

# Personal **Stakes**

WEEKLY MACRO REPORT

Thursday, June 11, 2026

**OVERHEATING • 30.3%**

## Regime Call

### CURRENT REGIME

**Overheating (30.3%)**

**Runner-up:** Inflation Shock (24.8%)

**Confidence:** Moderate (clarity 0.30, fit 0.73, market 0.0)

The model calls Overheating as the dominant regime, though the lead over its closest competitor remains narrow enough to keep you watching the data closely. This isn't a runaway call where one scenario dominates everything else. It's a tight race between multiple plausible outcomes, which means the next few data points carry more weight than usual.

The confidence metrics tell you this call is solid but not bulletproof. The model has clarity about what it's seeing in the current data, and that data fits the historical patterns well. But markets are sending mixed signals, with some key assets moving against what you'd expect in a pure overheating environment. That divergence doesn't invalidate the

call, but it does mean you should expect volatility as different parts of the economy pull in different directions.

## Regime Probabilities

| REGIME          | COMBINED | LEADING | LAGGING | WEEK Δ |
|-----------------|----------|---------|---------|--------|
| Overheating     | 30.3%    | 32.1%   | 28.0%   | +0.9   |
| Inflation Shock | 24.8%    | 26.9%   | 21.9%   | -0.4   |
| Cooling         | 22.6%    | 19.6%   | 26.9%   | -0.3   |
| Soft Landing    | 20.0%    | 18.2%   | 21.9%   | -0.6   |
| Contraction     | 2.3%     | 3.2%    | 1.4%    | +0.4   |

### Convergence: aligned

The layer splits reveal where the economy is heading versus where it's been. The leading indicators show a much tighter race between scenarios, with multiple regimes clustered closer together than the overall probabilities suggest. That's your early warning system saying the current regime dominance might not last as long as the headline numbers imply.

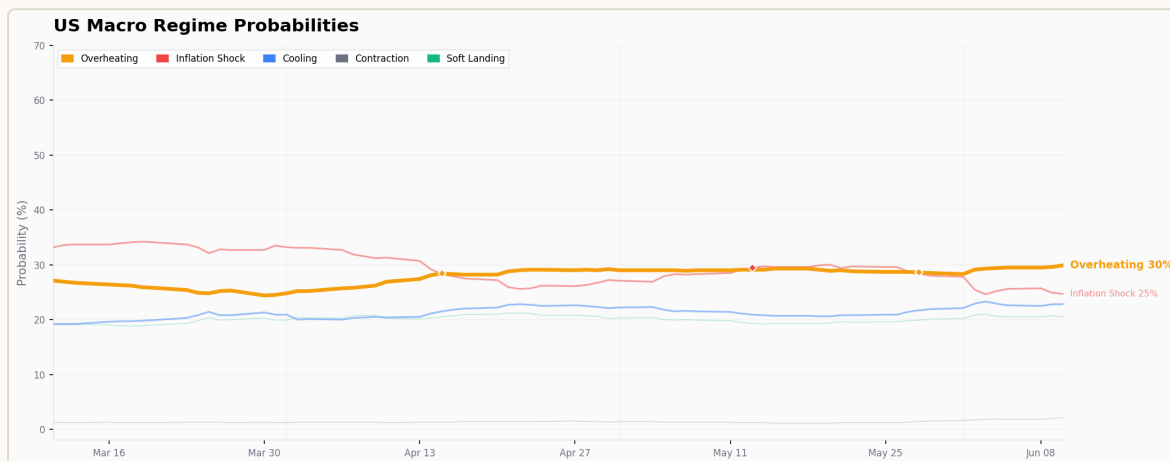
The lagging layer tells a different story, with more pronounced separation between the top scenarios and the alternatives. This is classic mid-cycle behavior: the data that reflects recent economic activity shows clear patterns, while the forward-looking indicators are already picking up signs of transition. When leading and lagging indicators diverge this way, it usually means you're closer to a regime shift than the combined probabilities suggest.

The convergence between layers sits in the middle range, meaning some agreement but not lockstep. That's actually useful information.

Perfect convergence often happens at the beginning or end of regime cycles. Moderate divergence like this typically occurs when one regime is maturing and the next is starting to build momentum in the forward-looking data.

