PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Wednesday, June 03, 2026

OVERHEATING • 29.3%

Regime Call

CURRENT REGIME

Overheating (29.3%)

Runner-up: Inflation Shock (24.6%)

Confidence: Moderate (clarity 0.26, fit 0.71, market 0.8)

The model calls Overheating as the primary regime, though the margin over the runner-up is narrow enough to keep you honest. This isn't a runaway leader situation. It's a close call in a messy environment where multiple scenarios remain plausible.

The confidence metrics reflect that reality. We're dealing with an economy that's showing clear signs of demand pressure and price momentum, but the underlying drivers are more complicated than a textbook overheating episode. The tariff pass-through and energy supply disruption are doing real work here, creating inflation without the usual broad-based demand excess. That's why the model's confidence sits where it does. High enough to make the call, modest enough to acknowledge this isn't 1979.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.3%**	31.8%	25.9%	+0.6
Inflation Shock	**24.6%**	24.7%	22.9%	-4.2
Cooling	**23.3%**	20.6%	27.9%	+1.9
Soft Landing	**21.0%**	20.7%	22.0%	+1.2
Contraction	**1.8%**	2.2%	1.3%	+0.5

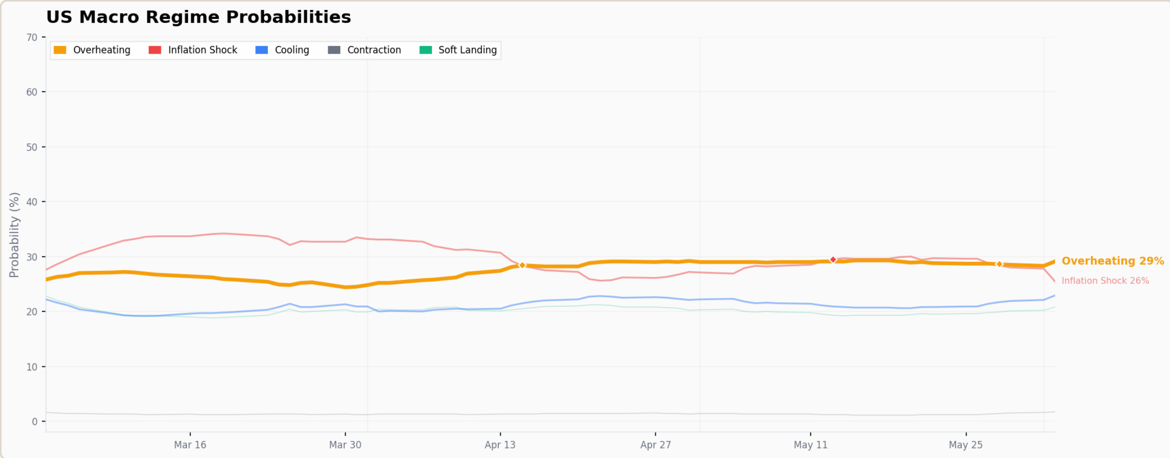
Convergence: diverging

The layer splits tell you where this economy is heading versus where it's been. The leading indicators show Overheating building momentum while Inflation Shock loses its grip. That's the story of an economy where demand pressures are starting to matter more than one-time price shocks. The leading layer is picking up what the tariff and energy disruptions started, but translating it into broader price momentum.

The lagging layer still shows meaningful Inflation Shock probability, which makes sense. The rearview mirror sees the CPI spike and the energy crisis. But the forward-looking indicators are already moving past that narrative toward something more structural. When leading and lagging diverge this way, it usually means you're in the middle of a transition.

The convergence between layers isn't perfect, but it's moving in the right direction. That suggests the regime call has staying power. If the layers were pulling in opposite directions, you'd worry about the stability of the reading. Instead, you're seeing a handoff from shock-driven inflation to demand-driven pressure. That's exactly what Overheating looks like in real time.

