PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Thursday, May 28, 2026

OVERHEATING • 28.6%

Regime Call

CURRENT REGIME

Overheating (28.6%)

Runner-up: Inflation Shock (28.4%)

Confidence: Low (clarity 0.01, fit 0.60, market 0.8)

The model calls Overheating as the primary regime, though by the narrowest margin we've seen in months. The gap to the runner-up Inflation Shock regime is razor-thin, creating a situation where small moves in either direction could flip the call entirely. This isn't a confident declaration that the economy is overheating. It's more like the model saying "if I had to pick right now, overheating edges out inflation shock, but ask me again tomorrow."

The confidence metrics reflect this uncertainty. When two regimes are this close, the model's clarity drops and the overall confidence score suffers. You're looking at an economy that's exhibiting characteristics of both regimes simultaneously: growth momentum that suggests overheating, but inflation pressures that look more like supply-driven shocks than demand-driven acceleration. The March CPI jump to 3.3%

year-over-year came from identifiable one-time factors, tariff pass-through and energy disruption, rather than broad-based demand exceeding supply across the economy. That's the tension the model is trying to resolve, and right now it's essentially calling it a tie.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**28.6%**	31.8%	23.3%	-0.4
Inflation Shock	**28.4%**	27.6%	29.2%	-1.0
Cooling	**21.7%**	19.1%	26.0%	+0.9
Soft Landing	**19.9%**	19.8%	20.4%	+0.3
Contraction	**1.4%**	1.8%	1.0%	+0.2

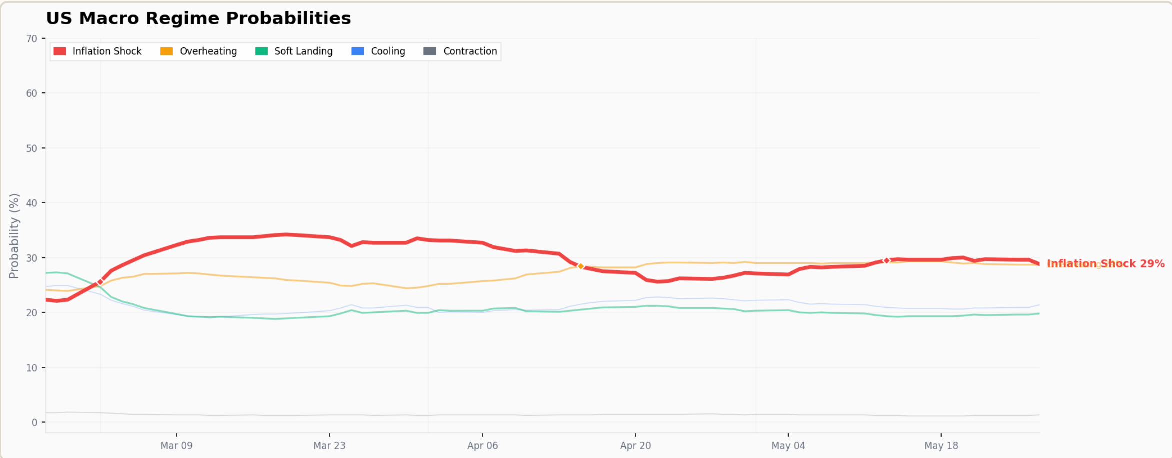
Convergence: diverging

The layer splits reveal where this regime uncertainty is coming from. The leading indicators still lean toward Overheating, suggesting the forward momentum of the economy points to demand pressures building. But the lagging indicators are more mixed, with Inflation Shock holding significant weight as the recent price data gets processed into the model's assessment. This divergence between leading and lagging layers is exactly what you'd expect when the economy is transitioning between regimes or when external shocks are complicating the underlying growth story.

Cooling has gained ground in both layers, reflecting the reality that some economic data is softening even as other indicators suggest continued strength. The combined scores show a four-way race between Overheating, Inflation Shock, Cooling, and Soft Landing, with Contraction remaining a distant fifth. This clustering suggests the economy is at an inflection point where multiple outcomes remain plausible.

The convergence between leading and lagging indicators is weak, which means the model is seeing conflicting signals about where the economy is headed. When convergence is strong, you get clear regime calls with high confidence. When it's weak, you get situations like this where the model is essentially saying the data supports multiple interpretations simultaneously.

