PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Thursday, June 04, 2026

OVERHEATING • 29.4%

Regime Call

CURRENT REGIME

Overheating (29.4%)

Runner-up: Inflation Shock (25.2%)

Confidence: Moderate (clarity 0.23, fit 0.71, market 0.8)

The model calls Overheating as the dominant regime, though the lead over Inflation Shock has narrowed considerably. This isn't the classic demand-driven overheating of textbook economics. It's a supply-constrained version where growth momentum meets persistent inflation pressures, creating the economic equivalent of a traffic jam.

The confidence metrics tell you this call isn't carved in stone. The gap to the runner-up regime has compressed, and the model is working through two competing narratives about what happens next. The overheating diagnosis captures the current moment: an economy that can't quite cool down because the things making it hot aren't responding to normal policy tools. Your gas tank doesn't care whether inflation comes from tariffs or monetary policy.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.4%**	31.9%	25.9%	+0.8
Inflation Shock	**25.2%**	27.5%	22.9%	-3.2
Cooling	**22.9%**	19.1%	28.0%	+1.2
Soft Landing	**20.6%**	19.2%	22.0%	+0.7
Contraction	**1.9%**	2.3%	1.3%	+0.5

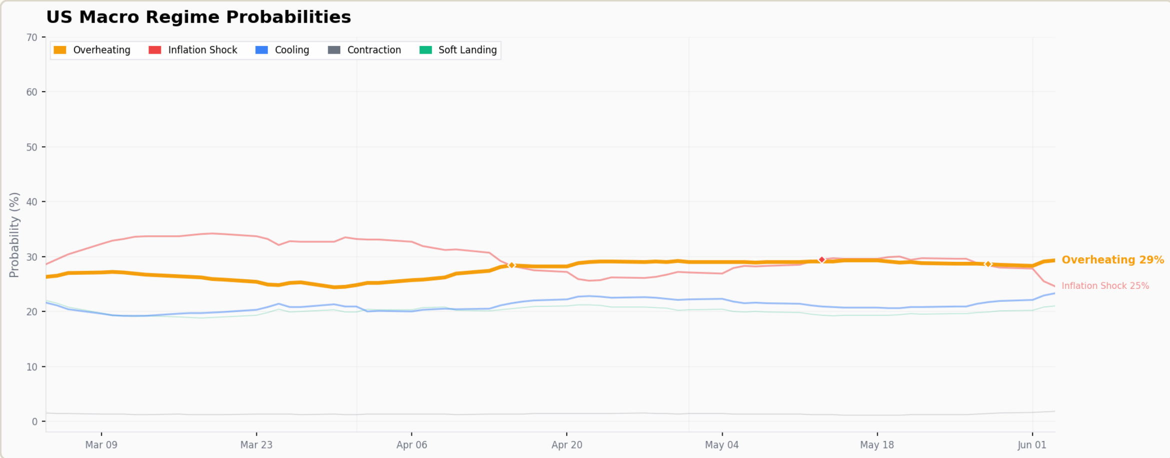
Convergence: diverging

The layer splits reveal an economy caught between what's happening now and what's coming next. The leading indicators show more dispersion across regimes, suggesting the forward-looking data hasn't settled on a clear direction. The lagging indicators are more concentrated, reflecting the reality that's already baked into the numbers.

This divergence between layers is the model's way of saying the transition isn't complete. When leading and lagging indicators point in different directions, you're usually in the middle of a regime shift rather than settled into one. The combined probabilities split the difference, which is why the confidence metrics aren't screaming certainty.

The convergence reading captures this tension. The economy is exhibiting overheating characteristics, but the forward momentum suggests that diagnosis might be temporary. Whether it evolves toward a more classic inflation shock or moderates into something cooler depends on factors the model is still weighing.