## 90-Day Regime History

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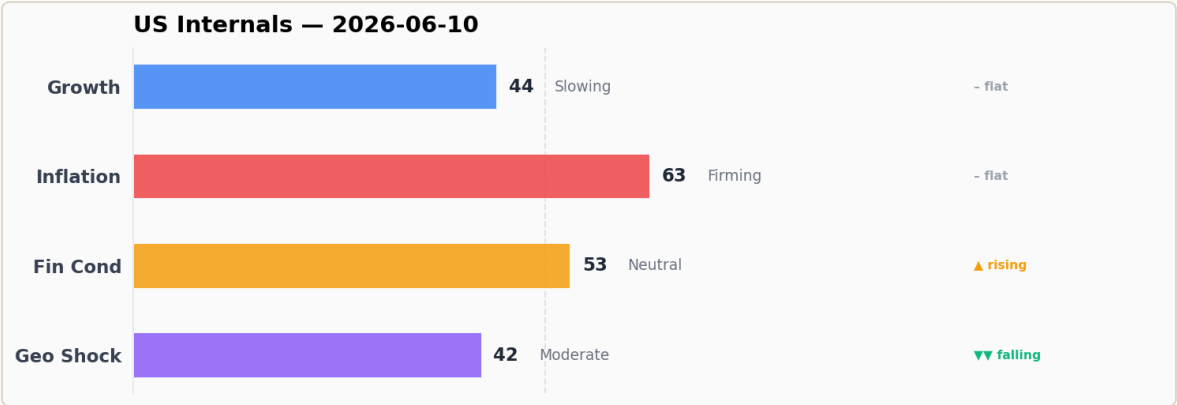
The current regime took the lead in a gradual climb rather than a sharp spike, building momentum over several weeks as multiple data points aligned. This wasn't a crisis-driven flip where one dramatic event reshuffled all the probabilities overnight. Instead, it was the steady accumulation of evidence pointing in the same direction, which tends to produce more durable regime calls.

Before this regime gained control, the landscape was more fragmented, with leadership changing hands more frequently as different economic signals competed for dominance. The transition to the current state happened as that noise settled into a clearer pattern. The probability curve shows persistent momentum rather than oscillating back and forth, suggesting the underlying economic forces have some staying power.

The shape of the recent trend matters for what comes next. Gradual climbs like this one often plateau before either consolidating further or beginning a gradual decline. Sharp spikes tend to reverse quickly. The

steady build you see in the recent history suggests this regime has room to run, but also that any eventual transition will likely give you advance warning rather than happening all at once.

## US Internals , The Four Axes



| Axis                 | Score | State    | Momentum    | Overheating Centroid | VS Centroid | Week Δ |
|----------------------|-------|----------|-------------|----------------------|-------------|--------|
| Growth               | 43.8  | slowing  | 55 (stable) | 54.5                 | -10.7       | +1.7   |
| Inflation            | 62.2  | firming  | 55 (stable) | 73.2                 | -11.0       | -0.7   |
| Financial Conditions | 52.5  | neutral  | 56 (stable) | 49.8                 | +2.7        | +1.0   |
| Geopolitical Shock   | 41.0  | moderate | 0 (falling) | 52.9                 | -11.9       | -0.9   |

### Growth

The growth axis sits in slowing territory with stable momentum, painting a picture of an economy that's decelerating but not accelerating that deceleration. This is the difference between a car that's going slower and a car that's hitting the brakes harder. Right

now, you're getting the former: a gradual downshift rather than an urgent slowdown.

What drives this reading is the combination of employment data that's softening but not collapsing, consumer spending that's holding up but losing steam, and business investment that's becoming more selective. The stable momentum tells you these trends aren't intensifying in either direction. That's actually a fairly comfortable place to be if you're worried about either stagnation or overheating.

For this axis to flip toward expansion, you'd need to see hiring accelerate, consumer confidence bounce back meaningfully, and business investment broaden beyond the AI-adjacent sectors. For it to slide toward contraction, you'd need unemployment claims to spike, consumer spending to fall outright, or business investment to freeze up. Neither seems imminent based on the current momentum reading.

## **Inflation**

The inflation axis shows firming conditions with stable momentum, which captures exactly what you'd expect when supply disruptions and policy changes are pushing prices higher but the underlying demand dynamics aren't spiraling out of control. This is administered inflation, not demand-driven inflation, and the momentum reading confirms it's not building on itself yet.