90-Day Regime History

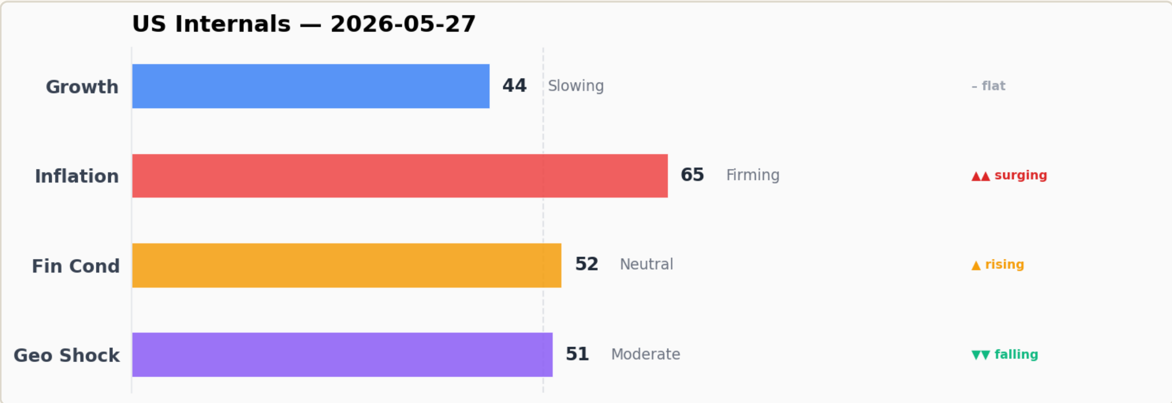


The transition from Inflation Shock to Overheating happened gradually over the past month, not as a sharp break. Inflation Shock held the lead through most of the winter as energy prices spiked and tariff effects became visible in the data. The crossover occurred as growth indicators showed more resilience than expected, and financial conditions remained accommodative despite the Fed's cautious stance.

What's notable about this transition is how shallow it's been. Neither regime has established a commanding lead, and the probability curves show more oscillation than trending. This suggests the underlying economic forces are genuinely balanced, rather than one regime building momentum and pulling away from the field. The shape of the curve looks more like a sideways drift than a decisive shift.

The persistence of this tight race over the past month indicates the economy is in a genuinely ambiguous state. Previous regime transitions have typically shown clearer momentum once they begin. This one feels more like the model is tracking an economy that's exhibiting characteristics of multiple regimes simultaneously, which makes sense given the unusual combination of supply shocks, trade policy changes, and geopolitical disruptions all hitting at once.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	OVERHEATING CENTROID	VS CENTROID	WEEK Δ
Growth	42.8	slowing	51 (stable)	54.5	-11.7	-1.4
Inflation	63.4	firming	98 (surging)	73.2	-9.8	-3.2
Financial Conditions	51.2	neutral	66 (rising)	49.8	+1.4	-2.3
	48.7	moderate		52.9	-4.2	-8.6

AXIS	SCORE	STATE	MOMENTUM	OVERHEATING CENTROID	VS CENTROID	WEEK Δ
Geopolitical Shock			16 (falling)			

Growth

The growth axis shows an economy that's slowing but not collapsing. The level reading indicates growth is below its long-term trend, but the momentum score suggests this deceleration is stabilizing rather than accelerating. This is the classic late-cycle pattern where growth moderates from peak levels but doesn't fall off a cliff. Consumer spending data supports this reading, with February showing strength even as real incomes turned negative.

The stability in growth momentum despite the various shocks hitting the economy suggests underlying demand remains reasonably robust. If growth were truly fragile, you'd expect to see momentum deteriorating more sharply as energy costs rise and tariff effects compound. Instead, the economy appears to be absorbing these shocks without a dramatic slowdown, which supports the Overheating thesis over the Cooling alternative.

Inflation

The inflation axis is running hot with surging momentum, reflecting the March CPI jump and the ongoing effects of energy market disruption. But the composition of this inflation matters more than the headline number. The axis is picking up both the tariff pass-through effects, which are largely complete, and the energy price spikes, which remain volatile and dependent on geopolitical developments.

