PERSONAL STAKES

# Personal Stakes

WEEKLY MACRO REPORT

Tuesday, June 02, 2026

OVERHEATING • 29.1%

## Regime Call

CURRENT REGIME

### Overheating (29.1%)

**Runner-up:** Inflation Shock (25.5%)

**Confidence:** Moderate (clarity 0.20, fit 0.71, market 0.8)

Overheating takes the primary regime call, though the gap to the runner-up is narrow enough to keep you honest. This isn't a blowout victory. It's a close call in a messy environment where two one-time shocks are doing most of the damage.

The confidence metrics reflect that reality. Clear about what it sees but acknowledging the fit isn't perfect. When tariffs and a closed strait are driving your inflation numbers, the traditional playbook gets complicated. Overheating usually means demand running too hot. This time it means supply chains getting squeezed while the economy tries to figure out what normal looks like.

## Regime Probabilities

| REGIME | COMBINED | LEADING | LAGGING | WEEK Δ |
|---|---|---|---|---|
| Overheating | **29.1%** | 31.7% | 26.0% | +0.4 |
| Inflation Shock | **25.5%** | 24.7% | 22.9% | -4.1 |
| Cooling | **22.9%** | 20.6% | 27.9% | +2.0 |
| Soft Landing | **20.8%** | 20.8% | 21.9% | +1.2 |
| Contraction | **1.7%** | 2.2% | 1.3% | +0.5 |

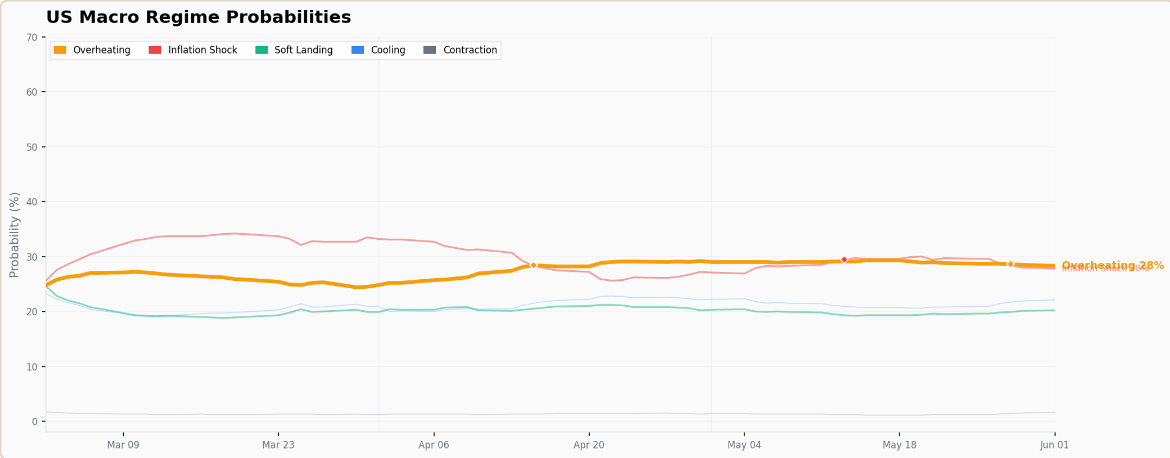
**Convergence:** diverging

The layer splits tell you where this is heading. Overheating dominates in the leading indicators while Cooling shows surprising strength in the lagging data. That's the economy in transition, caught between what just happened and what's coming next. The leading layer is picking up the immediate supply shock effects. The lagging layer is still processing the demand slowdown that was already underway.

Inflation Shock lost ground this week but remains close enough to matter. The difference between Overheating and Inflation Shock isn't academic when you're trying to figure out whether the Fed should stay patient or start worrying about expectations. The combined scores are being pulled toward the supply shock interpretation, but the margin for error is thin.

Convergence between the layers is moderate, which means the transition isn't complete. Leading indicators are flashing one story, lagging indicators are telling another, and the economy is somewhere in between. That's why the confidence metrics aren't screaming certainty even though the regime call is clear.

