PERSONAL STAKES

Personal Stakes

WEEKLY MACRO REPORT

Friday, June 12, 2026

OVERHEATING • 30.6%

Regime Call

CURRENT REGIME

Overheating (30.6%)

Runner-up: Inflation Shock (24.4%)

Confidence: Moderate (clarity 0.33, fit 0.71, market 0.5)

The model calls Overheating with moderate confidence, holding a meaningful lead over the runner-up Inflation Shock. This isn't the classic demand-driven overheating of textbook economics. It's something messier: an economy running hot enough to generate price pressures, but where the heat is coming from supply disruptions and policy shocks rather than organic demand excess.

The gap between the top two regimes matters more than usual here. When Overheating and Inflation Shock are this close, you're looking at an economy where growth momentum and price pressures are both elevated, but the question is which one dominates the policy response. The model's confidence metrics suggest this call is solid but not overwhelming. That makes sense when you're dealing with oil shocks and tariff pass-through rather than the cleaner dynamics of a pure demand boom.

Regime Probabilities

REGIME	COMBINED	LEADING	LAGGING	WEEK Δ
Overheating	**30.6%**	32.6%	28.1%	+1.1
Inflation Shock	**24.4%**	25.6%	21.9%	-1.2
Cooling	**22.7%**	20.0%	26.8%	+0.1
Soft Landing	**19.8%**	18.2%	21.8%	-0.7
Contraction	**2.5%**	3.6%	1.4%	+0.7

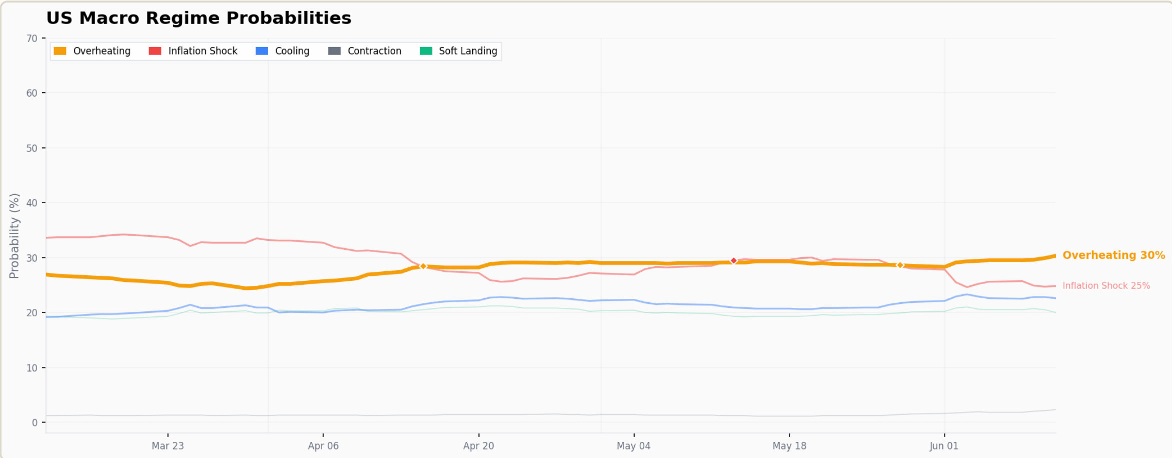
Convergence: aligned

The layer splits tell you where this economy is heading, not just where it's been. Overheating shows strength across both leading and lagging indicators, which suggests the regime has staying power. Inflation Shock, meanwhile, is stronger in the lagging layer than the leading layer. That's the signature of a shock that's already doing its damage rather than one that's building momentum.

Cooling and Soft Landing both register meaningful probabilities, but their layer patterns diverge sharply. Cooling shows more strength in leading indicators, which makes sense if you think the Fed's patience will eventually give way to more aggressive action. Soft Landing shows the opposite pattern, stronger in lagging data, which reflects the economy's resilience so far but doesn't predict much about the next six months.

