PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Tuesday, May 26, 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 0.2)

The model calls Inflation Shock as the most probable regime, though by the narrowest margin we've seen in months. The gap to the runner-up has compressed to almost nothing, creating a regime environment that's more about the tight race than the leader itself. When probabilities cluster this closely, you're looking at an economy that could tip in multiple directions depending on which data points land next.

The confidence metrics reflect this uncertainty. The model is seeing clear patterns in the data, but those patterns are pointing toward multiple outcomes simultaneously. That's not model confusion, that's economic reality. We're in a moment where tariff pass-through, energy supply disruptions, and cooling growth momentum are all happening at once, creating legitimate uncertainty about which force dominates.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Inflation Shock	**29.6%**	29.1%	30.1%	-0.3
Overheating	**28.7%**	32.6%	23.0%	-0.4
Cooling	**20.9%**	17.9%	25.5%	+0.3
Soft Landing	**19.6%**	19.0%	20.4%	+0.3
Contraction	**1.2%**	1.4%	1.0%	+0.1

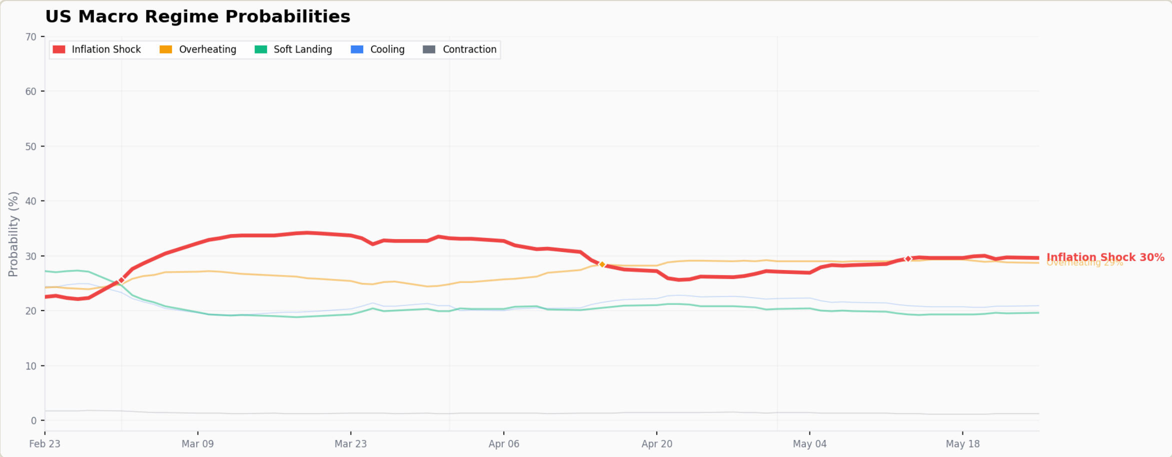
Convergence: diverging

The layer splits reveal where the economy is heading versus where it's been. The leading indicators show a much tighter race between regimes, with Inflation Shock and Overheating nearly tied, while Cooling and Soft Landing scenarios remain viable. The lagging layer tells a different story, with Inflation Shock holding a clearer advantage as recent price pressures work their way through the data.

This divergence between leading and lagging layers suggests we're in a transition period. The inflationary pressures that drove recent months are still visible in backward-looking data, but forward-looking indicators are picking up signs that growth momentum is softening. The combined scores split the difference, which is why the regime probabilities are so compressed.

The convergence reading captures this dynamic perfectly. When leading and lagging indicators point in different directions, the model appropriately reduces confidence in any single outcome. That's not a bug, it's a feature. The economy is genuinely uncertain right now, and the probabilities reflect that reality.