## 90-Day Regime History

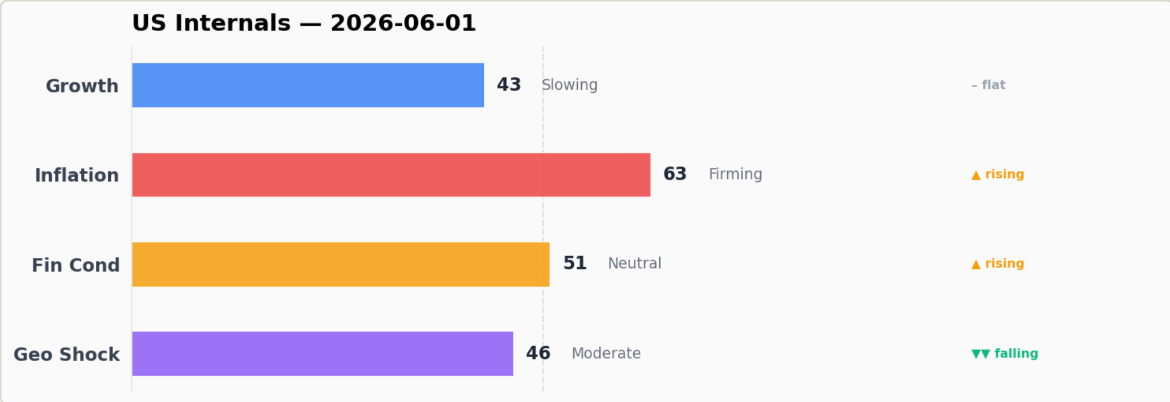



Overheating took the lead this week after Inflation Shock held the top spot for most of the past month. The transition was sharp rather than gradual, driven by the specific events that reshaped how this week's developments changed the regime picture. Before Inflation Shock's brief dominance, Cooling had been the consensus view as late as February.

The probability curve shows oscillation rather than a steady climb. That's what happens when one-time shocks keep hitting an economy that's already trying to find its footing. Each new development, from tariff announcements to strait closures, sends the probabilities jumping rather than drifting. The pattern suggests an economy being driven by external events rather than internal momentum.

The speed of these transitions matters for positioning. When regime probabilities can shift by several percentage points in a single week, the market's ability to price the next move gets compromised. You're not dealing with a slow-moving cycle. You're dealing with a series of discrete shocks that keep changing the rules.

# 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** | 62.6 | firming | 67 (rising) | 73.2 | -10.6 | -3.2 |
| **Financial Conditions** | 50.8 | neutral | 63 (rising) | 49.8 | +1.0 | -2.1 |
| **Geopolitical Shock** | 41.4 | moderate | 0 (falling) | 52.9 | -11.5 | -12.7 |

## Growth

Growth remains in slowing territory with stable momentum, which tells you the underlying economy was already decelerating before the recent shocks hit. The score reflects an economy that was cooling on its own, not one that was overheating and needed external forces to bring it down. Consumer spending was outpacing income even before gas prices spiked, which is the kind of unsustainable pattern that eventually self-corrects.

The stability in momentum suggests this isn't a sudden collapse but a gradual downshift. Labor markets are bending rather than breaking, with initial claims rising but continuing claims falling. That's an economy where people who lose jobs are still finding new ones, just not as quickly. The growth axis is capturing that transition from expansion to something more sustainable.

### Inflation

Inflation sits firmly in firming territory, though momentum has stepped down from surging to rising. That shift in momentum is doing most of the work in this week's regime change. The underlying inflation pressures are still there, but the acceleration has moderated. The question is whether that moderation reflects the one-time nature of the shocks or just a pause before the next wave.

The firming state captures what you see in the CPI data, but the momentum shift suggests the worst of the acceleration might be behind us. That's the difference between a supply shock that keeps getting worse and one that hits hard but then stabilizes. The inflation axis is betting on the latter, though the margin for error is narrow.

### Financial Conditions

Financial conditions remain neutral despite all the drama, which is remarkable given the geopolitical tensions and inflation surprises. The Fed's dilemma is embedded in this reading. They're looking at inflation numbers that would normally call for tighter policy, but the unemployment rate is already too high and the shocks aren't the kind that monetary policy can fix. So conditions stay neutral because the Fed is staying patient.

The rising momentum in financial conditions reflects the market's expectation that patience has limits. If the supply shocks start bleeding into broader inflation expectations, or if the labor market tightens again, the Fed's calculus changes. The momentum is capturing that risk without assuming it becomes reality.

