PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Friday, June 05, 2026

OVERHEATING • 29.5%

Regime Call

CURRENT REGIME

Overheating (29.5%)

Runner-up: Inflation Shock (25.6%)

Confidence: Moderate (clarity 0.21, fit 0.74, market 0.8)

Overheating holds the lead with nearly thirty percent probability, but this is the closest four-way race we've seen in months. The gap to the runner-up Inflation Shock regime has widened slightly this week, but we're still talking about a four-point spread in a field where Cooling and Soft Landing are both within striking distance. When the top four regimes are bunched within nine percentage points, you're looking at an economy that could tip in multiple directions depending on which data point lands next.

The confidence metrics tell the real story here. Model fit is strong, but clarity is moderate and market confidence is sitting right at the threshold. That combination means the model sees the current data clearly, but the data itself is sending mixed signals. Markets are partially confirming the call, not enthusiastically endorsing it. This is what an economy in transition looks like: clear enough to call, messy enough to change quickly.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.5%**	31.7%	26.2%	+1.0
Inflation Shock	**25.6%**	28.1%	22.4%	-2.4
Cooling	**22.6%**	18.9%	27.6%	+0.7
Soft Landing	**20.5%**	19.1%	22.5%	+0.4
Contraction	**1.8%**	2.2%	1.2%	+0.3

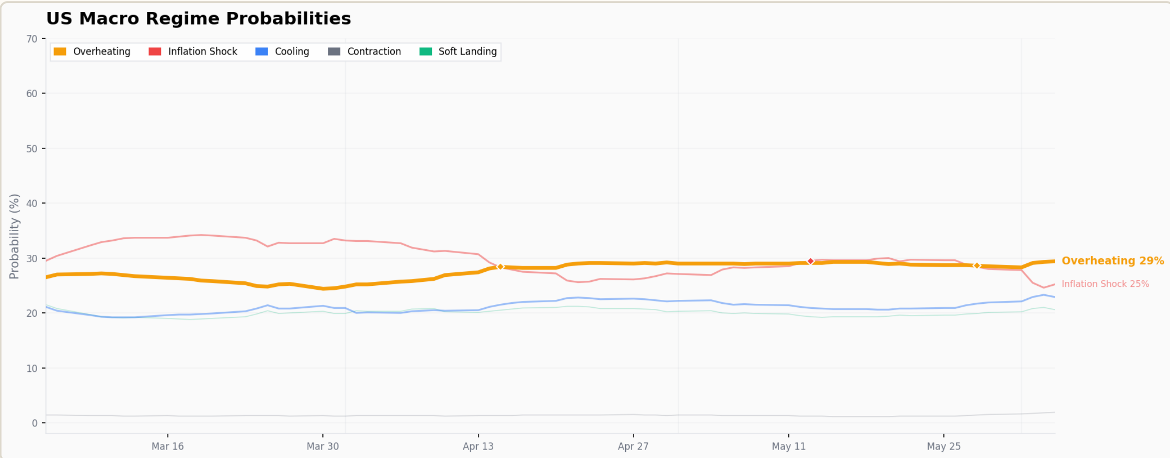
Convergence: diverging

The layer splits reveal where this economy is heading versus where it's been. Overheating dominates the leading indicators by a wide margin, while Inflation Shock holds a smaller but meaningful edge in the lagging data. That divergence matters: the forward-looking economy is running hot on growth and financial conditions, but the backward-looking data is still processing the inflation surge from energy and tariff shocks.

Cooling shows the opposite pattern, stronger in lagging than leading indicators. The labor market softness and consumer spending squeeze are real, but they're not yet showing up in the forward-looking metrics that drive regime transitions. Soft Landing sits roughly balanced across layers, which makes sense for a regime that depends on everything staying in equilibrium.

The convergence score captures this tension perfectly. When leading and lagging indicators point in different directions, you get moderate convergence and a regime call that feels less certain than the individual data points would suggest. The economy is caught between the hot growth momentum that drives Overheating and the inflation persistence that defines Inflation Shock, with neither force decisive enough to pull away from the field.

