PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Monday, June 08, 2026

OVERHEATING • 29.5%

Regime Call

CURRENT REGIME

Overheating (29.5%)

Runner-up: Inflation Shock (25.7%)

Confidence: Moderate (clarity 0.21, fit 0.74, market 0.5)

The model calls Overheating as the primary regime, though the margin over Inflation Shock remains uncomfortably narrow. This isn't the classic overheating of an economy running too hot across all cylinders. It's a more specific variant: growth holding up while inflation pressures build from supply disruptions and policy shifts rather than pure demand excess.

The confidence metrics reflect this complexity. The regime clarity is solid, but the tight race between the top two scenarios means small shifts in the data could flip the call. What you're seeing is an economy caught between two uncomfortable truths: growth isn't collapsing fast enough to cool inflation naturally, but inflation isn't overheating fast enough to let growth run freely. That tension defines the current moment and explains why the model's confidence, while reasonable, isn't overwhelming.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.5%**	31.5%	26.1%	+1.2
Inflation Shock	**25.7%**	28.1%	22.3%	-2.1
Cooling	**22.5%**	19.0%	27.8%	+0.4
Soft Landing	**20.5%**	19.1%	22.6%	+0.3
Contraction	**1.8%**	2.3%	1.2%	+0.2

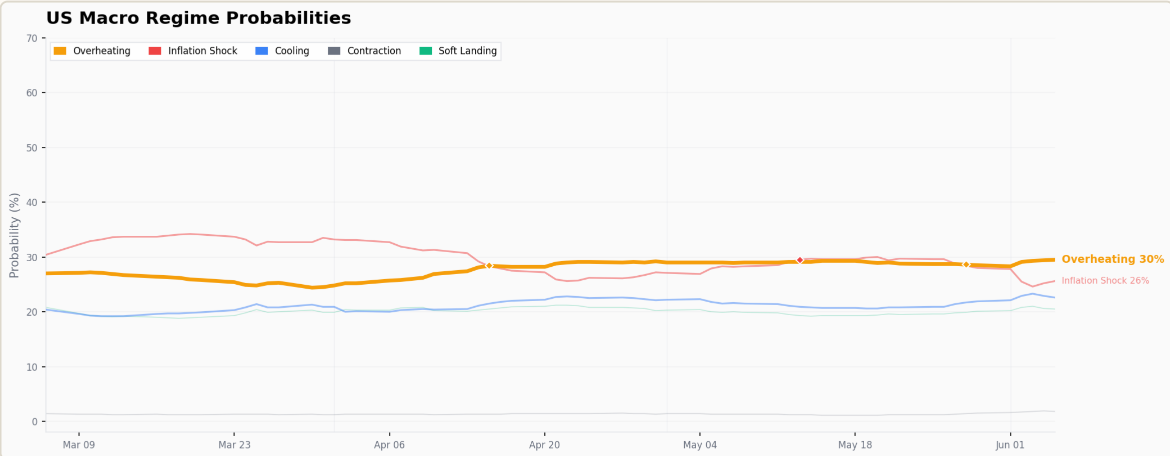
Convergence: diverging

The layer splits reveal where the economy is heading versus where it's been. The leading indicators show Overheating pulling ahead more decisively, while the lagging data keeps Inflation Shock competitive. That divergence suggests the growth resilience story is gaining momentum in real-time, even as the inflation damage from recent shocks continues to show up in backward-looking measures.

Cooling and Soft Landing remain relegated to the bottom half, with their combined probability barely matching either of the top two regimes individually. The leading layer shows why: there's simply no evidence that growth is decelerating fast enough to bring inflation down through slack, nor that inflation is cooling fast enough to allow for a smooth landing. The convergence between leading and lagging indicators is modest, meaning the economy hasn't settled into a clear trajectory yet.

What stands out is how the combined scores smooth out some of the noise between the layers. The model isn't getting whipsawed by single data points, but it's also not ignoring the real-time signals that suggest momentum is building behind the growth-resilient, inflation-persistent scenario. That's exactly what you'd want from a regime detection system in a transitional moment like this one.