90-Day Regime History

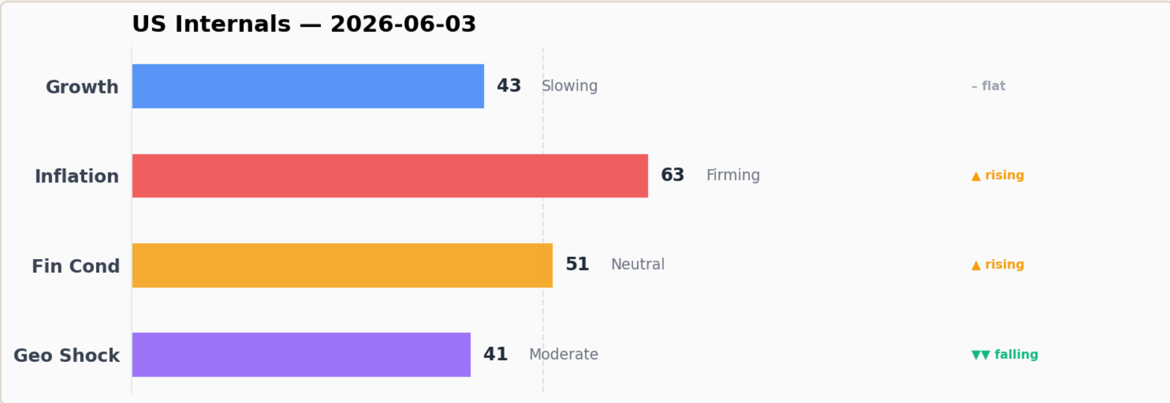


Overheating took the lead gradually rather than in a sharp spike, which tells you this wasn't driven by a single shock or data release. The probability curve shows a steady climb over several weeks as multiple indicators aligned around the same theme. This is the pattern you see when structural forces are building rather than when markets are reacting to news.

Before the current regime took hold, the model was cycling between Inflation Shock and Cooling scenarios, reflecting the back-and-forth nature of the data through the winter months. The transition to Overheating wasn't a clean break from either of those narratives. Instead, it emerged as a synthesis when it became clear that neither pure cooling nor pure inflation shock captured what was actually happening.

The persistence of the current reading over the past month suggests the regime has some staying power, but the recent narrowing of the lead indicates that persistence might be tested. The shape of the probability curve shows steady conviction building, then plateauing, then beginning to wobble. That's the signature of a regime call that's facing new information.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	OVERHEATING CENTROID	VS CENTROID	WEEK Δ
Growth	42.1	slowing	51 (stable)	54.5	-12.4	-0.7
Inflation	62.9	firming	63 (rising)	73.2	-10.3	-0.5
Financial Conditions	51.5	neutral	64 (rising)	49.8	+1.7	+0.3
Geopolitical Shock	41.9	moderate	0 (falling)	52.9	-11.0	-6.8

Growth

Growth remains in slowing territory with stable momentum, which sounds contradictory until you realize this is exactly what you'd expect in an overheating scenario. The economy isn't accelerating anymore, but it's not decelerating fast enough to relieve the pressure on resources and prices. It's the economic equivalent of a car that's still going too fast for the curve even though the driver has taken their foot off the gas.

The stable momentum reading is doing a lot of work here. It means the slowing isn't accelerating, which would be the first sign that overheating pressures might naturally resolve. Instead, you're getting a controlled deceleration that keeps the economy in the danger zone longer. This is why overheating can persist even when growth headlines don't look particularly hot.

Inflation

Inflation sits firmly in firming territory, but the momentum has downshifted from surging to rising. That's the week's most important development, even if it doesn't change the fundamental story. The inflation axis is still pointing in the wrong direction, but it's pointing less aggressively than it was a week ago.

The distinction between firming and surging momentum matters more than it might seem. Surging momentum suggests inflation pressures are building on themselves, creating the kind of feedback loops that force aggressive policy responses. Rising momentum means the pressures are still there, but they're not compounding at an accelerating rate. It's the difference between a fire that's spreading and one that's still burning but contained.

Financial Conditions

Financial conditions remain neutral with rising momentum, which puts the Fed in an awkward position. Conditions aren't tight enough to do the inflation-fighting work that monetary policy is supposed to do, but they're moving in a restrictive direction that could eventually bite into growth. The Fed is getting the worst of both worlds: not enough tightening to solve the inflation problem, but enough to create recession risk down the road.

The rising momentum in financial conditions reflects markets that are pricing in more policy uncertainty and higher term premiums. This isn't the kind of tightening that comes from Fed rate hikes. It's the kind that comes from markets losing confidence that the Fed has the right tools for the current problem. That's a more dangerous kind of tightening because it's harder to reverse.

Geopolitical Shock

The geopolitical axis dropped significantly this week while remaining in moderate territory with falling momentum. This looks like relief, but it's actually the market adjusting to a new baseline rather than the underlying risks dissipating. The Strait of Hormuz is still closed, but markets have moved from panic pricing to structural repricing.