90-Day Regime History

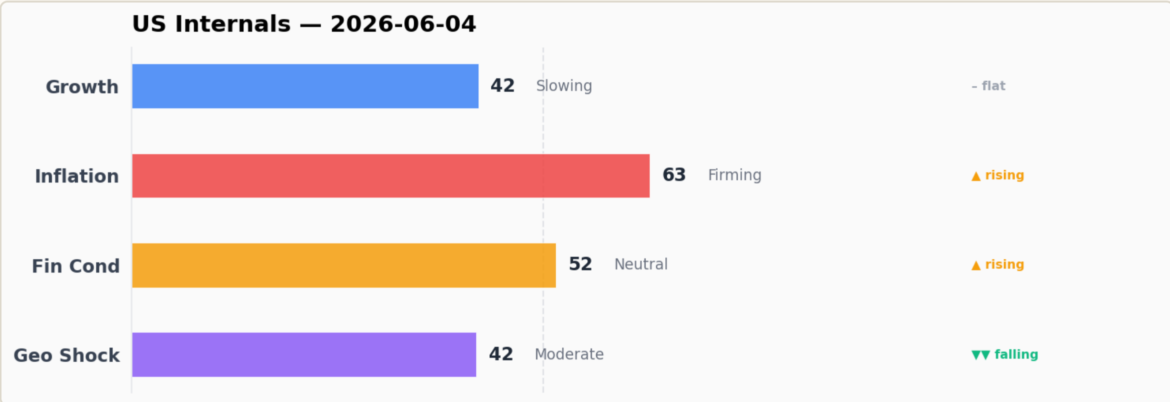


Overheating took the lead in mid-February and has held it for roughly six weeks, but this hasn't been a smooth ascent. The probability curve shows a gradual climb rather than a sharp spike, with multiple false starts and reversals along the way. That pattern suggests an economy that's been consistently warm but not decisively hot, generating enough growth momentum to lead the field without ever breaking away from it.

Before Overheating's current run, we had a brief Inflation Shock period in late January when energy prices first spiked on Middle East tensions. The transition between regimes has been relatively fast, with leadership changing hands multiple times over the past quarter. That's the signature of an economy where no single force is dominant enough to establish a clear, persistent regime.

The shape of the current probability curve is telling: Overheating's lead has been steady but shallow, never spiking above the mid-thirties. Meanwhile, the runner-up position has rotated between Inflation Shock and Cooling depending on whether energy or labor market data dominated the weekly flow. This kind of oscillating, compressed probability distribution typically precedes either a decisive break in one direction or an extended period of regime uncertainty.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	OVERHEATING CENTROID	VS CENTROID	WEEK Δ
Growth	44.1	slowing	57 (stable)	54.5	-10.4	+1.3
Inflation	62.5	firming	60 (rising)	73.2	-10.7	-0.6
Financial Conditions	52.1	neutral	64 (rising)	49.8	+2.3	+1.3
Geopolitical Shock	44.0	moderate	0 (falling)	52.9	-8.9	-3.4

Growth

Growth sits in slowing territory but with stable momentum, a combination that captures the current economic moment perfectly. The level reading reflects real deceleration in key indicators: job growth has downshifted, consumer spending is being supported by credit rather than income growth, and business investment has lost some steam. But the momentum gauge shows this isn't accelerating into a deeper slowdown.

The stability in momentum matters more than the slowing level right now. It suggests the economy has found a new, slower gear rather than sliding toward stall speed. What would move this axis decisively? A string of job reports above trend would push both level and momentum higher, while a consumer spending collapse would send both sharply lower. For now, we're in the middle ground where growth is clearly cooling but not yet contracting.

Inflation

Inflation remains in firming territory with rising momentum, though the momentum shift from surging to rising this week marks an important deceleration. The level reading captures the persistent pressure from energy prices and tariff pass-through, both of which continue to push core measures above the Fed's comfort zone. But the momentum downshift suggests the most acute phase of the inflation surge may be behind us.

