PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Friday, May 29, 2026

OVERHEATING • 28.5%

Regime Call

CURRENT REGIME

Overheating (28.5%)

Runner-up: Inflation Shock (28.0%)

Confidence: Moderate (clarity 0.03, fit 0.60, market 0.8)

The model calls Overheating as the most probable regime, though the margin over Inflation Shock is razor-thin. This is a close call in a noisy environment, where two regimes are essentially tied for the lead and the confidence metrics reflect that uncertainty.

The gap to the runner-up matters because it's not really a gap at all. When the top two regimes are separated by less than a percentage point, you're looking at a regime in transition rather than a regime in control. The model is telling you that the economy is balanced on a knife's edge between growth-driven overheating and supply-shock inflation, and small changes in the data could flip the call next week.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**28.5%**	31.8%	23.4%	-0.3
Inflation Shock	**28.0%**	26.7%	29.4%	-1.7
Cooling	**21.9%**	19.5%	25.9%	+1.1
Soft Landing	**20.1%**	20.1%	20.3%	+0.6
Contraction	**1.5%**	1.9%	1.0%	+0.3

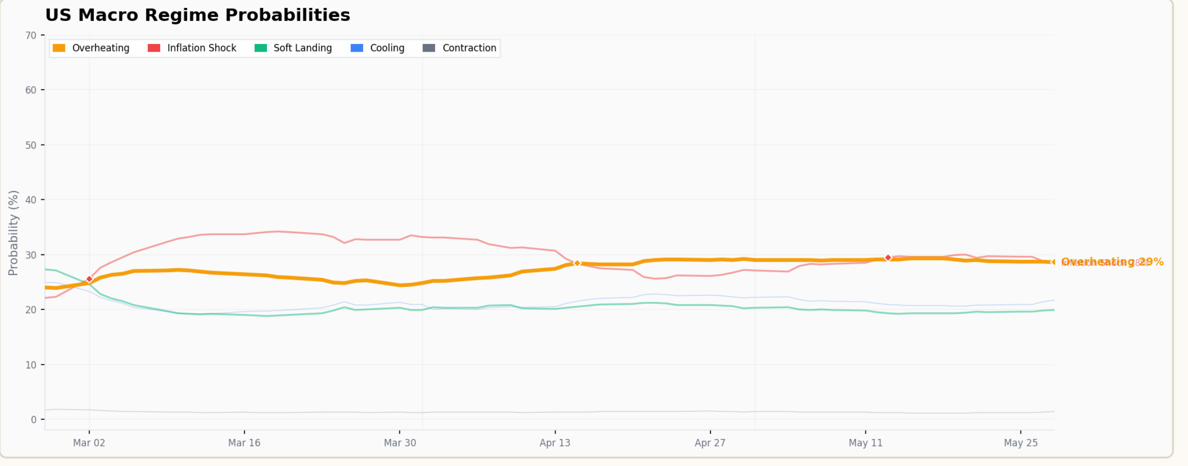
Convergence: diverging

The layer splits reveal an economy caught between what's happening now and what's coming next. The leading indicators favor Cooling, suggesting the growth momentum that drives Overheating may be fading. But the lagging indicators still show Inflation Shock in the lead, reflecting the supply disruptions and price pressures that are already baked into the system.

This divergence between leading and lagging layers is the model's way of saying the regime is unstable. The combined scores put Overheating barely ahead, but that's an average of two conflicting stories. The leading layer is pricing in a growth slowdown while the lagging layer is still processing the inflation surge.

The convergence score reflects this tension. When leading and lagging indicators point in different directions, the model's confidence naturally falls. You're not looking at a clean regime call backed by unanimous data. You're looking at an economy in the middle of a transition, where the old regime (supply-driven inflation) hasn't fully ended and the new one (demand-driven overheating) hasn't fully begun.