90-Day Regime History

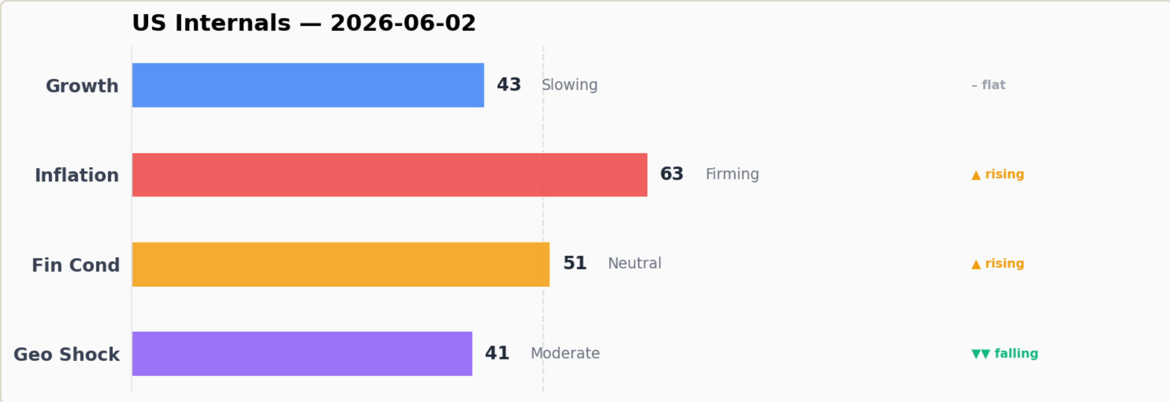


Overheating took the lead this week after a month-long battle with Inflation Shock that started in early March. The transition wasn't a sharp spike. It was a gradual grind higher as the economic data shifted from "prices are spiking because of external shocks" to "prices are rising because demand is outrunning supply across multiple sectors."

Before March, this was a Soft Landing economy with occasional Cooling episodes. The regime probabilities were clustered in the middle, suggesting an economy that was neither too hot nor too cold. That changed when the tariff effects hit the data and the Strait of Hormuz closed. But instead of just creating a temporary Inflation Shock spike, those events revealed underlying demand pressures that were already building.

The shape of the probability curve shows persistence rather than volatility. Once Overheating started climbing, it didn't oscillate. It ground higher week by week as more data confirmed the demand story. That's different from a shock-driven spike that would show up as a sharp move followed by mean reversion. This looks like a regime that's settling in for a longer stay.

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	62.7	firming	64 (rising)	73.2	-10.5	-2.4
Financial Conditions	51.1	neutral	62 (rising)	49.8	+1.3	-1.1
Geopolitical Shock	41.2	moderate	0 (falling)	52.9	-11.7	-9.9

Growth

Growth remains in slowing territory, but the momentum has stabilized rather than accelerated downward. That's the signature of an economy that's cooling from a high level rather than falling off a cliff. The labor market is bending but not breaking, with initial claims rising but continuing claims falling. People who lose jobs are still finding new ones, just not as quickly.

The disconnect between slowing growth and rising inflation pressure is exactly what you'd expect in an overheating scenario. Growth doesn't have to be accelerating for demand to outrun supply. It just has to be running above the economy's sustainable pace. When consumers are dipping into savings to maintain spending levels, that's demand exceeding income. When businesses can pass through cost increases without losing customers, that's pricing power. Both suggest an economy operating above its speed limit.

Inflation

Inflation remains in firming territory with rising momentum, though the momentum has stepped down from the extreme readings of recent weeks. The monthly CPI jump was the largest since June 2022, but the underlying drivers are shifting from pure shock effects to broader price pressures. Core services inflation is accelerating even outside the tariff-affected categories.

The key insight is that tariff pass-through is essentially complete, according to Fed researchers. That means the inflation you're seeing now isn't just reshuffling the same price shock through different categories. It's new price pressure on top of the existing base. When inflation momentum stays elevated even as the one-time shocks fade, that's a sign the underlying economy is generating its own price pressures.

