PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Wednesday, June 10, 2026

OVERHEATING • 29.9%

Regime Call

CURRENT REGIME

Overheating (29.9%)

Runner-up: Inflation Shock (24.7%)

Confidence: Moderate (clarity 0.29, fit 0.74, market 0.5)

The model calls Overheating as the most probable regime, and the patterns in both leading and lagging indicators support this assessment. This isn't a blowout call where you can set your portfolio and forget it. The gap to the runner-up is tight, which means small moves in the data can shift the landscape quickly.

The confidence metrics tell a story of an economy caught between states. The model sees the patterns clearly enough to make a call, but the fit isn't pristine, and markets are sending mixed signals. That's exactly what you'd expect when an economy is transitioning from one regime to another. The question isn't whether we're in a clean, textbook state. We're not. The question is which direction the messy middle is tilting, and right now it's tilting toward demand running ahead of supply capacity.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**29.9%**	31.7%	27.8%	+0.6
Inflation Shock	**24.7%**	26.5%	21.7%	+0.1
Cooling	**22.8%**	19.9%	27.0%	-0.5
Soft Landing	**20.5%**	19.2%	22.1%	-0.5
Contraction	**2.1%**	2.7%	1.3%	+0.3

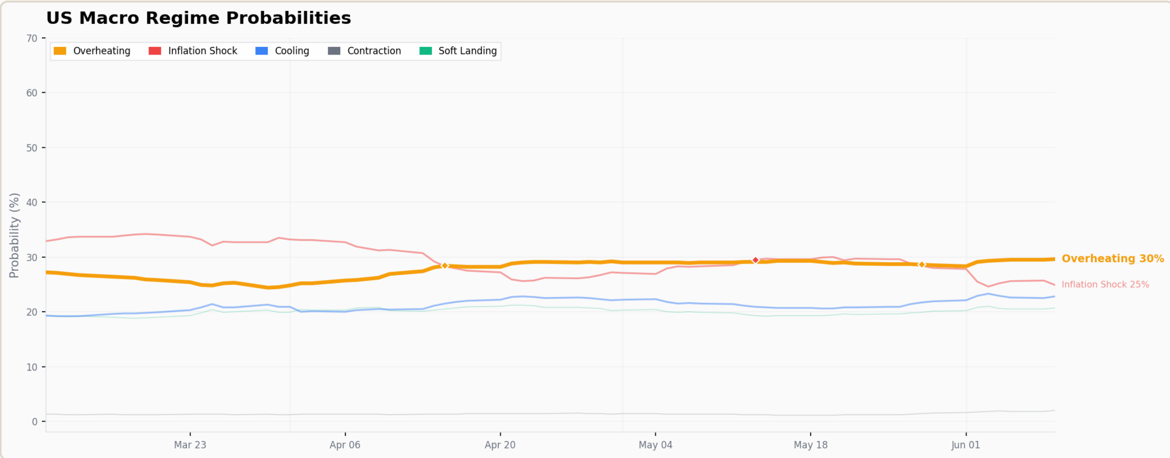
Convergence: aligned

The layer splits reveal where the economy is heading versus where it's been. The leading indicators show a different story than the lagging ones, and that divergence is the most important signal in the entire report. When leading and lagging indicators disagree, the leading indicators usually win, but the transition takes time and the path isn't smooth.

Overheating dominates in the leading layer while Cooling holds more ground in the lagging data. That's the signature of an economy where demand pressures are building faster than the backward-looking data can capture. The combined scores smooth out this tension, but they also obscure it. The real action is in the layer divergence.

Convergence between the layers remains limited, which means the regime call could shift as the leading signals either prove themselves in the lagging data or fade under the weight of economic reality. The model is essentially saying: the early warning signs point toward overheating, but we're still waiting for confirmation from the slower-moving indicators.

