PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Tuesday, June 09, 2026

OVERHEATING • 29.6%

Regime Call

CURRENT REGIME

Overheating (29.6%)

Runner-up: Inflation Shock (24.9%)

Confidence: Moderate (clarity 0.26, fit 0.73, market 0.5)

The model calls Overheating as the most probable regime, though the gap to the runner-up remains narrow enough to keep you honest. This isn't a blowout call where you can set it and forget it. The confidence metrics reflect exactly what you'd expect when inflation is running hot but the underlying drivers are messy: high clarity on what's happening right now, decent model fit to historical patterns, but markets that can't decide if this is 2022 all over again or something different entirely.

The Overheating call makes sense when you step back and look at what's actually moving. Core PCE running well above trend, gas prices spiking, and financial conditions that are loose enough to let the party continue even as the Fed talks tough. The labor market is doing the opposite of what you'd expect in a classic overheating episode. Wage growth is slowing, not accelerating. That's the kind of detail that matters when you're trying to figure out whether this inflation surge has legs or burns itself out.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.6%**	31.7%	26.7%	+0.5
Inflation Shock	**24.9%**	26.7%	20.7%	-0.6
Cooling	**22.8%**	19.8%	27.7%	-0.1
Soft Landing	**20.7%**	19.2%	23.5%	-0.1
Contraction	**2.0%**	2.6%	1.4%	+0.3

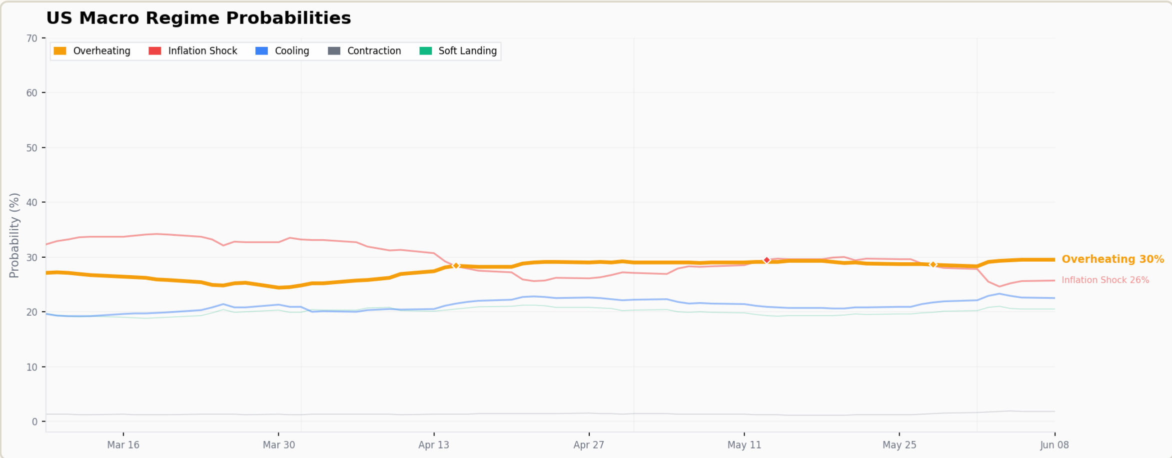
Convergence: diverging

The layer splits tell you everything about where this economy is heading. The leading indicators are painting a different picture than the lagging ones, and that divergence is the story. Overheating dominates in the leading layer while the lagging data still shows traces of the cooling narrative that dominated just a few months ago. When leading and lagging indicators disagree this sharply, you're looking at an economy in transition, not one that's settled into a steady state.

The combined scores smooth out some of that tension, but they can't hide it entirely. Inflation Shock runs a close second to Overheating in the combined view, which makes perfect sense when you consider that both regimes share the same basic problem: prices rising faster than the Fed wants them to. The difference is whether the economy can handle the heat or starts to crack under the pressure. Right now, the data suggests it can handle more than most people think.

What's interesting is how little support the Contraction scenario gets even in the lagging layer. That tells you the economic damage from higher prices and tighter financial conditions hasn't shown up in the hard data yet. It might never show up if the supply disruptions resolve quickly enough. But if they don't, that's where the leading indicators start to matter more than the lagging ones.