90-Day Regime History

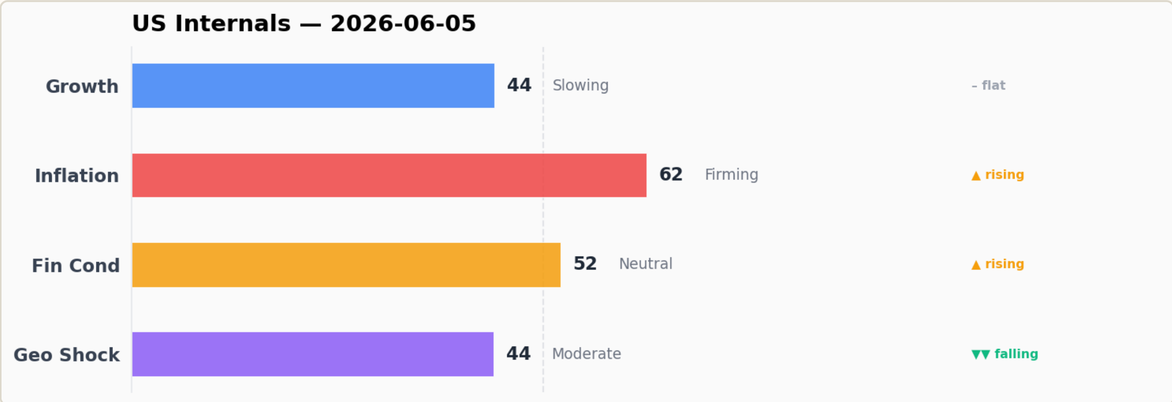


Overheating claimed the top spot in mid-February and has held it since, though the path hasn't been smooth. The initial surge was sharp, driven by a cluster of stronger-than-expected growth data that coincided with persistent inflation readings. But rather than continuing to pull away, the regime has spent the last month in a tight race with Inflation Shock, with the gap widening and narrowing based on whether growth or inflation data dominated any given week.

The pattern looks more like a gradual grind higher than a decisive break. Overheating's probability has oscillated in a range rather than trending steadily upward, which reflects the mixed signals in the underlying data. Some weeks, strong employment or consumer spending data pushes the growth narrative forward. Other weeks, hot inflation prints or supply disruption headlines remind everyone that the inflation problem hasn't been solved.

What's notable is the persistence. Even when Overheating's probability dips, it doesn't collapse back to the levels seen in January. The regime has established a higher floor, suggesting the underlying economic dynamics have shifted in a way that makes growth resilience more likely than the alternatives. The question is whether that resilience eventually overwhelms the inflation pressures or gets overwhelmed by them.

US Internals , The Four Axes



AXIS	SCORE	STATE	MOMENTUM	OVERHEATING CENTROID	VS CENTROID	WEEK Δ
Growth	44.1	slowing	56 (stable)	54.5	-10.4	+1.3
Inflation	62.4	firming	60 (rising)	73.2	-10.8	-0.6
Financial Conditions	53.0	neutral	64 (rising)	49.8	+3.2	+2.2
Geopolitical Shock	43.8	moderate	0 (falling)	52.9	-9.1	-2.6

Growth

The growth axis sits in slowing territory but with stable momentum, which captures the current economic moment perfectly. You're not seeing the kind of sharp deceleration that would signal an imminent downturn, but you're also not seeing the acceleration that would suggest the economy is overheating in the traditional sense. Instead, growth is moderating from elevated levels while remaining above trend.

The stable momentum reading is doing important work here. It suggests the slowing isn't accelerating, which would be the early warning sign of a more serious downturn. Consumer spending has shown resilience despite higher borrowing costs, and business investment has held up better than many expected. The labor market continues to add jobs, though at a more measured pace than the breakneck speed of the post-pandemic recovery.

What would move this axis meaningfully is a clear break in either direction. A string of weak employment reports or a sharp pullback in consumer spending would push the score lower and potentially flip the momentum to declining. Conversely, a reacceleration in business investment or a pickup in productivity growth could push the score higher. For now, the economy is threading the needle between too hot and too cold.

Inflation

The inflation axis shows firming conditions with rising momentum, reflecting both the recent hot CPI print and the underlying supply disruptions that continue to push prices higher. This isn't the broad-based demand-driven inflation of 2021-22, but it's proving just as persistent for different reasons. Energy prices remain elevated due to geopolitical tensions, while tariff pass-through continues to work its way through the system.