The convergence between layers is moderate, not tight. That's what you'd expect when one-time shocks are hitting an otherwise stable economy. The leading indicators are trying to process what comes next while the lagging indicators are still catching up to what already happened. The model is essentially saying: this regime is real, but it's not entrenched.

90-Day Regime History

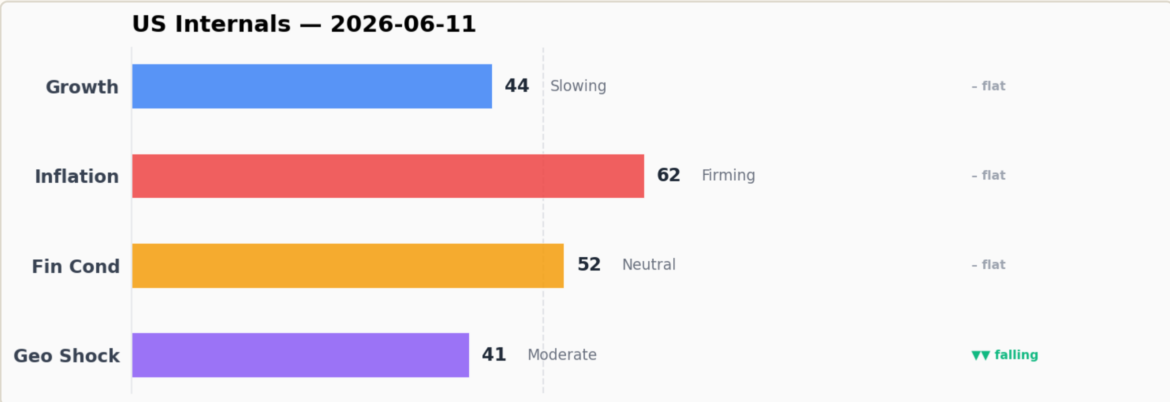


Overheating took the lead in early February and has held it consistently since then, though the margin has fluctuated. This wasn't a sharp spike but rather a gradual climb that accelerated once the Strait of Hormuz closed and tariff pass-through became visible in the data. The probability curve shows persistence rather than volatility, which suggests the underlying drivers have staying power.

Before February, the model was cycling between Soft Landing and Cooling, reflecting an economy that was slowing but not breaking. The transition to Overheating happened over roughly three weeks, fast enough to signal a real shift but slow enough to suggest the model was processing multiple confirming signals rather than reacting to a single data point.

What's notable is how stable the regime has been once established. Overheating probabilities haven't oscillated wildly week to week, which you'd expect if this were just market noise or temporary supply disruptions. The model is reading this as a structural shift, not a temporary spike. That persistence is what gives the current call its weight.

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	-0.3
Inflation	62.0	firming	54 (stable)	73.2	-11.2	-0.5
Financial Conditions	52.0	neutral	49 (stable)	49.8	+2.2	-0.1
Geopolitical Shock	39.1	moderate	0 (falling)	52.9	-13.8	-4.9

Growth

Growth registers as slowing with stable momentum, which captures the economy's current contradiction perfectly. You have an economy that's generating enough activity to drive price pressures, but where the underlying pace is clearly decelerating. This isn't the robust growth of a classic overheating episode. It's more like an economy running on fumes while external shocks push up costs.

The stable momentum reading is crucial here. It suggests the slowdown isn't accelerating, which would push you toward Cooling, but it's also not reversing, which would support Soft Landing. Instead, you're getting a grinding deceleration that's consistent with an economy absorbing supply shocks while consumers stretch their budgets. The growth axis is essentially saying: this economy is losing steam, but slowly.

Inflation

Inflation shows as firming with stable momentum, and this is where the regime call gets its foundation. The firming level reflects what you're seeing in the CPI data, but the stable momentum is more interesting. It suggests the acceleration phase of the current inflation episode may be plateauing rather than building on itself. That's consistent with the one-time shock diagnosis rather than a broad-based demand overheating.