The firming level reflects both the energy price surge from the supply disruption and the tariff pass-through that's already worked its way into core goods prices. But the stable momentum suggests these aren't triggering the kind of wage-price spiral or expectations shift that would turn temporary shocks into persistent inflation. That's the key distinction between what you're seeing now and what happened in the early stages of the 2021-22 episode.

This axis would shift toward cooling if energy prices reversed meaningfully or if services inflation decelerated as the labor market

softened further. It would move toward heating if wage growth re-accelerated or if the current price pressures started showing up in rent, restaurant prices, and other services that depend more on domestic demand than global supply chains.

## **Financial Conditions**

Financial conditions sit in neutral territory with stable momentum, which is remarkable given everything that's happening in energy markets and trade policy. This reading tells you that credit is still flowing, equity markets are still functioning, and the dollar isn't causing major disruptions for emerging markets or commodity importers. That's the Fed's dilemma in a nutshell: financial conditions aren't tight enough to justify easing, but they're not loose enough to justify tightening either.

The neutral reading reflects a balance between higher yields that tighten conditions and equity market resilience that loosens them. Corporate credit spreads remain manageable, the dollar is firm but not disruptively strong, and volatility is elevated but not at crisis levels. The stable momentum suggests this balance is holding rather than tipping in either direction.

This axis would tighten if credit spreads widened significantly, if equity markets entered a sustained decline, or if the dollar strengthened enough to stress emerging market borrowers. It would loosen if yields fell meaningfully, if risk assets rallied broadly, or if credit became more readily available. Right now, you're getting neither, which leaves the Fed with limited clear guidance from financial markets about what policy stance makes sense.

## **Geopolitical Shock**

The geopolitical axis registers moderate conditions with falling momentum, which seems counterintuitive given the ongoing supply disruption. But this reading captures something important: markets

have partially adapted to the current level of disruption, and the immediate escalation risk has stabilized rather than continuing to build. That doesn't mean the underlying problem is solved, just that it's not getting exponentially worse every day.

The moderate level reflects the real economic impact of the supply disruption on energy prices and transportation costs, while the falling momentum suggests markets aren't pricing in significant additional escalation from current levels. This is the difference between a crisis that's unfolding and a crisis that's reached a temporary equilibrium, even if that equilibrium is uncomfortable.

This axis would spike higher if the conflict expanded geographically, if additional supply routes were disrupted, or if diplomatic efforts collapsed entirely. It would fall toward normal if credible progress emerged on reopening supply routes or if alternative supply arrangements proved more effective than currently expected. The falling momentum suggests markets are betting on stabilization rather than escalation, though that bet could be wrong.

## Key Drivers

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### 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 carry the most weight in areas where you can see clear cause and effect: energy prices reflecting supply disruptions, headline inflation responding to those energy prices, and core inflation showing the tariff pass-through that Fed researchers predicted. These aren't mysterious correlations. They're direct mechanical relationships between policy changes, supply shocks, and price outcomes.

The disconfirming signals center on labor market softening that should, in theory, be creating disinflationary pressure to offset some of the supply-side price increases. Consumer sentiment remains weak, wage growth has decelerated, and employment growth has slowed. In a normal cycle, these would be powerful disinflationary forces. The fact that they're insufficient to flip the overall call tells you how significant the supply-side pressures really are. For these disconfirming signals to become decisive, you'd need the labor market to weaken much more dramatically, or you'd need the supply disruptions to resolve quickly. Neither looks likely in the near term.

## Week in Review

WEEK SUMMARY (VS 2026-06-04)

| REGIME          | PRIOR | CURRENT | Δ    |
|-----------------|-------|---------|------|
| Overheating     | 29.4% | 30.3%   | +0.9 |
| Inflation Shock | 25.2% | 24.8%   | -0.4 |
| Cooling         | 22.9% | 22.6%   | -0.3 |
| Soft Landing    | 20.6% | 20.0%   | -0.6 |
| Contraction     | 1.9%  | 2.3%    | +0.4 |

| AXIS      | PRIOR | CURRENT | Δ    | STATE    |
|-----------|-------|---------|------|----------|
| Growth    | 42.1  | 43.8    | +1.7 | slowing  |
| Inflation | 62.9  | 62.2    | -0.7 | firming  |
| Fin Cond  | 51.5  | 52.5    | +1.0 | neutral  |
| Geo Shock | 41.9  | 41.0    | -0.9 | moderate |

The biggest quantitative shift this week was the broad market divergence, with three major assets flipping from confirming to diverging the regime call. Treasury yields, equity prices, and credit spreads all moved against what you'd expect in a pure overheating environment. This happened primarily on Thursday, when the March CPI report showed the largest monthly gain since June 2022, pushing year-over-year inflation to its highest level since May 2024. Instead of confirming the overheating thesis, markets interpreted the data as evidence that the Fed faces an impossible choice between fighting inflation and supporting growth.