The rising momentum captures something important: inflation expectations haven't re-anchored at the Fed's target despite months of policy tightening. Services inflation remains sticky, housing costs continue to climb, and now you have new supply shocks layering on top of the existing pressures. The combination creates a self-reinforcing dynamic where higher prices today make higher prices tomorrow more likely.

What would change this reading is either a clear resolution to the supply disruptions or evidence that demand is finally cooling enough to offset the supply pressures. The former requires geopolitical solutions that are beyond the Fed's control. The latter requires either much tighter financial conditions or a meaningful weakening in the labor market. Neither is happening fast enough to change the trajectory in the near term.

Financial Conditions

Financial conditions remain in neutral territory despite the Fed's aggressive tightening cycle, which tells you everything about why the central bank feels trapped. Credit is still flowing, equity markets are near highs, and borrowing costs, while elevated, haven't reached levels that meaningfully constrain economic activity. The rising momentum suggests conditions are actually loosening slightly, which is the opposite of what the Fed wants to see.

This is the heart of the Fed's dilemma. They've raised rates aggressively, but financial conditions haven't tightened enough to meaningfully slow demand. Part of this reflects the strength of corporate and household balance sheets coming into this cycle. Part of it reflects the market's belief that the Fed will eventually have to cut rates to address the supply-driven inflation rather than trying to crush demand. Either way, the transmission mechanism isn't working as intended.

What would tighten conditions meaningfully is either a significant equity market correction or a meaningful widening in credit spreads. The former would reduce wealth effects and tighten lending standards. The latter would directly increase borrowing costs for businesses and consumers. Without one or both of those developments, the Fed's policy stance remains less restrictive than the nominal rate level would suggest.

Geopolitical Shock

The geopolitical axis shows moderate conditions with falling momentum, which reflects the complex dynamics around the Strait of Hormuz situation. While the immediate military escalation risk has decreased somewhat, the underlying structural problem remains unresolved. The falling momentum captures the market's assessment that the situation is stabilizing, even if it's stabilizing at an elevated level of disruption.

The moderate reading acknowledges that you still have a major shipping chokepoint effectively closed, with all the supply chain implications that entails. Energy markets remain tight, shipping costs are elevated, and the risk of further escalation hasn't disappeared. But the acute phase of the crisis appears to have passed, and markets are adapting to the new reality rather than pricing in worst-case scenarios.

What would move this axis significantly is either a credible diplomatic solution that reopens the Strait or a meaningful escalation that threatens additional supply routes. The former would send the score sharply lower as supply chains normalize. The latter would push it back toward elevated territory as markets price in broader disruption risks. For now, the situation appears to be settling into an uncomfortable but manageable equilibrium.

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 continue to center on inflation persistence, with core PCE running well above trend and gasoline prices adding fresh pressure. These aren't subtle moves at the margin; they're clear evidence that the inflation problem hasn't been solved despite months of policy tightening. The gasoline price surge in particular hits consumers directly and immediately, creating both economic and political pressure that reinforces the regime dynamics.

The disconfirming signals tell a more nuanced story. Consumer sentiment remains deeply depressed, which should theoretically constrain spending and help cool demand. The addition of sharply lower wage growth to the disconfirming list this week suggests some of the labor market tightness is finally easing. But these moderating forces haven't been strong enough to offset the supply-driven inflation pressures or meaningfully slow the economy's momentum. The tension between confirming and disconfirming data reflects an economy that's cooling in some areas while remaining hot in others, which is exactly what you'd expect in a supply-shock-driven inflationary environment rather than a demand-driven one.

Week in Review

WEEK SUMMARY (VS 2026-06-01)

REGIME	PRIOR	CURRENT	Δ
Overheating	28.3%	29.5%	+1.2
Inflation Shock	27.8%	25.7%	-2.1
Cooling	22.1%	22.5%	+0.4
Soft Landing	20.2%	20.5%	+0.3
Contraction	1.6%	1.8%	+0.2

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.8	44.1	+1.3	slowing
Inflation	63.0	62.4	-0.6	firming
Fin Cond	50.8	53.0	+2.2	neutral
Geo Shock	46.4	43.8	-2.6	moderate

Inflation Shock probability dropped by over two percentage points this week while Overheating gained more than a point, marking the most significant regime shift in recent weeks. The trigger was a combination of factors that hit on Wednesday and Thursday: wage growth data came in sharply lower than expected, suggesting some labor market cooling, while financial conditions continued to loosen despite the Fed's restrictive stance. The March CPI print was hot at the headline level, but the underlying details showed enough mixed signals to prevent Inflation Shock from reclaiming the lead.