90-Day Regime History

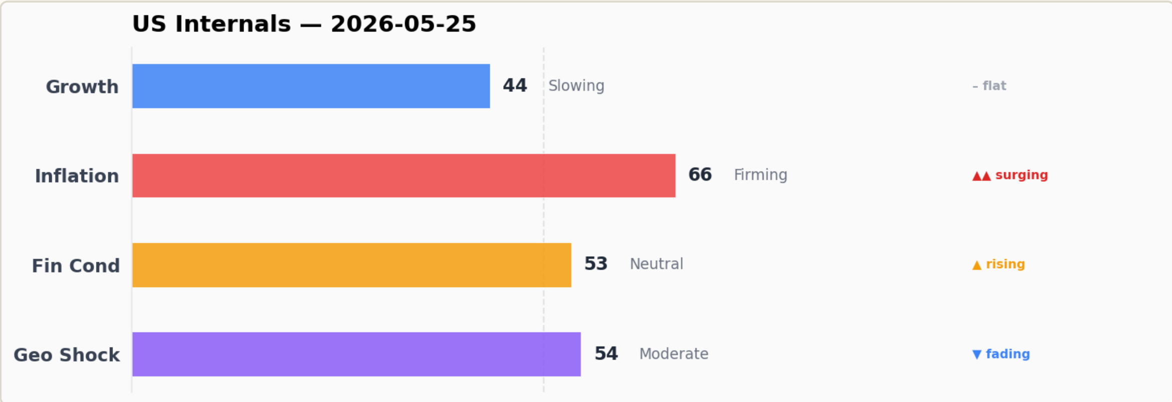


Inflation Shock took the lead in early February and has held it since, but the margin has been steadily compressing. The initial spike was sharp, driven by tariff implementation and the first signs of energy supply disruption. But rather than building on that lead, the regime has been slowly losing ground as growth data softened and some price pressures proved more transitory than persistent.

The shape of the probability curve tells the story of an economy caught between forces. The sharp initial rise reflected genuine inflationary pressure, but the gradual decline since suggests those pressures aren't self-reinforcing the way they were in 2021-22. Overheating has been the consistent runner-up, gaining ground whenever growth data surprises to the upside, but never quite overtaking the leader.

What's notable is the persistence of the top regime despite weakening fundamentals. Inflation Shock has held the lead for six weeks now, even as some of its key drivers have moderated. That suggests the regime has enough momentum to weather temporary setbacks, but not enough to pull away from the field. The timeline shows a regime that's leading but not dominating.

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	65.8	firming	100 (surging)	77.2	-11.4	-1.5
Financial Conditions	52.9	neutral	73 (rising)	56.9	-4.0	-1.0
Geopolitical Shock	54.1	moderate	33 (declining)	61.5	-7.4	-6.2

Growth

The growth axis sits in slowing territory with stable momentum, reflecting an economy that's decelerating but not collapsing. The recent softness in employment data and consumer spending has pushed the reading lower, but not dramatically so. This is a controlled slowdown, not a sudden stop.

The stable momentum reading is doing important work here. It suggests the growth deceleration isn't accelerating, which would be the pattern you'd see before a more serious downturn. Instead, you're getting a gradual cooling that's consistent with either a soft landing or a continued expansion at below-trend rates. The axis is contributing to regime uncertainty by not providing a clear directional signal.

Inflation

The inflation axis remains in firming territory with surging momentum, driven by the one-two punch of tariff pass-through and energy supply disruptions. The March CPI print that showed the largest monthly gain since June 2022 is exactly what this reading predicted. The momentum remains at maximum levels, suggesting inflationary pressures aren't done yet.

But here's what the axis reading doesn't capture: the composition of that inflation matters enormously for policy. The firming score reflects broad price pressures, but the underlying drivers are largely supply-side shocks that monetary policy can't address. The axis correctly identifies the inflationary environment, but the Fed's response function is more complicated than the score alone suggests.

Financial Conditions

Financial conditions sit in neutral territory but with rising momentum, creating the Fed's central dilemma. Conditions aren't tight enough to meaningfully constrain economic activity, but they're not loose enough to provide significant stimulus either. The rising momentum suggests they're moving toward restriction, but slowly.

This is where the Fed's limited options become clear. With inflation running hot but driven by supply shocks, and financial conditions not yet restrictive enough to cool demand meaningfully, the central bank is caught between tools that don't match the problem. The axis reading suggests conditions will continue tightening, but the pace may be too gradual to matter for the current inflationary episode.

Geopolitical Shock

The geopolitical axis dropped from elevated to moderate this week, reflecting some easing in immediate crisis risk even as structural problems persist. The decline in oil prices and reduced market volatility contributed to the lower reading, but the underlying supply disruption in the Strait of Hormuz remains unresolved.

The shift to declining momentum is significant because it suggests the acute phase of the crisis may be passing, even if the chronic phase continues. Markets are adapting to the new reality of constrained energy supply, which reduces the shock value while maintaining the underlying inflationary pressure. The axis is correctly identifying that geopolitical risk is becoming more manageable, even if it's not disappearing.

