PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Wednesday, May 27, 2026

INFLATION SHOCK • 28.8%

Regime Call

CURRENT REGIME

Inflation Shock (28.8%)

Runner-up: Overheating (28.7%)

Confidence: Low (clarity 0.01, fit 0.51, market 0.2)

The model calls Inflation Shock as the dominant regime, though the margin over Overheating is narrow enough to matter. This isn't the broad-based demand overheating of 2021, where everything was running too hot at once. Instead, you're looking at two specific disruptions doing most of the damage: tariff pass-through that's already complete and an energy supply shock that's ongoing.

The confidence metrics reflect this messy reality. The regime clarity is solid, but the model fit acknowledges that this particular Inflation Shock episode doesn't match the historical template perfectly. When the Fed's best tool is patience rather than rate hikes, and when the unemployment rate is already too high rather than too low, you're in a different kind of inflationary environment. The close race with Overheating captures that ambiguity: are we dealing with temporary supply disruptions or the early stages of demand-driven overheating? The answer shapes everything about how this resolves.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Inflation Shock	**28.8%**	27.5%	29.2%	-1.2
Overheating	**28.7%**	32.4%	23.4%	-0.2
Cooling	**21.4%**	18.8%	26.0%	+0.8
Soft Landing	**19.8%**	19.8%	20.3%	+0.4
Contraction	**1.3%**	1.5%	1.0%	+0.2

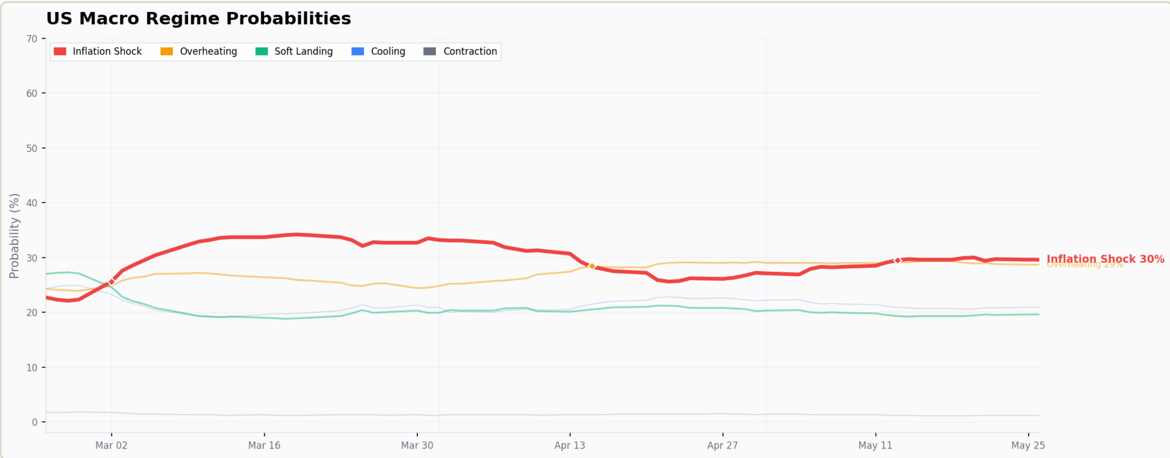
Convergence: diverging

The layer splits tell you where the economy is heading, not just where it's been. Inflation Shock dominates the leading indicators while Overheating holds stronger in the lagging data. That's the signature of supply-driven inflation hitting the forward-looking gauges first, before it fully shows up in the backward-looking employment and output measures.

Cooling shows the opposite pattern, stronger in lagging than leading indicators. The labor market is already loosening, wage growth is decelerating, and real consumer spending is under pressure. But the leading indicators haven't caught up to that cooling story yet because energy prices and tariff effects are overwhelming the signal.

The convergence between layers is poor, which explains why the confidence metrics are mixed. When leading and lagging indicators point in different directions, the model is essentially saying: we're in transition, but the endpoint isn't clear yet. The energy shock could fade and let the underlying cooling show through, or it could persist long enough to create the broad-based inflation expectations that turn a supply shock into a demand problem.