The falling momentum suggests the acute phase of the shock is behind us, but the moderate level reading means the structural impacts are still working through the system. This is the pattern you see when a geopolitical crisis moves from the breaking news phase to the new reality phase. The immediate volatility fades, but the underlying economic distortions persist.

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 remain unchanged from last week, which is itself significant. Core PCE at elevated levels, higher gasoline prices, and headline CPI well above trend are providing consistent support for the overheating diagnosis. When confirming drivers hold steady during a volatile week, it suggests the underlying regime forces are more persistent than the day-to-day market moves would suggest.

The disconfirming signals also held steady, with weak consumer sentiment and soft payroll growth continuing to argue against the overheating thesis. The tension between these competing narratives hasn't resolved, which is why the regime probabilities remain relatively close. The confirming drivers are winning, but not by enough to make the disconfirming signals irrelevant. That balance could shift quickly if either set of indicators breaks decisively in one direction.

Week in Review

WEEK SUMMARY (VS 2026-05-28)

REGIME	PRIOR	CURRENT	Δ
Overheating	28.6%	29.4%	+0.8
Inflation Shock	28.4%	25.2%	-3.2
Cooling	21.7%	22.9%	+1.2
Soft Landing	19.9%	20.6%	+0.7
Contraction	1.4%	1.9%	+0.5

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.8	42.1	-0.7	slowing
Inflation	63.4	62.9	-0.5	firming
Fin Cond	51.2	51.5	+0.3	neutral

AXIS	PRIOR	CURRENT	Δ	STATE
Geo Shock	48.7	41.9	-6.8	moderate

Inflation Shock probability dropped by over three percentage points to reach the mid-twenties, the week's biggest quantitative move. The trigger was the shift in inflation momentum from surging to rising, which happened as markets digested the March CPI data and concluded that while the numbers were hot, the acceleration wasn't compounding. The geopolitical shock axis also declined significantly as oil markets moved from crisis pricing to structural repricing around the closed Strait of Hormuz.

The other regime probabilities picked up the slack, with Overheating, Cooling, and Soft Landing all gaining ground in smaller increments. This redistribution pattern tells you the model didn't abandon the inflation concern entirely. Instead, it spread that probability across scenarios that capture different aspects of an economy dealing with supply constraints rather than pure demand overheating. The financial conditions axis barely moved despite significant market volatility, suggesting the underlying policy stance remains unchanged even as markets reprice risk.

What held steady was more revealing than what moved. The growth axis maintained its slowing diagnosis with stable momentum, even as markets swung between relief and concern throughout the week. This stability during turbulent conditions signals that the underlying growth trajectory is more entrenched than daily market moves would suggest. The regime call itself held firm despite the probability reshuffling, indicating that while the details are evolving, the basic overheating framework still captures the dominant economic forces.

Next week's setup hinges on whether the inflation momentum continues to moderate or finds a new floor. The PCE data will be the key catalyst, with a reading that confirms the CPI deceleration likely pushing Inflation Shock probabilities even lower. If core PCE comes in hotter than expected, the probability redistribution could reverse quickly. The oil market's structural repricing also faces a test if any diplomatic developments emerge around the Strait situation.

Market Confirmation

The market is partially confirming the overheating call, but with notable divergences that tell you something important about the mechanics at work. Equities and commodities are tracking the regime expectation, with stocks posting back-to-back strong weekly gains and the commodity complex showing broad-based strength. Gold's rally alongside risk assets fits the overheating pattern, where inflation hedges and growth plays can move together when the underlying driver is supply constraints rather than demand destruction.

The divergences center on rates and credit, where you'd normally expect more pronounced moves in a classic overheating scenario. Treasury yields aren't behaving like textbook overheating would suggest, and credit spreads remain relatively contained. This reflects the supply-constrained nature of the current episode. When overheating comes from closed shipping lanes and tariff disruptions rather than runaway demand, the financial system doesn't necessarily tighten in the traditional way. The dollar's strength is also crowding out some of the typical overheating signals, particularly in commodities where the regime bias would normally be even more pronounced.