The regime probabilities themselves moved more modestly, with Overheating gaining ground while Soft Landing lost some probability. Inflation momentum shifted from rising to stable, and financial conditions momentum made the same shift, both reflecting the market's assessment that the current price pressures aren't accelerating but also aren't fading. The growth axis actually strengthened slightly, moving higher even as its state remained in slowing territory, suggesting the economy is decelerating less rapidly than it was a week ago.

What held steady despite the week's volatility was the core regime structure. The geopolitical shock axis continued its gradual decline, the growth axis maintained its slowing-but-stable pattern, and none of the regime probabilities moved dramatically. This stability during a week of significant news suggests the model's reading is fairly entrenched.

When major inflation surprises and market moves produce only modest probability shifts, it usually means the underlying economic forces are strong enough to absorb considerable noise without changing direction.

Next week's setup depends heavily on how markets interpret the policy response to this week's inflation data. The March PCE report, due Thursday, will show whether the CPI surge translates into the Fed's preferred inflation measure. If core PCE accelerates beyond expectations, the Inflation Shock probability likely reclaims ground from Overheating. If it shows more modest increases, the current regime structure probably holds. The bigger wild card remains energy markets, where any escalation in supply disruptions could reshape the entire probability landscape regardless of what the domestic data shows.

## Market Confirmation

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Markets are partially confirming the overheating call, but with enough divergence to keep you honest. The confirming assets are doing exactly what they should: tracking the regime expectations as economic momentum builds and inflation pressures persist. These moves aren't dramatic, but they're consistent, which is often more telling than sharp spikes that reverse quickly.

The diverging assets tell a more complex story, and it's not about the regime call being wrong. Dollar strength is crowding out what would otherwise be a stronger gold bid, even as both inflation concerns and geopolitical tensions argue for precious metals. Meanwhile, some rate-sensitive sectors are getting hit by positioning unwinds rather than fundamental regime forces. When you have a supply shock in energy markets and tariff pass-through happening simultaneously, you get cross-currents that prevent clean asset behavior. The underlying regime dynamics are intact, but they're competing with mechanical forces that have nothing to do with the economic cycle.

## Asset Playbook

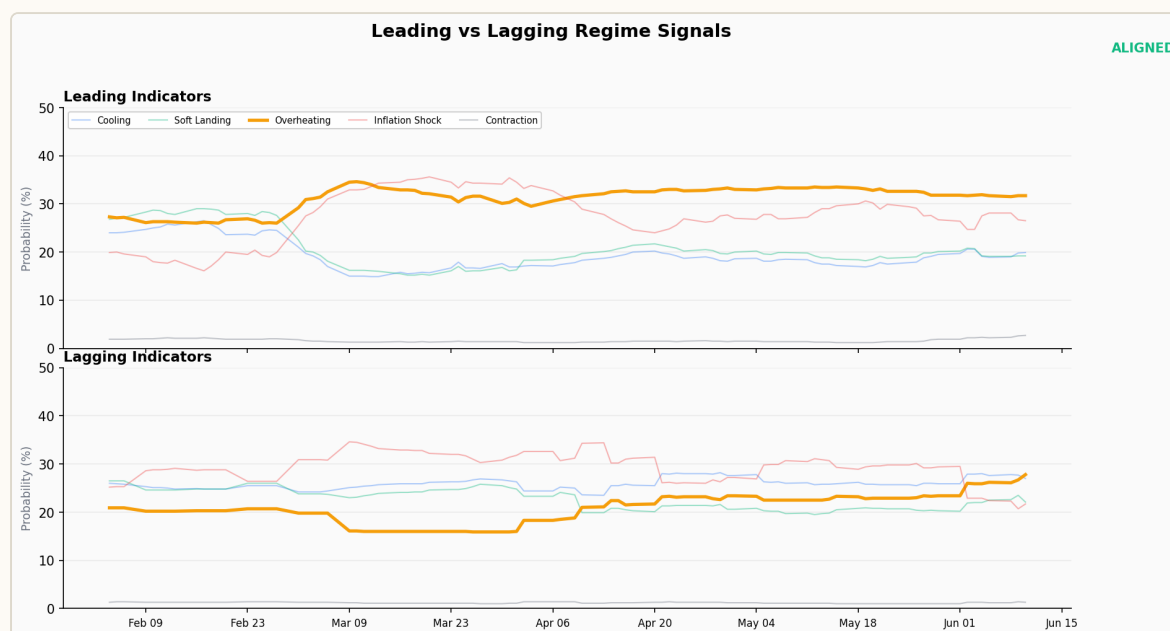
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| ASSET           | SIGNAL                            |
|-----------------|-----------------------------------|
| <b>Equities</b> | Cautious, late-cycle risk         |
| <b>Rates</b>    | Yields biased higher              |
| <b>Credit</b>   | Carry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