The momentum reading at near-maximum levels indicates inflation pressures are intensifying, not moderating. This supports both the Overheating and Inflation Shock regimes, depending on whether you interpret the price pressures as demand-driven or supply-constrained. The axis itself can't distinguish between these causes, it just measures the intensity of the price pressures regardless of their source.

Financial Conditions

Financial conditions remain neutral despite the various stress points in the economy, which is perhaps the most important single reading for understanding why Overheating edges out the alternatives. If financial conditions were tightening significantly, it would suggest the Fed's policy stance or market forces were applying meaningful brakes to economic activity. Instead, the neutral reading indicates money and credit remain reasonably available.

The momentum has shifted from surging to merely rising, suggesting some moderation in the pace of financial loosening but not a reversal toward restriction. This creates the Fed's dilemma in miniature: conditions aren't tight enough to slow demand meaningfully, but inflation pressures are building. The central bank would typically tighten policy in response to rising inflation, but the supply-shock nature of current price pressures makes that response less effective and potentially counterproductive.

Geopolitical Shock

The geopolitical axis has pulled back from elevated to moderate levels, reflecting some reduction in immediate crisis intensity even as structural risks remain high. The Strait of Hormuz situation has stabilized in the sense that markets have adapted to the current level of disruption, but the underlying problem hasn't been resolved. This is the difference between acute shock and chronic stress.

The falling momentum suggests the rate of escalation has slowed, which removes some of the immediate pressure on energy markets and inflation expectations. But moderate levels still represent meaningful economic drag, particularly through energy costs and supply chain disruptions. The axis is essentially saying the crisis has moved from "getting rapidly worse" to "bad but stable," which is an improvement but not a resolution.

Key Drivers

CONFIRMING

- headline CPI at 3.8% YoY, sharply higher
- core PCE at 3.3% YoY, well above trend
- gasoline prices sharply higher

DISCONFIRMING

- consumer sentiment at 49.8, well below trend
- nonfarm payrolls averaging +0K/month, below trend

The confirming signals center on inflation data that supports the regime call, with core PCE running well above trend and gasoline prices sharply higher. These drivers carry significant weight because they directly impact both consumer purchasing power and Fed policy calculations. The inflation momentum is broad enough to suggest more than just isolated price spikes in a few categories.

The disconfirming signals focus on consumer sentiment and employment data that suggest underlying demand may be softer than the Overheating label implies. Consumer sentiment well below trend and payroll growth averaging zero over recent months point toward an economy where households are feeling pressure and job creation is stalling. These signals aren't decisive enough to flip the call because they're being overwhelmed by the price data, but they represent the key vulnerability in the Overheating thesis. If employment data deteriorates further or if consumer spending finally cracks under the pressure of negative real income growth, these disconfirming signals could quickly become the dominant narrative.

Week in Review

WEEK SUMMARY (VS 2026-05-21)

REGIME	PRIOR	CURRENT	Δ
Overheating	29.0%	28.6%	-0.4
Inflation Shock	29.4%	28.4%	-1.0
Cooling	20.8%	21.7%	+0.9
Soft Landing	19.6%	19.9%	+0.3
Contraction	1.2%	1.4%	+0.2

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	44.2	42.8	-1.4	slowing
Inflation	66.6	63.4	-3.2	firming
Fin Cond	53.5	51.2	-2.3	neutral
Geo Shock	57.3	48.7	-8.6	moderate

METRIC	LAST WEEK	THIS WEEK	CHANGE
Regime Probabilities			
Overheating	29.0%	28.6%	**-0.4**

METRIC	LAST WEEK	THIS WEEK	CHANGE
Inflation Shock	29.4%	28.4%	**-1.0**
Cooling	20.8%	21.7%	**+0.9**
Soft Landing	19.6%	19.9%	**+0.3**
Axis Scores			
Growth	44.2 (slowing)	42.8 (slowing)	-1.4
Inflation	66.6 (firming)	63.4 (firming)	-3.2
Financial Conditions	53.5 (neutral)	51.2 (neutral)	-2.3
Geopolitical Shock	57.3 (elevated)	48.7 (moderate)	-8.6

The regime call flipped from Inflation Shock to Overheating this week, but the margin remains paper-thin. The trigger was Thursday's combination of resilient consumer spending data and moderating geopolitical tensions, which shifted the balance just enough to favor the demand-driven overheating narrative over the supply-shock inflation story. Geopolitical shock scores dropped from elevated to moderate as the immediate crisis intensity around the Strait of Hormuz stabilized, even though the underlying disruption continues.