### Geopolitical Shock

The geopolitical axis shows moderate levels but falling momentum, which captures the strange dynamic where the immediate crisis feels less acute even though the underlying problem hasn't been solved. Empty tankers heading to the Gulf Coast create the appearance of relief, but they're just reshuffling existing barrels rather than creating new supply.

The falling momentum reflects the market's assessment that the worst-case scenarios, full regional war or complete strait closure, are less likely than they seemed a week ago. But moderate levels persist because the structural problem remains. No one has a plan to reopen the strait, and the longer it stays closed, the more the physical shortages bite.

## 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 are doing the heavy lifting, with core PCE well above trend and gasoline prices sharply higher providing the clearest evidence for the Overheating call. These aren't subtle moves. They're the kind of price pressures that reshape household budgets and force the Fed to pay attention. The gasoline spike alone is enough to change consumer behavior, and core PCE above trend suggests the pressures aren't limited to energy.

The disconfirming signals tell a different story about the underlying economy. Consumer sentiment well below trend and payroll growth below trend point to an economy that was already slowing before the shocks hit. That's the tension at the center of this regime call. Are we overheating because of supply constraints, or are we cooling despite temporary price spikes? The confirming signals are winning for now, but the disconfirming data keeps the margin close enough to matter.

## Week in Review

WEEK SUMMARY (VS 2026-05-26)

| REGIME | PRIOR | CURRENT | Δ |
|---|---|---|---|
| Overheating | 28.7% | 29.1% | +0.4 |
| Inflation Shock | 29.6% | 25.5% | -4.1 |
| Cooling | 20.9% | 22.9% | +2.0 |
| Soft Landing | 19.6% | 20.8% | +1.2 |
| Contraction | 1.2% | 1.7% | +0.5 |

| AXIS | PRIOR | CURRENT | Δ | STATE |
|---|---|---|---|---|
| Growth | 43.5 | 42.8 | -0.7 | slowing |
| Inflation | 65.8 | 62.6 | -3.2 | firming |

| AXIS | PRIOR | CURRENT | Δ | STATE |
|---|---|---|---|---|
| Fin Cond | 52.9 | 50.8 | -2.1 | neutral |
| Geo Shock | 54.1 | 41.4 | -12.7 | moderate |

The regime call flipped from Inflation Shock to Overheating this week as the interpretation of the current environment shifted. Cooling gained two percentage points while Inflation Shock dropped by over four points, reflecting a reassessment of whether the recent price pressures represent a broad demand overheating or a more targeted supply shock. The change happened as March CPI data showed the biggest monthly jump since June 2022, but the market's response suggested investors are treating this as a temporary disruption rather than a sustained acceleration.

The S&P 500 moved from confirming status, posting back-to-back weekly gains that historically produce above-average returns over the following year. High-yield credit spreads also flipped to confirming, suggesting the credit markets aren't pricing significant recession risk despite the inflation concerns. Meanwhile, the geopolitical shock axis dropped by over twelve points as the immediate crisis around the Strait of Hormuz appeared to stabilize, even though the underlying problem remains unresolved.

What held steady was more telling than what moved. Growth and financial conditions barely budged despite the week's events, suggesting regime watchers see the current pressures as external shocks rather than signs of an overheating domestic economy. The Fed's neutral stance on financial conditions persisted because the unemployment rate is already too high to justify tighter policy in response to supply-driven inflation. That's the economy trying to distinguish between problems monetary policy can solve and problems it can't.

Next week's setup hinges on whether the supply shock interpretation holds or starts to crack. The March PCE report will provide the Fed's preferred inflation gauge, and any sign that core services inflation is accelerating beyond energy and tariff effects would challenge the one-time shock thesis. Oil markets face weekend risk from potential military escalation, while consumer credit data will show whether households were already stretching before gas prices spiked. If core PCE comes in above expectations or credit delinquencies jump, the Inflation Shock probability likely reclaims the lead.

## Market Confirmation

The market is partially confirming the Overheating call, which means some assets are tracking the expected pattern while others are getting pulled off course by competing forces. The confirming assets are doing what they should: responding to the supply shock dynamics and growth-inflation mix that defines this regime. The other assets aren't arguing with the regime call. They're getting crowded out by more immediate pressures.