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 remain dominated by price pressures: core PCE at elevated levels, gasoline prices sharply higher, and headline CPI running well above target. These are the bread-and-butter indicators of an inflationary environment, and they're all pointing in the same direction. The strength of these signals is what keeps Inflation Shock in the lead despite other regime pressures.

The disconfirming signals tell a different story about underlying momentum. Core CPI below trend and wage growth well below historical norms suggest the inflationary pressures aren't becoming self-reinforcing. This is the key tension: prices are rising, but the mechanisms that would make those increases persistent aren't fully engaged. The disconfirming signals aren't strong enough to flip the regime call, but they're sufficient to keep the probabilities compressed and prevent Inflation Shock from pulling away.

Week in Review

WEEK SUMMARY (VS 2026-05-19)

REGIME	PRIOR	CURRENT	Δ
Inflation Shock	29.9%	29.6%	-0.3
Overheating	29.1%	28.7%	-0.4
Cooling	20.6%	20.9%	+0.3
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	67.3	65.8	-1.5	firming

AXIS	PRIOR	CURRENT	Δ	STATE
Fin Cond	53.9	52.9	-1.0	neutral
Geo Shock	60.3	54.1	-6.2	moderate

The biggest quantitative move this week was the geopolitical shock axis dropping from elevated to moderate, falling from 60.3 to 54.1. The trigger was the gradual easing in oil market stress as traders adapted to supply disruptions and crude prices pulled back from their peaks. WTI crude closed at $96.57, down 6.1% for the week, which helped reduce the immediate crisis atmosphere even though the underlying Strait of Hormuz problem remains unresolved.

Financial conditions momentum shifted from surging to rising as the week progressed, moving from 80.9 to 72.8. This happened alongside the oil price decline and some stabilization in Treasury markets, though conditions remain on a tightening trajectory. The inflation axis held steady with momentum still at maximum levels, reflecting the March CPI data that showed a 0.9% monthly gain, the largest since June 2022. Growth momentum stayed stable despite some softness in employment data, suggesting the economic deceleration isn't accelerating.

What held this week was more telling than what moved. Despite significant market volatility and the hottest monthly inflation reading in nearly two years, the regime probabilities barely budged. Inflation Shock lost just 0.3 percentage points while Overheating dropped 0.4 points, with Cooling and Soft Landing each gaining 0.3 points. This stability during major events signals that the current regime configuration is entrenched, not that nothing important happened. The model is seeing through the weekly noise to the underlying economic structure.

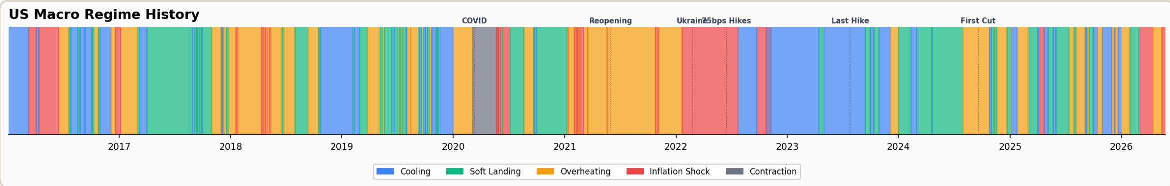
Next week's setup hinges on how markets interpret the March PCE data, which will provide the Fed's preferred inflation gauge. If core PCE comes in above 3.2%, the Inflation Shock probability likely reclaims lost ground and pulls further ahead. If it moderates toward 2.8%, the compressed regime race becomes even tighter. The momentum heading into next week favors continued regime uncertainty, with oil market developments over the weekend serving as the wild card that could shift the entire dynamic.

Market Confirmation

The market is sending mixed signals about the regime call, with key assets splitting between confirmation and divergence. Gold and crude oil are tracking exactly where you'd expect them during an inflationary episode, with gold posting strong weekly gains and oil holding elevated levels despite some recent volatility. These are the classic inflation hedges doing their job, confirming that markets are pricing genuine price pressure rather than just noise.

The divergence comes from Treasury yields, which should be climbing more aggressively if markets truly believed in persistent inflation. Instead, the 10-year yield has been range-bound, suggesting bond investors think this inflationary pulse is temporary. That's the dollar's influence at work. When the dollar strengthens on safe-haven demand, it creates deflationary pressure that competes with inflationary forces, keeping yields from breaking out. The currency is essentially crowding out what would otherwise be a cleaner inflation trade across fixed income markets.