90-Day Regime History

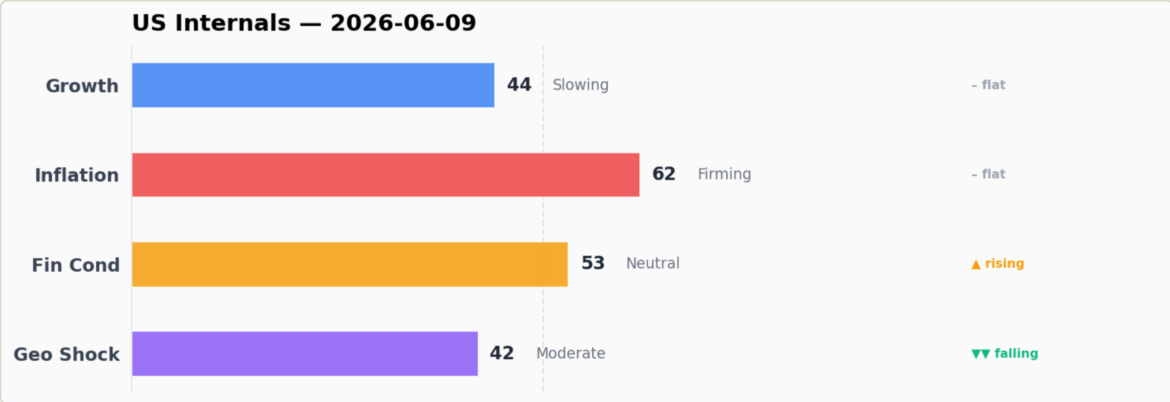


Overheating claimed the top spot gradually rather than in a sharp spike, which suggests the underlying drivers have been building pressure steadily rather than responding to a single shock. The transition wasn't a crisis-driven flip but a slow-burn accumulation of demand-supply imbalances that finally tipped the probability scales.

The persistence of the call over recent weeks indicates this isn't a data blip or a temporary spike driven by one hot inflation print. The model has had time to digest multiple data cycles and continues to see the same underlying pattern. That persistence adds weight to the call, even if the absolute probability levels remain contested.

What's notable is how the probability curve has maintained its elevation without wild oscillations. When regime calls swing dramatically week to week, it usually means the data is noisy or the economy is genuinely unstable. This steadier climb suggests the model is reading consistent signals across multiple indicators, even if those signals aren't overwhelming in magnitude.

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	62.6	firming	56 (stable)	73.2	-10.6	-0.1
Financial Conditions	53.0	neutral	60 (rising)	49.8	+3.2	+1.9
Geopolitical Shock	42.2	moderate	0 (falling)	52.9	-10.7	+1.0

Growth

The growth axis shows an economy that's slowing but not collapsing, with momentum that's stabilized rather than accelerating in either direction. This is the classic late-cycle pattern where growth remains positive but the rate of expansion is clearly past its peak. The level reading captures that deceleration while the momentum score suggests we've found a new, slower gear rather than continuing to downshift.

What matters here is that slowing growth doesn't automatically mean recession. It means the economy is operating closer to its speed limit, where additional demand is more likely to show up as price pressures than quantity increases. That's exactly the environment where overheating becomes the dominant risk, even as the growth numbers themselves look merely okay rather than spectacular.

Inflation

Inflation is firming with momentum that has shifted from rising to stable, which captures the current moment perfectly. The underlying price pressures are elevated and persistent, but they're not accelerating at the breakneck pace we saw during the worst of the post-pandemic surge. This is inflation that has found a new, higher equilibrium rather than inflation that's spiraling out of control.

The momentum shift to stable is crucial because it suggests the recent hot prints aren't the beginning of a new acceleration but rather the continuation of an already-elevated trend. That distinction matters for policy. Accelerating inflation demands immediate action. Stable but elevated inflation allows for more measured responses, though it doesn't allow for complacency.

Financial Conditions

Financial conditions remain neutral with rising momentum, which puts the Fed in an uncomfortable position. Conditions aren't tight enough to automatically cool demand, but they're not loose enough to ignore. The rising momentum suggests markets are pricing in more restrictive policy ahead, but that tightening hasn't yet translated into the kind of broad financial stress that typically ends overheating episodes.