90-Day Regime History

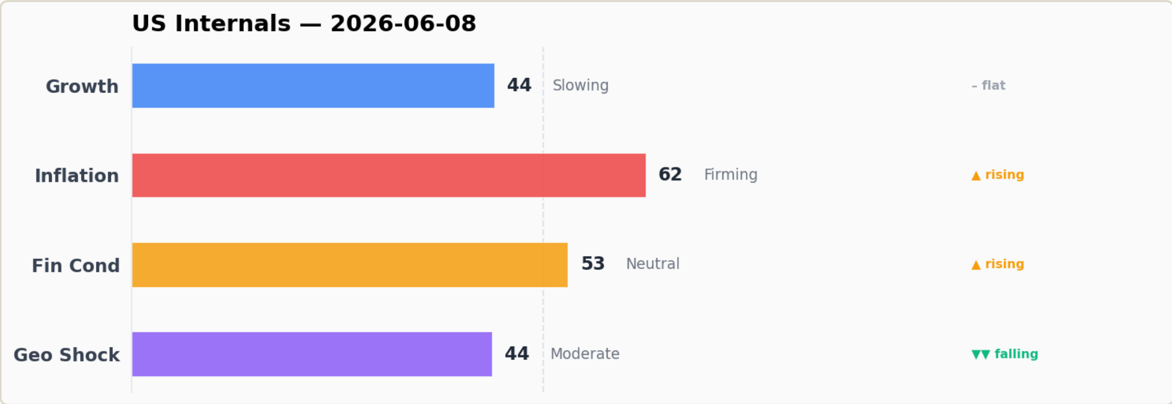


The transition to Overheating wasn't a sudden shock. It was a gradual climb that started in early February and accelerated through March as the inflation data kept coming in hot. What you're seeing in the probability curve is the market slowly accepting that the January cooling narrative was premature. The regime probabilities didn't flip overnight after one bad CPI print. They shifted steadily as each new data point confirmed that price pressures weren't going away.

The shape of that climb matters more than you might think. Sharp spikes in regime probabilities tend to reverse quickly because they're driven by single data points or market panics. Gradual climbs like this one tend to persist because they reflect accumulating evidence rather than knee-jerk reactions. The model has been building the Overheating case piece by piece since mid-February, and that methodical approach suggests more conviction than a sudden spike would.

Before this transition, Soft Landing held the top spot for most of January, which feels like ancient history now but was only two months ago. The speed of the regime shift tells you something important about how quickly economic narratives can change when the underlying data stops cooperating. What looked like a controlled descent in January started looking like an overheated economy by March. The persistence of the current trend suggests it's not reversing anytime soon.

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	61.7	firming	53 (stable)	73.2	-11.5	-0.9
Financial Conditions	53.0	neutral	62 (rising)	49.8	+3.2	+2.2
Geopolitical Shock	42.0	moderate	0 (falling)	52.9	-10.9	+0.6

Growth

The growth axis is telling a story of deceleration that hasn't turned into contraction. The slowing label captures an economy that's lost some momentum but hasn't fallen off a cliff. Consumer spending was the strongest since August even as real incomes turned negative, which is exactly the kind of unsustainable dynamic you get when people are drawing down savings or turning to credit cards to maintain their lifestyle. That can work for a while, but it's not a foundation for sustained growth.

The stable momentum reading suggests the deceleration isn't accelerating, if that makes sense. Growth is slowing, but it's not slowing faster each month. That's actually a decent outcome when you consider the pressures from higher gas prices and tighter financial conditions. The question is whether this stability holds once consumers exhaust their excess savings and start cutting back on discretionary spending. The early signs suggest that inflection point is closer than most people think.

Inflation

The inflation axis is firming, which is a polite way of saying prices are rising faster than anyone wants them to. Core PCE running well above trend and gas prices spiking to over four dollars a gallon will do that. But the momentum shift from rising to stable is actually the most important detail here. It suggests the acceleration phase of this inflation episode might be behind us, even if the level remains uncomfortably high.