Asset Playbook

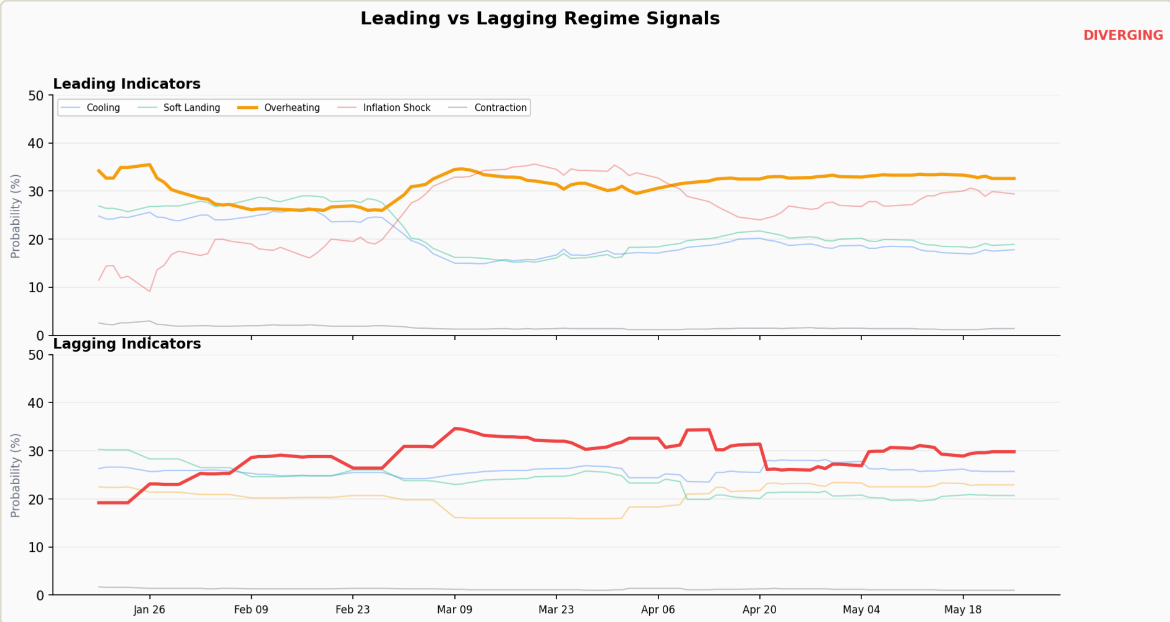


ASSET	SIGNAL
Equities	**Negative**
Rates	**Yields biased higher**
Credit	**Spreads vulnerable**
Dollar	USD-supportive
Gold	**Positive but conflicted**
Oil	**Strongly supportive**

The model's asset stances translate into a portfolio experience that's uncomfortable but not catastrophic. Your equity allocation is getting pressured, which means the growth part of a traditional 60/40 portfolio is struggling. But your bond allocation is also under pressure from yields biased higher, creating the classic inflation-regime pain where your defensive assets stop defending. The USD-supportive stance is providing some offset, but not enough to make fixed income comfortable.

The most surprising stance is probably the moderate confidence in oil's favorable outlook, given how much crude has already moved. But that reflects the supply disruption mechanics rather than demand-driven inflation. Your energy exposure, if you have any, is doing the heavy lifting in commodity allocations right now.

Leading / Lagging Signal Alignment



The leading and lagging layers are telling different stories right now, creating the kind of divergence that makes regime calls messy. The lagging indicators are still catching up to the inflationary pressures that built through the winter, while the leading indicators are starting to pick up signs that growth momentum is softening. When you get this kind of split, it usually takes four to six weeks for the layers to converge.

Historically, when leading indicators start to diverge from lagging ones during an Inflation Shock regime, it's been an early warning that the regime is losing steam. The convergence process typically resolves in favor of the leading layer, which makes sense since forward-looking data captures turning points before backward-looking data does. The question is whether that convergence happens through lagging indicators cooling down to match leading ones, or leading indicators heating back up.