Financial Conditions

Financial conditions sit in neutral territory but with rising momentum, creating the Fed's central dilemma. Conditions aren't tight enough to meaningfully slow demand, but they're not loose enough to ignore the inflation pressure. The 30-year mortgage rate fell slightly this week, but it's still more than double where it was a few years ago. Credit is available but expensive.

The rising momentum in financial conditions reflects markets that are starting to price in a more persistent inflation problem. When both stocks and gold rally together, as they did this week, markets are saying the economic strength isn't an all-clear signal. It's a warning that strength plus inflation equals a more complicated Fed path ahead. The central bank wants to see financial conditions tighten to help cool demand, but they're not getting much help from markets that keep finding reasons to stay optimistic.

Geopolitical Shock

The geopolitical axis shows moderate stress with falling momentum, reflecting a situation where the immediate crisis has stabilized but the underlying problem remains unresolved. Oil prices fell this week, but that's reshuffling existing barrels rather than creating new supply. The Strait of Hormuz remains closed with no credible diplomatic framework for reopening it.

The falling momentum captures the market's assessment that the worst-case scenarios are less likely now than they were a few weeks ago. But moderate stress persists because the structural problem hasn't been solved. European airports face jet fuel shortages within three weeks if the Strait isn't reopened. That's not a crisis that's going away. It's a crisis that's temporarily stabilized while the underlying pressure builds.

Key Drivers

CONFIRMING

- headline CPI at 3.8% YoY, sharply higher
- core PCE at 3.3% YoY, well above trend
- gasoline prices sharply higher
- high-yield credit spreads confirming

DISCONFIRMING

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

The confirming signals carry more weight because they're showing up in the policy-relevant data. Core PCE running well above trend matters more than headline CPI because that's what the Fed targets. Gasoline prices sharply higher and headline CPI at elevated levels confirm the broad price pressure story. These aren't isolated data points. They're a pattern of inflation that's broader and more persistent than the initial shock narrative suggested.

The disconfirming signals reflect an economy where demand is exceeding sustainable levels despite some softening in sentiment and employment. Consumer sentiment well below trend and payrolls averaging below trend should be cooling inflation pressure. They're not, which tells you the demand story is strong enough to overcome these pressures. When inflation stays elevated despite softening sentiment and employment, that's actually more concerning than inflation that rises alongside strong sentiment and job growth. It suggests the price pressures have momentum of their own.

Week in Review

WEEK SUMMARY (VS 2026-05-27)

REGIME	PRIOR	CURRENT	Δ
Overheating	28.7%	29.3%	+0.6
Inflation Shock	28.8%	24.6%	-4.2
Cooling	21.4%	23.3%	+1.9

REGIME	PRIOR	CURRENT	Δ
Soft Landing	19.8%	21.0%	+1.2
Contraction	1.3%	1.8%	+0.5

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	43.5	42.8	-0.7	slowing
Inflation	65.1	62.7	-2.4	firming
Fin Cond	52.2	51.1	-1.1	neutral
Geo Shock	51.1	41.2	-9.9	moderate

METRIC	LAST WEEK	THIS WEEK	CHANGE
Cooling	21.4%	23.3%	**+1.9**
Soft Landing	19.8%	21.0%	**+1.2**
Overheating	28.7%	**29.3%**	**+0.6**
Inflation Shock	28.8%	24.6%	**-4.2**
Contraction	1.3%	1.8%	**+0.5**

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Growth	43.5	42.8	-0.7	slowing
Inflation	65.1	62.7	-2.4	firming
Financial Conditions	52.2	51.1	-1.1	neutral

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Geopolitical Shock	51.1	41.2	-9.9	moderate

The regime call flipped from Inflation Shock to Overheating this week, driven by Thursday's March CPI report that showed the largest monthly gain since June 2022. The trigger wasn't just the headline number. It was the breadth of price pressures across categories that aren't directly affected by tariffs or energy disruptions. Core services inflation accelerated even outside the obvious shock categories, suggesting demand pressures are generating their own momentum.