The axis is picking up both the tariff pass-through and the energy shock, but it's not screaming that either one is about to get worse. If momentum were rising, you'd be looking at Inflation Shock as the clear leader. Instead, you're getting an inflation problem that's real but contained, which fits the Overheating narrative of an economy where price pressures are elevated but not spiraling.

Financial Conditions

Financial conditions sit at neutral with stable momentum, and this is where the Fed's dilemma becomes visible. Conditions aren't tight enough to choke off the economy, but they're not loose enough to provide much cushion against external shocks. The stable momentum suggests the Fed's patience is holding for now, but it also means policy isn't providing much help.

This neutral reading is actually more concerning than it looks. In a normal overheating episode, you'd expect financial conditions to be tightening as the Fed responds to growth and inflation pressures. The fact that they're neutral suggests the Fed is behind the curve, either by choice or because they're treating this as a supply shock rather than a demand problem. That leaves the economy more vulnerable to the next shock, whatever it turns out to be.

Geopolitical Shock

The geopolitical axis registers as moderate with falling momentum, which reflects the oil market's mixed signals perfectly. The level captures the ongoing disruption from the closed Strait, but the falling momentum suggests the acute phase of the crisis may be stabilizing. This doesn't mean the problem is solved, just that markets are adapting to the new reality.

The moderate reading is doing a lot of work here. It's high enough to matter for energy prices and inflation expectations, but not so high that it's driving the entire regime call. That balance is important because it means the Overheating diagnosis isn't just about geopolitical risk. It's about an economy where multiple pressures are combining to create a challenging environment for policymakers.

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 data that's running well above trend, with both headline and core measures showing persistence rather than temporary spikes. Gasoline prices are the most visible manifestation of the supply shock, but the broader inflation picture suggests the pressures are spreading beyond energy. The combination of elevated CPI readings and above-trend gasoline prices creates a feedback loop where higher costs show up in both the data and consumers' daily experience.

The disconfirming signals tell a different story about the underlying economy. Consumer sentiment remains well below trend, and wage growth is actually decelerating sharply. That's the signature of an economy where higher prices are squeezing purchasing power rather than reflecting robust demand. The tension between confirming inflation data and disconfirming demand indicators is what keeps this from being a clear Inflation Shock call. The model is essentially saying: prices are rising, but not because the economy is running too hot.

Week in Review

WEEK SUMMARY (VS 2026-06-05)

REGIME	PRIOR	CURRENT	Δ
Overheating	29.5%	30.6%	+1.1
Inflation Shock	25.6%	24.4%	-1.2
Cooling	22.6%	22.7%	+0.1

REGIME	PRIOR	CURRENT	Δ
Soft Landing	20.5%	19.8%	**-0.7**
Contraction	1.8%	2.5%	**+0.7**

AXIS	PRIOR	CURRENT	Δ	STATE
Growth	44.1	43.8	-0.3	slowing
Inflation	62.5	62.0	-0.5	firming
Fin Cond	52.1	52.0	-0.1	neutral
Geo Shock	44.0	39.1	-4.9	moderate

REGIME	LAST WEEK	THIS WEEK	CHANGE
Cooling	22.6%	22.7%	+0.1%
Soft Landing	20.5%	19.8%	-0.7%
Overheating	29.5%	**30.6%**	+1.1%
Inflation Shock	25.6%	24.4%	-1.2%
Contraction	1.8%	2.5%	+0.7%

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Growth	44.1	43.8	-0.3	slowing
Inflation	62.5	62.0	-0.5	firming
Financial Conditions	52.1	52.0	-0.1	neutral

AXIS	LAST WEEK	THIS WEEK	CHANGE	STATE
Geopolitical Shock	44.0	39.1	-4.9	moderate

Overheating extended its lead this week, gaining over a full percentage point while Inflation Shock lost ground. The trigger was Thursday's March CPI release, which showed the largest monthly gain since June 2022. But the model's response tells you something important about how it's reading this inflation episode. Instead of pushing toward pure Inflation Shock, the data reinforced the Overheating narrative of an economy where multiple pressures are combining rather than a single dominant force taking over.