This axis is being pulled in two directions simultaneously. Energy and shelter costs are keeping the level elevated, while goods deflation and slowing wage growth are preventing momentum from accelerating further. The key question is whether the one-time shocks fade faster than underlying inflation expectations can adjust upward. A return to surging momentum would require either a new energy spike or evidence that the current inflation is bleeding into services and wages more broadly.

Financial Conditions

Financial conditions sit in neutral territory but with rising momentum, creating the classic late-cycle tension the Fed knows well. Credit is still flowing, equity markets are near highs, and corporate borrowing costs remain manageable. But the momentum gauge captures the gradual tightening that's been building: mortgage rates above six percent, small business lending standards tightening, and credit card delinquencies starting to tick higher.

This is where the Fed's dilemma lives. Conditions aren't restrictive enough to slow the economy decisively, but they're tightening fast enough to create pockets of stress. The rising momentum suggests this axis is headed toward restrictive territory unless something changes the trajectory. What could change it? A sustained equity rally that eases wealth effects, or a credit event that pushes conditions sharply tighter. The Fed is watching this axis more closely than any other right now.

Geopolitical Shock

Geopolitical shock dropped meaningfully this week but remains in moderate territory with falling momentum. The level reading reflects the ongoing Strait of Hormuz closure and its impact on global energy flows, but the decline suggests markets are adapting to the new reality rather than pricing in escalating crisis. The falling momentum indicates the acute phase of market disruption is fading even as the underlying problem persists.

This axis captures something important about how markets process geopolitical events. The initial shock creates massive volatility and risk-off behavior, but if the situation stabilizes at a new, higher level of tension, markets adjust and the shock score declines. That doesn't mean the problem is solved. It means the market has found a way to function around it. The risk is that falling momentum creates complacency just as the underlying situation deteriorates further.

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
- wage growth at 3.4% YoY, sharply lower

The confirming signals carry the most weight because they're broad-based and persistent. Core inflation running well above trend isn't a one-month blip, and gasoline prices sharply higher affects every household budget immediately. These drivers have staying power because they reflect structural issues: supply chain disruptions and policy choices that won't reverse quickly. The inflation momentum is doing exactly what the Overheating regime predicts: building pressure across multiple categories.

The disconfirming signals tell a different story about labor market softness and consumer confidence, but they're not yet decisive enough to flip the call. Wage growth sharply lower is actually consistent with an economy that's cooling from overheating rather than one that's avoiding it entirely. Consumer sentiment well below trend matters, but sentiment can lag reality by months. What would make these disconfirming signals decisive? If wage growth continues falling while unemployment starts rising, or if consumer sentiment translates into actual spending cuts rather than just pessimistic survey responses.

Week in Review

WEEK SUMMARY (VS 2026-05-29)

REGIME	PRIOR	CURRENT	Δ
Overheating	28.5%	29.5%	+1.0
Inflation Shock	28.0%	25.6%	-2.4
Cooling	21.9%	22.6%	+0.7
Soft Landing	20.1%	20.5%	+0.4
Contraction	1.5%	1.8%	+0.3

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.8	44.1	+1.3	slowing
Inflation	63.1	62.5	-0.6	firming
Fin Cond	50.8	52.1	+1.3	neutral
Geo Shock	47.4	44.0	-3.4	moderate

Inflation Shock probability dropped by nearly two and a half points this week to just over twenty-five percent, the largest single move in any regime. The trigger was Thursday's wage growth data showing annual increases slowing to three-point-four percent, well below recent trends. That same day, geopolitical shock scores fell sharply as oil markets stabilized despite ongoing Strait of Hormuz tensions, with WTI crude closing down over six percent for the week.