90-Day Regime History

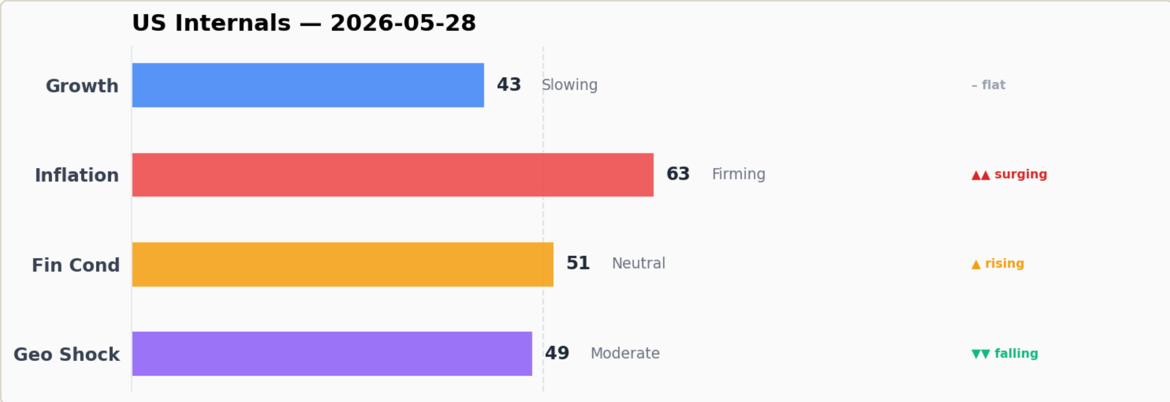


Overheating took the lead this week after Inflation Shock dominated for most of the past three months. The transition was gradual rather than sudden, with the two regimes trading places in a series of small moves rather than a dramatic flip. This pattern suggests the underlying economic forces are evenly matched rather than one clearly overwhelming the other.

The probability curve shows persistent oscillation rather than a clean trend. Inflation Shock spiked in early February when the Strait of Hormuz closed, held the lead through most of March as energy prices surged, then began fading as the immediate supply shock stabilized. Overheating has been climbing steadily but slowly, gaining ground as growth data remained resilient despite the external shocks.

The shape of this transition matters for what comes next. Sharp regime changes tend to be more durable because they reflect decisive shifts in the underlying data. Gradual transitions like this one tend to be more fragile, vulnerable to reversal when new data arrives. The regime call is current, but it's not entrenched.

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	-0.7
Inflation	63.1	firming	97 (surging)	73.2	-10.1	-3.1
Financial Conditions	50.8	neutral	64 (rising)	49.8	+1.0	-2.4
Geopolitical Shock	47.4	moderate	12 (falling)	52.9	-5.5	-8.3

Growth

The growth axis shows an economy that's slowing but not collapsing. The level reading reflects labor market softening and consumer spending that's increasingly dependent on credit rather than income growth. But the momentum is stable, suggesting the deceleration isn't accelerating.

This is the sweet spot for a soft landing narrative, except for one problem: consumers were already stretching before energy prices spiked. The growth slowdown isn't happening from a position of strength. It's happening from a position where households were already dipping into savings and turning to credit cards to maintain spending. That makes the economy more vulnerable to external shocks, not less.

Inflation

The inflation axis is firming with surging momentum, driven by the one-two punch of tariff pass-through and energy supply disruptions. The level reflects price pressures that are already embedded in the system, while the momentum captures the ongoing impact of the Strait closure on fuel costs.

The key insight here is that this inflation surge has identifiable causes rather than broad-based demand overheating. Tariff pass-through is essentially complete according to Fed research, and energy prices are driven by geopolitical supply constraints rather than excess consumption. That suggests the inflation pressure could ease if the supply shocks resolve, but it also means monetary policy has limited effectiveness against these particular price drivers.

Financial Conditions

Financial conditions remain neutral despite the week's volatility, though the momentum has shifted from surging to merely rising. This reflects a market that's processing multiple crosscurrents: equity strength from resilient growth data, bond weakness from inflation concerns, and credit markets that are cautiously optimistic but not euphoric.

The Fed's dilemma lives in this axis. Conditions aren't tight enough to justify aggressive easing, but they're not loose enough to ignore inflation risks. The central bank is caught between an economy that's slowing (growth axis) and prices that are rising (inflation axis), with financial conditions that don't clearly point toward either aggressive tightening or aggressive loosening. That's a recipe for policy patience, whether the Fed wants it or not.

Geopolitical Shock

The geopolitical axis dropped from elevated to moderate as markets adapted to the new reality of a closed Strait of Hormuz. The initial shock has been absorbed, but the underlying problem hasn't been solved. The momentum is falling, reflecting the market's assessment that immediate escalation risk has decreased even though the structural disruption continues.