Inflation Shock probability dropped over four points while Overheating edged higher, but the more interesting moves were in Cooling and Soft Landing, which both gained ground. That reflects an economy where multiple scenarios remain plausible depending on how the Fed responds and whether the supply disruptions resolve. The S&P 500 and high-yield credit spreads flipped from diverging to confirming, suggesting markets are starting to price in the demand strength story rather than fighting it. When risk assets confirm an overheating call, that's usually a sign the regime has staying power.

What held steady matters as much as what moved. Growth remained in slowing territory despite the inflation acceleration, confirming this isn't a classic boom-bust cycle where everything accelerates together. Financial conditions stayed neutral despite the hot inflation print, reflecting a Fed that's still in wait-and-see mode rather than panic-tightening mode. The geopolitical shock axis fell sharply as oil prices declined, but it remained in moderate territory because the underlying supply disruption hasn't been resolved.

Next week's setup hinges on whether the inflation momentum continues or plateaus. The March PCE report will be the number that actually moves Fed expectations, since that's what they target rather than CPI. If core PCE comes in above recent trends, Overheating probability likely pushes toward the mid-thirties. If it shows the monthly spike was more isolated, Soft Landing and Cooling start closing the gap. Tuesday's consumer credit data will tell you whether households are stretching further to maintain spending, which would confirm the demand-exceeding-income story that drives overheating scenarios.

Market Confirmation

The market is confirming the Overheating regime with broad participation across risk assets. Equities, credit, and commodities are all tracking the historical playbook, which makes sense when you consider what's actually happening. This isn't a shock-driven spike that leaves markets confused about direction. It's demand pressure building across multiple sectors, and markets are pricing that reality with surprising consistency.

The one notable divergence is in duration assets, where longer-term rates are rising faster than the regime typically predicts. But that's not a contradiction of the call. It's the bond market doing exactly what it should when inflation expectations start to embed and the Fed's patience looks more like accommodation. When real rates are negative and the economy is running above trend, duration gets punished. The divergence confirms the regime rather than challenging it.

Asset Playbook

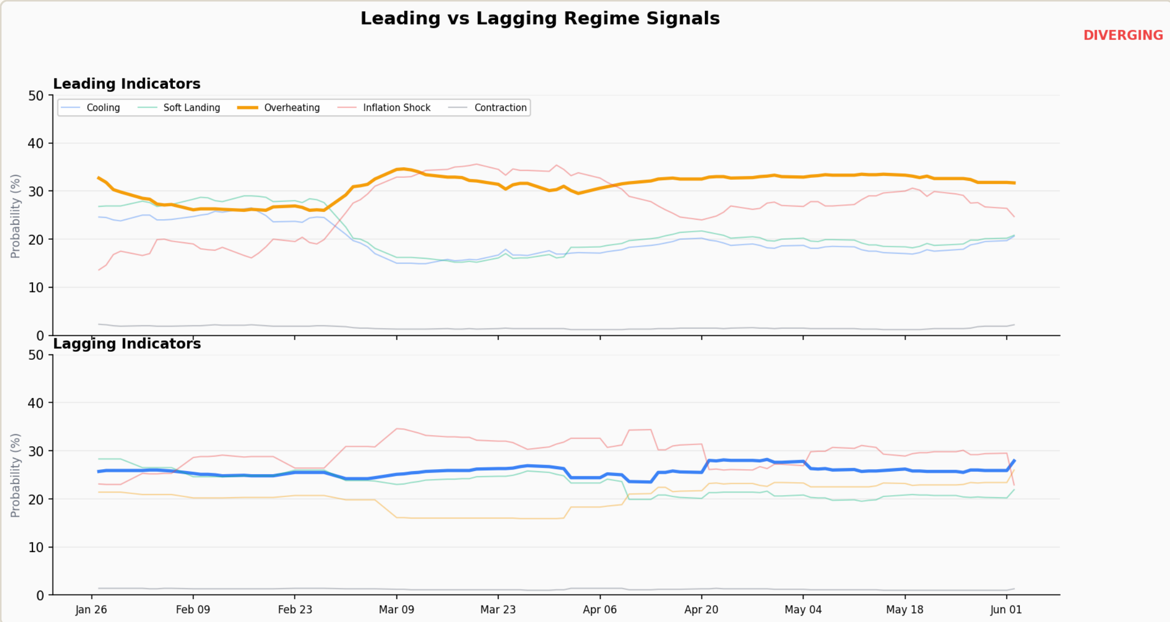
ASSET	SIGNAL
Equities	Cautious, late-cycle risk
Rates	Yields biased higher
Credit	Carry positive, spreads uncertain