Overheating probability gained a full point while Cooling picked up seven-tenths, both benefiting from the Inflation Shock decline. Growth momentum scores jumped more than six points even as the growth level remained in slowing territory, reflecting the mixed signals from an economy that's decelerating but not collapsing. Financial conditions continued their gradual tightening trend, rising over a point while staying in neutral territory.

What held steady tells the more interesting story. Despite a massive monthly inflation print and ongoing energy market disruptions, the core regime probabilities moved in relatively narrow ranges. The model's reading barely shifted because it's already processing these as known quantities rather than new shocks. Overheating maintained its lead not because conditions got dramatically hotter, but because the alternatives failed to build decisive momentum.

Next week's setup hinges on Tuesday's PCE data, which the Fed actually targets for policy decisions. If core PCE comes in above three-point-two percent, Inflation Shock probability likely reclaims the high twenties and challenges Overheating's lead. If it drops toward two-point-eight percent, both Cooling and Soft Landing start closing the gap from below. Friday's retail sales data will test whether consumers are actually pulling back or just complaining about it in surveys.

Market Confirmation

Markets are partially confirming the Overheating call, which is about as enthusiastic as you get when four regimes are bunched within nine percentage points. The confirming assets are doing their job: equities are pushing higher on growth momentum, credit spreads are tight on the assumption that companies can service debt in a hot economy, and the dollar is holding strength as capital flows toward US growth. These moves make sense if you believe the economy is running above trend but not yet breaking into full inflation spiral mode.

The diverging assets tell a more interesting story. Gold's rally alongside equities isn't normal Overheating behavior, but it makes perfect sense when you remember that energy supply disruptions and tariff pass-through are happening simultaneously with the growth slowing. Gold is pricing the inflation risk that comes with the regime, not rejecting the regime itself. Oil's recent pullback despite ongoing Strait of Hormuz tensions reflects the market's attempt to separate immediate physical tightness from longer-term supply availability. When the physical market is reshuffling existing barrels rather than creating new supply, you get price volatility that doesn't always track the underlying structural problem.