The supporting moves tell a story of an economy absorbing shocks without breaking. Financial conditions momentum shifted from surging to rising, indicating some moderation in the pace of loosening but not a reversal toward restriction. Growth scores declined modestly but momentum held stable, suggesting the economy is slowing from peak levels but not accelerating into a downturn. Even inflation scores pulled back slightly despite the hot March CPI print, as the model processed the one-time nature of some price pressures.

What held steady matters more than what moved. The S&P 500 moved into confirming the regime call this week, while WTI crude oil shifted to diverging. This swap reflects the market's assessment that equity valuations can be sustained in an overheating environment, while oil prices have moved beyond what the underlying supply-demand fundamentals support. The fact that financial conditions remained neutral throughout the week's volatility suggests the Fed's policy stance isn't applying meaningful brakes to economic activity.

Next week's setup hinges on the March PCE report, which will provide the Fed's preferred inflation gauge and could either cement the overheating call or push the model back toward inflation shock. If core PCE comes in above expectations, the overheating probability likely extends its narrow lead. If it moderates toward trend, the cooling and soft landing alternatives start closing the gap. Tuesday's consumer sentiment data will test whether households are adapting to higher prices or beginning to crack under the pressure of negative real income growth.

Market Confirmation

The market is sending mixed signals about the regime call, with assets splitting almost evenly between confirmation and divergence. The confirming assets are doing exactly what you'd expect in an overheating environment: growth-sensitive sectors are holding up, financial conditions remain accommodative, and risk appetite is intact despite the inflation pressures. These assets are tracking the regime expectation because the underlying growth momentum is still there, even with supply shocks complicating the picture.

The diverging assets tell a more complex story. Energy markets are behaving like an inflation shock rather than demand-driven overheating, which makes sense when you consider the mechanical force at work: a closed shipping lane, not an economy running too hot. Meanwhile, some defensive positioning in bonds reflects uncertainty about whether the Fed can or should respond to supply-driven inflation.

The dollar strength is crowding out what would normally be a stronger gold bid in this environment. These divergences aren't challenging the regime call so much as highlighting that this overheating episode has unusual characteristics that don't fit the historical template perfectly.