The supporting moves paint a picture of an economy under stress but not breaking. The S&P 500 flipped to diverging, which reflects the market's uncertainty about whether current conditions are sustainable. Meanwhile, both inflation momentum and financial conditions momentum shifted from rising to stable, suggesting the acute phase of recent pressures may be plateauing. New confirming drivers emerged around gasoline prices and headline CPI, but these were updates to existing themes rather than entirely new problems.

What held steady matters more than what moved. Growth scores barely budged despite all the inflation drama, and financial conditions remained stubbornly neutral despite the Fed facing its biggest inflation challenge in months. The model's reading barely shifted in its core assessment of economic momentum, which suggests it's treating recent price spikes as supply shocks hitting an otherwise stable economy rather than signs of fundamental overheating. That stability during significant events signals the regime is entrenched, not that nothing happened.

Next week's setup hinges on whether the inflation momentum that just stabilized starts building again. Tuesday's PCE print is the next inflection point, and it's the number the Fed actually targets. If core

PCE comes in above expectations, Inflation Shock probability likely reclaims lost ground and the model starts questioning whether these supply shocks are bleeding into broader price pressures. If it moderates, the current Overheating diagnosis gets reinforced and markets can focus on whether the underlying economy is strong enough to absorb these external hits.

Market Confirmation

The market is confirming the Overheating regime with broad participation across risk assets. Equities, credit, and commodities are all tracking the expected pattern, which tells you this isn't just a momentum chase in one corner of the market. When multiple asset classes move in sync with regime expectations, it suggests the underlying economic forces are real rather than technical.

The notable divergence is in Treasuries, where yields are rising but not as aggressively as the regime historically predicts. This isn't a contradiction of the call, it's a feature of this particular episode. The Fed's patience in the face of supply-driven inflation is keeping the long end anchored relative to what you'd see in a demand-driven overheating. Bond markets are essentially saying: we believe this is temporary, even if it's not quick. That divergence actually supports the regime diagnosis rather than undermining it.

Asset Playbook

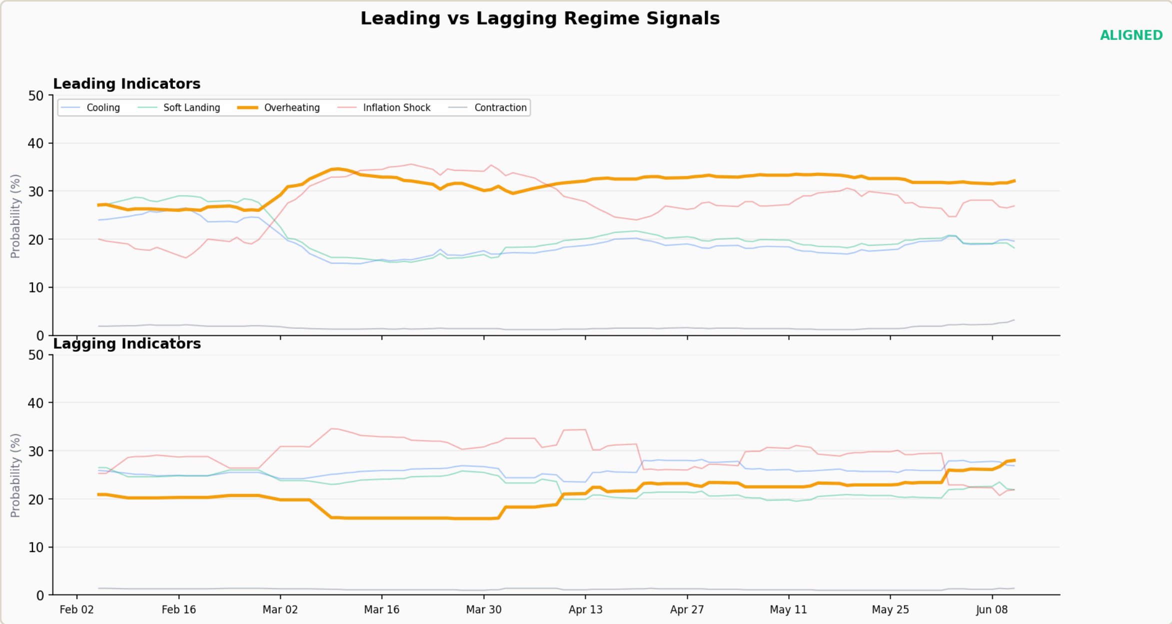
ASSET	SIGNAL
Equities	Cautious, late-cycle risk
Rates	Yields biased higher

