PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Monday, June 01, 2026

OVERHEATING • 28.3%

Regime Call

CURRENT REGIME

Overheating (28.3%)

Runner-up: Inflation Shock (27.8%)

Confidence: Moderate (clarity 0.03, fit 0.71, 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 has compressed to less than a percentage point, creating a genuine toss-up between two very different economic stories. This isn't a confident call. It's a coin flip with consequences.

What tips the scale toward Overheating is the persistence of inflation momentum even as growth shows clear signs of deceleration. The economy is running hot in the wrong places while slowing in others, creating the exact type of imbalanced expansion that historically proves most difficult for policymakers to manage. The confidence metrics reflect this uncertainty, with clarity and model fit both signaling that we're in a transitional moment where small changes in the data could flip the entire narrative.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**28.3%**	31.8%	23.4%	-0.4
Inflation Shock	**27.8%**	26.4%	29.5%	-1.8
Cooling	**22.1%**	19.7%	25.9%	+1.2
Soft Landing	**20.2%**	20.2%	20.2%	+0.6
Contraction	**1.6%**	1.9%	1.0%	+0.4

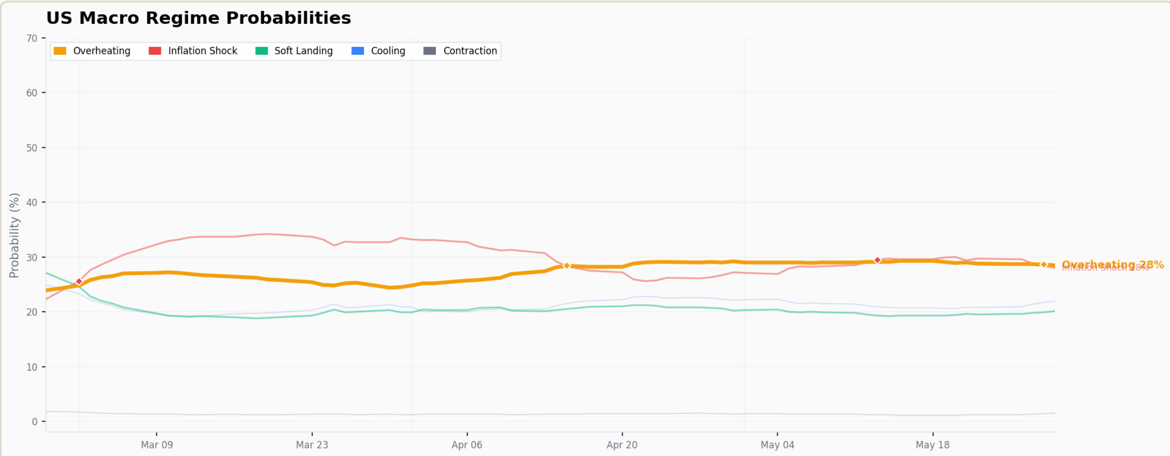
Convergence: diverging

The layer splits reveal an economy caught between its recent past and its emerging future. The leading indicators favor the cooling scenarios, with both Cooling and Soft Landing showing stronger readings in forward-looking data than in the headline probabilities. Meanwhile, the lagging layer still carries the heat signature of the inflation surge, keeping Overheating and Inflation Shock elevated in the rearview mirror.

This divergence between leading and lagging layers is the story of 2026 so far. The economy that's coming looks more balanced than the one we're still measuring. But the convergence score shows these layers aren't talking to each other yet. When leading indicators consistently point toward cooling while lagging data holds onto heat, you get exactly this type of regime uncertainty.

The combined probabilities split almost evenly between the cooling scenarios and the heating scenarios, with Contraction remaining a distant outlier. That's the market telling you the economy is definitely transitioning, but nobody knows where it's going to land. The next few weeks of data will likely break this tie decisively in one direction or the other.