Asset Playbook

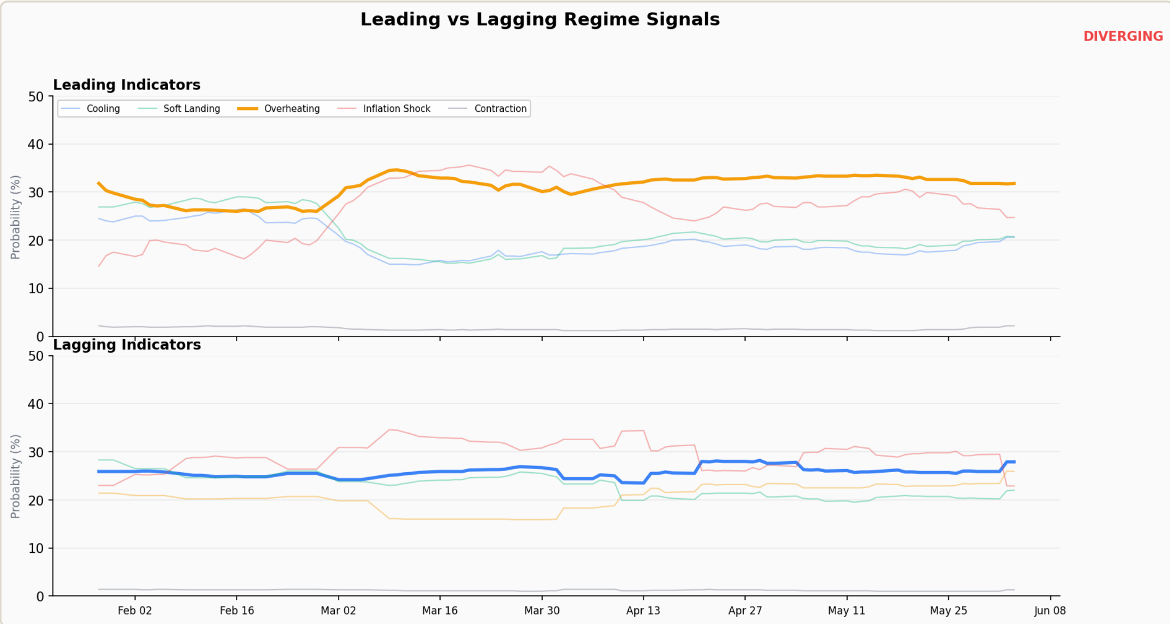
ASSET	SIGNAL
Equities	Cautious, late-cycle risk

ASSET	SIGNAL
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 the regime label might suggest. Your equity allocation is getting the favorable treatment, with high confidence backing that stance, but your bond portfolio is facing pressure from the rates call. The credit stance sits in neutral territory, which means your corporate bond exposure isn't getting a strong directional signal either way. Meanwhile, both the dollar and gold are getting favorable calls, an unusual combination that reflects the supply-shock nature of this overheating episode.

The most surprising stance is probably oil's neutral rating despite all the Strait of Hormuz drama. The model is essentially saying the physical supply disruption and the financial market pricing are roughly in balance at current levels. For a standard portfolio holder, this setup creates an interesting tension: your equity gains are being offset by bond pressure, while your commodity exposure depends heavily on which specific commodities you own and how much dollar strength matters for your particular holdings.

Leading / Lagging Signal Alignment



The leading and lagging layers are showing divergent signals, with the forward-looking indicators more dispersed across regimes while the backward-looking data concentrates around the current overheating call. This divergence is the model's way of flagging that you're likely in the middle of a transition rather than settled into a stable regime. The leading layer is picking up signals that suggest the current overheating diagnosis might be temporary, while the lagging indicators are still catching up to the reality that's already embedded in recent data.

This type of layer divergence typically resolves in one of two ways: either the leading indicators prove prescient and pull the overall call toward their more dispersed reading, or the lagging indicators' momentum builds and forces the leading layer to converge around the current regime. The alignment status captures this tension directly. When the layers are pulling in different directions, regime stability becomes more questionable, and transition risk increases.