This axis captures something important about how markets process geopolitical events. The first-order shock gets priced quickly and then fades as traders adapt. But the second-order effects, the slow grind of supply chain disruptions and energy shortages, show up in other parts of the model. The geopolitical shock axis is saying the acute crisis phase is over. The inflation axis is saying the chronic impact phase is just beginning.

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's running well above trend, with core PCE and gasoline prices providing the strongest evidence for the current regime call. These aren't marginal readings.

They're clear departures from the Fed's target that are showing up consistently across multiple price measures.

The disconfirming signals focus on demand weakness, with consumer sentiment and payroll growth both running below trend. This creates the central tension in the current environment: prices are rising not because demand is too strong, but because supply is constrained while demand is already softening. The disconfirming signals aren't strong enough to flip the call because they're measuring different parts of the economy than the confirming signals. You can have weak demand and rising prices at the same time when supply shocks dominate.

Week in Review

WEEK SUMMARY (VS 2026-05-22)

REGIME	PRIOR	CURRENT	Δ
Overheating	28.8%	28.5%	-0.3
Inflation Shock	29.7%	28.0%	-1.7
Cooling	20.8%	21.9%	+1.1
Soft Landing	19.5%	20.1%	+0.6
Contraction	1.2%	1.5%	+0.3

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	43.5	42.8	-0.7	slowing
Inflation	66.2	63.1	-3.1	firming
Fin Cond	53.2	50.8	-2.4	neutral

AXIS	PRIOR	CURRENT	Δ	STATE
Geo Shock	55.7	47.4	-8.3	moderate

The regime call flipped from Inflation Shock to Overheating this week as the geopolitical shock axis dropped from elevated to moderate, falling from the mid-fifties to the high forties. The trigger was the market's assessment that immediate escalation risk in the Strait of Hormuz had stabilized, even though the underlying supply disruption continues. This happened gradually through the week rather than on a single day, as traders adapted to the new reality of higher energy prices without expecting further dramatic spikes.

The shift cascaded through the entire playbook. Equities moved from negative to cautious as the acute crisis phase passed, credit spreads became less vulnerable as carry trades regained appeal, and the dollar stance shifted from broadly supportive to simply firm. Oil's stance dropped from strongly supportive to merely constructive, reflecting the market's view that the biggest price gains are behind us even if elevated levels persist. The S&P 500 flipped from confirming to confirming as growth resilience became more important than geopolitical risk.

What held was more interesting than what moved. The inflation axis barely budged despite the regime change, staying firmly in firming territory with surging momentum. Financial conditions remained neutral throughout the week's volatility. Growth stayed in slowing mode with stable momentum. The regime call changed because the balance of risks shifted, not because the underlying economic fundamentals transformed overnight.

Next week's setup depends on whether the geopolitical stabilization continues or reverses. The upcoming PCE print will test whether inflation momentum can sustain the new regime call, while any headlines about military escalation or failed diplomatic talks could send the geopolitical shock axis spiking back toward elevated territory. The regime call is current but not entrenched, vulnerable to reversal if either the inflation data disappoints or the Strait situation deteriorates.

Market Confirmation

The market is partially confirming the Overheating call, but the confirmation is selective rather than unanimous. Gold and oil are tracking the regime expectation, with both assets rallying as growth pressures meet supply constraints. Gold's move alongside equities signals that markets aren't treating this as a clean risk-on environment, while oil's strength reflects the physical tightness that persists despite weekly price volatility.

The diverging assets tell a more complex story. The dollar's relative weakness against the regime expectation likely reflects the Fed's patient stance on rate hikes, removing some of the monetary tightening premium that typically accompanies overheating episodes. Credit spreads are also behaving differently than the historical pattern would suggest, staying relatively contained as markets parse whether this is demand-driven overheating or supply-shock inflation in disguise. When the regime call is this close between Overheating and Inflation Shock, asset behavior splits along those same lines.