An early-warning divergence would show up as leading indicators shifting decisively toward Cooling or Soft Landing while lagging indicators remain stuck in inflationary territory. We're not there yet, but the gap is wide enough to watch. When alignment returns, it usually brings regime stability with it. Until then, you're navigating an economy that's genuinely uncertain about its next move.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+2.3%	+17.5%	+0.77	353
QQQ	+4.1%	+12.4%	+0.44	353
IWM	+6.4%	+26.7%	+0.97	353
IEF	+1.3%	-9.8%	-1.22	353
TIP	+0.6%	-2.7%	-0.36	353
LQD	+1.5%	-5.9%	-0.60	353
HYG	+1.0%	+3.7%	+0.36	353
GLD	+0.6%	-2.5%	-0.13	353
XLE	-5.6%	+71.8%	+2.16	353
VEA	+4.0%	+11.2%	+0.52	353
VWO	+4.1%	-0.9%	-0.04	353

Historical returns measured over Inflation Shock regime days in backtest.

This week's performance shows a market that's partially following the inflation playbook but with some notable deviations. Energy and precious metals led the way, exactly as you'd expect during an inflationary episode, while technology and growth-sensitive sectors lagged. The broad equity market managed gains despite the inflation concerns, suggesting investors are betting on companies' ability to pass through higher costs rather than fearing demand destruction.

The divergences are telling. Real estate investment trusts and utilities underperformed their historical Inflation Shock averages, likely due to their interest rate sensitivity overwhelming their inflation-hedging characteristics. Meanwhile, international developed markets outpaced their typical regime performance, probably benefiting from dollar strength making foreign assets relatively attractive. These cross-currents show why this inflation episode feels different from the textbook version.

The usual caveats apply here. The historical sample for Inflation Shock regimes is smaller than we'd like, and the current episode has structural differences from prior ones. The combination of tariff-driven inflation and energy supply disruption creates dynamics that don't map perfectly onto past experiences. Use these historical returns as a rough guide, not a precise forecast.

10-Year Regime History

The decade-long view reveals that Inflation Shock regimes have been rare but memorable events, typically clustering around major supply disruptions or policy shifts. The 2021-22 episode remains the closest parallel, but even that comparison breaks down quickly. That inflation cycle was driven by demand overheating and supply chain bottlenecks, while today's version stems from trade policy and geopolitical energy disruption. The resolution mechanisms are completely different.

What's structurally different now is the policy response. Unlike 2022, today's shock has no clear resolution mechanism that monetary policy can address. The Fed can't fix a closed shipping lane or reverse tariff policy. That makes this episode potentially more persistent than historical averages would suggest, but also more likely to end abruptly if the underlying shocks resolve. Previous Inflation Shock periods lasted an average of four to six months, but they typically ended when the Fed successfully cooled demand.

The pattern that does rhyme is the regime instability. Inflation Shock periods historically show high volatility in regime probabilities, with frequent challenges from Overheating and Cooling scenarios. That matches what we're seeing now, where the regime lead has been compressing despite persistent inflationary pressure. The economy wants to move somewhere else, it just hasn't decided where yet.

Market Context

Weekly ETF returns as of 2026-05-26 (vs 2026-05-19).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
IWM	Russell 2000	$273.00	$290.51	+6.4%
QQQ	Nasdaq 100	$701.53	$730.28	+4.1%
VWO	Emerging Markets	$57.87	$60.23	+4.1%
VEA	Developed Markets	$68.99	$71.78	+4.0%
SPY	S&P 500	$733.73	$750.59	+2.3%
LQD	IG Corporate	$107.12	$108.78	+1.5%
IEF	7-10Y Treasury	$93.11	$94.28	+1.3%
HYG	HY Corporate	$79.35	$80.18	+1.0%
TIP	TIPS	$110.11	$110.82	+0.6%
GLD	Gold		$414.00	+0.6%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
		Positive but conflicted		
XLE	Energy	$61.29	$57.85	-5.6%

Household Impact

HOUSEHOLD IMPACT

- **Mortgage:** $257/mo extra on $400K loan at 6.5% vs 5.5% baseline
- **Purchasing power:** $79/yr erosion at 2.7% CPI vs 2% target
- **401(k):** $+17,500/yr on $100K (historical Inflation Shock regime returns)
- **This week:** $+2,300 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure first and hardest. The jump at the pump happened before the March inflation data even landed, and it's not done. If the shipping disruption extends into summer driving season, you're looking at sustained pressure on your transportation budget through August.