90-Day Regime History

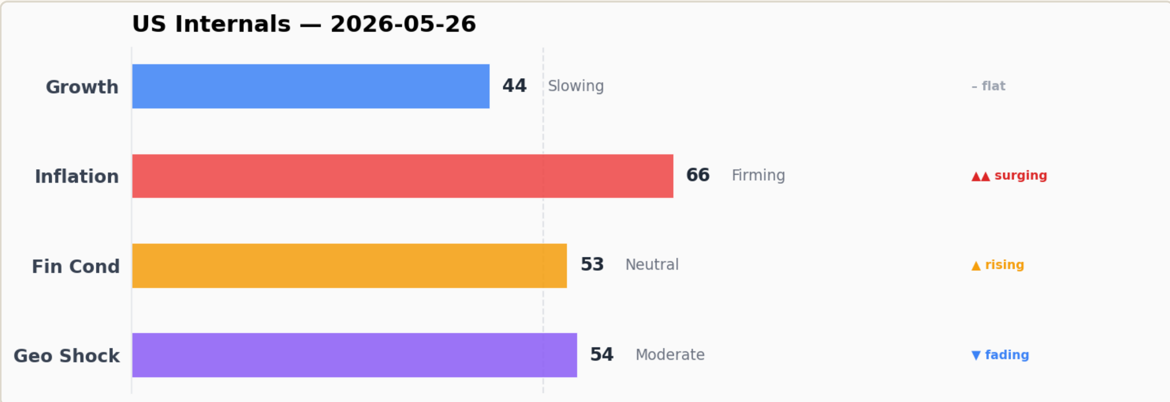


Inflation Shock reclaimed the top spot in mid-February and has held it since, but the path wasn't smooth. The regime probability spiked sharply when the tariff pass-through data became clear, then oscillated as markets tried to separate one-time effects from persistent trends. The current leadership is more stable than the initial spike, suggesting the model has settled into this reading rather than just reacting to noisy data.

Before February, Overheating was the dominant call through most of January, reflecting the strong employment data and resilient consumer spending that characterized the start of the year. The transition happened quickly once energy prices began their climb and the tariff effects became measurable in the inflation data.

What's notable is how Cooling has remained persistently elevated throughout this period, never falling below the teens even as inflation concerns dominated. That persistent Cooling probability reflects the underlying labor market softening and real income pressures that haven't gone away. The regime probabilities are essentially saying: we have an inflation problem sitting on top of a cooling foundation. Which force wins depends on how long the supply disruptions last.

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	65.1	firming	100 (surging)	77.2	-12.1	-1.9
Financial Conditions	52.2	neutral	70 (rising)	56.9	-4.7	-1.6
Geopolitical Shock	51.1	moderate	24 (falling)	61.5	-10.4	-8.1

Growth

Growth remains in slowing territory with stable momentum, and that stability is doing a lot of work right now. Consumer spending was the strongest since August in February, but real personal income was negative. That's not sustainable math. The labor market is bending with rising initial claims, though continuing claims are falling, suggesting people who lose jobs are still finding new ones.

The growth axis is essentially saying the economy has enough momentum to absorb the current shocks without tipping into contraction, but not enough to accelerate through them. Real purchasing power is declining with wages growing slower than prices, and consumers were already dipping into savings before gas hit four dollars a gallon. The stable momentum reading reflects an economy that's neither gaining nor losing steam, just grinding through a difficult period.

Inflation

Inflation sits firmly in firming territory with surging momentum, driven by the largest monthly CPI gain since June 2022. But the composition matters more than the headline. This is tariff pass-through plus energy disruption, not broad-based demand pressure. The Fed's preferred PCE measure is running even hotter than CPI, which means the policy-relevant gauge is worse than the headlines suggest.

The surging momentum captures how quickly these supply shocks translate into measured inflation. Tariff effects hit immediately, energy prices flow through within weeks, and both are showing up in the data faster than the Fed can respond. The firming state reflects an inflation process that's accelerating but for reasons that monetary policy can't easily address. When the unemployment rate is already too high, not too low, rate hikes become the wrong tool for the job.

Financial Conditions

Financial conditions remain neutral despite the inflation surge, with momentum that shifted from surging to rising this week. That deceleration in momentum is significant. Markets are starting to price in the possibility that the Fed stays patient rather than aggressively hiking into supply-driven inflation. The 30-year mortgage rate actually fell this week, and credit spreads haven't blown out despite the hot inflation data.

This is where the Fed's dilemma becomes most visible. Traditional inflation-fighting would tighten financial conditions aggressively, but the central bank is facing supply shocks while unemployment is already elevated. The neutral reading suggests markets believe the Fed will tolerate higher inflation temporarily rather than risk pushing the economy into recession to fight disruptions they can't control. That's a bet on Fed patience, not Fed capitulation.