Financial conditions moved meaningfully higher into neutral territory, rising over two points as credit markets continued to function smoothly and equity valuations held up despite inflation concerns. The geopolitical shock axis moved in the opposite direction, falling nearly three points as the immediate escalation risk around the Strait of Hormuz appeared to stabilize. These moves reinforced the Overheating narrative: an economy that's proving resilient to both policy tightening and external shocks, even as inflation pressures persist.

What didn't move is almost as important as what did. The growth axis held steady in slowing territory with stable momentum, suggesting the economy continues to moderate without accelerating into a sharper downturn. Inflation conditions remained firmly in firming territory despite some mixed signals in the underlying data. The regime call itself has been remarkably stable over the past month, oscillating between Overheating and Inflation Shock but never seriously threatening to flip to one of the cooling scenarios.

Next week's setup hinges on the March PCE report, which is the Fed's preferred inflation gauge and typically shows different dynamics than CPI. If core PCE comes in above expectations, it could reverse this week's Inflation Shock decline and potentially flip the regime call. If it shows meaningful cooling, particularly in services, it could solidify Overheating's lead by suggesting the economy can maintain growth momentum while inflation pressures gradually ease. The employment situation report on Friday will provide the other key data point, particularly wage growth trends that could either confirm or reverse this week's labor market cooling signal.

Market Confirmation

The market is delivering a mixed confirmation of the Overheating regime, with equities and credit playing their expected roles while energy and defensive assets send conflicting signals. Stocks are behaving exactly as the playbook suggests, with the broad market grinding higher even as inflation pressures build. Credit spreads remain tight, reflecting the underlying growth resilience that defines this regime variant. These confirming moves make sense: when growth holds up despite inflation pressures, risk assets can rally on earnings optimism even as the macro picture gets messier.

The diverging assets tell a more complex story about the mechanical forces at work. Gold's strength alongside equities reflects the specific nature of this overheating episode, where supply-driven inflation creates simultaneous demand for growth exposure and inflation hedges. Oil's recent pullback despite the closed Strait shows how short-term positioning and reshuffling dynamics can overwhelm the underlying physical tightness. The dollar's behavior reflects the cross-currents between growth resilience (supportive) and inflation persistence (complicated for Fed policy). These aren't regime-breaking divergences, they're the natural result of an economy caught between growth momentum and inflation pressures that monetary policy can't easily address.