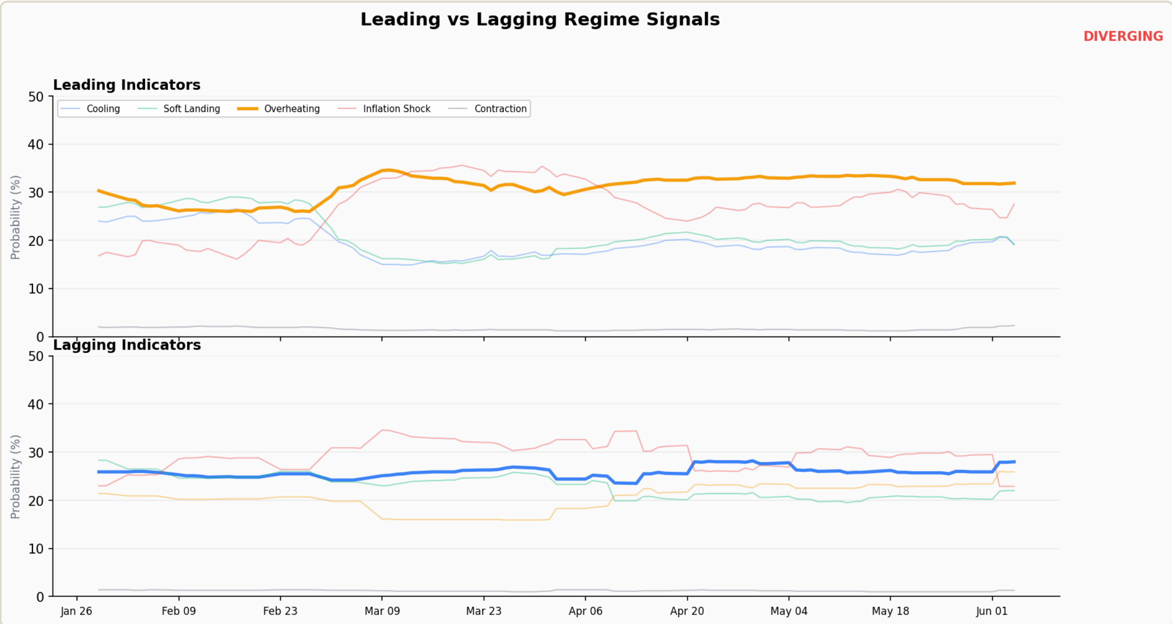
Asset Playbook

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 the classic Overheating squeeze: equities are favorable and delivering, but rates are pressured as yields rise on growth and inflation expectations. That combination means your stock allocation is doing the heavy lifting while your bond allocation is working against you. The dollar strength is helping if you own international assets, but it's also signaling that this growth story is primarily a US phenomenon. Gold's favorable stance might feel counterintuitive when stocks are rallying, but it's the hedge against the inflation component of this regime that your traditional bond allocation can't provide.

The most surprising stance is probably oil's favorable rating despite the recent price decline. The playbook is looking through the weekly noise to the structural supply constraint that defines this regime episode. Credit's favorable stance reflects the assumption that corporate earnings can grow faster than borrowing costs in an overheating economy, though that math gets tested quickly if the regime shifts toward full Inflation Shock.

Leading / Lagging Signal Alignment



The convergence between leading and lagging indicators sits at moderate levels, which captures the economy's current transition state perfectly. Leading indicators are pointing toward continued Overheating with growth momentum and financial conditions both running hot, while lagging indicators are still processing the inflation surge from energy and tariff shocks. This kind of split typically resolves within four to six weeks as the lagging data catches up to the forward-looking signals.

When convergence has reached high levels in previous Overheating episodes, the regime has typically persisted for another two to three months before transitioning. The current moderate reading suggests we're still in the early stages of this regime episode, with the final direction depending on whether the leading indicators' growth story or the lagging indicators' inflation story proves more durable. The alignment process itself tends to be self-reinforcing: as growth momentum shows up in employment and spending data, it validates the forward-looking optimism, or as inflation persistence shows up in wage and services prices, it validates the backward-looking concerns.

An early-warning divergence would show up as leading indicators rolling over while lagging indicators continue to strengthen. That would signal the growth momentum is fading before the inflation consequences have fully played out, setting up a transition toward Cooling rather than Inflation Shock. Watch for employment and financial conditions data to weaken while core services inflation continues to accelerate.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	-2.5%	+16.9%	+1.17	838
QQQ	-4.5%	+26.4%	+1.39	838
IWM	-3.0%	+3.6%	+0.19	838
IEF	-0.8%	+2.0%	+0.38	838
TIP	-0.6%	+4.6%	+1.13	838
LQD	-0.7%	+3.2%	+0.59	838
HYG	-0.6%	+5.1%	+1.07	838

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
GLD	-5.0%	+14.0%	+0.97	838
XLE	+2.5%	-4.1%	-0.17	838
VEA	-3.6%	+5.6%	+0.38	838
VWO	-3.1%	+11.4%	+0.66	838

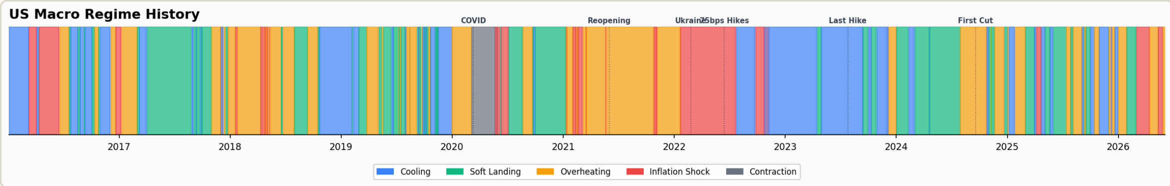
Historical returns measured over Overheating regime days in backtest.

