Commerce Trust Market Brief with Scott Colbert
Economic and Market Conditions Entering 2026
Recorded January 5, 2026

Scott Colbert: Good morning. It's Monday, January 5th. Happy New Year, everybody. The markets are trending positive on the second trading day of the year. Broad asset class returns were very positive last year. Gold the big winner up about 65%. International stocks, both emerging market (as measured by the MSCI Emerging Market Index) and developed markets (as measured by the MSCI EAFE Index) up over 30%.

The S&P 500 (Index) did just fine, up nearly 17.8%*. By the way, that's the third consecutive double-digit return for the S&P 500. Smaller-cap (capitalization) stocks didn't do as well, but we're still up 12.8% (as measured by the Russell 2000 Index). The average stock in the S&P 500 did worse than all of these, up about 11% plus (as measured by the S&P 500 Equal Weight Index).

Bitcoin was the loser last year, down about 6.5% after having been up and up and up for quite a while. And the U.S. dollar declined 9.4%. And while you don't think of it as being a loser, oil, lower energy prices generally help the economy move forward. The average price of a barrel of oil was about 14.5% to 15% lower last year than it was in 2024.

Those broad positive returns, though, do mask a lot of volatility and concentration here in the United States. The S&P 500 fell 15.3% from its open to the Trump trading tariff day and then rebounded another 37.4% to close out the year, up 17.8%. Quite a ride for the S&P 500.

Other than volatility, of course, the S&P 500’s returns were generally concentrated in the AI (artificial intelligence) sector. The top ten stocks now in the S&P 500 make up 40% of its market cap, 75% of the S&P 500 return last year was somewhat driven by AI-related stocks, 80% of the earnings growth in the S&P 500 was AI-related, and 90% of the growth in U.S. capital spending was AI-related. Bottom line is those Mag Seven stocks (Magnificent Seven) that we all like to talk about generated 43% of the S&P 500’s return last year.

Fixed income returns were also broadly positive as interest rates declined a bit last year. U.S. high yield was the big winner (as measured by the Bloomberg U.S. Corporate High Yield Index), as credit spreads are now at basically record lows, returning 8.6% last year. The broad aggregate market, as measured by the Bloomberg Aggregate (Bond Index), that's the investment grade market, returned 7.3%. TIPS, Treasury Inflation-Protected Securities, returns 6.9% (as measured by the Bloomberg U.S. Treasury Inflation-Protected Securities Index) with inflation ticking up just a little bit last year. Municipal bonds are in 4.3% (as measured by the Bloomberg Municipal Bond Index), about the same as cash, but recall that municipal bonds are tax-free.

And these returns, of course, were helped along by the drop in interest rates. You can see that the 2-Year Treasury fell about 75 basis points last year. And the 10-Year Treasury basically was down about 40 basis points on a year-to-date basis, adding some capital appreciation to the income results.

And helping the markets along, of course, was our Federal Reserve. Recall that in 2024, they embarked upon a rate-cutting strategy where they dropped rates about 1% back in 2024. And there were three rate cuts late in the year last year, driving short-term cash rates down to about 3.75% across the country.

What about this year? Well, last year's growth was about 2% as measured by real GDP (gross domestic product). We still don't have the final statistics, but we think growth can probably accelerate a little bit, particularly given the tax cuts that are going to generate and pull a little positive growth forward in the first half of the year.

We do think inflation continues to trend down ever so slightly. Inflation began the year at about a 3.2% pace. It ended the year on a rather quirky 2.6% number, given the government shutdown, and we think that inflation can probably fall to about 2.5% by the end of next year.

Unemployment, of course, trended up a bit. It was 4.1% two years ago, 4.6% as we sit here today, and we think it probably continues to grow a little bit, maybe 4.8% by the end of 2026. Underemployment also has increased. Note its big jump from 2024 to 2025. And we think underemployment, which includes all those folks working part-time, that want to work full-time, is likely to rise to something close to 9% this year.

Average job growth, of course, has come down, down, down. Two years ago, average job growth was about 111,000 jobs per month. Last year was about half of that. We expect to get back to that growth rate, but I would note the last three-month growth rate for employment is only 22,000 jobs per month, ending the year this year.

The budget deficit also is trending down a little bit, and we expect that to continue as growth and tax revenues are actually outpacing government expenditures. The 10-Year Treasury is likely to decline a little bit. Note that it fell 40 basis points last year. We expect that to hover around 4% for most of this year.

And we do expect rate cuts. They're probably back-end loaded. But we think the Fed will embark again upon a rate-cutting strategy, particularly as inflation cools late in the year, probably driving rates down about 50 basis points with two cuts somewhere over the back half of the year.

Most of you would like to know what our equity forecast is. Note that we've had three consecutive double-digit years of returns. We're expecting our equity team thinks that we can still have positive returns again for the fourth year, probably in the high single digits, but not likely to reach that double-digit pace that we've had.

In fact, when you look back in history, note that if you've ever had two years where you've had over 20% return, by the time you get to the fourth year, about four out of nine times it's been negative, but it has been a positive average return of 8%. And it gets even a little trickier when you look at three consecutive positive years. We have had three consecutive positive years. This has only occurred nine times before. This will be the tenth. Four out of those previous nine times, you did have a negative S&P 500 return. But the average return for the fourth year was again 7.7%. So, we do think that it's quite possible that you can get high single-digit returns out of a very expensive S&P 500.

Finally, our biggest fear as we enter the year is that we don't get a rebound in job growth. Recall that I just mentioned that the three-month moving average for job growth is down to 22,000 jobs per month, but this did include the large loss of government jobs during the DOGE (Department of Government Efficiency) effect that occurred in October.

We're going to get a new jobs report here shortly, and we hope to get back on that positive growth track. But you can see that every recession generally starts with a loss of employment. That's why it's so important that employment begins to rebound. And we do think it rebounds as the loss of immigration doesn't repeat itself. And we doubt that we're likely to lose another 300,000 government jobs this year as we did last.

Well, that's an awful lot of financial market news to digest, particularly our forecast for this year. But we'll keep you up to speed on all the news this year as it impacts the financial markets. And be back in several weeks to talk to you again.

*Correction: As of December 31, 2025, the S&P 500 Index was up 17.9% for the 2025 calendar year.

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