90-Day Regime History

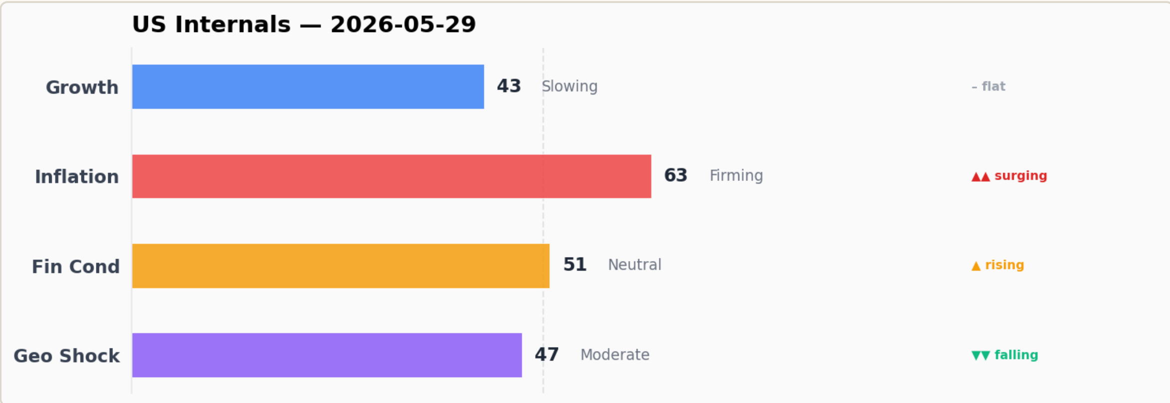


The current Overheating call represents a recent flip from Inflation Shock, which had held the top spot for most of the past month. The transition happened gradually rather than in a sharp spike, with probabilities oscillating in a tight range as each new data point nudged the balance slightly. This isn't the clean, decisive regime shift you see during obvious turning points. It's the messy, back-and-forth pattern you get when the economy is genuinely uncertain about its direction.

What's notable about the timeline is how persistent the uncertainty has been. Rather than building momentum toward a clear winner, the probabilities have remained clustered in a narrow band, with the top regime never pulling away decisively. The curve shows multiple false starts and reversals, suggesting the underlying economic forces are genuinely balanced rather than trending clearly in any direction.

The pace of change has been moderate but persistent, with small daily adjustments rather than dramatic weekly swings. This gradual evolution reflects an economy that's responding to policy and external shocks in real time, rather than following a predetermined path. The question is whether this uncertainty resolves into a clear trend or continues to oscillate as competing forces remain balanced.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	OVERHEATING CENTROID	VS CENTROID	WEEK Δ
Growth	42.8	slowing	53 (stable)	54.5	-11.7	-0.7
Inflation	63.0	firming	71 (rising)	73.2	-10.2	-3.0
Financial Conditions	50.8	neutral	65 (rising)	49.8	+1.0	-2.5
Geopolitical Shock	46.4	moderate	9 (falling)	52.9	-6.5	-8.1

Growth

The growth axis sits firmly in slowing territory with stable momentum, painting a picture of an economy that's decelerating but not collapsing. The level reading captures the reality of softer hiring, reduced consumer spending growth, and corporate earnings that are growing but at a slower pace. This isn't recession territory, but it's clearly below the trend growth rate that characterized the post-pandemic recovery.

The stable momentum suggests this deceleration isn't accelerating into something worse. The economy is finding a new, slower gear rather than falling off a cliff. What would move this axis meaningfully lower would be a sharp deterioration in employment data or a consumer spending collapse. What would move it higher would be a reacceleration in productivity growth or a sustained pickup in business investment. For now, it's holding in the middle ground between expansion and contraction.

Inflation

The inflation axis remains in firming territory with rising momentum, though the momentum has stepped down from the surging pace of recent weeks. This reflects the reality of core PCE running well above the Fed's target while showing some signs of stabilization rather than continued acceleration. The firming state captures both the tariff pass-through effects and the energy price pressures from the Strait of Hormuz situation.