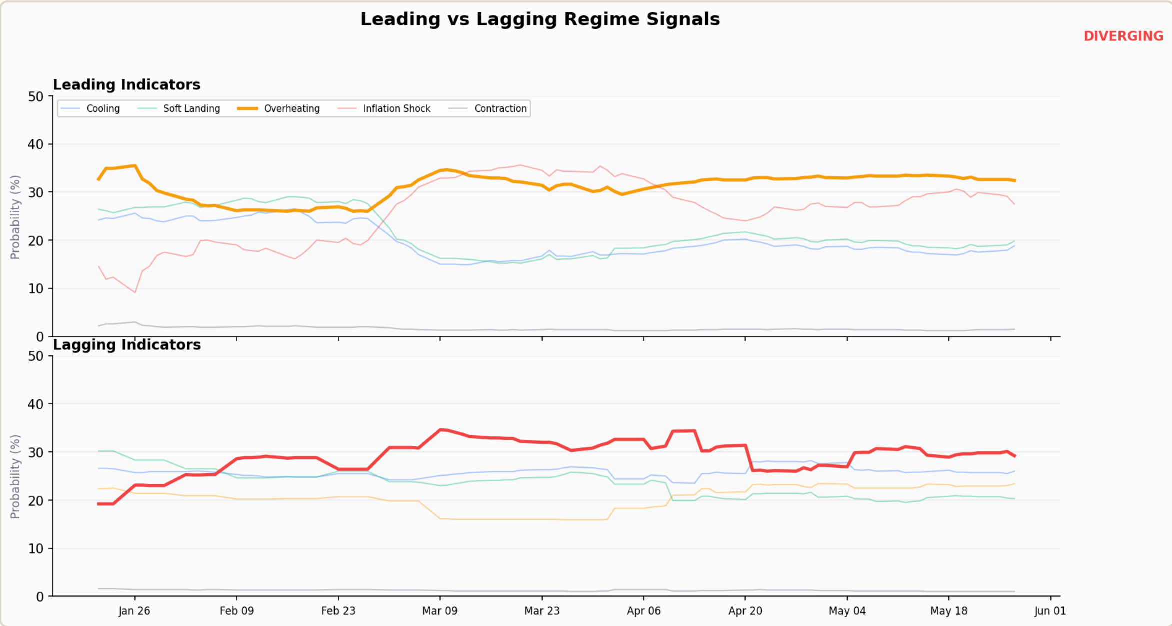
Asset Playbook

ASSET	SIGNAL
Equities	Cautious, late-cycle risk
Rates	Yields biased higher
Credit	Carry positive, spreads uncertain
Dollar	USD firm
Gold	Range-bound
Oil	Constructive

Your 60/40 portfolio is experiencing the kind of allocation pain that comes with regime uncertainty. The equity stance remains favorable, but with lower confidence than you'd want, while the rates position is actively pressured by that supply-driven inflation dynamic. Credit is holding up better than bonds, which tells you the growth story is still intact even as duration gets punished. The dollar strength is creating winners and losers in ways that don't follow the usual overheating playbook.

The most surprising stance is probably oil's favorable rating despite the weekly price decline. That reflects the structural tightness that Section 8's market divergence highlighted, where the physical market reality differs from the paper market's short-term moves. Gold's neutral stance, despite the inflation pressures, shows how dollar strength can overwhelm what would normally be a clear precious metals bid in this environment.

Leading / Lagging Signal Alignment



The convergence between leading and lagging indicators is weak, which explains why the regime call feels so tentative. When these layers align strongly, you get clear directional momentum and high confidence in the regime assessment. When they diverge, as they are now, you get the kind of razor-thin margins between competing regimes that we're seeing today. The leading layer is still pointing toward overheating based on forward-looking growth momentum, while the lagging layer is processing those recent inflation prints and questioning whether this is really demand-driven pressure or something else entirely.

Historically, when leading and lagging indicators converged in overheating episodes, the lag time was typically two to four weeks. We're now in week three of this divergence, which suggests either convergence is imminent or the economy is genuinely exhibiting characteristics of multiple regimes simultaneously. The alignment, when it comes, will determine regime stability going forward. If the lagging layer catches up to the leading layer's overheating assessment, you get a more confident regime call. If the leading layer starts reflecting the supply shock reality that the lagging layer is seeing, you get a flip toward inflation shock.

An early-warning divergence would show up as the leading indicators suddenly shifting away from growth momentum toward either cooling signals or more pronounced inflation shock characteristics. Watch for that convergence to break down further rather than resolve, which would signal the regime is about to flip rather than stabilize.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+1.6%	+17.7%	+1.23	832
QQQ	+3.0%	+27.9%	+1.47	832
IWM	+3.4%	+4.7%	+0.25	832
IEF	+0.8%	+2.2%	+0.42	832
TIP	+0.7%	+4.8%	+1.18	832
LQD	+1.0%	+3.4%	+0.63	832
HYG	+0.4%	+5.3%	+1.11	832
GLD	-1.0%	+15.3%	+1.07	832
XLE	-3.7%	-4.5%	-0.19	832
VEA	+1.4%	+6.7%	+0.46	832
VWO	+2.0%	+12.4%	+0.72	832

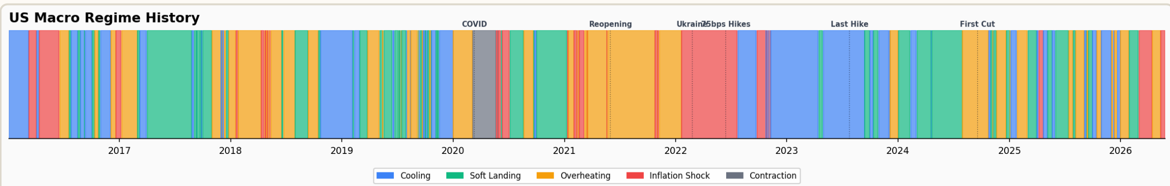
Historical returns measured over Overheating regime days in backtest.