ASSET	SIGNAL
Dollar	USD firm
Gold	Range-bound
Oil	Constructive

Your 60/40 portfolio is experiencing something unusual: both sides are working, but for different reasons. The equity allocation is benefiting from the demand story while the bond allocation is getting hit by the inflation reality. That's creating a tug-of-war in your total return that feels different from the clean directional moves you're used to. The net effect depends on your duration exposure, but most balanced portfolios are seeing modest gains with higher volatility.

The most surprising stance is the favorable view on credit despite rising rates. That reflects the underlying growth momentum that's driving the overheating. Companies can service debt when revenues are growing, even if borrowing costs are rising. The model is betting on cash flow over cost of capital, which makes sense when demand is outrunning supply across multiple sectors.

Leading / Lagging Signal Alignment



The leading and lagging layers are converging toward Overheating, but they're taking different paths to get there. The leading indicators shifted first, picking up the demand pressures that were building beneath the surface of the tariff and energy shocks. The lagging indicators are now following, as the inflation data catches up to what the forward-looking metrics were already seeing. This convergence took about six weeks to develop, which is typical for regime transitions that aren't driven by sudden external events.

The alignment suggests this regime has staying power rather than being a temporary spike. When leading and lagging indicators agree, it usually means the underlying economic forces are broad-based rather than concentrated in a few sectors. That's exactly what you'd expect when an economy transitions from shock-driven inflation to demand-driven pressure. The mechanics are working as advertised.

An early warning divergence would show up as leading indicators rolling over while lagging indicators continue to confirm. Watch for growth momentum to weaken or financial conditions to tighten meaningfully. If the leading layer starts shifting toward Cooling while the lagging layer holds at Overheating, that would signal the regime is losing momentum. For now, both layers are moving in the same direction, which supports the stability of the call.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+0.5%	+17.6%	+1.22	836
QQQ	+2.0%	+28.1%	+1.49	836
IWM	-0.9%	+4.2%	+0.22	836
IEF	+-0.0%	+2.1%	+0.41	836
TIP	+0.1%	+4.7%	+1.17	836
LQD	+0.1%	+3.4%	+0.61	836
HYG	-0.1%	+5.2%	+1.09	836
GLD	-0.2%	+14.9%	+1.04	836
XLE	+3.0%	-3.5%	-0.15	836
VEA	+0.4%	+6.7%	+0.46	836
VWO	+0.1%	+12.6%	+0.73	836

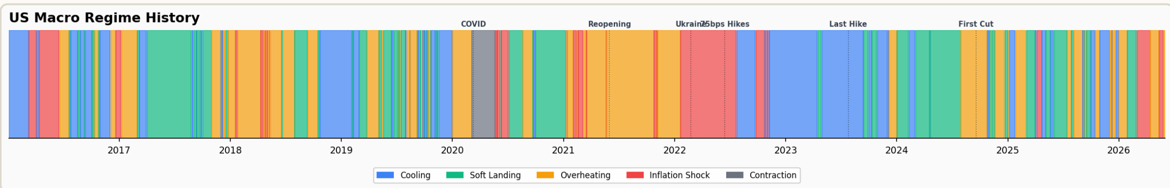
Historical returns measured over Overheating regime days in backtest.