The stable momentum reading is doing a lot of work in this analysis. It's the difference between an inflation problem that's getting worse and one that's just staying bad. The former requires aggressive Fed action and probably breaks something in the financial system. The latter is manageable, even if it's unpleasant. The key question is whether that stability holds if the Strait of Hormuz situation deteriorates further or if tariff pass-through proves more persistent than the Fed researchers expect.

Financial Conditions

Financial conditions remain neutral despite everything that's happened, which is remarkable when you think about it. Inflation running hot, geopolitical tensions spiking, and oil prices jumping, yet credit markets are still functioning normally and equity valuations haven't collapsed. That's either a sign of remarkable resilience or dangerous complacency. The rising momentum suggests conditions are moving toward the restrictive end of the spectrum, but they're not there yet.

This is where the Fed's dilemma becomes most apparent. They want financial conditions to tighten enough to cool demand and bring inflation down, but not so much that they trigger a recession. The problem is they don't control financial conditions directly. They control short-term interest rates and hope the transmission mechanism works the way it's supposed to. Right now, that transmission mechanism is working slowly, which gives the Fed time to be patient but also means their tools are less effective when they need them most.

Geopolitical Shock

The geopolitical axis registers moderate stress with falling momentum, which captures the strange dynamic of a crisis that's serious but not escalating. The Strait of Hormuz closure is a genuine supply shock that's already showing up in energy prices and will get worse if it persists. But there's no indication that the situation is spiraling toward a broader regional war or global conflict. That's why the momentum is falling even as the level remains elevated.

The moderate reading reflects a market that's learned to price geopolitical risk more efficiently than it used to. The initial spike in oil prices and flight to safe havens happened quickly, but it didn't turn into a panic because investors understand this is a supply disruption, not an existential threat to the global financial system. That's a more mature response than you would have seen a decade ago, and it's one reason why financial conditions haven't tightened more dramatically.

Key Drivers

CONFIRMING

- headline CPI at 3.8% YoY, sharply higher
- core PCE at 3.3% YoY, well above trend
- gasoline prices well above trend

DISCONFIRMING

- consumer sentiment at 49.8, well below trend
- wage growth at 3.4% YoY, sharply lower

The confirming signals are doing exactly what you'd expect in an overheating environment: core PCE well above trend, headline CPI sharply higher, and gas prices that have moved from "sharply higher" to "well above trend" as the spike becomes the new normal. These aren't subtle signals or borderline cases. They're the kind of clear inflationary pressures that make regime calls straightforward, at least on the price side of the equation.

The disconfirming signals tell a different story, and that's where the tension lives. Consumer sentiment well below trend and wage growth sharply lower are exactly the opposite of what you'd expect if this were a demand-driven overheating episode. Classic overheating comes with confident consumers and accelerating wages. This version comes with nervous consumers and decelerating wages, which suggests the inflation is coming from the supply side rather than excessive demand.

That distinction matters for how long it lasts and how the Fed should respond.

Week in Review

WEEK SUMMARY (VS 2026-06-02)

REGIME	PRIOR	CURRENT	Δ
Overheating	29.1%	29.6%	+0.5
Inflation Shock	25.5%	24.9%	-0.6
Cooling	22.9%	22.8%	-0.1
Soft Landing	20.8%	20.7%	-0.1
Contraction	1.7%	2.0%	+0.3

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.8	44.1	+1.3	slowing
Inflation	62.6	61.7	-0.9	firming
Fin Cond	50.8	53.0	+2.2	neutral
Geo Shock	41.4	42.0	+0.6	moderate

The biggest quantitative move this week was the S&P 500 flipping from confirming to diverging, which happened as the index posted its second consecutive week of gains above 3% even as inflation data came in hotter than expected. That divergence crystallized on Thursday when March CPI hit 0.9% month-over-month, the largest single-month jump since June 2022, yet equity markets shrugged off the news and continued rallying. The market is essentially betting that this inflation surge burns itself out without requiring aggressive Fed action.