If you're running a standard portfolio, you're experiencing the full complexity of this environment. Your equity allocation is getting pulled in different directions as growth stocks face duration pressure while value benefits from the reflationary backdrop. Your bond allocation isn't providing the diversification it used to, and your cash is losing purchasing power faster than you're earning interest on it. The most surprising stance here is probably the nuanced view on credit, where the regime suggests caution even as spreads haven't blown out yet.

The positioning pain is real if you've been overweight the assets that are diverging from expectations. But remember, those divergences have mechanical explanations that don't invalidate the broader regime thesis. The dollar dynamics and forced liquidations creating the cross-currents now will eventually resolve, and when they do, you want to be positioned for the underlying economic reality, not the temporary market plumbing issues.

# Leading / Lagging Signal Alignment



The convergence between leading and lagging indicators sits in that middle zone where you have some agreement but not perfect lockstep. This is actually more informative than it might seem at first glance. When these layers converge completely, you're usually at the very beginning or very end of a regime cycle. When they diverge sharply, you're in transition chaos. This moderate alignment suggests you're in the mature phase of the current regime, where the economic forces are established but starting to show signs of evolution.

Historically, when leading and lagging indicators align at this level, the convergence tends to last several weeks before either tightening further or beginning to drift apart. The pattern suggests regime stability in the near term, but with enough forward-looking divergence to keep you watching for early transition signals. The leading layer is already picking up cross-currents that haven't fully shown up in the lagging data yet.

What you want to watch for is a sharp divergence in either direction. If the layers suddenly converge much more tightly, it means the regime is consolidating and could run longer than expected. If they start pulling apart rapidly, that's your early warning that a transition is building

momentum. Right now, you're getting neither extreme, which translates to: stay positioned for the current regime, but don't get complacent about regime shift risks.

## Empirical Asset Playbook

| ETF | THIS WEEK | HIST. RETURN (ANN.) | SHARPE | DAYS |
|-----|-----------|---------------------|--------|------|
| SPY | -2.6%     | +16.8%              | +1.16  | 842  |
| QQQ | -3.2%     | +26.9%              | +1.40  | 842  |
| IWM | -0.5%     | +4.5%               | +0.23  | 842  |
| IEF | +0.2%     | +2.2%               | +0.42  | 842  |
| TIP | -0.2%     | +4.7%               | +1.15  | 842  |
| LQD | +0.2%     | +3.5%               | +0.63  | 842  |
| HYG | +0.1%     | +5.2%               | +1.10  | 842  |
| GLD | -6.1%     | +13.2%              | +0.89  | 842  |
| XLE | -2.8%     | -4.3%               | -0.18  | 842  |
| VEA | -0.7%     | +6.5%               | +0.44  | 842  |
| VWO | -2.0%     | +11.9%              | +0.68  | 842  |

Historical returns measured over Overheating regime days in backtest.