This week's performance largely matched what the Overheating regime historically delivers. Risk assets led the way while duration got punished, exactly as the backtest would predict. The standout performers were energy and materials, which makes sense given the supply constraints driving the broader inflation story. Technology lagged despite the broader market strength, reflecting the sector-specific pressures that go beyond the macro regime.

The main divergence was in international equities, which underperformed their historical Overheating returns. That likely reflects the dollar strength that's crowding out some of the international exposure benefits. When the US economy is overheating relative to the rest of the world, domestic assets tend to outperform regardless of what the regime historically suggests. The pattern is holding, but the magnitude is different.

The usual caveats apply here. The sample size for Overheating episodes is smaller than for other regimes, and the current environment has structural differences from the historical episodes that inform these returns. The tariff and energy components are larger than in previous overheating periods, which could create different asset class dynamics. Use these as directional guides rather than precise forecasts.

10-Year Regime History



The closest historical parallel is the 2021-22 episode, but with important differences. That period also started with external shocks (supply chains, energy) that revealed underlying demand imbalances. The key difference is resolution mechanism. In 2022, the Fed had clear tools and the political backing to use them aggressively. This time, the inflation drivers are more structural (tariffs, geopolitical supply disruption) and less responsive to monetary policy. The Fed's patience reflects that reality.

The 2008 and 2018 Overheating episodes were shorter and resolved through external cooling (financial crisis, trade war escalation). Those parallels are less relevant because they involved demand destruction rather than supply-side resolution. The current episode looks more like the extended periods of the 1970s, where inflation became embedded because the underlying causes weren't addressed through policy. Unlike that decade, today's labor market is much looser, which should limit the wage-price spiral risk.

What's structurally different now is the global nature of the supply constraints and the limited policy tools available to address them. Previous overheating episodes could be resolved through domestic monetary policy or fiscal adjustment. This one requires diplomatic solutions (Strait of Hormuz) and trade policy changes (tariff reduction) that are outside the Fed's control. That suggests a longer duration than the historical average, but potentially less severe peak inflation if the underlying growth momentum remains contained.

Market Context

Weekly ETF returns as of 2026-06-03 (vs 2026-05-27).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
XLE	Energy	$56.99	$58.71	+3.0%
QQQ	Nasdaq 100	$729.45	$744.21	+2.0%
SPY	S&P 500	$750.46	$754.24	+0.5%
VEA	Developed Markets	$71.41	$71.67	+0.4%
TIP	TIPS	$109.61	$109.77	+0.1%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
LQD	IG Corporate	$108.52	$108.62	+0.1%
VWO	Emerging Markets	$60.29	$60.33	+0.1%
IEF	7-10Y Treasury	$94.00	$94.00	+-0.0%
HYG	HY Corporate	$79.72	$79.68	-0.1%
GLD	Gold	Range-bound	$407.87	-0.2%
IWM	Russell 2000	$290.37	$287.67	-0.9%

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):** $+17,600/yr on $100K (historical Overheating regime returns)
- **This week:** $+500 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure before your portfolio does. The energy shock hits your weekly budget immediately, while the equity rally takes time to show up in your quarterly 401(k) statement. That timing mismatch means you're paying more to drive to work while waiting to see if the market gains stick around.

Your mortgage rate dropped this week, but that's cold comfort if you're not shopping for a house. The rate decline reflects bond market expectations that inflation shocks might force the Fed to pause rather than genuine optimism about housing affordability. If you're refinancing, the window might be narrow.

Your paycheck is losing ground to prices, and that was true before gas spiked. Real wages were already negative when consumers started dipping into savings in February. The March inflation surge makes that squeeze tighter, and the energy component hits immediately while wage adjustments take months.