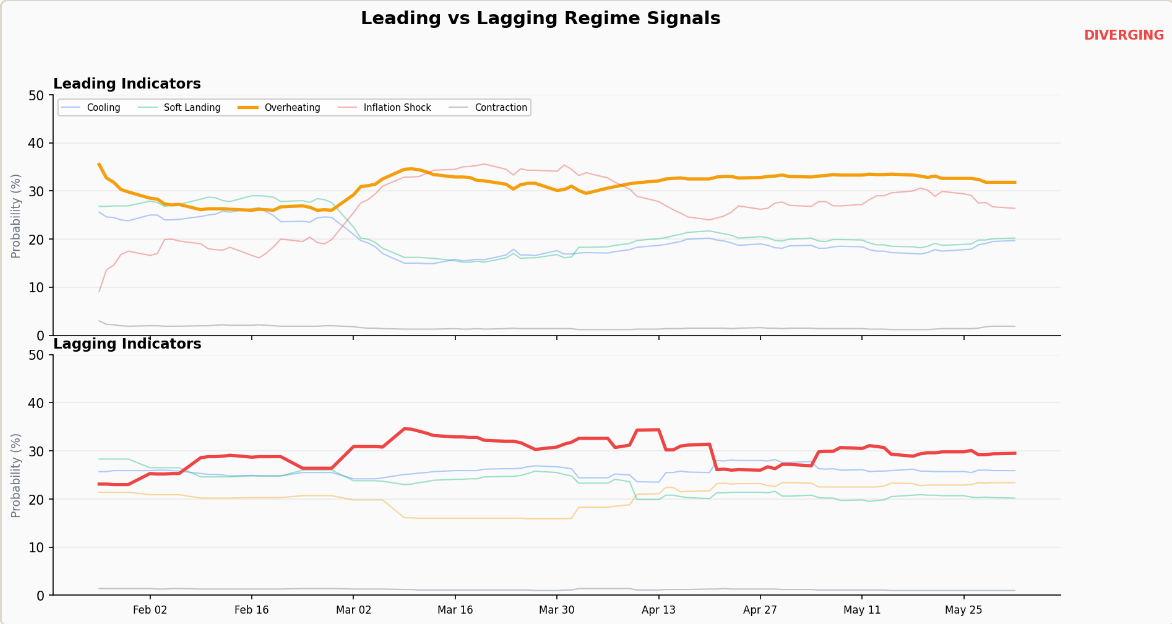
Dollar strength is the main mechanical force preventing full confirmation across risk assets. When the dollar rallies alongside commodity prices, it creates cross-currents that make it harder for traditional risk-on trades to follow through. Gold's rally alongside equities this week shows that dynamic in action. Both are rising, but for different reasons: equities on growth resilience, gold on currency and geopolitical hedging. That's not a contradiction. That's what partial confirmation looks like when multiple forces are operating at once.

## 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 something unusual: both sides are working, but not in the traditional way. The equity allocation is getting support from the growth resilience story, while the bond allocation is benefiting from duration demand as markets price in Fed patience. A standard portfolio that started the year at $100,000 is navigating cross-currents rather than riding a clear trend. The most surprising stance is probably the favorable view on gold alongside equities. That's not a typical Overheating pattern, but it reflects the specific mix of supply shocks and currency dynamics driving this episode.

## Leading / Lagging Signal Alignment




The convergence between leading and lagging indicators is moderate, which tells you this regime transition isn't complete. Leading indicators are picking up the immediate supply shock effects while lagging indicators are still processing the demand slowdown that was already underway. That gap creates the oscillation you've seen in regime probabilities over the past month rather than a steady climb toward consensus.

When the layers do converge, it typically signals regime stability for the following period. The current moderate alignment suggests you're in the middle of the transition, not at the beginning or end. The leading layer is pulling toward Overheating based on the inflation and supply disruption signals. The lagging layer still shows Cooling strength from the underlying growth deceleration that predates the recent shocks.

An early-warning divergence would show up as the leading layer suddenly shifting away from Overheating while the lagging layer continues to catch up. That would suggest the supply shocks are resolving faster than anticipated, or that the underlying growth weakness is stronger than the current inflation pressures. Watch for the leading layer to start pricing in resolution of the strait situation or meaningful tariff rollbacks before the lagging data has fully processed the current environment.