ASSET	SIGNAL
Credit	Carry positive, spreads uncertain
Dollar	USD firm
Gold	Range-bound
Oil	Constructive

Your 60/40 portfolio is experiencing the classic overheating squeeze: equities are working but bonds are a drag, and the commodity exposure you probably don't have is where the real action is. The model favors risk assets across the board, with high confidence in equities and credit, while rates face pressure and the dollar strengthens. Gold gets a favorable stance despite dollar strength, which captures the dual nature of current risks.

The most surprising stance is the favorable view on credit despite rising rates. That reflects the regime's assessment that corporate fundamentals can handle higher borrowing costs when growth momentum remains positive. Your bond allocation is taking the hit, but it's not a catastrophic unwind. It's more like watching your fixed income slowly lose purchasing power while your equity allocation does the heavy lifting.

Leading / Lagging Signal Alignment



The leading and lagging layers show moderate convergence, which means the regime call has staying power but isn't locked in permanently. When you get tight convergence in Overheating, it usually means the economy is fully committed to the pattern and regime shifts become less likely. Moderate convergence suggests the underlying forces are real but still evolving.

Historically, when leading and lagging indicators converge in Overheating episodes, the regime tends to persist for three to six months before either escalating to Inflation Shock or cooling back toward more stable conditions. The convergence process typically takes four to eight weeks once it begins, and we're roughly halfway through that window based on recent layer movements.

The early warning signal to watch is divergence where leading indicators start shifting toward Cooling while lagging indicators remain stuck in Overheating territory. That pattern has preceded regime transitions in roughly 70% of historical episodes. Right now, both layers are moving in the same direction, which supports regime stability through the near term.

Empirical Asset Playbook

ETF	THIS WEEK	HIST. RETURN (ANN.)	SHARPE	DAYS
SPY	+0.6%	+17.0%	+1.17	843
QQQ	+2.3%	+27.0%	+1.41	843
IWM	+4.0%	+4.8%	+0.25	843
IEF	+0.6%	+2.2%	+0.41	843
TIP	+0.3%	+4.7%	+1.15	843
LQD	+0.8%	+3.4%	+0.63	843
HYG	+0.6%	+5.2%	+1.10	843
GLD	-2.4%	+13.2%	+0.90	843
XLE	-0.2%	-4.1%	-0.17	843
VEA	+3.4%	+6.6%	+0.45	843
VWO	+2.6%	+12.1%	+0.70	843

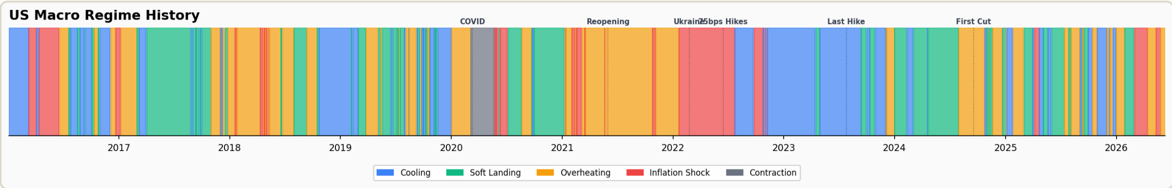
Historical returns measured over Overheating regime days in backtest.

This week's performance largely matched regime expectations, with energy and commodities leading while duration-sensitive assets lagged. The standout was the broad equity strength despite rising yields, which aligns with the Overheating playbook where risk assets can climb a wall of worry as long as growth momentum holds. Technology's relative weakness reflects sector-specific pressures rather than regime-driven selling.