Geopolitical Shock

Geopolitical shock dropped from elevated to moderate this week as oil prices fell, but that move is misleading. The underlying situation in the Strait of Hormuz hasn't improved. Empty supertankers heading to the Gulf Coast look like relief on a map, but they're reshuffling existing barrels, not creating new supply. European airports face jet fuel shortages within three weeks if the Strait isn't reopened.

The falling momentum reflects short-term market relief, not structural improvement. When the physical oil market is telling two stories at once, immediate danger reduced but summer spike risk elevated, the geopolitical axis is capturing the near-term easing while missing the longer-term structural problem. This is one place where the weekly data might be giving you false comfort about a situation that's actually getting worse.

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: core PCE at elevated levels, gasoline prices surging, and headline CPI running well above target. These aren't subtle moves. They're the kind of inflation acceleration that gets the Fed's attention and keeps it. The disconfirming signals, core CPI below trend and wage growth well below historical norms, are real but insufficient to override the inflation momentum.

The tension comes down to this: are you looking at temporary supply disruptions hitting an otherwise cooling economy, or early-stage inflation expectations that will become self-reinforcing? The confirming drivers suggest the latter, but their composition suggests the former. When gasoline and tariff-affected goods are doing most of the work, that's different from broad-based price acceleration across services and core goods. The disconfirming signals would become decisive if core services inflation accelerated for two consecutive months, or if wage growth re-accelerated. That would mean the shocks are bleeding into expectations, and the whole diagnosis changes.

Week in Review

WEEK SUMMARY (VS 2026-05-20)

REGIME	PRIOR	CURRENT	Δ
Inflation Shock	30.0%	28.8%	-1.2
Overheating	28.9%	28.7%	-0.2
Cooling	20.6%	21.4%	+0.8
Soft Landing	19.4%	19.8%	+0.4
Contraction	1.1%	1.3%	+0.2

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	44.0	43.5	-0.5	slowing
Inflation	67.0	65.1	-1.9	firming
Fin Cond	53.8	52.2	-1.6	neutral
Geo Shock	59.2	51.1	-8.1	moderate

Geopolitical shock dropped eight points this week, shifting from elevated to moderate as WTI crude fell over 6% and immediate supply fears eased. The trigger was Wednesday's tanker traffic data showing empty supertankers heading toward the Gulf Coast, which markets interpreted as supply relief. But that interpretation misses the point. These tankers are reshuffling existing barrels around a closed strait, not creating new supply. The score dropped because the immediate physical crunch eased slightly, not because the underlying problem improved.

Financial conditions momentum shifted from surging to rising, falling ten points as markets began pricing Fed patience rather than aggressive tightening. Tuesday's hot CPI print initially sent Treasury yields spiking, but by Thursday the 30-year mortgage rate was actually falling as investors absorbed the supply-shock diagnosis. High-yield credit spreads are diverging rather than confirming, suggesting credit markets don't believe this inflation episode will force the Fed into recession-inducing rate hikes. The Inflation Shock regime probability fell over a point while Cooling gained nearly a point, reflecting this shift in Fed expectations.

What held steady tells the more important story. Core inflation drivers remained unchanged, with PCE, gasoline prices, and headline CPI all staying in confirming territory. The regime call itself barely moved despite significant market volatility, suggesting the model sees through the weekly noise to the underlying supply-shock dynamics. Growth and inflation axis scores moved modestly but stayed in their respective states, indicating an economy that's absorbing shocks rather than fundamentally shifting direction.

Next week's setup hinges on the March PCE report, due Thursday. If core PCE comes in above recent trends, the Inflation Shock probability likely reclaims lost ground and financial conditions momentum reverses back toward tightening. If it shows the supply-shock effects contained to energy and tariff-affected categories, the Cooling alternative starts closing the gap. Meanwhile, any weekend headlines about Strait of Hormuz escalation or failed diplomatic talks could send crude gapping higher Monday morning, regardless of what the economic data says.

Market Confirmation

The market is confirming the Inflation Shock regime, but it's doing so selectively. Gold and energy are tracking exactly as expected, with crude oil maintaining elevated levels despite weekly volatility and gold posting strong gains alongside equities. That simultaneous rally in both risk assets and the ultimate safe haven is the market's way of saying this equity bounce isn't an all-clear signal.