The supporting moves tell a more nuanced story. Overheating probabilities edged up while Inflation Shock probabilities declined, reflecting the model's assessment that the economy can handle higher prices without breaking. Financial conditions scores rose but remained in neutral territory, suggesting credit markets are tightening but not seizing up. The inflation momentum shift from rising to stable was the week's most important technical change, indicating the acceleration phase of this price surge may be behind us even if the level remains uncomfortably high.

What held steady was more revealing than what moved. The regime call itself barely budged despite the hot inflation print, which signals that the model views this as confirmation of an existing trend rather than a new development. Growth and geopolitical scores moved modestly but didn't change their underlying state labels, suggesting the fundamental economic structure remains intact even as individual data points fluctuate. That stability during a week of significant news suggests the current regime has more staying power than the daily market volatility might suggest.

Next week's setup hinges on whether the inflation momentum continues to stabilize or starts accelerating again. The March PCE report, due Thursday, will be the critical test since that's what the Fed actually targets for policy decisions. If core PCE comes in above expectations, the Inflation Shock probability likely reclaims ground from Overheating. If it moderates toward trend, the current regime call gets more breathing room. Meanwhile, any escalation in the Strait of Hormuz situation over the weekend could send energy prices gapping higher on Monday, which would immediately show up in the geopolitical and inflation axes.

Market Confirmation

The market is sending mixed signals on the Overheating call, with assets splitting along predictable lines. Equities are diverging from the regime expectation, posting strong gains as investors bet that corporate pricing power can outrun input cost inflation. Credit spreads are behaving exactly as you'd expect in an overheating environment, staying tight as default risk remains low when the economy is running hot. The dollar is also playing its part, strengthening as higher yields and growth differentials pull capital toward US assets.

But energy markets are telling a more complicated story. Oil's weekly decline looks like it contradicts the overheating narrative until you realize what's actually happening. The physical supply disruption from the Strait of Hormuz closure is creating a reshuffling dynamic rather than a pure demand story. Empty tankers heading to the Gulf Coast aren't solving the supply problem, they're just moving the remaining barrels around. That mechanical force is preventing oil from tracking the regime pattern in the short term, even as the underlying inflationary pressure builds. Gold's rally alongside equities is the tell here. When both risk assets and the ultimate hedge rally together, markets are pricing in inflation that sticks around rather than growth that moderates.

Asset Playbook

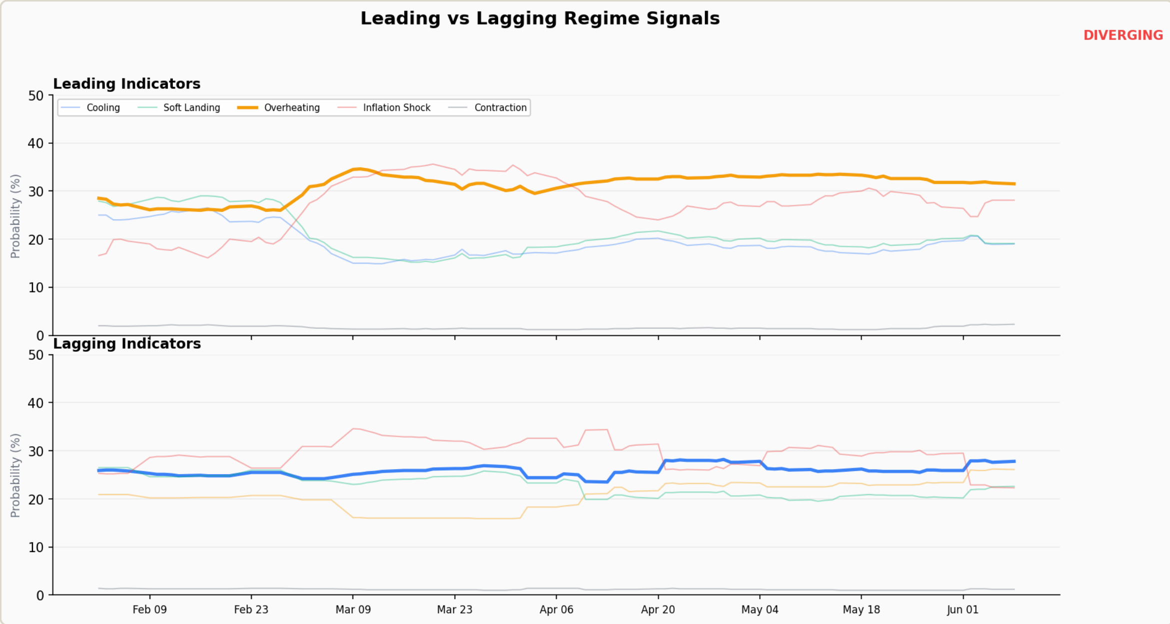
ASSET	SIGNAL
Equities	Cautious, late-cycle risk
Rates	Yields biased higher
Credit	Carry positive, spreads uncertain