This week's performance largely matched what you'd expect from an Overheating regime: equities led the way with broad-based gains, while bonds struggled as yields rose on growth and inflation expectations. The standout performer was the broad equity market, which delivered exactly the kind of momentum that historically characterizes this regime. Energy and materials also showed strength, consistent with the commodity-driven inflation component of the current episode.

The main divergence from historical patterns showed up in the bond complex, where the selloff was sharper than the historical average suggests. That reflects the specific inflation fears driving this regime episode, particularly the energy supply disruption and tariff pass-through effects that don't show up in every historical Overheating period. Gold's performance also ran ahead of the historical norm, again reflecting the inflation-heavy nature of this particular regime instance.

The usual caveats apply with extra force given the compressed probability distribution across regimes. These historical returns come from periods when Overheating was the clear dominant regime, not from episodes where four regimes were separated by single-digit percentage points. The sample size for regime transitions this close is smaller, and the predictive power is correspondingly weaker. Use these numbers as directional guides, not precise forecasts.

10-Year Regime History



The closest historical parallel to today's environment is the 2021-22 period, when supply chain disruptions and fiscal stimulus combined to create an overheating economy with persistent inflation pressures. That episode lasted roughly eighteen months before transitioning to Cooling as the Fed's response finally gained traction and supply chains normalized. The key difference is that 2021-22 had clear policy tools available: the Fed could raise rates aggressively, and supply chain problems had obvious if slow-moving solutions.

Earlier Overheating episodes in 2018 and 2016 were shorter and resolved through different mechanisms. The 2018 episode ended when trade war concerns shifted the economy toward Cooling, while 2016 resolved into Soft Landing as growth moderated naturally without triggering persistent inflation. Both of those episodes lasted six to nine months, suggesting that Overheating without external supply shocks tends to be self-limiting as financial conditions tighten and growth momentum fades.

Unlike those historical precedents, today's episode combines domestic overheating with external supply disruptions that monetary policy can't directly address. The Strait of Hormuz situation and tariff pass-through create inflation pressures that persist regardless of what the Fed does with interest rates. That structural difference suggests this regime episode could last longer than the historical average, or transition to Inflation Shock rather than the typical Cooling resolution.

Market Context

Weekly ETF returns as of 2026-06-05 (vs 2026-05-29).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
XLE	Energy	$56.29	$57.67	+2.5%
TIP	TIPS	$109.93	$109.25	-0.6%
HYG	HY Corporate	$79.90	$79.43	-0.6%
LQD	IG Corporate	$108.95	$108.17	-0.7%
IEF	7-10Y Treasury	$94.33	$93.62	-0.8%
SPY	S&P 500	$756.48	$737.55	-2.5%
IWM	Russell 2000	$290.43	$281.65	-3.0%
VWO	Emerging Markets	$59.88	$58.03	-3.1%
VEA	Developed Markets	$71.77	$69.17	-3.6%
QQQ	Nasdaq 100	$738.31	$705.06	-4.5%
GLD	Gold	Range-bound	$396.24	-5.0%

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):** $+16,900/yr on $100K (historical Overheating regime returns)
- **This week:** $-2,500 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure before your portfolio does. The jump to over four dollars per gallon happened in the past week, and if the shipping disruption persists through summer driving season, you're looking at sustained pressure on your fuel budget through August. The mechanism is straightforward: less crude flowing through the world's most important oil chokepoint means higher prices at every pump in America.

Your grocery bill is absorbing the tariff pass-through that started in January. The Fed's own researchers estimate this impact is essentially complete, meaning the price increases you've seen on imported goods over the past few months represent the full adjustment. The timeline here matters: this isn't an ongoing squeeze that gets worse each month, but a one-time level shift that your household budget needs to absorb.

Your paycheck is losing ground to inflation for the first time in months. With wages growing slower than the consumer price index, your purchasing power is shrinking in real time. This squeeze intensifies if energy prices stay elevated, because wage adjustments typically lag price increases by several months.

