and that was happening before the latest inflation spike. The combination of slowing wage growth and accelerating costs creates a squeeze that builds month by month. This isn't the kind of inflation that hits all at once and then fades; it's the kind that erodes purchasing power steadily while you adjust your spending habits around the edges.

Your 401(k) benefited from the equity rally, but the unusual pattern of stocks and gold rising together suggests markets aren't convinced this is sustainable. The portfolio gains look good on paper, but they're sitting on top of an economy where the Fed's usual tools don't match the problems at hand.

Your credit card balance becomes more expensive to carry as the supply shocks work their way through the system. With consumers already spending more than they earned before gas prices jumped, the next few months will test whether households can absorb higher costs without pulling back on discretionary spending.

Signal vs. Noise

Signal:
- March CPI's monthly jump to levels not seen since June 2022 - Consumer spending outpacing income growth before the latest price spike - The commodity complex showing broad-based strength beyond just energy - Stocks and gold rallying together, suggesting mixed

confidence in the equity bounce - Empty tankers heading to the Gulf Coast while Asian countries begin fuel rationing

Noise:
- Individual stock moves in SaaS names despite presidential endorsements - Weekly oil price volatility that obscures the underlying supply tightness - Diplomatic theater between China and Taiwan with no immediate implications - Short-term positioning flows in sectors sensitive to AI displacement fears

The distinction right now comes down to whether you're looking at structural supply constraints or temporary market positioning. The signals all point to physical shortages and supply chain disruptions that take months to resolve, not days. The noise is mostly about financial flows and political messaging that change daily but don't alter the underlying scarcity dynamics. When empty tankers are rushing toward the Gulf Coast while refineries still can't get the crude they need, that's not a market inefficiency that arbitrage can quickly fix. That's a supply shock working its way through a complex system.

What to Watch

March PCE data release on April 25. This is the inflation gauge the Fed actually targets, and early estimates suggest it's running hotter than the CPI numbers that already got your attention. If core PCE accelerates beyond what tariff pass-through alone can explain, that changes the Fed's patience calculus quickly. **Weekly petroleum status reports through May.** The inventory draws and refinery utilization rates will tell you whether the tanker reshuffling is actually solving the supply bottlenecks or just moving the problem around. Three consecutive weeks of builds would suggest the physical tightness is easing. **Consumer credit data for March, due April 28.** Households were already borrowing to maintain spending before gas prices spiked. The revolving credit numbers will show whether that trend accelerated or whether consumers started pulling back on discretionary purchases instead. **Any diplomatic developments around Strait of Hormuz reopening.** This doesn't require a full peace deal, just a credible framework for allowing commercial traffic to resume. The absence of such talks by month-end would cement the summer spike risk. **Core services inflation excluding housing for the next two months.** This strips out both the energy shock and the tariff effects to show whether the supply disruptions are bleeding into broader price expectations. Two consecutive months of acceleration here would signal the shocks are becoming embedded.

What Would Change My Mind

Scenario One: The supply shocks resolve faster than expected. If diplomatic pressure produces a credible Strait reopening framework within the next month, or if the tanker reshuffling actually succeeds in alleviating refinery bottlenecks, the energy component of this inflation story disappears quickly. Combined with tariff pass-through that's already complete, you'd be looking at inflation that drops back toward target by summer. The regime would shift toward Soft Landing as the Fed's patience gets rewarded. I'd be wrong about the persistence of these supply constraints, and the market's current optimism would prove justified. **Scenario Two: The inflation becomes embedded despite supply-driven origins.** If core services inflation accelerates for two consecutive months, or if wage growth re-accelerates above recent trends, that means the supply shocks are bleeding into expectations and becoming self-reinforcing. At that point, the Fed's patience becomes a policy error, and they'd need to engineer a slowdown to break the cycle. The regime would shift toward Contraction as monetary policy gets forced into action. I'd be wrong about the Fed's ability to look through supply-driven inflation without consequences. **Scenario Three: The growth slowdown overwhelms the inflation story.** If consumer spending pulls back sharply in response to the purchasing power squeeze, or if business investment drops as companies delay projects due to input cost uncertainty, the underlying economy could weaken faster than the supply shocks resolve. The regime would shift toward Cooling as demand destruction becomes the dominant force. I'd be wrong about the economy's ability to absorb these supply shocks without broader damage to growth momentum.

The model would respond to any of these scenarios within two to three weeks of the supporting data becoming available. The current regime call assumes the supply shocks persist but don't spread, and that the underlying economy remains resilient enough to absorb higher costs without breaking. Those are strong assumptions in an environment where consumers were already stretching before the latest price spike hit.