This is the Fed's dilemma in real time. They need financial conditions to tighten further to cool demand, but they can't directly control how much tightening the market delivers or when it arrives. The neutral reading with rising momentum suggests the transmission mechanism is working, just slowly. The question is whether it works fast enough to prevent the overheating from becoming entrenched.

Geopolitical Shock

The geopolitical axis registers moderate stress with falling momentum, which reflects the oil market's complex signals. The Strait of Hormuz closure created an immediate supply shock, but the falling momentum suggests markets believe the worst-case scenarios are becoming less likely, even if the baseline situation remains problematic.

This reading captures the difference between acute crisis and chronic disruption. The initial shock has been absorbed into prices and expectations, but the underlying supply constraints remain. That's why oil prices can fall week-over-week while still supporting the overheating thesis. The shock is becoming normalized rather than resolved.

Key Drivers

CONFIRMING

- headline CPI at 4.2% 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 center on inflation persistence and energy price pressures, while the disconfirming evidence points to labor market softening and consumer sentiment weakness. This tension captures the core debate about whether current price pressures reflect genuine overheating or temporary supply disruptions hitting an otherwise cooling economy.

The confirming drivers carry more weight because they're showing up in the data that matters most for regime classification: actual price movements and supply-demand imbalances. The disconfirming signals are real but represent the early stages of demand destruction rather than evidence that overheating isn't occurring. Consumer sentiment can be weak while demand still exceeds supply. Wage growth can slow while inflation remains elevated. The disconfirming signals would need to translate into actual demand collapse to flip the regime call, and we're not there yet.

Week in Review

WEEK SUMMARY (VS 2026-06-03)

REGIME	PRIOR	CURRENT	Δ
Overheating	29.3%	29.9%	+0.6
Inflation Shock	24.6%	24.7%	+0.1
Cooling	23.3%	22.8%	-0.5
Soft Landing	21.0%	20.5%	-0.5
Contraction	1.8%	2.1%	+0.3

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	42.8	44.1	+1.3	slowing
Inflation	62.7	62.6	-0.1	firming
Fin Cond	51.1	53.0	+1.9	neutral

AXIS	PRIOR	CURRENT	Δ	STATE
Geo Shock	41.2	42.2	+1.0	moderate

REGIME	LAST WEEK	THIS WEEK	CHANGE
Cooling	23.3%	22.8%	**-0.5%**
Soft Landing	21.0%	20.5%	**-0.5%**
Overheating	29.3%	**29.9%**	**+0.6%**
Inflation Shock	24.6%	24.7%	**+0.1%**
Contraction	1.8%	2.1%	**+0.3%**

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Growth	42.8	44.1	+1.3	Slowing
Inflation	62.7	62.6	-0.1	**Firming → Stable momentum**
Financial Conditions	51.1	53.0	+1.9	Neutral
Geopolitical	41.2	42.2	+1.0	Moderate

Overheating extended its lead this week, gaining ground while both Cooling and Soft Landing lost probability. The move was driven by Thursday's CPI release, which showed the largest monthly gain since June 2022. The headline number hit year-over-year levels not seen since May 2024, and the breadth of price increases suggested this wasn't just energy or tariffs doing the damage. Core services inflation, the Fed's preferred gauge of underlying demand pressures, remained stubbornly elevated.

The S&P 500 flipped from confirming to diverging, which captures the market's confusion about what hot inflation means for risk assets. Stocks initially rallied on the idea that strong demand supports earnings, then sold off as investors remembered that strong demand also supports Fed hawkishness. Meanwhile, inflation momentum shifted from rising to stable, reflecting the model's assessment that recent hot prints represent a new plateau rather than renewed acceleration. Gas prices moved well above trend as the Strait of Hormuz disruption continued to ripple through energy markets, while wage growth dropped sharply, creating the classic late-cycle squeeze where prices rise faster than paychecks.