Asset Playbook

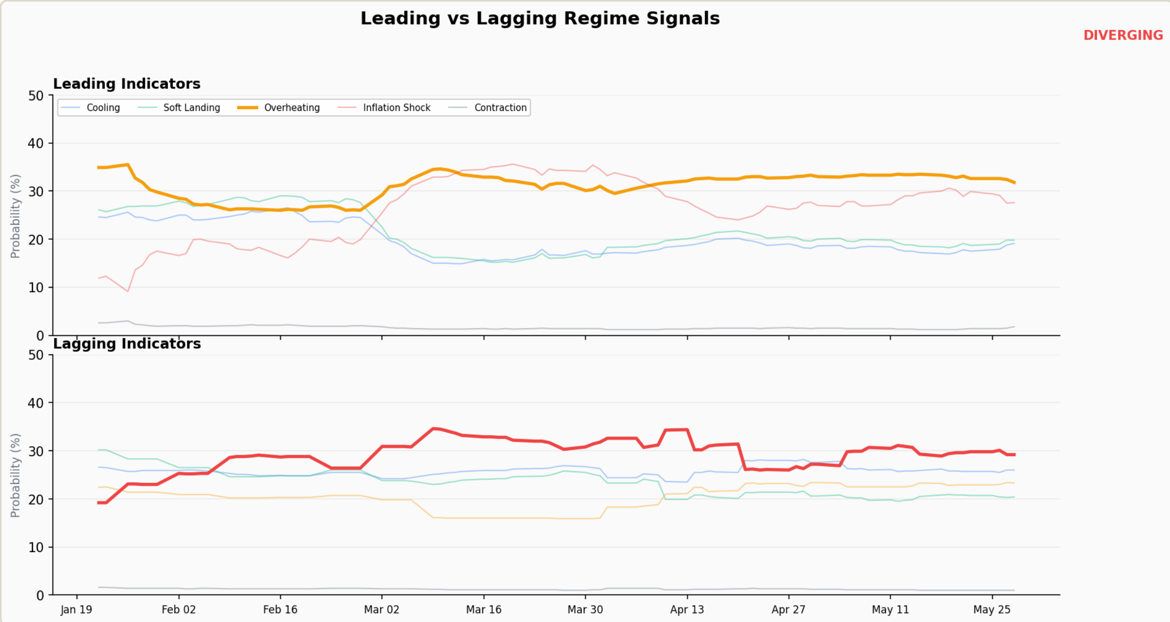
ASSET	SIGNAL
Equities	Cautious, late-cycle risk
Rates	Yields biased higher

ASSET	SIGNAL
Credit	Carry positive, spreads uncertain
Dollar	USD firm
Gold	Range-bound
Oil	Constructive

The model's asset stances reflect an economy caught between growth momentum and inflation pressure, which translates into a challenging environment for traditional portfolio construction. Your 60/40 portfolio is getting squeezed from both sides: the equity allocation faces the uncertainty of whether growth can sustain itself while the bond allocation contends with inflation that may not respond to monetary policy. The most surprising stance is probably the measured approach to credit, which typically gets hammered during regime uncertainty but is finding support from the growth component of the current mix.

The positioning pain is real for anyone trying to hedge both outcomes simultaneously. You can't easily protect against supply-shock inflation and demand-driven overheating with the same instruments, which is why the playbook reflects more nuanced positioning rather than clear directional bets. The dollar stance captures this tension perfectly, where traditional overheating would suggest strength but the current Fed posture argues for patience.

Leading / Lagging Signal Alignment



The leading and lagging layers are telling different stories, with leading indicators favoring Cooling while lagging indicators still show Inflation Shock in the lead. This divergence reflects an economy where the growth momentum that drives Overheating may be fading even as the supply disruptions and price pressures remain embedded in the system. The model is essentially processing two different time horizons: what's coming next versus what's already happened.

This type of layer divergence typically resolves within several weeks, though the direction of convergence determines regime stability. If the leading layer proves correct and pulls the lagging layer toward Cooling, you're looking at a growth slowdown that overwhelms the supply-side inflation pressures. If the lagging layer holds and pulls the leading layer back toward Inflation Shock, the price pressures become more entrenched and start affecting expectations.