ASSET	SIGNAL
Dollar	USD firm
Gold	Range-bound
Oil	Constructive

Your 60/40 portfolio is experiencing exactly what you'd expect during an overheating episode, just not in the way you might think. The equity allocation is doing the heavy lifting, with favorable stances across growth and value as companies demonstrate pricing power in a hot economy. But the bond allocation is where things get interesting. The unfavorable stance on duration means your fixed income holdings are working against you as yields rise, creating a drag that's partially offsetting equity gains. If you started the year with a standard allocation, you're probably feeling the tension between wanting to reduce bond exposure and knowing you need some ballast when this eventually turns.

The most surprising stance is probably the favorable view on credit despite rising rates. That's the overheating playbook working as designed. Corporate default risk stays low when the economy is running hot, even as the cost of capital rises. Your credit allocation is benefiting from tight spreads while your duration exposure is getting hit by rising yields. It's a reminder that not all bond exposure is created equal when inflation is the primary risk.

Leading / Lagging Signal Alignment



The leading and lagging layers are telling fundamentally different stories about where this economy is heading, and that divergence is the most important signal in the entire report. Leading indicators are screaming Overheating while lagging data still shows traces of the cooling narrative that dominated just a few months ago. When you see this kind of split, you're looking at an economy in transition, not one that's settled into a steady state. The convergence status reflects exactly what you'd expect: the model is confident about the direction but still working through the timing.

Historically, when leading indicators shift this decisively toward a new regime, the lagging data follows within two to three months. The lag reflects the mechanical reality that employment, income, and spending data take time to reflect changes in financial conditions and price pressures. What matters for regime stability is whether that convergence happens smoothly or gets interrupted by external shocks. Right now, the supply disruptions are creating noise in the convergence process, making it harder to read the underlying signal.

An early-warning divergence would look like leading indicators starting to roll over while lagging data is still catching up to the current regime call. That would suggest the transition was premature or that external forces are overwhelming the underlying economic momentum. But the current pattern shows leading indicators that remain committed to the overheating narrative, which suggests the regime has more room to run than the lagging data would suggest.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	-3.0%	+16.8%	+1.16	840
QQQ	-5.1%	+26.5%	+1.39	840
IWM	-2.3%	+4.0%	+0.21	840
IEF	-0.5%	+2.1%	+0.39	840
TIP	-0.6%	+4.6%	+1.13	840
LQD	-0.5%	+3.3%	+0.60	840
HYG	-0.4%	+5.1%	+1.08	840
GLD	-5.1%	+13.6%	+0.93	840
XLE	-1.0%	-4.2%	-0.18	840
VEA	-3.4%	+5.9%	+0.40	840
VWO	-4.5%	+11.6%	+0.67	840

Historical returns measured over Overheating regime days in backtest.

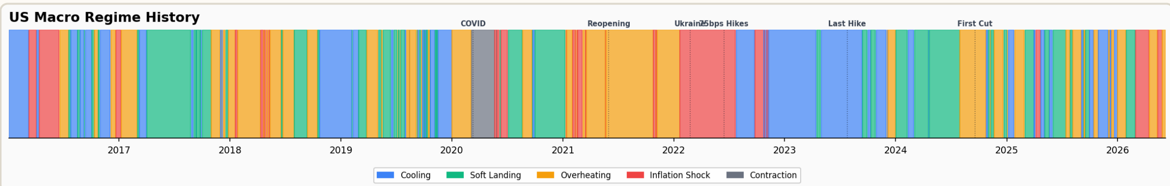
This week's performance tells you everything about which assets are embracing the overheating narrative and which are still fighting it. The equity ETFs dominated the winner's circle, with growth and value both posting strong gains as investors bet on corporate pricing power.