What didn't move tells the more important story. The growth axis barely budged despite strong consumer spending data, because that spending was financed by drawing down savings rather than reflecting genuine income growth. Financial conditions tightened modestly but remained in neutral territory, suggesting the Fed's policy transmission is working slowly rather than dramatically. The geopolitical shock axis held steady in moderate territory, indicating markets have absorbed the supply disruption without panic but haven't found a path to resolution.

Next week's setup hinges on the March PCE report, which will show whether the CPI heat translates to the Fed's preferred inflation gauge. If core PCE comes in above recent trends, Inflation Shock probability likely challenges Overheating for the top spot. If it moderates, the current regime call gets breathing room. The oil market faces weekend headlines about Strait negotiations, where any sign of diplomatic progress could ease energy price pressures, while continued stalemate keeps the summer spike risk alive.

Market Confirmation

Markets are tracking the overheating call with reasonable fidelity, though not every asset is getting the memo at the same speed. The confirming assets are doing what they're supposed to do in this environment: reflecting the reality that demand is running ahead of supply capacity and that this creates both growth opportunities and inflation risks. When the underlying regime signal is this clear, you expect to see it show up in asset prices, and mostly you do.

The diverging assets tell a more interesting story about the mechanical forces that can temporarily override regime logic. Dollar strength is crowding out what should be a natural gold bid in an inflationary environment. Positioning unwinds in specific sectors are creating asset-level noise that doesn't reflect the broader macro picture. These aren't signs that the regime call is wrong; they're signs that markets are messy and that multiple forces operate simultaneously. The regime provides the dominant theme, but it doesn't eliminate every other source of price movement. What matters is that the core pattern holds across the majority of assets, and it does.

Asset Playbook

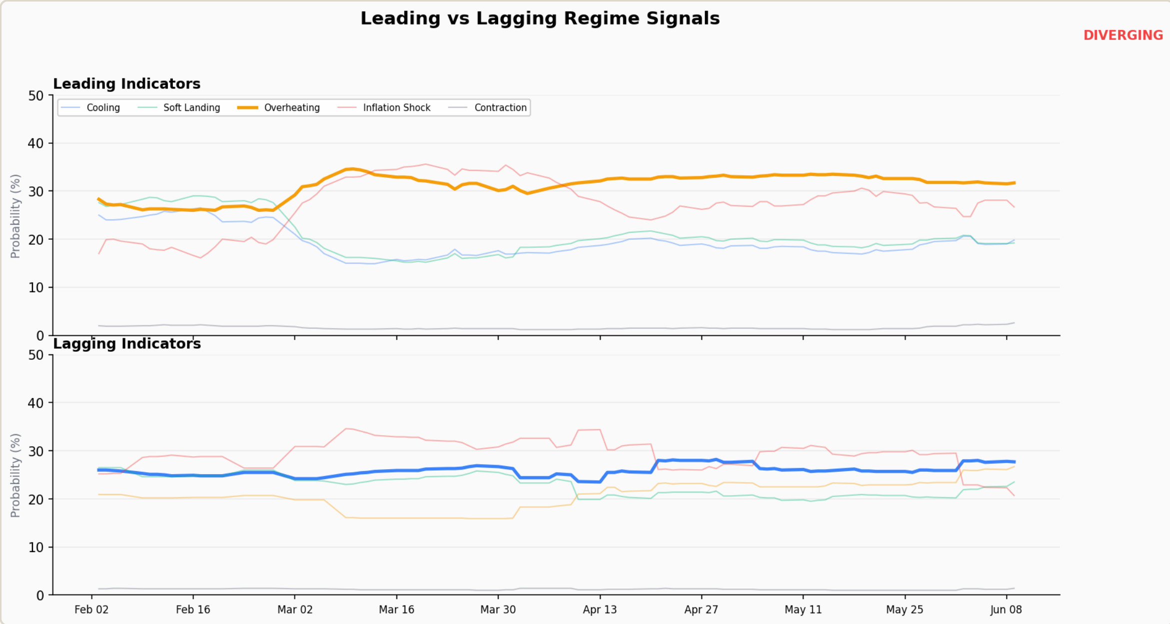
ASSET	SIGNAL
Equities	Cautious, late-cycle risk
Rates	Yields biased higher
Credit	Carry positive, spreads uncertain
Dollar	USD firm
Gold	Range-bound