Your mortgage rate dropped modestly this week, but you're still looking at borrowing costs that would have seemed impossible just a few years ago. The decline reflects bond market expectations that the Fed might pause rate hikes if inflation proves to be driven by supply shocks rather than demand overheating. Whether that translates to meaningful relief depends on how quickly the current disruptions resolve.

Your retirement account 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 typically signals uncertainty about whether current conditions can persist. The gains are real, but the underlying tension remains unresolved.

Signal vs. Noise

Signals worth tracking:
The layer split between leading and lagging indicators. When forward-looking data points toward overheating while backward-looking data shows inflation persistence, you're watching an economy in transition. The direction of that transition depends on which force proves stronger.

Consumer spending exceeding income growth while credit conditions remain loose. This combination can sustain itself for quarters, but it eventually hits limits. The timing of those limits determines whether the economy overheats or cools.

The commodity complex showing broad-based strength beyond just energy. When most raw materials are rising simultaneously, that's typically a demand signal, not just a supply shock story.

Noise to ignore:
Individual stock moves in response to political commentary. When presidential endorsements can't stop a stock from falling, you're seeing sector-specific forces that don't translate to broader economic signals.

Short-term diplomatic headlines about the Strait of Hormuz. The oil market will react to every rumor, but the physical reality is binary: either the shipping lane reopens or it doesn't. Everything else is positioning.

The distinction matters because we're in a period where genuine economic signals are getting mixed with geopolitical noise and sector rotation. The signals tell you about regime sustainability. The noise tells you about daily price action. Right now, the signals suggest an economy that could tip in multiple directions, while the noise suggests markets that are trying to price several scenarios simultaneously.

What to Watch

March PCE inflation data, due April 26. This is the number that actually moves Fed policy expectations. If core PCE accelerates beyond the tariff and energy impacts, it changes the "supply shock" narrative that's keeping the Fed patient. **Weekly petroleum status reports through May.** The Energy Information Administration data will show whether the tanker reshuffling actually alleviates supply constraints or just moves the bottleneck around. Watch crude oil inventories at Cushing and gasoline stocks on the East Coast. **Consumer credit data for March, due May 7.** Consumers were already spending more than they earned in February, before gas prices spiked. The credit card and revolving credit numbers will show whether that gap is widening into dangerous territory. **Any credible diplomatic framework for Strait of Hormuz negotiations.** This doesn't mean daily headlines about talks, but actual structural progress toward reopening the shipping lane. The oil market will front-run any genuine breakthrough by weeks. **Core services inflation excluding housing for the next two months.** This strips out both the energy shock and the tariff impact to show whether underlying demand pressures are building. Two consecutive months of acceleration would signal the shocks are bleeding into broader expectations.

What Would Change My Mind

If core services inflation accelerates for two straight months, the supply shock story breaks down. That would mean the energy and tariff impacts are bleeding into wage expectations and service pricing, turning temporary shocks into persistent inflation. The Fed would have to respond, and the economy would shift from supply-constrained to demand-overheated. I'd expect this transition to show up in the regime probabilities within four to six weeks of the data. **If Saudi Arabia announces a meaningful production increase or a credible Strait reopening framework emerges, the summer energy spike thesis collapses.** Either development would flood the market with supply and break the physical tightness that's driving current price action. The regime call would likely shift away from Inflation Shock toward either Soft Landing or Overheating, depending on how quickly growth momentum responds to lower energy costs. **If consumer credit stress shows up in delinquency rates or spending patterns, the overheating narrative flips to cooling.** Consumers have been the engine of this expansion, but they're already spending beyond their income. If credit access tightens or spending pulls back sharply, the economy could decelerate faster than current indicators suggest. This would show up in the regime probabilities as Cooling gaining ground, probably within two months of the spending shift.

The price of being wrong on the supply shock diagnosis is that the Fed stays too patient while inflation expectations become unanchored. The price of being wrong on consumer resilience is missing a growth slowdown that's already underway but not yet visible in the data.

Model output, not investment advice. Sources: FRED, Yahoo Finance, EIA, Caldara-Iacoviello GPR Index.