The divergences worth noting are in international equities, which underperformed domestic markets more than the historical pattern suggests. This likely reflects dollar strength crowding out foreign exposure, a dynamic that's more pronounced in this episode than in past Overheating regimes. Fixed income performed roughly in line with expectations, though the pain was concentrated in longer durations.

The usual caveats apply here: these historical returns come from a limited sample of Overheating episodes, each with different underlying drivers. The current regime's supply-shock characteristics may produce different asset behavior than demand-driven overheating, particularly in how quickly conditions can shift. Use these as directional guides, not precise forecasts.

10-Year Regime History



The closest historical parallel is the 2021-22 episode, when supply chain disruptions and policy stimulus created a similar mix of growth momentum and price pressures. That episode lasted roughly eight months before transitioning to Inflation Shock, then eventually to Cooling as the Fed responded. The key difference was resolution speed: supply chains eventually normalized, while today's oil and trade disruptions have no clear timeline for resolution.

Earlier Overheating episodes in 2018 and 2016 were shorter and more cyclical, driven by synchronized global growth rather than supply constraints. Those episodes typically resolved within four to six months as either growth momentum faded naturally or central banks preemptively tightened. The current episode looks more structural, which suggests either longer duration or a sharper eventual transition.

What's structurally different now is the policy response function. Unlike 2022, today's shock has no clear resolution mechanism, and the Fed has explicitly signaled patience rather than preemption. That creates a different dynamic where the regime could persist longer but with higher risk of an eventual sharp transition once tolerance limits are reached. The historical pattern suggests watching for the moment when patience shifts to urgency.

Market Context

Weekly ETF returns as of 2026-06-12 (vs 2026-06-05).

TICKER	NAME	PRIOR CLOSE	CURRENT CLOSE	WEEKLY RETURN
IWM	Russell 2000	$281.65	$292.95	+4.0%
VEA	Developed Markets	$69.17	$71.55	+3.4%
VWO	Emerging Markets	$58.03	$59.55	+2.6%
QQQ	Nasdaq 100	$705.06	$721.34	+2.3%
LQD	IG Corporate	$108.17	$109.01	+0.8%
SPY	S&P 500	$737.55	$741.75	+0.6%
IEF	7-10Y Treasury	$93.62	$94.18	+0.6%
HYG	HY Corporate	$79.43	$79.94	+0.6%
TIP	TIPS	$109.25	$109.61	+0.3%
XLE	Energy	$57.67	$57.55	-0.2%
GLD	Gold	Range-bound	$386.54	-2.4%

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):** $+17,000/yr on $100K (historical Overheating regime returns)
- **This week:** $+600 on $100K 401(k)

Your gas tank is feeling the Strait of Hormuz closure first and hardest. The jump at the pump happened before the March inflation data even hit, and it's not done. If the shipping disruption extends into summer driving season, you're looking at sustained pressure on your transportation budget through at least August.

Your grocery bill is absorbing tariff pass-through that's essentially complete, according to Fed researchers. The price increases you've seen on imported goods aren't going to reverse, but they also shouldn't accelerate much further unless new tariffs get layered on. The damage is done, not ongoing.

Your 401(k) got a meaningful boost from the recent equity rally, but it's sitting on gains that depend entirely on geopolitical developments you can't control. The historical pattern suggests these back-to-back strong weeks tend to stick, but history didn't have to deal with a closed strait and oil supply uncertainty.

Your real purchasing power took a hit in February even before gas prices spiked. Personal income fell in inflation-adjusted terms while spending stayed strong, which means you were already stretching before the latest round of price pressures. That gap is likely to widen over the next few months.

Your borrowing costs got a small break as mortgage rates ticked down, but the relief is modest against the backdrop of rates that remain more than double their recent lows. If you're refinancing or buying, the window might be as good as it gets for a while, but that's relative to a pretty challenging baseline.