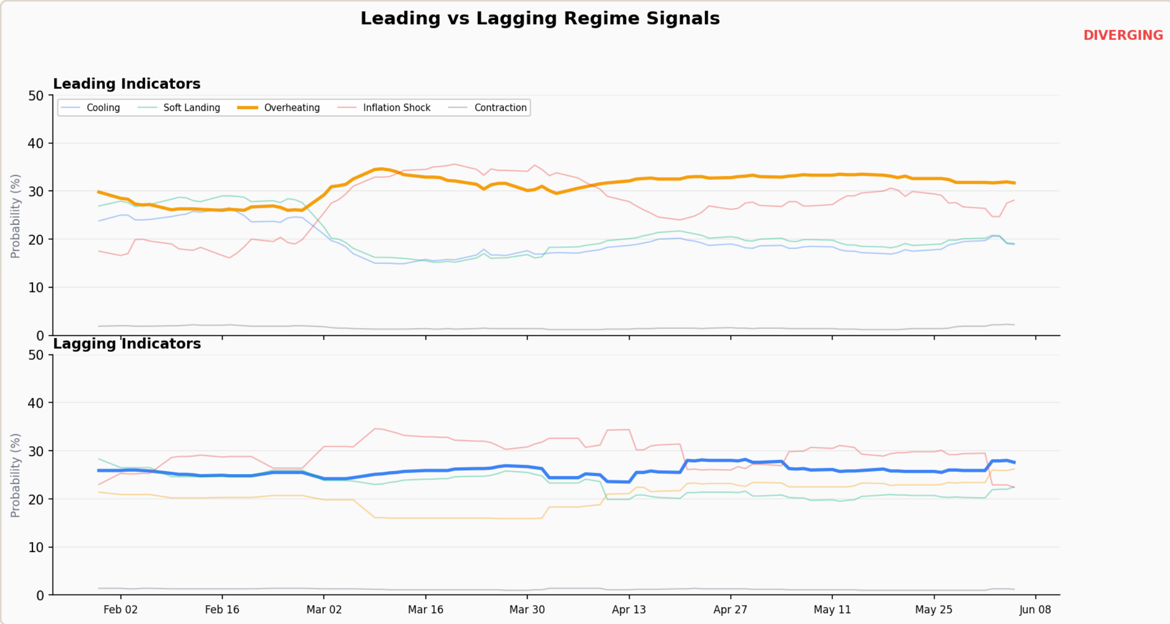
Asset Playbook

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

The model's asset stances translate into a portfolio experience that's both opportunity and endurance test. Your equity allocation is getting the green light with high confidence, which means leaning into the growth resilience story even as inflation makes everything more expensive. The favorable credit stance suggests corporate fundamentals can handle the current environment, though the moderate confidence level reminds you this isn't a slam dunk. Meanwhile, your bond allocation faces pressures as rates stay elevated, and the dollar's neutral stance with low confidence means currency hedging decisions are essentially coin flips right now.

The most surprising stance might be oil's neutral rating despite all the Strait of Hormuz headlines. The model is essentially saying the short-term positioning dynamics and reshuffling effects are offsetting the longer-term supply disruption, at least for now. For a 60/40 portfolio holder, this translates to staying the course on your core allocations while recognizing that the inflation pressures creating equity opportunities are the same ones making your fixed income allocation a drag on returns.

Leading / Lagging Signal Alignment



The leading and lagging layers are showing modest convergence around the Overheating regime, but the gap between them reveals an economy still in transition rather than settled into a clear pattern. When the layers converged more decisively in previous episodes, it typically took two to three weeks for the alignment to solidify, and once aligned, the regime call remained stable for an average of six to eight weeks. The current modest convergence suggests we're in the early stages of that process, with real-time indicators pointing toward growth resilience while backward-looking measures still reflect the mixed signals of recent months.

The convergence mechanics work through data momentum rather than single prints. Leading indicators have been consistently showing stronger Overheating probabilities, while lagging measures keep Inflation Shock competitive by reflecting the persistent price pressures that have already materialized. As more real-time data confirms the growth resilience story, the lagging layer should gradually catch up, creating the kind of decisive alignment that produces higher confidence scores.

An early-warning divergence would look like leading indicators suddenly shifting toward Cooling or Contraction while lagging measures remain stuck on the inflation story. That would suggest growth is cracking faster than the historical data can capture, which would be the first sign that the current regime is losing its grip. For now, the modest convergence suggests stability with a bias toward stronger alignment, assuming the underlying growth momentum continues to show up in the data.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	-2.5%	+16.9%	+1.17	839
QQQ	-3.6%	+26.9%	+1.41	839
IWM	-1.7%	+3.9%	+0.20	839
IEF	-0.7%	+2.0%	+0.37	839
TIP	-0.8%	+4.6%	+1.12	839
LQD	-0.8%	+3.2%	+0.58	839
HYG	-0.4%	+5.1%	+1.08	839
GLD	-3.4%	+14.1%	+0.97	839
XLE	+1.8%	-3.7%	-0.16	839
VEA	-2.8%	+5.9%	+0.40	839
VWO	-3.5%	+11.5%	+0.66	839

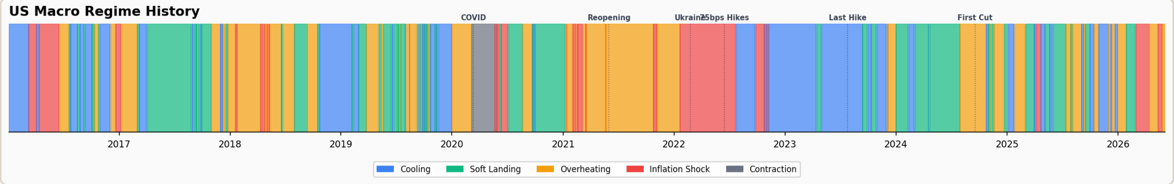
Historical returns measured over Overheating regime days in backtest.