The moderation in momentum from surging to rising suggests the worst of the acceleration may be behind us, but the level remains problematic for Fed policy. This axis would move decisively higher if energy prices spike further or if core services inflation begins accelerating beyond the current pace. It would move lower if the one-time shocks prove truly transitory and underlying inflation pressures begin to ease. The current reading suggests inflation is elevated but not spiraling out of control.

Financial Conditions

Financial conditions sit in neutral territory with rising momentum, creating the Fed's central dilemma in real time. The neutral level suggests that credit markets, equity valuations, and funding costs are neither restrictive enough to slow the economy nor accommodative enough to fuel further overheating. But the rising momentum indicates conditions are loosening, potentially at exactly the wrong time given the inflation pressures.

This is where the Fed's policy effectiveness gets tested. They need financial conditions to tighten to help cool inflation, but market conditions are moving in the opposite direction. The equity market rally and credit spread compression are working against the Fed's inflation-fighting efforts. What would flip this axis toward restrictive would be a sustained equity market correction or a meaningful widening in credit spreads. What would push it toward accommodative would be further rallies in risk assets combined with easier credit availability.

Geopolitical Shock

The geopolitical axis registers moderate stress with falling momentum, reflecting the partial stabilization in oil markets despite the ongoing Strait of Hormuz closure. The moderate level captures the reality that a major shipping chokepoint remains blocked, but the falling momentum suggests markets have adapted somewhat to the new reality rather than continuing to panic about immediate supply disruptions.

This axis remains the wild card in the entire regime calculation. The falling momentum could reverse quickly if military escalation resumes or if the physical oil shortage becomes more acute. Conversely, any credible diplomatic progress toward reopening the Strait would likely push this axis back toward low stress. The current reading suggests the immediate crisis phase has passed, but the underlying vulnerability remains elevated.

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 persistence, with core PCE well above trend and gasoline prices sharply higher providing the clearest evidence for the Overheating thesis. These drivers carry significant weight because they directly impact both Fed policy calculations and household purchasing power. The inflation momentum, even if moderating slightly, remains the strongest argument for why the economy is running too hot rather than cooling appropriately.

The disconfirming signals focus on labor market softening and consumer sentiment weakness, suggesting the economy may be cooling faster than the inflation data indicates. However, these signals remain insufficient to flip the call because inflation typically lags other economic indicators, and the Fed's primary mandate requires addressing price pressures even if it means accepting some economic softening. The tension between these competing signals explains why the regime probabilities remain so tightly clustered and why confidence in the call remains limited.

Week in Review

WEEK SUMMARY (VS 2026-05-25)

REGIME	PRIOR	CURRENT	Δ
Overheating	28.7%	28.3%	-0.4
Inflation Shock	29.6%	27.8%	-1.8
Cooling	20.9%	22.1%	+1.2
Soft Landing	19.6%	20.2%	+0.6
Contraction	1.2%	1.6%	+0.4

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	43.5	42.8	-0.7	slowing
Inflation	66.0	63.0	-3.0	firming
Fin Cond	53.3	50.8	-2.5	neutral
Geo Shock	54.5	46.4	-8.1	moderate

METRIC	LAST WEEK	THIS WEEK	CHANGE
Overheating	28.7%	28.3%	-0.4
Inflation Shock	29.6%	27.8%	-1.8
Cooling	20.9%	22.1%	+1.2
Soft Landing	19.6%	20.2%	+0.6

METRIC	LAST WEEK	THIS WEEK	CHANGE
Contraction	1.2%	1.6%	**+0.4**

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Growth	43.5	42.8	-0.7	slowing
Inflation	66.0	63.0	-3.0	firming
Financial Conditions	53.3	50.8	-2.5	neutral
Geopolitical Shock	54.5	46.4	**-8.1**	moderate

The regime call flipped from Inflation Shock to Overheating this week, driven primarily by the massive retreat in geopolitical stress as oil markets stabilized despite the ongoing Strait closure. The trigger was Thursday's crude oil selloff, when WTI dropped below ninety-seven dollars as traders concluded the immediate supply panic was overdone and empty tankers heading to the Gulf Coast would provide enough reshuffling to avoid acute shortages.