The convergence mechanics matter for your positioning because misaligned layers tend to create more volatile regime probability swings. Early warning signs of a shift would show up first in the leading layer becoming more concentrated around a single alternative regime, followed by the lagging layer beginning to move in the same direction. Right now, you're getting the opposite: leading dispersion with lagging concentration, which suggests the model is still working through competing narratives about what comes next.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+0.3%	+17.7%	+1.23	837
QQQ	+0.7%	+27.9%	+1.48	837
IWM	+-0.0%	+4.7%	+0.24	837
IEF	-0.1%	+2.2%	+0.41	837
TIP	-0.1%	+4.7%	+1.17	837
LQD	+0.0%	+3.4%	+0.63	837
HYG	+0.0%	+5.2%	+1.10	837
GLD	-0.4%	+15.1%	+1.05	837
XLE	+3.2%	-3.5%	-0.15	837
VEA	+0.3%	+6.7%	+0.46	837
VWO	+0.7%	+12.5%	+0.73	837

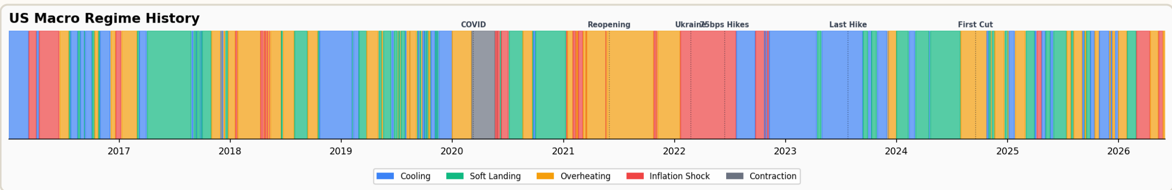
Historical returns measured over Overheating regime days in backtest.

This week's performance shows a mixed relationship to the historical overheating pattern, with some assets tracking expectations while others diverge significantly. The equity complex generally performed in line with what the regime historically delivers, while the commodity space showed more variation. Energy names moved counter to what you might expect given all the supply disruption headlines, while precious metals tracked closer to their historical overheating behavior.

The divergences between this week's returns and the historical pattern highlight how the current episode differs from past overheating regimes. When overheating comes from supply constraints rather than demand excess, individual asset responses can vary significantly from the historical average. The technology sector's performance particularly stands out as disconnected from both the regime expectation and the broader market's behavior, reflecting sector-specific forces that the macro regime framework doesn't capture.

The usual caveats apply to interpreting these historical returns: the sample sizes vary significantly across regimes, the regime definitions themselves are model-dependent, and past performance in similar macro environments doesn't guarantee future results. The Sharpe ratios give you a sense of risk-adjusted returns, but they're calculated over different time periods and market structures. Use this as a rough guide to asset class behavior patterns, not as a precise prediction of what happens next.

10-Year Regime History



The historical pattern shows overheating episodes clustering around periods of supply chain stress and policy uncertainty, with varying durations and resolution mechanisms. Some episodes resolved quickly when the underlying constraints eased, while others persisted longer and eventually transitioned into different regime types. The chart annotations highlight key events that either triggered regime shifts or extended existing episodes beyond their typical duration.

The closest historical parallel involves supply-driven inflation pressures meeting growth momentum, though the specific triggers and policy responses varied significantly across episodes. What's consistent across past overheating periods is that resolution typically required either the underlying supply constraints to ease or policy responses that directly addressed the constraint rather than just managing demand. The duration of these episodes depended heavily on how quickly the root causes could be addressed.

What's structurally different about the current environment is the combination of geopolitical supply disruptions with trade policy uncertainty, creating multiple overlapping constraints that don't have obvious near-term solutions. Unlike previous episodes where a single policy change or supply chain repair could provide relief, the current setup involves multiple moving parts that would need to resolve simultaneously for a clean regime transition.

Market Context

Weekly ETF returns as of 2026-06-04 (vs 2026-05-28).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
XLE	Energy	$56.95	$58.75	+3.2%
QQQ	Nasdaq 100	$735.60	$740.61	+0.7%
VWO	Emerging Markets	$59.90	$60.31	+0.7%
SPY	S&P 500	$754.60	$757.09	+0.3%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
VEA	Developed Markets	$71.66	$71.84	+0.3%
IWM	Russell 2000	$292.03	$292.01	+-0.0%
LQD	IG Corporate	$108.85	$108.85	+0.0%
HYG	HY Corporate	$79.82	$79.83	+0.0%
IEF	7-10Y Treasury	$94.22	$94.12	-0.1%
TIP	TIPS	$109.90	$109.78	-0.1%
GLD	Gold	Range-bound	$411.27	-0.4%

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:** $+300 on $100K 401(k)

Your grocery bill reflects the tariff pass-through that's already complete, but your gas tank is absorbing the ongoing Strait of Hormuz disruption. The energy shock hits immediately and compounds weekly until the shipping lanes reopen. Your heating and cooling costs follow crude oil with a lag, so the March spike shows up in April and May utility bills.