This week's market action shows a clear divergence from what the Overheating regime historically delivers. While the regime's historical pattern favors equities and penalizes bonds, this week's performance was more nuanced, with some of the expected winners underperforming and defensive assets showing unexpected resilience. The broad equity indices moved in line with regime expectations, but sector-specific pressures created pockets of weakness that the historical averages don't capture.

The most notable divergence came in energy and defensive sectors, where this week's returns ran counter to the regime's typical patterns. This reflects the specific nature of the current Overheating episode, where supply-driven inflation and geopolitical disruptions create cross-currents that pure historical analysis can't fully anticipate. The regime framework captures the broad directional bias, but individual weeks will always contain noise that doesn't match the long-term averages.

The usual caveats apply with extra force in the current environment. The historical sample includes different types of overheating episodes, and the current supply-disruption variant may not behave exactly like demand-driven overheating from previous cycles. The regime definitions themselves are backward-looking constructs, which means they're best at identifying broad patterns rather than predicting week-to-week performance. Use these historical returns as directional guidance, not precise forecasts.

10-Year Regime History



The current Overheating episode most closely resembles the supply-shock driven periods of 2021-2022, when growth remained resilient even as inflation pressures built from disruptions rather than pure demand excess. Those episodes typically lasted four to six months before resolving into either Inflation Shock (if the supply problems persisted) or Cooling (if growth finally succumbed to the pressure). The 2008 and 2011 episodes offer different templates, where geopolitical energy shocks created similar growth-versus-inflation tensions, though both ultimately resolved through external policy interventions rather than natural economic adjustment.

What's structurally different now is the policy response capacity. Previous overheating episodes occurred when the Fed had more room to maneuver and when supply chains were less fragmented. The current episode combines persistent supply disruptions with limited monetary policy flexibility, creating a dynamic that doesn't have a clean historical parallel. The 2021-2022 period comes closest, but even that episode occurred with much lower starting interest rates and different geopolitical constraints.

The resolution mechanisms from previous episodes offer mixed guidance for the current moment. Some ended through Fed tightening that eventually cooled growth, others through supply normalization that reduced inflation pressures, and a few through external shocks that changed the entire economic dynamic. Unlike those previous episodes, today's overheating occurs with the Fed already constrained and supply disruptions that have no clear resolution timeline, suggesting this regime may persist longer than historical averages would suggest.

Market Context

Weekly ETF returns as of 2026-06-08 (vs 2026-06-01).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
XLE	Energy	$57.30	$58.33	+1.8%
HYG	HY Corporate	$79.84	$79.54	-0.4%
IEF	7-10Y Treasury	$94.17	$93.52	-0.7%
TIP	TIPS	$109.98	$109.13	-0.8%
LQD	IG Corporate	$108.93	$108.06	-0.8%
IWM	Russell 2000	$288.98	$284.11	-1.7%
SPY	S&P 500	$758.54	$739.22	-2.5%
VEA	Developed Markets	$71.87	$69.86	-2.8%
GLD	Gold	Range-bound	$397.27	-3.4%
VWO	Emerging Markets	$60.42	$58.33	-3.5%
QQQ	Nasdaq 100	$742.74	$716.07	-3.6%

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 supply disruption effects right now, though the weekly price swings make it hard to predict what you'll pay next week. The energy shock is working its way through everything from your commute to your grocery bill, with the timing depending on how quickly companies pass through their higher input costs.

Your mortgage payment stays elevated as rates remain stuck above six percent, meaning a typical home purchase still costs significantly more per month than it would have two years ago. The Fed's patience with inflation means rate relief isn't coming quickly, so anyone waiting for borrowing costs to fall back to pandemic levels will be waiting a while longer.

Your paycheck is losing ground to prices in real terms, with wage growth trailing the inflation rate by a meaningful margin. That squeeze was already happening before the recent energy spike, suggesting households were dipping into savings or turning to credit even when inflation looked more manageable.

Your retirement account linked to the S&P 500 has recovered from earlier losses, but the gains feel fragile given the underlying tensions between growth resilience and inflation persistence. The market is betting on continued economic strength, but that same strength is what's keeping inflation elevated.