The diverging assets tell a more complex story. Treasury bonds are underperforming regime expectations, but that's mechanical rather than mysterious. When you have supply-driven inflation hitting alongside a Fed that's explicitly choosing patience over aggression, bond yields get caught in no-man's land. They can't rally on dovish expectations because inflation is running hot, but they can't sell off aggressively because the underlying growth picture is cooling. The dollar's strength despite these complex dynamics reflects the same dilemma playing out in currency markets.

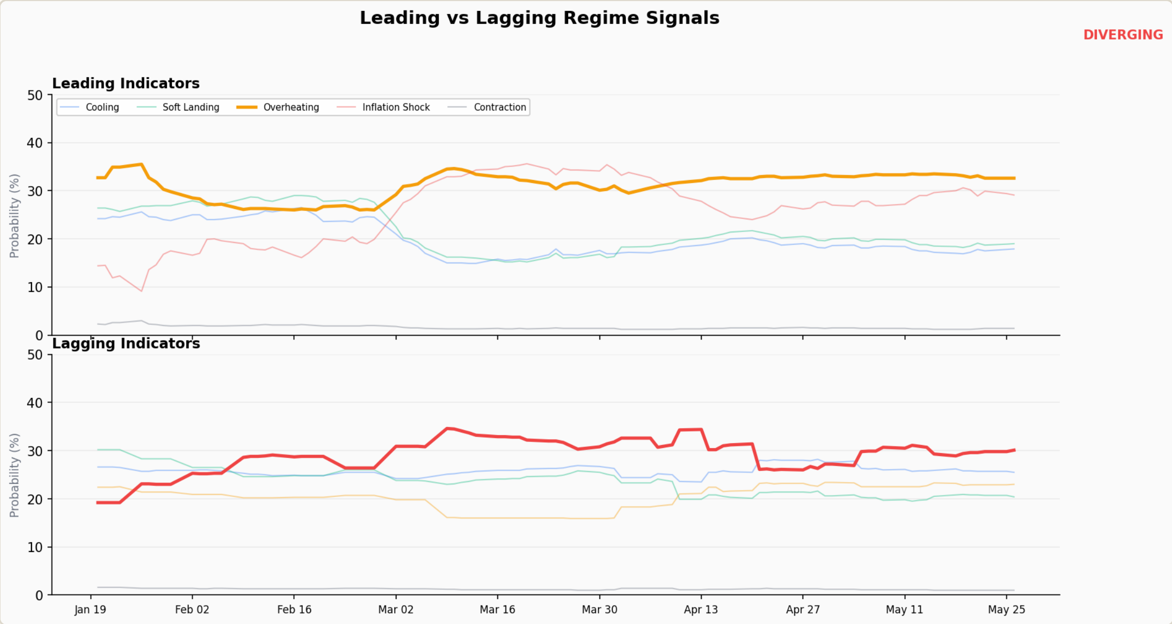
Asset Playbook

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 living through the exact scenario it wasn't built for. Equities are pressured, bonds are pressured, and everything else is either neutral or unfavorable. Traditional diversification isn't working right now. A $100,000 balanced portfolio is essentially treading water while getting eaten alive by inflation on the purchasing power side.

The most surprising stance is probably gold's favorable rating with high confidence. Gold doesn't usually get the green light when you're looking at supply-driven inflation through an economic lens rather than viewing growth assets through a risk-on lens. When both your inflation hedge and your supply-shock beneficiaries are working simultaneously, the market is telling you something important about the nature of current risks. The regime is essentially recommending you lean into the assets that benefit from supply-driven inflation while avoiding the ones that get crushed by it.

Leading / Lagging Signal Alignment



The leading and lagging layers are poorly converged, and that poor convergence is the story right now. Leading indicators are screaming Inflation Shock while lagging indicators still show meaningful Overheating and Cooling probabilities. This isn't a measurement error; it's the signature of an economy caught between supply disruptions hitting the forward-looking data and underlying cooling trends showing up in the backward-looking employment and output measures.

When convergence is this poor, regime stability becomes questionable. The model is essentially saying we're in transition, but the endpoint isn't clear. Historically, when leading and lagging layers diverge this significantly, the resolution comes within two to three months as the lagging data catches up to the leading signal. The question is which direction that convergence happens.