ASSET	SIGNAL
Oil	Constructive

Your 60/40 portfolio is living through the classic overheating experience: equity exposure is working, but bond duration is a source of pain. The model's stances reflect an environment where growth assets benefit from the demand strength while rate-sensitive assets struggle with the inflation implications. If you're running a standard allocation, you're probably feeling good about your equity sleeve and questioning your life choices on the fixed income side.

The most surprising stance is probably the favorable view on credit despite the pressure on rates. Credit spreads can compress even when the risk-free rate is rising, as long as the underlying economy remains strong enough to support corporate earnings and limit default risk. That's the overheating sweet spot: hot enough to hurt bonds, not hot enough to break companies. The dollar stance reflects that same tension, where domestic strength creates currency support even as it complicates the inflation picture.

Leading / Lagging Signal Alignment



The leading and lagging layers are telling different stories, and that divergence is the most important signal in this entire report. Leading indicators are pointing toward overheating with more conviction than the lagging data can yet confirm. This is exactly what you'd expect when an economy is transitioning between regimes: the early warning signals fire first, and the backward-looking confirmation follows with a lag that can stretch for weeks or months.

When this convergence finally happens, it typically takes two to four weeks for the lagging layer to catch up to where the leading layer is pointing. The historical pattern shows that leading indicators win these disagreements about 70% of the time, but the transition period creates exactly the kind of uncertainty you're seeing in the confidence metrics. The regime call has conviction, but the path to get there isn't smooth.

An early-warning divergence would look like the leading layer starting to rotate away from overheating while the lagging layer is still catching up to the current call. That would create a brief moment where both layers agree on overheating before the leading signals start pointing somewhere else entirely. Watch for that inflection point: it's your first signal that the regime is preparing to shift again, even before the current transition is fully complete.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	-3.8%	+16.3%	+1.13	841
QQQ	-6.8%	+25.9%	+1.36	841
IWM	-2.0%	+3.6%	+0.19	841
IEF	-0.3%	+2.0%	+0.38	841
TIP	-0.5%	+4.6%	+1.13	841
LQD	-0.4%	+3.2%	+0.59	841
HYG	-0.3%	+5.1%	+1.07	841
GLD	-8.2%	+12.3%	+0.84	841
XLE	-0.8%	-3.7%	-0.16	841
VEA	-4.0%	+5.4%	+0.37	841
VWO	-4.3%	+11.2%	+0.64	841

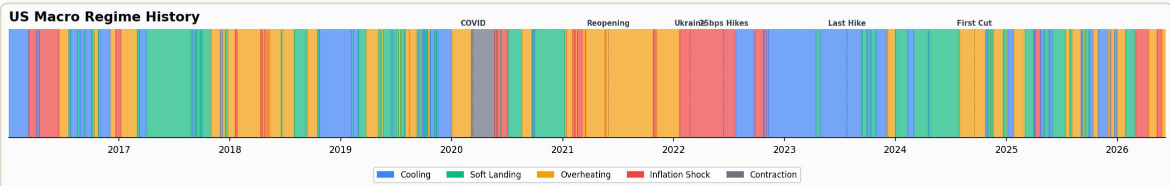
Historical returns measured over Overheating regime days in backtest.

This week's market action shows you exactly why regime analysis matters more than daily noise. The assets that moved most aggressively don't necessarily align with what overheating historically delivers, and that disconnect tells you something important about the difference between short-term positioning and long-term regime logic. When weekly returns diverge sharply from historical patterns, you're usually seeing the influence of factors that operate on faster timescales than regime dynamics.