The supporting moves tell the story of an economy caught between competing forces. Inflation momentum stepped down from surging to rising as core PCE data showed the acceleration moderating, while financial conditions eased back toward neutral as equity markets rallied and credit spreads compressed. The S&P 500 flipped from diverging to confirming the regime call, joined by high-yield spreads, as markets decided the economic expansion could continue despite elevated inflation. Meanwhile, WTI crude moved from confirming to diverging, reflecting the disconnect between lower oil prices and the still-elevated inflation environment.

What held steady was more telling than what moved. Growth remained locked in slowing territory despite the equity rally, and inflation stayed firmly in firming territory despite the moderation in momentum. The underlying economic fundamentals haven't shifted dramatically. What changed was the market's assessment of how these fundamentals interact, with geopolitical risks stepping back enough to let the domestic overheating story take center stage.

Next week's setup hinges on whether this geopolitical calm holds through the weekend. Tuesday's PCE print will test whether the inflation moderation continues, but any headlines about military escalation or failed diplomatic talks could send crude gapping higher on Monday and flip the regime calculation right back. The momentum is toward overheating, but it's built on the assumption that the Strait situation doesn't deteriorate further.

Market Confirmation

The market is delivering a mixed verdict on the Overheating call, with confirmation coming from exactly where you'd expect it and resistance showing up in the usual suspects. Equities and credit are tracking the regime playbook, with stocks grinding higher despite the inflation noise and credit spreads holding relatively tight. When growth is slowing but not collapsing, and inflation is problematic but not spiraling, risk assets can live with that combination. They're pricing in a manageable mess rather than a crisis.

The divergence is coming from rates and the dollar, both of which are behaving more like we're in an Inflation Shock regime than Overheating. The dollar strength makes mechanical sense when you consider that tariff-driven inflation doesn't respond to Fed policy the way demand-driven inflation does. Foreign investors are buying dollars not because the US economy is outperforming, but because US inflation is becoming a US problem that requires US-specific hedging. Meanwhile, the bond market is pricing in a Fed that stays higher for longer, which is the rational response to inflation that monetary policy can't directly address. These aren't regime-breaking divergences. They're the market sorting out which tools work for which problems.