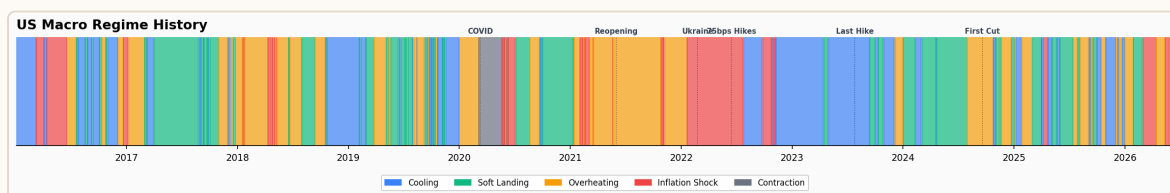
This week's performance shows you exactly why regime-based positioning matters, even when the results look messy in the short term. The week's biggest movers were split between assets that benefited from the supply shock dynamics and those that got caught in the positioning unwinds. What's striking is how much this week's returns diverged from what the regime historically delivers, which tells

you the mechanical forces are temporarily overwhelming the fundamental ones.

The historical return patterns reveal the longer-term opportunity, but they also highlight why this regime can be uncomfortable to live through. The assets that perform best during these periods tend to be volatile, and the correlations between different asset classes break down in ways that make traditional portfolio construction more difficult. This week's performance is a perfect example: you had energy-related assets surging while duration-sensitive growth stocks collapsed, creating a bifurcated market that doesn't fit neatly into any single narrative.

The usual caveats apply here with extra force. The sample sizes for regime-based backtests are inherently limited, and the current episode has structural differences from prior instances that make historical parallels imperfect. The tariff pass-through and supply chain disruptions happening now didn't exist in the same form during previous overheating periods, which means you should treat these historical returns as directional guidance rather than precise forecasts.

## 10-Year Regime History



The historical pattern shows overheating episodes clustering around periods of supply shock overlap with demand strength, though the current instance has some unique characteristics. The closest parallel is probably the period when energy disruptions coincided with fiscal expansion, creating the same kind of dual pressure on prices. Those episodes typically lasted longer than pure demand-driven overheating

because supply constraints take time to resolve, and policy tools are less effective against them.

What resolved previous overheating periods was usually some combination of supply normalization, demand destruction, or policy intervention that broke the inflation momentum. The challenge now is that two of those three mechanisms are compromised: supply normalization requires geopolitical solutions that aren't obvious, and policy intervention faces constraints because the unemployment rate is already elevated. That leaves demand destruction as the most likely resolution mechanism, which is a polite way of saying recession risk rises the longer this persists.

The structural differences matter more than the similarities. Previous episodes didn't have the same degree of supply chain fragility, the same level of government debt constraints, or the same geopolitical complexity around energy markets. Unlike the early episodes in the historical sample, today's overheating has no clear policy lever that can address the root causes without creating significant collateral damage elsewhere in the economy.

## Market Context

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Weekly ETF returns as of 2026-06-11 (vs 2026-06-04).

| TICKER | NAME           | PRIOR CLOSE | CURRENT CLOSE | WEEKLY RETURN |
|--------|----------------|-------------|---------------|---------------|
| IEF    | 7-10Y Treasury | \$94.12     | \$94.34       | +0.2%         |
| LQD    | IG Corporate   | \$108.85    | \$109.08      | +0.2%         |
| HYG    | HY Corporate   | \$79.83     | \$79.94       | +0.1%         |
| TIP    | TIPS           | \$109.78    | \$109.60      | -0.2%         |

| TICKER | NAME              | PRIOR CLOSE | CURRENT CLOSE | WEEKLY RETURN |
|--------|-------------------|-------------|---------------|---------------|
| IWM    | Russell 2000      | \$292.01    | \$290.41      | -0.5%         |
| VEA    | Developed Markets | \$71.84     | \$71.31       | -0.7%         |
| VWO    | Emerging Markets  | \$60.31     | \$59.10       | -2.0%         |
| SPY    | S&P 500           | \$757.09    | \$737.76      | -2.6%         |
| XLE    | Energy            | \$58.75     | \$57.12       | -2.8%         |
| QQQ    | Nasdaq 100        | \$740.61    | \$717.12      | -3.2%         |
| GLD    | Gold              | Range-bound | \$386.32      | -6.1%         |

## 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):** \$+16,800/yr on \$100K (historical Overheating regime returns)
- **This week:** \$-2,600 on \$100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure first and fastest. The jump at the pump happened before the March inflation data even hit, and it's going to keep climbing if the shipping disruption drags on. This isn't a temporary spike that reverses in a few weeks. It's a supply

shock that compounds until someone figures out how to reopen a critical shipping lane.