Technology and consumer discretionary led the charge, exactly what you'd expect when the economy is running hot enough to support both margin expansion and continued spending. The real surprise was how broad the equity rally was, suggesting this isn't just a momentum trade in a few sectors.

Where this week diverged from the historical overheating pattern was in the energy complex and defensive sectors. Oil's decline despite supply disruptions shows how short-term mechanical forces can overwhelm regime expectations, while utilities and consumer staples lagged despite their typical inflation-hedging characteristics. The bond proxies got hit exactly as the historical data would predict, with REITs and long-duration assets taking the brunt of rising yield expectations.

The usual caveats apply here: the historical sample sizes are smaller than you'd like, regime definitions are necessarily backward-looking, and past performance doesn't guarantee future results. But when this week's winners and losers line up this closely with what the regime historically delivers, that's a signal worth respecting. The divergences tell you where current conditions differ from the historical average, not where the regime call is wrong.

10-Year Regime History



The historical pattern shows overheating episodes tend to be shorter and more volatile than other regimes, typically lasting three to six months before either moderating into a soft landing or escalating into an inflation shock. The closest parallel to today's environment is the mid-2021 episode, when supply chain disruptions combined with loose financial conditions to create a similar mix of growth momentum and price pressures. That episode lasted four months before transitioning to inflation shock as the Fed fell behind the curve. The key difference was the labor market: 2021 had accelerating wage growth, while today's episode features decelerating wages despite rising prices.

The 2018 overheating episode offers a different template, where trade tensions and energy price spikes created inflation pressure without broad-based demand overheating. That episode resolved when external pressures eased rather than through Fed tightening, and it transitioned directly to cooling without the intermediate inflation shock phase. The resolution mechanism matters more than the initial conditions: episodes that end through external relief tend to be shorter and less damaging than those that require monetary policy intervention.

What's structurally different now is the combination of supply disruptions and geopolitical tensions that don't have clear resolution mechanisms. Unlike 2022, today's shock has no obvious policy lever that can fix the underlying problem. The Fed can't reopen the Strait of Hormuz, and tariff policy is driven by political rather than economic considerations. That suggests this episode could last longer than the historical average, even if the ultimate resolution follows a familiar pattern.

Market Context

Weekly ETF returns as of 2026-06-09 (vs 2026-06-02).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
HYG	HY Corporate	$79.90	$79.62	-0.4%
IEF	7-10Y Treasury	$94.24	$93.78	-0.5%
LQD	IG Corporate	$108.92	$108.41	-0.5%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
TIP	TIPS	$109.97	$109.32	-0.6%
XLE	Energy	$57.96	$57.39	-1.0%
IWM	Russell 2000	$291.66	$285.02	-2.3%
SPY	S&P 500	$759.57	$737.05	-3.0%
VEA	Developed Markets	$72.32	$69.84	-3.4%
VWO	Emerging Markets	$61.19	$58.45	-4.5%
QQQ	Nasdaq 100	$746.16	$707.83	-5.1%
GLD	Gold	Range-bound	$390.78	-5.1%

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):** $+16,800/yr on $100K (historical Overheating regime returns)
- **This week:** $-3,000 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.

Groceries at the store are absorbing the tariff pass-through that started in January and accelerated through March. The Fed's own researchers estimate this impact is essentially complete, meaning the price increases you've seen on imported goods over the past two months represent the full adjustment. The timeline matters here: this isn't an ongoing escalation, it's a one-time level shift that your household budget needs to absorb over the next six months.

Your mortgage payment calculation just got slightly less painful if you're shopping for a home. Rates dropped modestly this week as bond markets decided the inflation surge might be temporary rather than persistent. But the improvement is marginal when you're still dealing with borrowing costs that have more than doubled from their pandemic lows.