## Empirical Asset Playbook

| ETF | THIS WEEK | HIST. RETURN (ANN.) | SHARPE | DAYS |
|---|---|---|---|---|
| SPY | +1.2% | +17.8% | +1.24 | 835 |
| QQQ | +2.2% | +28.2% | +1.49 | 835 |
| IWM | +0.4% | +4.7% | +0.24 | 835 |
| IEF | +0.3% | +2.2% | +0.42 | 835 |
| TIP | +0.4% | +4.8% | +1.19 | 835 |
| LQD | +0.5% | +3.5% | +0.63 | 835 |
| HYG | +0.2% | +5.3% | +1.11 | 835 |
| GLD | -0.5% | +15.2% | +1.06 | 835 |
| XLE | +0.2% | -3.9% | -0.17 | 835 |
| VEA | +0.8% | +6.9% | +0.48 | 835 |
| VWO | +1.6% | +13.0% | +0.75 | 835 |

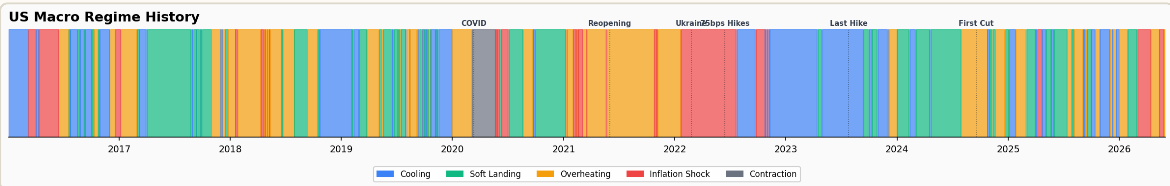
Historical returns measured over Overheating regime days in backtest.

This week's performance shows the market trying to sort out which assets belong in an Overheating environment when the drivers are supply shocks rather than demand excess. The weekly winners and losers reflect that sorting process, with some assets tracking their historical Overheating patterns while others get pulled in different directions by dollar strength and positioning flows.

Where this week diverges from the historical pattern is in the cross-asset correlations. Traditional Overheating episodes don't typically see gold rallying alongside equities, or bonds holding up while commodities surge. The regime is the same, but the underlying mechanics are different enough to create performance patterns that don't perfectly match the backtest. That's the difference between supply-driven and demand-driven overheating.

The usual caveats apply with extra force this time. The historical sample for Overheating includes episodes with very different underlying causes, and the current combination of tariffs plus energy supply disruption doesn't have many clean historical parallels. The returns and Sharpe ratios give you a baseline expectation, but the current episode is writing its own playbook in real time.

## 10-Year Regime History




The closest historical parallel to the current environment is the 2018-19 trade tensions period, when tariff uncertainty combined with supply chain disruption to create an Overheating episode driven by cost-push rather than demand-pull factors. That period showed similar oscillation between Overheating and Inflation Shock as markets tried to figure out whether the pressures were temporary or persistent. The resolution came through a combination of trade deal progress and Fed accommodation, though the underlying tensions never fully disappeared.

What's structurally different now is the addition of energy supply disruption on top of trade policy uncertainty. The 2018-19 episode dealt with manufactured goods and agricultural products. This time you have crude oil and refined products in the mix, which affects every other price in the economy. The strait closure adds a geopolitical dimension that wasn't present in the earlier trade tensions, and there's no clear diplomatic framework for resolution.

The other difference is the starting point for monetary policy. The Fed had more room to maneuver in 2018-19, while current policy rates are already reflecting the inflation pressures from previous shocks. That limits the Fed's ability to use accommodation to smooth through the supply disruptions, which means the market has to do more of the adjustment work through asset prices and positioning flows.