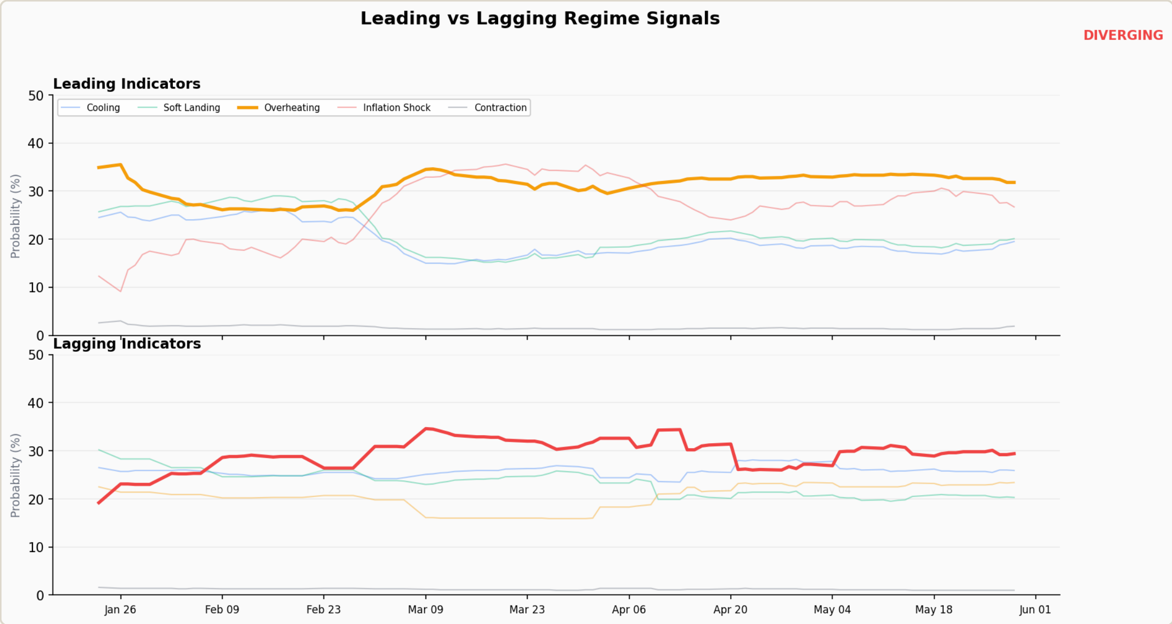
Asset Playbook

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

The model's asset stances translate into a portfolio experience that's more nuanced than painful. Your equity allocation is getting a favorable stance with moderate confidence, which means the growth part of your 60/40 is working even as the bond portion struggles. Credit gets a favorable stance too, so if you've got corporate bond exposure, that's providing some offset to the pressure on Treasuries. The dollar strength is creating winners and losers within your international holdings, but the overall stance suggests this isn't a broad risk-off environment.

The most surprising stance is probably the neutral-to-unfavorable read on gold despite all the inflation noise. When everyone expects the traditional inflation hedge to rally and it doesn't get a strong favorable stance, that tells you the model sees this inflation as different from the kind that historically drove gold higher. The mechanical force here is dollar strength crowding out the gold bid, even as the underlying inflation dynamics should theoretically support precious metals.

Leading / Lagging Signal Alignment



The leading and lagging layers are telling two different stories about the same economy, and they haven't figured out how to reconcile yet. The convergence score shows these signals are still diverging rather than moving toward agreement, which is exactly what you'd expect when the economy is genuinely transitional. The leading indicators are picking up the growth deceleration and suggesting we're moving toward the cooling scenarios, while the lagging data is still carrying the heat signature from the inflation surge and tariff implementation.

When this type of divergence has resolved historically, the convergence process typically takes several weeks rather than days. The leading layer tends to be right about direction but early on timing, while the lagging layer captures the persistence of economic momentum even after the underlying drivers have shifted. What we're watching for is the moment when the lagging data starts to bend toward what the leading indicators have been signaling, or when the leading indicators give up and start tracking the persistence that the lagging data is measuring.

An early warning divergence would show up as the leading layer suddenly snapping back toward the heating scenarios while the lagging layer continues to cool. That would suggest the growth deceleration is stalling out and the inflation momentum is reasserting itself. Right now, we're in the more common pattern where the layers are simply measuring different time horizons of the same underlying transition. The question is which time horizon wins.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+1.7%	+17.8%	+1.23	834
QQQ	+3.5%	+28.1%	+1.49	834
IWM	+1.4%	+4.4%	+0.23	834
IEF	+0.3%	+2.1%	+0.40	834
TIP	-0.4%	+4.5%	+1.09	834
LQD	+0.5%	+3.3%	+0.61	834
HYG	-0.1%	+5.1%	+1.07	834
GLD	-0.6%	+15.2%	+1.06	834
XLE	-3.7%	-4.3%	-0.18	834
VEA	+2.0%	+6.8%	+0.47	834
VWO	+2.4%	+12.6%	+0.73	834

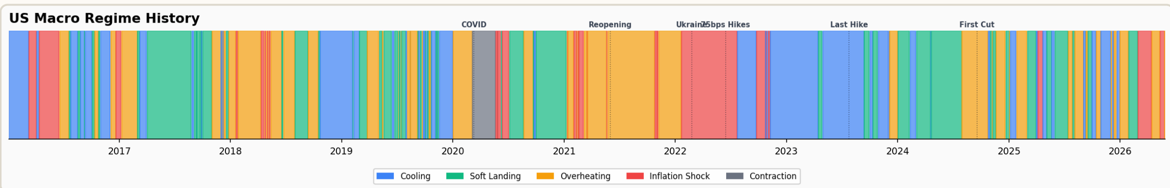
Historical returns measured over Overheating regime days in backtest.