Your mortgage rate caught a small break from flight-to-quality buying in Treasuries, but that relief disappears quickly if inflation expectations drift higher. Refinancing math that almost worked last month works even less now. The rate environment rewards patience if you can afford to wait, punishes urgency if you can't.

Your paycheck is losing ground to prices in real terms, and that gap widened in March before the energy spike hit. The purchasing power squeeze shows up first in discretionary spending, then in credit card balances. Consumers were already dipping into savings in February, which means the energy shock lands on a foundation that was already cracking.

Your retirement account benefits from the equity rally, but the unusual pattern of stocks and gold rising together suggests markets aren't convinced this is sustainable. The commodity exposure in your portfolio provides some inflation hedge, though the broad-based rally across the commodity complex means you're paying higher prices for nearly everything you actually consume.

Signal vs. Noise

Signal:
- The layer splits between leading and lagging indicators. When forward-looking data shows more regime dispersion than backward-looking data, you're in the middle of a transition, not settled into a stable state. - Consumer income turning negative in real terms while spending accelerated. That's a crack in the foundation that predates the energy shock. - The commodity complex showing broad-based strength with uptrends across the majority of components. When nearly everything in the commodity basket is rising, that's a structural inflation signal, not a sector rotation. - Gold and equities rallying

simultaneously. When both risk assets and the ultimate safe haven advance together, markets are hedging multiple scenarios at once.

Noise:
- Individual stock reactions to political endorsements. When presidential praise can't stop a stock from falling, sector-specific forces are overwhelming political sentiment. - The SaaS collapse while broader markets hold steady. This looks like AI displacement fear and duration repricing, not systemic risk. - Diplomatic theater between major powers without immediate economic consequences. Long-term positioning moves that don't change near-term regime dynamics.

The distinguishing factor right now is whether the signal connects to the supply-constrained overheating thesis. Broad commodity strength and consumer balance sheet stress support that narrative. Sector rotations and political positioning don't.

What to Watch

March PCE inflation data release on April 26th. This is the Fed's preferred gauge, 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 to look optimistic. **Weekly petroleum status reports through May.** The physical oil market is tighter than the price action suggests. Watch crude oil inventories and refinery utilization rates. If inventories drop below the five-year average range while utilization stays elevated, the summer spike risk becomes a summer certainty. **Consumer credit data for March, released May 7th.** Consumers were already stretching in February before gas prices jumped. Credit card delinquency rates and revolving credit growth will show whether the energy shock pushed household balance sheets past the breaking point. **Any diplomatic headlines about Strait of Hormuz negotiations.** The oil market is pricing in extended disruption. A credible framework for reopening shipping lanes breaks the energy inflation story immediately. **Core services inflation excluding housing in the April CPI report.** If this accelerates above the recent trend, it means the supply shocks are bleeding into broader price expectations. That's when patience becomes complacency.

What Would Change My Mind

The "two shocks" thesis breaks if core services inflation accelerates for two consecutive months. I believe current inflation is driven by identifiable supply disruptions rather than demand overheating. But if services inflation excluding energy and tariff-affected goods starts running hot, that means the shocks are bleeding into expectations and wage-setting behavior. The Fed would need to respond more aggressively, and the overheating diagnosis would shift toward something more dangerous. **The energy crisis resolves faster than expected if diplomatic progress emerges.** I think the Strait situation has a long fuse and the physical oil market is tighter than prices suggest. But a credible negotiating framework or meaningful Saudi production increase would break the summer spike thesis immediately. Oil timespreads would collapse, and the inflation shock component of the regime call would weaken substantially. **The consumer balance sheet proves more resilient than the February data suggested.** I believe households were already stretched before the energy shock hit, which amplifies the economic impact. But if March consumer credit data shows stable delinquency rates and controlled borrowing growth, it means consumers have more cushion than the income-spending gap implied. That would reduce the feedback loop from energy prices to broader economic stress.

The price of being wrong on the first scenario is underestimating how quickly supply shocks become demand shocks when they persist. The price of being wrong on the second is missing the relief rally when geopolitical risks recede. The price of being wrong on the third is overestimating how quickly energy price spikes translate into economic slowdown.