The convergence mechanics matter for portfolio positioning because they determine whether the current regime call is durable or transitional. When leading and lagging indicators point in different directions, the regime is inherently unstable, vulnerable to reversal when new data arrives. An early-warning divergence would show the leading layer moving decisively toward one regime while the lagging layer remains anchored elsewhere, suggesting the transition is accelerating rather than just oscillating.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+1.5%	+17.7%	+1.23	833
QQQ	+2.9%	+28.0%	+1.48	833
IWM	+1.9%	+4.5%	+0.24	833
IEF	+0.8%	+2.2%	+0.43	833
TIP	+0.8%	+4.8%	+1.18	833
LQD	+0.9%	+3.5%	+0.63	833
HYG	+0.5%	+5.3%	+1.11	833
GLD	+0.8%	+15.6%	+1.09	833
XLE	-5.4%	-4.8%	-0.21	833
VEA	+1.9%	+6.7%	+0.46	833
VWO	+1.5%	+12.4%	+0.72	833

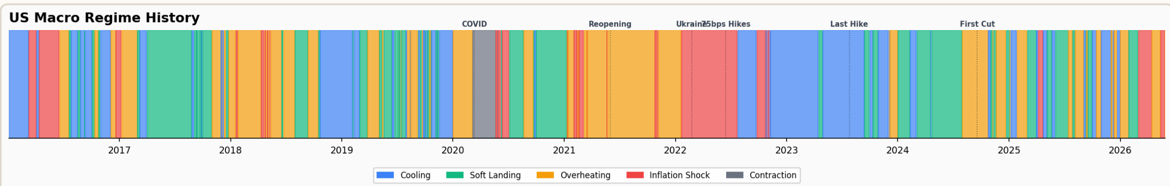
Historical returns measured over Overheating regime days in backtest.

This week's performance shows a market that's selectively embracing the Overheating thesis while hedging against the alternatives. The biggest movers reflect the regime uncertainty, with energy and precious metals leading while duration-sensitive assets lag. The pattern doesn't cleanly match the historical Overheating playbook, which typically shows broader risk-on behavior rather than this selective rotation.

The divergences from historical patterns are telling. Traditional Overheating episodes usually see more uniform equity strength and clearer dollar appreciation, but this week's returns suggest markets are parsing the difference between demand-driven and supply-constrained growth. The performance spread between sectors reflects this uncertainty, with investors positioning for multiple outcomes rather than making a clean regime bet.

The backtest limitations matter here because the historical sample includes relatively few episodes where Overheating and Inflation Shock probabilities were this close. Most historical regime periods show cleaner separation, which means the current environment may produce asset behavior that doesn't fit neatly into any single regime's historical pattern. The sample size for this type of regime uncertainty is necessarily small, making the historical returns more suggestive than predictive.

10-Year Regime History



The historical pattern shows Overheating episodes clustering around periods of policy transition and external shock absorption. The most relevant parallel is the supply chain disruption period, when growth remained resilient despite inflation pressures from identifiable bottlenecks. That episode demonstrated how the economy can exhibit overheating characteristics even when the underlying drivers are supply-side rather than demand-side.

The resolution mechanisms from prior episodes offer mixed guidance for the current situation. Previous Overheating periods typically ended when either monetary policy tightened sufficiently to cool demand or when supply constraints eased enough to relieve price pressures. The current episode presents a different challenge because the Fed has limited tools to address supply-side inflation while the supply constraints themselves have no clear resolution timeline.

What's structurally different now is the combination of geopolitical supply disruption and trade policy uncertainty, creating inflation pressures that monetary policy can't directly address. Unlike previous episodes where the Fed could engineer a cooling by raising rates, the current environment requires solutions outside the central bank's toolkit. The regime history suggests these hybrid episodes tend to be longer and more volatile than clean demand-driven overheating, with resolution depending on external factors rather than policy responses.

Market Context

Weekly ETF returns as of 2026-05-29 (vs 2026-05-22).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
QQQ	Nasdaq 100	$717.54	$738.31	+2.9%
IWM	Russell 2000	$285.12	$290.43	+1.9%
VEA	Developed Markets	$70.46	$71.77	+1.9%
SPY	S&P 500	$745.64	$756.48	+1.5%
VWO	Emerging Markets	$58.98	$59.88	+1.5%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
LQD	IG Corporate	$108.37	$109.36	+0.9%
IEF	7-10Y Treasury	$93.88	$94.65	+0.8%
TIP	TIPS	$110.38	$111.21	+0.8%
GLD	Gold	Range-bound	$417.12	+0.8%
HYG	HY Corporate	$79.91	$80.31	+0.5%
XLE	Energy	$59.49	$56.29	-5.4%

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:** $+1,500 on $100K 401(k)

Your gas tank is feeling the Strait closure before your portfolio does. The energy spike hits immediately at the pump, while the equity rally takes time to show up in quarterly statements. If you're filling up twice a week, that's real money walking out the door right now.