This week's market action delivered a mixed report card against the regime's historical expectations. The equity winners were exactly where the Overheating playbook suggested they should be, with growth stocks and cyclicals leading the way despite the inflation concerns. The week's losers came from the interest-sensitive sectors, which makes sense when the bond market is pricing in higher-for-longer Fed policy. What's notable is that the week's performance broadly matched the regime template, even as the underlying drivers felt different from historical episodes.

The divergences from historical patterns showed up in the cross-asset relationships rather than the individual asset returns. Bonds and commodities moved more in sync than the historical Overheating periods would suggest, reflecting the unique nature of supply-driven inflation versus demand-driven overheating. The dollar's strength also created different dynamics for international assets than the backtest would predict, since most historical Overheating episodes didn't feature the type of trade policy disruptions we're seeing now.

The usual caveats apply with extra force this cycle. The regime definitions are based on economic patterns that may not fully capture the policy-driven nature of current inflation, and the sample sizes for some of these regime episodes remain small enough that a few outlier periods can skew the averages. What the backtest captures well is the general direction of asset class performance. What it misses is the specific transmission mechanisms when the inflation comes from tariffs rather than excess demand.

10-Year Regime History



The closest historical parallel to today's environment is the 2018 trade war period, when policy-driven inflation pressures created similar uncertainty about whether the economy was overheating or just dealing with supply-side price shocks. That episode lasted roughly six months before resolving into a clear Cooling regime as the growth effects of trade disruption outweighed the inflation effects. The key difference was that 2018 had a clear resolution mechanism through policy reversal, while today's inflation sources don't have obvious off-ramps.

The 2021-2022 Inflation Shock period offers a different type of parallel, with persistent inflation forcing regime shifts that lasted longer than anyone expected. That episode ran for nearly eighteen months before transitioning to Cooling, but it was driven by demand-side overheating that monetary policy could eventually address. The resolution came through aggressive Fed action that today's Fed can't replicate without creating unnecessary unemployment to solve inflation they didn't cause.

What's structurally different now is the policy constraint on the Fed's response function. Previous Overheating episodes typically resolved through either successful Fed tightening or economic slowdown that brought inflation down naturally. Today's episode features inflation that doesn't respond to interest rates and growth that's already slowing without Fed pressure. Unlike those historical periods, this regime may persist not because the underlying forces are strengthening, but because the usual resolution mechanisms aren't available.

Market Context

Weekly ETF returns as of 2026-06-01 (vs 2026-05-25).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
QQQ	Nasdaq 100	$717.54	$742.74	+3.5%
VWO	Emerging Markets	$58.98	$60.42	+2.4%
VEA		$70.46	$71.87	+2.0%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
	Developed Markets			
SPY	S&P 500	$745.64	$758.54	+1.7%
IWM	Russell 2000	$285.12	$288.98	+1.4%
LQD	IG Corporate	$108.37	$108.93	+0.5%
IEF	7-10Y Treasury	$93.88	$94.17	+0.3%
HYG	HY Corporate	$79.91	$79.84	-0.1%
TIP	TIPS	$110.38	$109.98	-0.4%
GLD	Gold	Range-bound	$411.26	-0.6%
XLE	Energy	$59.49	$57.30	-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):** $+17,800/yr on $100K (historical Overheating regime returns)
- **This week:** $+1,700 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure before your portfolio does. The jump in pump prices over the past week translates directly to higher commuting costs, with the average household facing meaningfully higher transportation expenses through the summer driving season. If the strait remains closed, expect this pressure to intensify rather than fade.

Your grocery bill is catching the tariff pass-through that Fed researchers flagged as essentially complete. The price increases on imported goods have worked their way through supply chains and are now showing up at checkout. This isn't a temporary spike that reverses next month. It's a permanent step-up in the cost structure for anything that crosses a border.

Your 401(k) got a boost from the equity rally, but the combination of rising stocks and rising gold suggests markets aren't convinced this is sustainable. The portfolio gain over the past week reflects optimism about corporate earnings, but the precious metals rally happening alongside it signals underlying uncertainty about whether the economic backdrop supports these valuations.