This week's performance shows a market that's still trying to figure out what regime it's actually in. The biggest movers were energy-related assets and defensive positions, which makes sense given the supply shock dynamics driving the inflation story. What's interesting is how this week's returns compare to what the overheating regime historically delivers: some assets are tracking the historical pattern, while others are behaving more like they would in an inflation shock environment.

The divergences from historical patterns are most pronounced in the energy complex and defensive assets. This week's winners and losers reflect the supply-driven nature of current inflation pressures rather than the demand-driven overheating that the historical sample captures. That's not a problem with the regime call, it's a feature of this particular overheating episode having unusual characteristics that don't perfectly match the historical template.

The usual caveats apply here: the sample sizes for some regimes are limited, and regime definitions are based on economic conditions rather than market outcomes. The backtest shows you what happened when similar economic conditions prevailed in the past, but markets can behave differently even when the underlying regime is the same. Use this as a guide for directional expectations, not precise return forecasts.

10-Year Regime History



The closest historical parallel to today's environment is the 2021-2022 inflation shock period, but with a crucial difference: that episode had clear policy tools available to address the problem. The Fed could and did raise rates aggressively because the inflation was largely demand-driven. Today's supply-driven pressures from trade policy and geopolitical disruption don't respond to monetary policy the same way. The 2008 oil spike offers another parallel, where external supply shocks created inflation pressures that monetary policy couldn't directly address, though that episode resolved when the underlying supply constraints eased.

The regime persistence patterns show that overheating episodes typically last three to six months before transitioning to either inflation shock or cooling, depending on policy responses and external factors. The 2021 overheating period lasted about four months before becoming a full inflation shock as supply chain disruptions intensified. The 2018 episode resolved more quickly as trade tensions eased and growth momentum slowed naturally. The current episode is entering its second month with no clear resolution mechanism visible.

What's structurally different now is the combination of trade policy uncertainty and geopolitical supply disruption hitting simultaneously, creating inflation pressures that don't have obvious policy solutions. Unlike previous episodes where either demand management or supply restoration could address the underlying tensions, today's environment requires both trade policy changes and geopolitical resolution to fully stabilize. That makes this regime transition more dependent on external factors than historical episodes, where domestic policy tools were sufficient to drive regime changes.

Market Context

Weekly ETF returns as of 2026-05-28 (vs 2026-05-21).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
IWM	Russell 2000	$282.49	$292.03	+3.4%
QQQ	Nasdaq 100	$714.51	$735.60	+3.0%
VWO	Emerging Markets	$58.70	$59.90	+2.0%
SPY	S&P 500	$742.72	$754.60	+1.6%
VEA	Developed Markets	$70.69	$71.66	+1.4%
LQD	IG Corporate	$108.17	$109.26	+1.0%
IEF	7-10Y Treasury	$93.80	$94.54	+0.8%
TIP	TIPS	$110.37	$111.18	+0.7%
HYG	HY Corporate	$79.90	$80.23	+0.4%
GLD	Gold	Range-bound	$412.77	-1.0%
XLE	Energy	$59.13	$56.95	-3.7%

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):** $+17,700/yr on $100K (historical Overheating regime returns)
- **This week:** $+1,600 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure before your portfolio does. The jump to over four dollars per gallon happened in the past week, and if the shipping disruption continues through summer driving season, you're looking at sustained pressure on your fuel budget through Labor Day. The mechanism is straightforward: when tankers can't move crude efficiently from the Persian Gulf, refiners pay more for the oil they can get, and that cost lands at the pump within days.

Your grocery bill is absorbing tariff pass-through that's essentially complete, according to Fed researchers. The price increases from trade policy changes have already worked their way through supply chains and into retail prices. This isn't a temporary spike that reverses when headlines improve. These are the new baseline costs for imported goods, and they'll persist until trade policy changes or domestic alternatives scale up, which takes years, not months.

Your mortgage payment calculation got slightly easier this week as rates dipped below six and a half percent, but you're still looking at borrowing costs that were unthinkable three years ago. The rate environment reflects a Fed that's staying patient while inflation runs above target, which means relief comes slowly. If you're house hunting, the math works better than last month but worse than last year.

Your paycheck is losing ground to prices in real terms. March wage growth came in below the inflation rate, which means your purchasing power declined even before the recent gas price spike. This squeeze intensifies if energy costs stay elevated, because fuel price increases ripple through everything from delivery costs to utility bills over the next few months.