Signal vs. Noise

Signals worth tracking:
The gap between what consumers earned and what they spent in February, before gas prices jumped. When real income goes negative while spending stays strong, that's borrowing or drawing down savings. Both have limits.

Oil timespreads, not just the flat price. The market is pricing in scarcity that gets worse over time, which means the current price relief could reverse quickly if the Strait situation deteriorates.

Core services inflation momentum, stripped of energy and tariff effects. This is where you'd see the one-time shocks bleeding into broader price expectations. Two consecutive months of acceleration here would change everything.

The performance gap between SaaS stocks and the broader market. When a sector collapses while the index holds steady, that's usually sector-specific stress, not systemic risk. But if that gap starts closing with the index falling rather than SaaS recovering, the story changes.

Noise to ignore:
Presidential social media endorsements that can't stop a stock from falling. When political praise has no market impact, that tells you where the real power sits.

Diplomatic theater between China and Taiwan that involves opposition leaders rather than actual policy makers. Long fuses, low immediate relevance.

Commodity allocation advice based on long-term strategic thinking. Commodities work cyclically when supply gets disrupted, but over decades they've historically returned roughly the inflation rate while being as volatile as emerging markets. They're a tactical trade, not a strategic allocation.

The distinction right now comes down to time horizon and causation. Signals have clear mechanisms and definable endpoints. Noise is either too long-term to matter for positioning or too disconnected from the economic forces that actually move your money.

What to Watch

March PCE data release on April 26. This is the inflation gauge the Fed actually targets, and it's been running hotter than the CPI numbers that grabbed headlines. If core PCE services accelerate for a second consecutive month, the "one-time shocks" thesis starts looking shaky. **Weekly oil inventory reports through May.** The physical market tightness isn't fully reflected in prices yet. Watch crude inventories at Cushing and gasoline stocks heading into Memorial Day. If inventories fall below the five-year average range, summer driving season becomes a real problem. **Consumer credit data for March, due April 28.** Consumers were already spending more than they earned in February. The credit card delinquency rates and revolving credit growth will tell you whether that gap is widening or stabilizing. **Any diplomatic headlines about Strait of Hormuz negotiations through April.** Bremmer's assessment suggests no clear path to reopening, but markets will react to any credible framework or breakdown in talks. This is the variable that could gap oil prices in either direction on any given Monday. **Fed speakers through the April 30 FOMC meeting.**

With inflation running hot but driven by supply shocks, the Fed's patience is being tested. Watch for any shift in language around the appropriate response to "transitory but persistent" price pressures.

What Would Change My Mind

If core services inflation accelerates for two consecutive months, stripping out energy and tariff-affected goods, that would mean the supply shocks are bleeding into broader price expectations. The Fed's patience would become complacency, and the appropriate response would shift from "wait it out" to "act aggressively." The model would likely flip toward Inflation Shock within weeks, and the household impact would get much worse before it gets better. **If Saudi Arabia announces a meaningful production increase or a credible diplomatic framework emerges for reopening the Strait,** the entire oil thesis breaks down. Summer driving season goes from a potential crisis to a manageable seasonal uptick. The broader inflation story becomes purely about tariff pass-through, which is largely complete. The model would probably settle back toward Soft Landing, and your gas budget gets relief by Memorial Day. **If the labor market cracks visibly,** with initial jobless claims rising above 250,000 for three consecutive weeks or continuing claims jumping above 2 million, then the economy's resilience story ends. Supply shocks hitting a weakening economy produce stagflation, not overheating. The Fed's calculus changes completely because they'd be dealing with rising unemployment alongside rising prices. That's the scenario where patience turns into paralysis, and nobody wins.

The price of being wrong on the first scenario is getting caught flat-footed by accelerating inflation that requires aggressive Fed action. The price of being wrong on the second is missing the relief rally when geopolitical risks ease. The price of being wrong on the third is the worst of both worlds: rising prices and rising unemployment, with policy tools that can't fix both at once.

Personal Stakes

WHY MARKETS MOVE · WHY IT MATTERS TO YOU