Your mortgage payment calculation improved slightly as rates pulled back from recent highs, though the relief is modest in the context of where borrowing costs sat just a few years ago. If you're shopping for a home, the rate environment is marginally more favorable than it was last month, but the fundamental affordability challenge remains intact.

Your real purchasing power is under pressure as wage growth trails the inflation rate. The gap between what you earn and what things cost has turned negative, meaning your paycheck buys less than it did a year ago. This squeeze was already developing before energy prices spiked, and the recent commodity rally will likely widen the gap further.

Signal vs. Noise

Signal:

- Back-to-back weekly equity gains above three percent, which historically produces above-average forward returns - Consumers spending more than they earn while real incomes turn negative - Broad commodity rally with over eighty percent of components in uptrends - Gold and stocks rising together, suggesting the equity bounce isn't an all-clear signal - Government deficit running at twice the revenue rate in the current fiscal year

Noise:
- Presidential social media endorsements that can't stop individual stock declines - Sector-specific software selloffs while broader markets hold steady - Long-term strategic allocation debates about sixty-forty portfolios - Diplomatic theater between China and Taiwan with extended time horizons

The distinction right now comes down to breadth versus specificity. When multiple asset classes, economic indicators, and household metrics all point in the same direction, that's signal. When individual stocks, sectors, or political headlines move independently of the broader pattern, that's noise. The signal is telling you about systematic pressures on inflation, growth, and financial conditions. The noise is telling you about company-specific problems, positioning unwinds, and political posturing that doesn't change the macro trajectory.

What to Watch

March PCE inflation data release on April 25th. This is the number that actually moves Fed policy expectations, and early estimates suggest it could be even hotter than the CPI print that got everyone's attention. If core PCE accelerates beyond current projections, the patient Fed stance becomes much harder to maintain. **Weekly petroleum status reports through May.** The physical oil market is tighter than the recent price decline suggests, and inventory draws during peak driving season could force a rapid repricing. Watch crude stocks at Cushing and gasoline inventories along the Gulf Coast for early warning signs of supply stress. **Consumer credit data for**

March, due April 28th. Households were already borrowing to maintain spending before gas prices jumped. The next credit card delinquency report and revolving credit numbers will show whether the spending-income gap is widening into dangerous territory. **Any diplomatic headlines about Strait of Hormuz negotiations.** Military escalation or failed talks could send crude gapping higher on Monday morning. Conversely, a credible framework for reopening shipping lanes would break the summer spike thesis immediately. **Timespreads in the oil futures curve.** Don't just watch the flat price. When near-term contracts trade at steep premiums to longer-dated ones, that's the market pricing immediate scarcity. If those spreads widen further, it confirms the physical shortage is getting worse despite headline price volatility.

What Would Change My Mind

If core services inflation accelerates for two consecutive months. The current thesis assumes inflation is driven by two identifiable shocks rather than broad demand overheating. But if core services prices start rising faster, stripping out energy and tariff effects, that would mean the shocks are bleeding into expectations and wage-setting behavior. At that point, Fed patience becomes Fed complacency, and the Overheating regime call gets much more confident rather than remaining a coin flip. **If Saudi Arabia announces meaningful production increases or a credible diplomatic framework emerges for reopening the Strait.** The oil thesis depends on physical market tightness persisting through summer driving season. Either development would flood the market with additional supply and break the commodity-driven inflation story. Crude would likely gap down rather than drift lower, and the entire inflation narrative would shift back toward the disinflationary forces that dominated late last year. **If the labor market deteriorates faster than current trends suggest.** The model's uncertainty reflects an economy caught between cooling growth and persistent inflation. But if jobless claims spike or hiring freezes spread beyond tech and finance, the growth deceleration could overwhelm the inflation momentum. That would flip the regime call toward Cooling or even Overheating, making current inflation concerns look like the last gasp of an overheating cycle rather than the beginning of a sustained problem.