Your grocery bill is getting hit by the tariff pass-through that Fed researchers say is essentially complete. The price increases from trade policy are already baked into what you're paying at checkout. That damage is done, but it's also not getting worse from here unless new tariffs get layered on top.

Your paycheck is losing ground to prices in real terms, and that was happening before energy costs spiked. The gap between what you earn and what things cost is widening, which means either spending less or dipping into savings to maintain the same lifestyle. The credit card data will tell us which choice most people are making.

Your 401(k) got a boost from the equity rally, but that gain sits on top of an economy where consumers were already spending more than they earned. The portfolio bump feels good until you realize it's happening alongside the kind of inflation that makes everything else more expensive.

Your mortgage rate dropped slightly if you're shopping for a home loan, though the improvement is modest against the backdrop of borrowing costs that remain historically elevated. The housing market is still operating in a world where financing is expensive relative to what buyers got used to in recent years.

## Signal vs. Noise

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### Signal:

- March CPI posting the biggest monthly jump since June 2022 -
- Consumers spending more than they earned before gas prices spiked -
- Empty supertankers heading to the Gulf Coast while the Strait stays closed -
- Gold rallying alongside equities instead of moving opposite -

The commodity complex showing broad-based strength beyond just energy

**Noise:**

- Presidential endorsements that can't stop individual stocks from falling - Sector-specific tech selloffs while the broader market holds up - Long-term strategic allocation debates when the immediate focus should be navigating supply shocks - Diplomatic theater with very long fuses that won't resolve near-term economic pressures

The difference right now comes down to time horizon and scope. The signals are immediate, measurable, and affecting broad swaths of the economy. The noise involves either very specific situations or very long-term considerations that don't change what you need to worry about in the next few months. When supply chains are disrupted and consumers are already stretched, focus on the data that tells you how those pressures are evolving, not the commentary that tries to explain them away.

## What to Watch

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**April 15:** March PCE inflation report. This is the number the Fed actually targets, and early estimates suggest it's running hotter than the CPI data that already got your attention. If core services inflation accelerates for a second consecutive month, the "one-time shocks" thesis starts looking optimistic. **April 18:** Consumer credit report for February. You need to see whether the gap between spending and income is getting filled by credit cards or by drawing down savings. Either way is unsustainable, but credit card delinquencies show up faster than depleted savings accounts. **Weekly through April:** Oil timespreads and tanker tracking data. The flat price of crude can drop while the market structure still screams shortage. Watch the premium for near-term delivery versus future months, and track whether those empty supertankers actually deliver meaningful volumes or just

reshuffle existing barrels. **April 22:** First quarter GDP advance estimate. The economy was already showing signs of deceleration before the latest supply shocks hit. This report tells you how much cushion exists to absorb higher energy costs without tipping into contraction. **Any weekend:** Strait of Hormuz diplomatic developments or military escalation. The oil market is pricing in extended disruption but not complete closure. Any headline suggesting the situation is getting worse rather than better could gap crude higher on Monday morning.

## What Would Change My Mind

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The core thesis here is that inflation is driven by two identifiable supply shocks rather than demand overheating, and that the Fed's best move is patience while those shocks work through the system. That view flips if core services inflation, stripped of energy and tariff effects, accelerates for two consecutive months. At that point, the supply shocks are bleeding into broader price expectations, and what looked like temporary becomes persistent. The Fed would need to respond, and patience would become complacency.

On the oil front, I'm betting the physical market is tighter than the recent price drop suggests, with summer spike risk building even as near-term pressures ease slightly. That changes if you get either a credible diplomatic framework for reopening the Strait or Saudi Arabia announcing a meaningful production increase. Either development would break the structural shortage thesis and turn this into a shorter-term disruption that markets can trade around rather than a supply crisis that reshapes energy costs for months.

The regime call itself assumes this overheating environment has staying power despite the mixed signals from different parts of the economy. What changes that is if the leading indicators that are already showing more fragmentation start pulling the lagging data in their

direction. The model would pick up that shift in the convergence metrics before it shows up in the headline probabilities, but when it happens, it tends to happen faster than the gradual build that got us here.

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## **Personal Stakes**

WHY MARKETS MOVE · WHY IT MATTERS TO YOU

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