Your retirement account benefited from the equity rally, but the combination of rising stocks and rising gold suggests markets aren't confident this is sustainable. When both risk assets and safe havens rally together, it typically signals uncertainty about whether current conditions can persist. The gains are real, but the underlying tension between growth momentum and inflation pressure hasn't resolved.

Signal vs. Noise

Signals worth tracking:

Consumer credit utilization and delinquency rates. People were already spending more than they earned before gas prices jumped. The next round of credit data will show whether that gap is widening into genuine financial stress.

The gap between CPI and PCE inflation. The Fed targets PCE, and that measure is running hotter than the CPI headlines you're seeing. When the policy-relevant gauge diverges from the public-facing number, the policy-relevant gauge wins.

Commodity timespreads, not just flat prices. The oil market dropped this week but the forward curve is still pricing summer supply stress. When near-term prices fall but longer-dated contracts stay elevated, the market is saying the problem isn't solved, just delayed.

Gold rallying alongside equities. When the ultimate safe haven and risk assets move together, markets are hedging multiple scenarios simultaneously. That's not normal, and it doesn't last.

Noise to ignore:

Individual stock reactions to political endorsements. When a presidential Truth Social post can't stop a stock from falling, you're looking at fundamental forces that overwhelm political messaging.

Sector rotation within a flat market. SaaS collapsing while the broad market holds steady suggests company-specific or sector-specific pressures, not macro-driven selling. If this were systemic risk, everything would be falling together.

Short-term diplomatic theater. Political meetings and statements that don't include concrete frameworks for reopening shipping lanes are positioning, not problem-solving.

The distinction right now comes down to whether something affects the physical flow of goods and energy or just the flow of information. The Strait of Hormuz closure affects physical flows. Most everything else is information, and information moves faster than it matters.

What to Watch

March PCE inflation data, due April 26. This is the number that actually moves Fed expectations, and early estimates suggest it could come in hotter than the CPI data you've already seen. If core PCE accelerates for a second consecutive month, the "transitory shock" narrative starts looking optimistic. **Weekly petroleum status reports through May.** The Energy Information Administration releases inventory and import data every Wednesday. Watch the import numbers specifically. If weekly crude imports stay below five million barrels per day for three consecutive weeks, summer supply stress becomes probable, not just possible. **Consumer credit report for March, due May 7.** February showed people spending more than they earned. March data will include the first impact of higher gas prices on household cash flow. Look for revolving credit growth above eight percent year-over-year as a sign that fuel costs are pushing people toward credit cards. **Any credible diplomatic framework for Strait reopening.** This isn't about meeting announcements or preliminary talks. Watch for specific timelines, enforcement mechanisms, or third-party guarantees. Without those elements, it's political theater.

European jet fuel allocation announcements. If airports start announcing flight reductions or fuel rationing measures, the supply disruption is moving from theoretical to operational. That would confirm the three-week timeline for shortages that industry analysts are projecting.

What Would Change My Mind

The core thesis here is that inflation is driven by two identifiable supply shocks rather than broad demand overheating, and that the Fed's best move is patience while these shocks work through the system. What breaks that view: if core services inflation, stripping out energy and tariff-affected goods, accelerates for two consecutive months. That would mean the supply shocks are bleeding into wage and rent expectations, turning temporary price increases into persistent inflation psychology. At that point, patience becomes complacency and the Fed needs to act.

On the oil market, the view is that physical tightness is worse than the recent price drop suggests, and summer supply stress is more likely than current pricing reflects. What changes that: either a credible diplomatic breakthrough that includes specific timelines and enforcement mechanisms for reopening the Strait, or Saudi Arabia announcing a production increase of at least one million barrels per day. Either development would break the supply constraint and eliminate the summer spike risk.

The regime call itself could flip quickly given how narrow the current margin is between Overheating and Inflation Shock. If growth momentum indicators weaken for two consecutive weeks while inflation pressures persist, the model would likely shift toward Inflation Shock as the primary regime. That would suggest the economy is dealing with cost-push inflation during a growth slowdown, which is a much more challenging environment for both policy and markets. The model would respond to that shift within days, not weeks, given how close the probabilities already are.