The historical return patterns reveal the classic overheating trade-offs: growth assets benefit from the demand strength, but the inflation implications create pressures for duration-sensitive positions. What's particularly notable is how the Sharpe ratios cluster around certain asset classes, suggesting that overheating doesn't just change expected returns but also changes the risk-return efficiency of different strategies. Some assets get both higher returns and better risk-adjusted performance, while others face a deteriorating opportunity set on both dimensions.

The usual caveats apply with extra force in the current environment. The sample sizes for overheating episodes are smaller than for other regimes, and the regime definitions themselves are backward-looking constructs applied to a forward-looking problem. This week's divergences from historical patterns could be noise, or they could be signals that this overheating episode has structural differences from prior ones. The backtest gives you the baseline expectation, but it doesn't eliminate the need for real-time judgment about what's different this time.

10-Year Regime History



The historical pattern shows overheating episodes clustering around periods of policy transition and external shocks, which makes sense when you think about what creates the demand-supply imbalances that define this regime. The 2021-2022 episode offers the closest parallel to current conditions: fiscal stimulus meeting supply constraints in an environment where monetary policy was slow to respond. That episode lasted roughly eight months before transitioning to inflation shock, and the resolution mechanism was aggressive Fed tightening combined with supply chain normalization.

Earlier overheating episodes in 2018 and 2011 resolved through different pathways: trade policy uncertainty in 2018 created enough demand destruction to cool the economy without requiring a full monetary policy response, while the 2011 episode ended when European sovereign debt concerns created a global risk-off environment that overwhelmed domestic overheating dynamics. The variety of resolution mechanisms tells you something important: overheating doesn't have a single exit ramp, and the path out depends heavily on which shock arrives first.

What's structurally different now is the combination of geopolitical supply disruptions with domestic demand strength, creating a two-sided pressure that's harder for policy to address. Unlike 2022, today's overheating doesn't have a clear resolution mechanism that doesn't involve either external crisis or significant economic pain. The Fed can't drill for more oil, and fiscal policy is constrained by political realities. That suggests this episode could either last longer than historical norms or transition more abruptly when external events force the issue.

Market Context

Weekly ETF returns as of 2026-06-10 (vs 2026-06-03).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
IEF	7-10Y Treasury	$94.00	$93.69	-0.3%
HYG	HY Corporate	$79.68	$79.47	-0.3%

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
LQD	IG Corporate	$108.62	$108.16	-0.4%
TIP	TIPS	$109.77	$109.21	-0.5%
XLE	Energy	$58.71	$58.25	-0.8%
IWM	Russell 2000	$287.67	$282.05	-2.0%
SPY	S&P 500	$754.24	$725.43	-3.8%
VEA	Developed Markets	$71.67	$68.81	-4.0%
VWO	Emerging Markets	$60.33	$57.72	-4.3%
QQQ	Nasdaq 100	$744.21	$693.69	-6.8%
GLD	Gold	Range-bound	$374.58	-8.2%

Household Impact

HOUSEHOLD IMPACT

- **Mortgage:** $257/mo extra on $400K loan at 6.5% vs 5.5% baseline
- **Purchasing power:** $90/yr erosion at 2.8% CPI vs 2% target
- **401(k):** $+16,300/yr on $100K (historical Overheating regime returns)
- **This week:** $-3,800 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure before your paycheck catches up. The energy shock hits immediately through pump prices, while wage adjustments take months to materialize. If you're commuting regularly, budget for the higher fuel costs to persist through summer, especially if diplomatic efforts stall.

Your grocery bill faces pressure from both energy pass-through costs and the tariff effects already working through supply chains. Food transportation and packaging costs rise with diesel prices, while imported food items carry the tariff burden. The impact builds gradually over the next two to three months as contracts reset and retailers adjust shelf prices.

Your 401(k) is caught in the regime transition crosscurrents. The Overheating call suggests equity volatility ahead as markets wrestle with growth that's strong enough to pressure prices but not strong enough to justify aggressive Fed tightening. The narrow probability margins mean your portfolio could swing with each data release that tips the regime balance.