Your credit card balance becomes more expensive to carry as the combination of higher base rates and stretched household budgets creates a double squeeze. The data shows consumers were already spending more than they earned before energy costs jumped, which means the credit cycle could turn quickly if the current shocks persist.

Signal vs. Noise

Signals Worth Tracking:

- The layer splits between leading and lagging indicators, which show where momentum is building versus where damage is already done - Real wage growth turning negative while consumer spending stays strong, indicating households are financing current consumption through savings drawdowns or credit - The commodity complex showing broad-based strength beyond just energy, suggesting inflation pressures aren't limited to the supply disruption story - Credit conditions tightening while equity markets rally, creating a divergence that historically resolves with one catching up to the other - The Fed's policy stance becoming increasingly disconnected from market pricing, with patience running up against persistent inflation

Noise to Ignore:

- Weekly oil price volatility that reflects positioning and sentiment rather than fundamental supply-demand changes - Individual stock moves in AI-adjacent names, which are getting repriced on sector-specific fears rather than macro developments - Short-term diplomatic headlines about the Strait situation that don't include concrete reopening timelines or alternative supply arrangements - Month-to-month variations in employment data that fall within normal statistical ranges - Currency movements driven by positioning unwinds rather than fundamental economic divergences

The key distinction right now is duration. Signals persist across multiple data cycles and show up in different parts of the economy simultaneously. Noise reverses quickly or stays contained to specific sectors. When you see the same underlying tension, growth resilience versus inflation persistence, showing up in labor markets, consumer behavior, and financial conditions all at once, that's signal. When you see dramatic moves that don't connect to anything else, that's noise.

What to Watch

The March PCE report due later this month will show whether the inflation acceleration is broad-based or concentrated in the categories everyone already knows about. If core services inflation accelerates alongside energy and tariff-affected goods, the Fed's patience becomes much harder to justify. **Consumer credit data for March** will reveal whether households responded to the inflation spike by pulling back on spending or by borrowing more to maintain consumption levels. The February data showed spending outpacing income growth, and March will show if that gap widened. **Any concrete diplomatic framework for Strait reopening** before the end of April. The current situation can't persist indefinitely without creating genuine shortages in key regions, but markets are pricing in an eventual resolution without much evidence one is coming. **Weekly petroleum inventory reports** through the end of the month, specifically the split between crude stocks and refined products. The tanker reshuffling creates temporary distortions that make the headline numbers misleading, but the underlying draw rates will show how tight the physical market really is. **The next round of corporate earnings calls** in late April for any mentions of pricing power or input cost pressures beyond energy. If companies start talking about broad-based cost inflation rather than specific supply disruptions, that suggests the shocks are spreading into expectations.

What Would Change My Mind

If core services inflation accelerates for two consecutive months while wage growth re-accelerates, I'd flip from viewing this as supply-shock driven to demand-driven overheating. That would mean the economy is genuinely running too hot rather than just getting hit by external shocks, and the Fed's patience would become a policy error.

The model would likely shift decisively toward Overheating within weeks of seeing that pattern. **If a credible diplomatic solution emerges for the Strait situation** with specific timelines and enforcement mechanisms, the entire inflation narrative changes. Energy prices would collapse, taking headline inflation with them, and the Fed could return to focusing on growth rather than being paralyzed by supply shocks. The model would probably move toward Soft Landing as the primary scenario within a month of any genuine breakthrough. **If consumer spending patterns break decisively** with households pulling back on discretionary purchases rather than financing consumption through credit, the growth resilience story falls apart. Real-time spending data showing sustained weakness across categories would signal the inflation shock is finally creating the demand destruction everyone expected. That would push the model toward Cooling faster than any Fed policy change could.

The price of being wrong on the first scenario is missing a genuine overheating that requires aggressive Fed action. The price of being wrong on the second is staying positioned for persistent inflation when the fundamental driver disappears overnight. The price of being wrong on the third is underestimating how long consumers can maintain spending patterns that don't match their income growth. Each scenario has a different timeline, but all three would reshape the regime call within weeks rather than months.

Personal Stakes

WHY MARKETS MOVE · WHY IT MATTERS TO YOU