An early-warning divergence would look like leading indicators suddenly shifting toward Cooling while lagging indicators remain stuck on inflation concerns. That would suggest the supply shocks are fading faster than the employment and output data can reflect. Watch for energy prices to stabilize and tariff pass-through effects to plateau in the leading layer while unemployment claims and real income measures continue deteriorating in the lagging data.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+1.2%	+17.4%	+0.77	354
QQQ	+2.3%	+12.3%	+0.43	354
IWM	+3.8%	+26.6%	+0.97	354
IEF	+0.6%	-9.8%	-1.22	354
TIP	+0.5%	-2.7%	-0.35	354
LQD	+0.9%	-5.8%	-0.59	354
HYG	+0.3%	+3.6%	+0.35	354
GLD	-2.1%	-3.4%	-0.18	354
XLE	-4.7%	+70.6%	+2.12	354
VEA	+1.7%	+10.8%	+0.50	354
VWO	+2.8%	-0.8%	-0.04	354

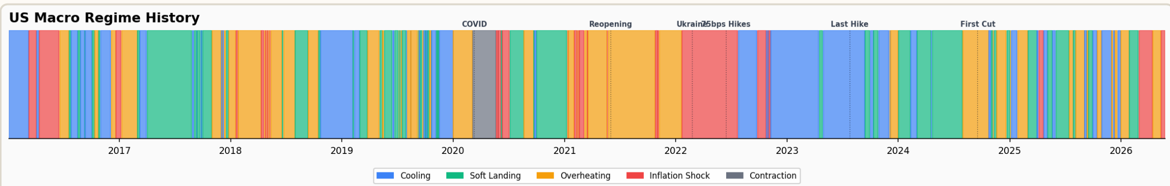
Historical returns measured over Inflation Shock regime days in backtest.

This week's performance largely matched regime expectations, with energy and precious metals leading while traditional safe havens struggled. The standout was gold's strong performance alongside equity gains, which historically happens during supply-driven inflation episodes when both growth assets and inflation hedges can work simultaneously. Oil's weekly decline despite elevated absolute levels reflects the market's attempt to separate immediate supply concerns from longer-term structural disruptions.

The notable divergence was in Treasury performance, which undershot historical Inflation Shock returns. Bonds typically get crushed more decisively during these episodes, but the Fed's explicit patience stance is creating an unusual dynamic where yields can't move aggressively in either direction. Credit markets are similarly caught in the middle, neither rallying on growth optimism nor selling off on inflation fears.

The usual caveats apply with extra force here. The historical sample for Inflation Shock regimes is small, and this particular episode has structural differences from prior instances. When the Fed's best tool is patience rather than aggressive tightening, and when the unemployment rate is already too high rather than too low, you're in uncharted territory for how these asset relationships play out.

10-Year Regime History



The closest historical parallel is the 2021-22 inflation surge, but the differences matter more than the similarities. That episode was demand-driven overheating where everything was running too hot at once, and the Fed had clear tools to address it. This time, you have supply-driven inflation sitting on top of a cooling foundation, and the Fed's best move is to wait it out. The 2008 commodity spike offers another comparison point, but that resolved through demand destruction rather than supply normalization.

Earlier Inflation Shock episodes in the dataset typically lasted four to seven months before transitioning to either Overheating (if demand caught up to supply disruptions) or Cooling (if supply normalized before expectations became entrenched). The resolution mechanism was usually either central bank action that successfully anchored expectations or external events that removed the supply constraint.

What's structurally different now is the policy response. Unlike 2022, today's shock has no clear resolution mechanism that doesn't involve either diplomatic breakthroughs or significant demand destruction. The Fed can't drill for more oil or negotiate trade deals, and the administration's tools work on different timescales than market cycles. That suggests this episode could either resolve faster than historical norms if external events break favorably, or persist longer if they don't.

Market Context

Weekly ETF returns as of 2026-05-27 (vs 2026-05-20).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
IWM	Russell 2000	$279.87	$290.37	+3.8%
VWO	Emerging Markets	$58.67	$60.29	+2.8%
QQQ	Nasdaq 100	$713.15	$729.45	+2.3%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
VEA	Developed Markets	$70.20	$71.41	+1.7%
SPY	S&P 500	$741.25	$750.46	+1.2%
LQD	IG Corporate	$107.95	$108.93	+0.9%
IEF	7-10Y Treasury	$93.74	$94.32	+0.6%
TIP	TIPS	$110.37	$110.88	+0.5%
HYG	HY Corporate	$79.86	$80.13	+0.3%
GLD	Gold	**Positive but conflicted**	$408.49	-2.1%
XLE	Energy	$59.80	$56.99	-4.7%

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):** $+17,400/yr on $100K (historical Inflation Shock regime returns)
- **This week:** $+1,200 on $100K 401(k)

Your gas tank is feeling the energy shock first and hardest. Pump prices jumped in the past week as the Strait of Hormuz closure reshuffles global oil flows, and that's before the full supply disruption works through the system. If the strait stays closed through summer driving season, you're looking at sustained pressure on your transportation budget through August.