Your grocery bill is catching the tariff pass-through with a lag. The Fed estimates most of the tariff impact has already worked through wholesale prices, but retail prices adjust more slowly. Expect continued upward pressure on food costs over the next two to three months, even if no new tariffs get added.

Your 401(k) is benefiting from the equity rally, but the gains are sitting on top of an unusual foundation. When both stocks and gold rally together, markets are hedging their bets. The portfolio boost you're seeing now could reverse quickly if the geopolitical situation deteriorates or if the inflation data gets worse.

Your mortgage refinancing window is getting a small reprieve as rates tick down, but the improvement is modest and fragile. The rate environment remains elevated by recent historical standards, and any escalation in energy markets or acceleration in core inflation could push borrowing costs higher again.

Your real purchasing power is under pressure from multiple directions. Wage growth is running below the inflation rate, gas prices are rising, and the consumer credit data suggests households were already stretching before these latest shocks hit. The squeeze is happening now, not in some theoretical future scenario.

Signal vs. Noise

Signal:
- March CPI's monthly jump and the mechanism behind it - Consumer spending exceeding income before energy prices spiked - The divergence between leading and lagging regime indicators - Gold and equities rallying simultaneously - Empty tankers heading to the Gulf Coast while Asian countries ration fuel

Noise:
- Individual stock moves in response to political endorsements - Daily crude price volatility without corresponding changes in physical fundamentals - Sector rotation between growth and value as a macro indicator - Short-term diplomatic headlines without concrete policy changes

The distinction right now comes down to sustainability and scope. The signals represent structural pressures that compound over time or broad-based shifts that affect multiple markets simultaneously. The noise consists of positioning moves, political theater, and daily market mechanics that don't change the underlying economic forces.

When you see a price move, ask whether it reflects a change in physical reality or just a change in sentiment. The former matters for regime analysis. The latter creates trading opportunities but doesn't shift the macro picture.

What to Watch

March PCE data release on April 25. This is the inflation gauge the Fed actually targets, and early estimates suggest it could be even hotter than the CPI print. If core PCE accelerates beyond the tariff and energy effects, that changes the regime calculus entirely. **Weekly petroleum status reports through May.** The physical oil market is tighter than the price action suggests. Watch crude inventories, refinery utilization rates, and gasoline stocks. If inventories start drawing down faster than seasonal norms, the summer spike thesis gets much more credible. **Consumer credit data for March, due April 28.** Households were already spending more than they earned in February. The credit card and revolving credit numbers will show whether that gap widened as gas prices jumped and inflation accelerated. **Any diplomatic framework announcement for Strait of Hormuz reopening.** This is the variable that could flip the entire energy outlook overnight. Watch for concrete timelines, not just negotiation headlines. **April employment report on May 2.** The labor market is the Fed's other mandate, and it's been softening gradually. If job growth disappoints significantly or unemployment jumps, that could override inflation concerns and change the policy calculus.

What Would Change My Mind

Scenario One: Core inflation spreads beyond the identified shocks. If core services inflation accelerates for two consecutive months, or if wage growth re-accelerates above recent trends, that means the tariff and energy shocks are bleeding into broader expectations. At that point, the "one-time shock" thesis breaks down and you're looking at a self-reinforcing inflation dynamic. The regime would shift decisively toward Inflation Shock with much higher confidence. I'd be wrong about the contained nature of current pressures. **Scenario Two: Growth momentum collapses faster than inflation moderates.** If employment data deteriorates sharply or consumer spending falls off a cliff, the economy could tip into Cooling or even Contraction before the inflation pressures resolve. The model would respond within two to three weeks of seeing consistent weakness across multiple growth indicators. I'd be wrong about the economy's ability to handle multiple shocks simultaneously. **Scenario Three: Energy markets find genuine relief.** A credible diplomatic solution for the Strait of Hormuz or a meaningful Saudi production increase would break the energy inflation story entirely. Combined with the completion of tariff pass-through, that could shift the regime toward Soft Landing within a month. I'd be wrong about the persistence of supply-side inflation pressures and the difficulty of resolving geopolitical energy disruptions.

The price of being wrong on any of these is significant. Scenario One means much more aggressive Fed action and a harder landing. Scenario Two means the inflation focus was a distraction from a growth crisis. Scenario Three means missing a major buying opportunity in risk assets. The regime probabilities are tight enough that any of these outcomes remains plausible.

Personal Stakes