A $100,000 balance in the S&P got a boost from the equity rally, but the sustainability depends on whether this is a relief bounce or the start of something bigger. The unusual pattern of stocks and gold rallying together suggests markets aren't convinced the inflation problem is solved. That's not the kind of rally that typically has staying power.

Credit card balances matter more now than they did a month ago. Consumers were already spending more than they earned before energy prices jumped. If that pattern continues, the next round of credit data will show whether households are stretching further or starting to pull back.

Signal vs. Noise

Signal:
- March CPI posting the biggest monthly gain since June 2022 - Consumer spending exceeding income while real wages turn negative - Commodity index hitting new highs with most components in uptrends - Empty tankers heading to Gulf Coast while Asian countries begin fuel rationing - Leading economic indicators shifting toward demand-driven inflation pressure

Noise:
- Individual stock moves in SaaS names despite broader market strength - Weekly oil price volatility while structural supply constraints

persist - Political theater around Taiwan talks with very long-term implications - Presidential social media endorsements that can't stop stock declines - Short-term diplomatic headlines without concrete policy frameworks

The distinction right now comes down to whether you're looking at structural shifts or temporary adjustments. The inflation data reflects real supply constraints and demand pressures that won't resolve quickly. The energy situation involves physical infrastructure and geopolitical realities that don't change on news cycles. Consumer financial stress shows up in spending patterns and credit data, not daily market moves.

Everything else is repositioning around those core realities. Stock sector rotation, weekly commodity price swings, and political messaging are responses to the underlying forces, not drivers of them. When the fundamentals are this clear, focus on the data that measures actual economic activity rather than market sentiment about that activity.

What to Watch

March PCE inflation data release on April 25. This is the number the Fed actually targets, and early estimates suggest it could be even hotter than the CPI reading. If core PCE services accelerate beyond energy and tariff effects, that changes the "one-time shock" narrative completely. **Consumer credit report for March, due May 7.** Consumers were already borrowing to maintain spending before gas prices spiked. The March data will show whether that trend accelerated or households started pulling back when energy costs jumped. **Weekly petroleum status reports through April.** The physical oil market is tighter than the price action suggests. Watch crude oil inventories and refinery utilization rates. If inventories start falling while refineries run at capacity, the summer driving season becomes a much bigger problem. **Any diplomatic framework announcement for Strait of Hormuz reopening.** This is the variable that could change everything overnight. A credible negotiation process would break the energy shock thesis. Continued escalation or failed talks could send crude gapping higher on any Monday. **April employment report on May 2.** The labor market is bending but not breaking. If initial claims keep rising while job openings stay elevated, that suggests a rebalancing rather than a collapse. But if both start moving in the same direction, the growth slowdown becomes something more serious.

What Would Change My Mind

If core services inflation accelerates for two consecutive months beyond energy and tariff effects. Right now, this looks like two identifiable one-time shocks hitting an economy with underlying demand pressures. But if the shocks start bleeding into broader price expectations, patience becomes complacency. Wage growth re-accelerating or services inflation spreading beyond housing would mean the Fed needs to act, not wait. **If a credible diplomatic framework emerges for reopening the Strait of Hormuz.** The energy shock thesis depends on continued supply constraints. A genuine negotiation process with concrete timelines would break that narrative immediately. So would Saudi Arabia announcing meaningful production increases to offset the lost Iranian barrels. Either development would shift the focus back to domestic demand pressures without the energy overlay. **If consumer spending patterns reverse sharply in response to energy price increases.** The overheating call assumes demand stays elevated even as costs rise. But if households pull back quickly when gas hits their budget, that changes the demand-supply balance. Watch credit card spending data and retail sales. If consumers adjust behavior faster than expected, the inflation pressure becomes self-limiting rather than self-reinforcing.

The regime call stands on the view that demand pressures are building momentum while supply constraints create the conditions for those pressures to show up in prices. Break either the demand story or solve the supply problem, and you're looking at a different economy entirely.