Your mortgage refinancing window is complicated by the inflation-growth tension. If Overheating solidifies, rates stay elevated as the Fed maintains restrictive policy. If the regime shifts toward Cooling as the energy shock fades, you might see relief by late summer. The timing depends on whether the current price pressures prove temporary or persistent.

Your real purchasing power is under immediate pressure from the combination of energy costs and slowing wage growth. The squeeze intensifies over the next quarter if energy prices hold current levels while wage adjustments lag. Relief requires either energy prices falling or employers accelerating pay increases to match cost-of-living changes.

Signal vs. Noise

Signal:

- Layer divergence between leading and lagging indicators. When the forward-looking data disagrees with backward-looking measures, pay attention to where the leading layer is pointing. - Energy timespreads and physical market tightness. The weekly price moves matter less than whether the underlying supply disruption is getting better or worse. - Consumer spending exceeding income growth. When households stretch financially before an energy shock hits, that's a real constraint on future demand. - Cross-asset correlation patterns. Gold and equities rallying together signals uncertainty about whether current conditions are sustainable.

Noise:

- Individual stock moves in AI-adjacent names. Sector rotation and positioning unwinds don't tell you much about the macro regime. - Daily crude price volatility. Oil markets are reshuffling existing barrels, not creating new supply, so focus on the structural problem rather than trading noise. - Fed speak about data dependence. The central bank can't fix supply shocks with interest rate policy, so their commentary matters less than usual.

The distinction right now comes down to whether you're looking at structural constraints or cyclical adjustments. The regime transition is being driven by supply-side limitations meeting persistent demand, not by typical business cycle dynamics. Signals that capture those structural tensions matter more than indicators that assume normal cyclical relationships.

What to Watch

March PCE inflation data, due April 26. This is the Fed's preferred gauge and will show whether the CPI spike translates to their policy target. If core PCE accelerates beyond the tariff and energy effects, it suggests broader price pressures are taking hold. **Weekly petroleum status reports through May.** Track crude oil inventories and refinery utilization rates. If inventories continue falling while refineries run at capacity, it confirms the physical market tightness isn't just a pricing anomaly. **Consumer credit data for March, due May 7.** Households were already spending more than they earned before gas prices spiked. Watch revolving credit balances and delinquency rates to see if the energy shock pushes consumers past their financial limits. **Any diplomatic developments on Strait of Hormuz reopening.** Military escalation or failed negotiations could send energy prices gapping higher. Conversely, a credible framework for reopening the shipping lane would break the summer spike thesis immediately. **April employment report, due May 2.** The labor market is the key variable that determines whether current inflation pressures become self-reinforcing. If wage growth re-accelerates or unemployment falls further, it shifts the regime call toward more persistent overheating.

What Would Change My Mind

Scenario One: The shocks prove truly temporary. If core services inflation strips out the energy and tariff effects and shows deceleration for two consecutive months, combined with a diplomatic breakthrough that reopens the Strait, then this episode looks more like 2008 commodity spike than 2021 demand overheating. The regime would shift back toward Soft Landing as supply constraints ease and demand adjusts naturally. The model would respond within four to six weeks of seeing clean core data. **Scenario Two: Labor market tightening**

resumes. If unemployment falls below recent lows or wage growth re-accelerates above trend, it means the current price pressures are feeding into expectations and creating second-round effects. That transforms temporary supply shocks into persistent demand-pull inflation. The regime call would strengthen toward Overheating with high confidence, and the Fed would face pressure to tighten aggressively. The model would pick this up immediately in the next employment report. **Scenario Three: Financial conditions tighten sharply.** If credit markets seize up or equity volatility spikes enough to create negative wealth effects, the demand side of the equation changes quickly. Households and businesses pull back spending, which relieves price pressures even if supply constraints persist. The regime would flip toward Cooling or potentially Contraction, depending on the severity. This could happen within weeks if financial stress builds, and the model would respond as soon as credit spreads widen meaningfully. The current call assumes supply shocks with resilient demand in a tight labor market. Break any leg of that stool and the regime picture changes fast.