Groceries at the store are getting hit by the tariff pass-through that's already mostly complete, according to Fed researchers. The price increases from trade policy are baked into what you're paying now, not something that's still coming. That's the difference between a one-time adjustment and an ongoing spiral.

Your paycheck is losing purchasing power as wage growth runs below the inflation rate. Real personal income turned negative in recent months even before energy prices spiked, meaning you were already stretching to maintain spending levels. The energy shock makes that math worse.

Your mortgage rate caught a small break as rates dipped slightly, though you're still looking at borrowing costs that were unthinkable just a few years ago. The Fed's patience on rate cuts means relief isn't coming quickly.

A $100,000 balance in the S&P 500 gained ground over the past week, but the unusual pattern of stocks and gold rallying together suggests markets aren't treating this as an all-clear signal. When both risk assets and safe havens rise, something structural is shifting.

Signal vs. Noise

Signal:
- Back-to-back weekly gains in equities with the historical pattern favoring continued strength - Consumer spending outpacing income before the energy shock hit - Broad commodity strength with most components in uptrends - Stocks and gold rallying together, an unusual

safe-haven plus risk-asset combination - The government spending significantly more than it takes in

Noise:
- Individual stock moves in tech names despite presidential endorsements - Sector-specific weakness in software while the broad market holds steady - Long-term strategic allocation debates around commodities versus traditional assets - Diplomatic theater between major powers without immediate economic impact

The key distinction right now is separating supply-driven inflation from demand-driven overheating. Real wage declines and consumer credit stress point toward cooling underneath the inflation headlines. But energy disruptions and tariff effects can create their own momentum if they persist long enough to shift expectations. The signals worth tracking are the ones that tell you which force wins.

What to Watch

Energy market structure over the next two weeks. Any credible diplomatic framework for reopening the Strait of Hormuz, or alternatively, any military escalation that makes the closure more permanent. The timespreads matter more than flat prices for understanding whether this is temporary disruption or structural shortage. **Consumer credit data for March.** Personal income was already negative in real terms while spending accelerated before gas prices jumped. Credit card delinquencies and revolving credit growth will show whether households are bridging the gap with debt or cutting back. **Core services inflation in the March PCE report.** This strips out energy and tariff-affected goods to show whether the supply shocks are bleeding into broader price-setting. Two consecutive months of acceleration would signal the transition from supply disruption to demand problem. **Initial versus continuing jobless claims through**

April. The labor market is bending with rising initial claims, but continuing claims are falling. If that gap closes, it means people who lose jobs aren't finding new ones as quickly. **Fed communication around the dual mandate.** Furman's argument that unemployment is already too high, not too low, challenges the traditional inflation-fighting playbook. Watch for any Fed acknowledgment that rate hikes aren't the right tool for this type of inflation.

What Would Change My Mind

The supply shock becomes a demand problem. If core services inflation accelerates for two consecutive months, or if wage growth re-accelerates despite labor market softening, that means the energy and tariff shocks are bleeding into expectations. At that point, the Fed's patience becomes complacency, and you're looking at the early stages of broad-based overheating rather than targeted supply disruptions. The regime would shift toward Overheating within two to three months of that pattern emerging. **Energy markets find a structural solution.** A credible diplomatic framework for reopening the Strait, or Saudi Arabia announcing meaningful production increases to offset the disruption, would break the summer spike thesis. Oil prices would fall, inflation expectations would ease, and the underlying cooling dynamics in the labor market and consumer spending would reassert themselves. The regime would likely shift toward Cooling within four to six weeks of energy prices normalizing. **Consumer resilience cracks visibly.** If credit card delinquencies spike or consumer spending falls sharply in response to real wage declines, the cooling forces overwhelm the inflation shock. The economy tips from supply-constrained inflation into demand-driven disinflation. That would be a faster transition, potentially visible in the data within six to eight weeks, pushing the regime toward Cooling or even Contraction depending on the severity.

The current call assumes the supply shocks are temporary and the underlying economy has enough momentum to absorb them without tipping into recession. But it also assumes they don't persist long enough to create the broad-based inflation expectations that turn supply problems into demand problems. Both assumptions carry meaningful risk.