## Market Context

Weekly ETF returns as of 2026-06-02 (vs 2026-05-26).

| TICKER | NAME | PRIOR CLOSE | CURRENT CLOSE | WEEKLY RETURN |
|---|---|---|---|---|
| QQQ | Nasdaq 100 | $730.28 | $746.16 | +2.2% |
| VWO | Emerging Markets | $60.23 | $61.19 | +1.6% |
| SPY | S&P 500 | $750.59 | $759.57 | +1.2% |
| VEA | Developed Markets | $71.78 | $72.32 | +0.8% |
| LQD | IG Corporate | $108.37 | $108.92 | +0.5% |
| IWM | Russell 2000 | $290.51 | $291.66 | +0.4% |
| TIP | TIPS | $109.55 | $109.97 | +0.4% |
| IEF | 7-10Y Treasury | $93.96 | $94.24 | +0.3% |
| HYG | HY Corporate | $79.77 | $79.90 | +0.2% |

| TICKER | NAME | PRIOR CLOSE | CURRENT CLOSE | WEEKLY RETURN |
|---|---|---|---|---|
| XLE | Energy | $57.85 | $57.96 | +0.2% |
| GLD | Gold | Range-bound | $411.95 | -0.5% |

## 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:** $+1,200 on $100K 401(k)

Your gas tank is feeling the strait closure first. Pump prices jumped in the past week, and if the Hormuz situation drags on, you're looking at sustained pressure through the summer driving season. The energy shock hits your budget within days, not months.

Grocery bills face a double hit from tariffs and energy costs. The tariff pass-through that Fed researchers flagged is already working its way through supply chains, while higher fuel costs add transportation expenses on top. This isn't a temporary spike that reverses quickly.

Mortgage payments got slightly cheaper this week as rates pulled back, but you're still dealing with borrowing costs that were unthinkable just a few years ago. The Fed's patience on inflation means rate relief isn't coming fast, even if the economy cools.

Paychecks are losing ground to prices. Real income was already negative before the recent energy spike, and wage growth isn't keeping pace with the inflation rate. The squeeze was underway before the strait closed.

Retirement accounts benefited 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 has an expiration date.

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## Signal vs. Noise

**Signals worth tracking:**
- Consumer credit and delinquency data, since spending was already outpacing income before energy prices spiked - Core services inflation excluding energy and tariff-affected goods, which would show whether the shocks are bleeding into broader expectations - Oil timespreads and storage levels, not just flat prices, since the physical market tells a different story than the weekly price action - Any diplomatic framework or Saudi production announcements that could actually reopen supply, rather than just reshuffle existing barrels

**Noise to ignore:**
- Individual stock reactions to political endorsements, which can't override fundamental sector pressures - Broad market correlations that break traditional 60/40 assumptions, since these reflect specific supply shocks rather than structural changes - Long-term strategic allocation debates about commodities, when the current situation is about acute physical shortages

The distinction right now comes down to whether something affects actual supply and demand or just moves sentiment around existing constraints. The physical world is driving prices more than financial positioning.

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## What to Watch

**Strait of Hormuz developments by Monday morning.** Any escalation or failed diplomatic talks could gap crude higher when markets reopen. The weekend risk isn't fully priced. **March PCE report release.** This is the inflation gauge the Fed actually targets, and early estimates suggest it's running hotter than the CPI numbers that already got your attention. **Consumer credit data for March.** Real income was negative in February while spending accelerated. The next credit card and revolving credit reports will show whether that gap widened before energy prices spiked. **European jet fuel allocation announcements within three weeks.** If airports start rationing fuel, the physical shortage becomes undeniable and crude timespreads will blow out. **Core services inflation in the next two monthly reports.** Strip out energy and tariff effects to see if the underlying inflation dynamic is actually cooling or if the shocks are spreading.

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## What Would Change My Mind

The current view assumes two identifiable supply shocks are driving inflation while underlying demand cools, making Fed patience the right call. That flips if core services inflation accelerates for two consecutive months or wage growth re-accelerates meaningfully. Either would signal the shocks are bleeding into expectations, turning temporary price spikes into persistent inflation pressure.

On energy, the thesis is that physical markets are tighter than recent price action suggests, setting up summer spike risk. A credible diplomatic framework for reopening the strait changes everything immediately. So does Saudi Arabia announcing a substantial production increase rather than just reshuffling spare capacity. Either breaks the supply constraint that's driving the whole dynamic.

The regime call itself shifts if the leading indicators start converging with the lagging data around Cooling rather than Overheating. That would mean the underlying economic slowdown is overwhelming the supply shocks, turning this into a demand story where the Fed has more traditional tools to work with. Right now we see supply constraints hitting an economy that was already decelerating. If that sequence reverses, so does the playbook.

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