Your mortgage rate dropped slightly this week, but you're still looking at borrowing costs that would have seemed impossible just a few years ago. The Fed's patience on inflation means patience on rate cuts, which means housing affordability stays where it is for longer than anyone wants.

Your paycheck is losing ground to prices, and that was true before energy costs spiked. The income squeeze was already happening when consumers were dipping into savings to maintain spending. Now you're dealing with higher gas prices on top of an already stretched budget.

Your retirement account got a boost from the equity rally, but the combination of rising stocks and rising gold suggests markets aren't convinced this is sustainable. When both risk assets and safe havens rally together, it usually means the good news comes with an asterisk.

Your credit card balance matters more in this environment because consumers were already turning to credit to bridge the gap between income and spending. Higher energy costs make that gap wider, and the credit card companies know it.

Signal vs. Noise

Signal:
- March CPI posting the biggest monthly jump since June 2022 - Consumer income turning negative in real terms while spending accelerated - The commodity complex hitting new highs with most components in uptrends - Gold rallying alongside equities, suggesting the equity bounce isn't an all-clear - Empty tankers heading to the Gulf Coast while Asian countries begin fuel rationing

Noise:
- Presidential endorsements that can't stop individual stock slides - Sector-specific tech selloffs while the broad market holds steady - Long-term strategic allocation debates when the immediate question is

regime stability - Diplomatic theater with very long fuses - Weekly oil price moves that obscure the underlying physical tightness

The distinction right now comes down to time horizon and breadth. The signals are broad-based price pressures hitting consumers immediately, while the noise is narrow, sector-specific, or theoretical. When nearly everything in the commodity complex is rising and consumers are already stretched, that's a macro signal. When one sector collapses while others hold steady, that's idiosyncratic noise.

What to Watch

The March PCE report on April 25. This is the inflation gauge the Fed actually targets, and it's been running hotter than CPI. If core services inflation accelerates for a second consecutive month, the "two one-time shocks" thesis starts looking optimistic. **Consumer credit data through April 15.** Consumers were spending more than they earned before gas prices spiked. The next credit card delinquency and revolving credit reports will show whether that gap is widening or stabilizing. **Any Strait of Hormuz headlines over the weekend.** Military escalation or failed diplomatic talks could send crude gapping higher on Monday. The physical market is tighter than the weekly price drop suggests. **Timespreads in the oil market, not just flat prices.** If near-term contracts start trading at bigger premiums to longer-dated ones, that's the market pricing in immediate shortage risk despite the headline price relief. **The next round of earnings guidance from consumer-facing companies.** If management teams start talking about demand destruction from higher energy costs, that's your early warning that the consumer spending resilience is cracking.

What Would Change My Mind

On inflation being transitory: If core services inflation accelerates for two consecutive months, or if wage growth re-accelerates above recent trends, then the shocks are bleeding into expectations and the Fed's patience becomes complacency. The labor market would need to be tighter, not looser, to justify aggressive rate hikes. But if underlying inflation momentum builds, the one-time shock story falls apart. **On oil market tightness:** A credible diplomatic framework for reopening the Strait, or Saudi Arabia announcing meaningful production increases, would break the summer spike thesis. The physical shortage is real, but it's also solvable with either political progress or spare capacity activation. Without one of those, the tanker reshuffling is just rearranging deck chairs. **On regime stability:** If the leading indicators flip back toward Inflation Shock while the lagging indicators stay there, you'd have both layers pointing the same direction for the first time in months. That would make the regime call much more confident, even if it's the wrong regime for risk assets. Right now the model is averaging two conflicting stories. Convergence in either direction would be more actionable than this knife's edge.

Personal Stakes

WHY MARKETS MOVE · WHY IT MATTERS TO YOU