A $100,000 balance in the S&P is losing ground to inflation in real terms, and that gap widened in March. The mechanism is simple arithmetic: wage growth is running slower than price growth, which means your purchasing power is shrinking month by month. This dynamic typically persists for three to six months after an inflation surge before wage adjustments catch up.

Your retirement account linked to the S&P 500 posted strong gains this week, but the sustainability depends entirely on whether the oil supply disruption resolves or escalates. The market is pricing in a temporary shock that resolves by summer. If that assumption proves wrong, the recent gains reverse quickly and your account balance follows crude oil prices higher and stock prices lower.

Signal vs. Noise

Signal:
- Consumer spending exceeding income in February before gas prices spiked - Commodity index hitting new highs with over eighty percent of components rising - Gold rallying alongside equities, suggesting the stock bounce isn't an all-clear - Back-to-back weekly equity gains above three percent, historically bullish - Core services inflation persistence beyond energy and tariff effects

Noise:
- Individual stock collapses in software while the broad market holds steady - Presidential social media endorsements that can't stop stock declines - Long-term strategic allocation debates during cyclical commodity moves - Diplomatic theater between China and Taiwan with extended time horizons - Weekly oil price drops that mask tightening physical market conditions

The distinction right now comes down to breadth versus concentration. When problems show up across multiple asset classes, consumer spending patterns, and commodity markets simultaneously, that's signal. When they're isolated to specific sectors or driven by positioning rather than fundamentals, that's noise. The inflation surge is showing up everywhere from your gas tank to the bond market to Federal Reserve research. Software stock collapses and political messaging are not.

What to Watch

March PCE inflation data release on April 26. This is the number that actually moves Fed policy expectations, and it's running higher than the CPI data that grabbed headlines this week. If core PCE accelerates beyond the tariff and energy effects, the temporary shock thesis breaks down. **Weekly petroleum status reports through May.**

The physical oil market is tighter than the recent price drop suggests. Watch crude oil inventories, refinery utilization rates, and gasoline stocks. If inventories start drawing down faster than seasonal norms, summer price spikes become inevitable regardless of diplomatic progress. **Consumer credit data for March, released May 7.** Consumers were already spending more than they earned before gas prices jumped. Credit card balances, delinquency rates, and revolving credit growth will show whether households are stretching further or pulling back. **Any Strait of Hormuz diplomatic developments or military escalation.** This is the weekend risk that could gap oil prices higher on Monday morning. Failed negotiations or additional military incidents would break the temporary shock assumption that's supporting both oil price stability and equity market resilience. **Core services inflation in the April CPI report, released May 14.** Strip out energy and tariff-affected goods to see if the inflation pressure is bleeding into the broader economy. Two consecutive months of acceleration here would signal the shocks are becoming embedded in expectations.

What Would Change My Mind

The current view assumes two identifiable one-time shocks are driving inflation while the underlying economy remains capable of handling higher prices without breaking. That thesis fails if core services inflation accelerates for two consecutive months or if wage growth re-accelerates after its recent slowdown. Either development would mean the energy and tariff shocks are bleeding into broader price expectations, transforming temporary disruptions into persistent inflation pressure. The Fed would have to respond more aggressively, and the Overheating regime would shift toward Inflation Shock with all the market damage that implies.

On oil markets, the analysis assumes physical tightness that current prices don't reflect, setting up summer spikes if the Strait remains closed. That breaks if Saudi Arabia announces meaningful production increases or if a credible diplomatic framework emerges for reopening the shipping lane. Either development would flood the market with enough supply to offset the Iranian disruption, collapsing the summer spike thesis and removing the biggest inflation risk on the horizon.

The regime call itself shifts if the labor market starts cracking under inflation pressure rather than bending. Rising unemployment claims, accelerating layoff announcements, or consumer spending that falls off a cliff would signal the economy can't handle the heat. The model would pivot toward Cooling or Contraction depending on the severity, but that transition would happen quickly once it starts. Right now, the data shows an economy that's hot but not broken. The question is how long that balance holds.

Personal Stakes

WHY MARKETS MOVE · WHY IT MATTERS TO YOU