

Commerce Trust Market Brief with Scott Colbert

May 9, 2025 – Market Volatility and the Probability of a Recession

Scott Colbert: Good morning. It's Friday, May 9th, and the markets are just about to open. So far this year, of course, we've witnessed a very bouncy stock market as driven by the probability of a U.S. recession and, of course, the digestion of all the tariff news.

Large-cap (capitalization) stocks, as measured by the S&P 500 (Index), are down about 3.3% (year-to-date). And as you go down in capitalization, it only gets worse. Mid-cap stocks (as measured by the S&P 400 Midcap Index) are down about 5%, and small-cap stocks as measured by the Russell 2000 (Index), are down about 9%.

The dollar, though, has declined this year. And that's helped buoy international returns, which of course lagged U.S. stocks now for a number of years. International large-cap stocks are up more than 12% (as measured by the MSCI EAFE Index), and the emerging markets (as measured by the MSCI Emerging Market Index) are up something close to 6+% so far, with even China showing positive returns.

Fixed income has helped you if you've been on the taxable side. So, investment-grade corporate bonds and Treasury bonds have added positive performance, up about 2% (as measured by the Bloomberg U.S. Aggregate Bond Index). But municipals have lagged the taxable market because of worries about losing their tax-exempt status. Municipal bonds are still down a somewhat surprising 80 basis points (as measured by the Bloomberg Municipal Index) on a year-to-date basis.

We can see how bouncy the stock market has been so far this year. It started out the year in positive fashion, peaking in mid-February, up about 4.5% (as measured by the S&P 500 Index). Then, when all the worries of the tariffs began to brew, and in particular when they announced the reciprocal tariffs in early April, stock prices fell almost 20% from their peaks.

Since then, as the market has digested all the tariff news, the reciprocal tariffs have been postponed. And just recently, we've had some modest agreement with the United Kingdom on a framework for tariffs. The market has bounced back considerably and now is only down 3.84% year to date. We can see also that the market is tracking the implied probability of a recession. There was a modest probability to start the year, but it began to increase considerably in March when the president (President Trump) announced tariffs on Canada, Mexico, and China.

It reached a crescendo when the president announced his reciprocal tariffs, but it has since backed off to about a one-in-two probability, almost a coin flip, as we've had what, a reasonable jobs report in



Commerce Trust
Banking | Investments | Planning™

commercetrustcompany.com

Investment Products: Not FDIC Insured | May Lose Value | No Bank Guarantee
Commerce Trust is a division of Commerce Bank.

Commerce Trust Market Brief with Scott Colbert

May 9, 2025 – Market Volatility and the Probability of a Recession

April. And then, secondly, an outline for tariffs with regard to the United Kingdom that people are extrapolating for other countries.

And of course, with this bounciness in the stock market, we have seen a rotation away from those Magnificent Seven (mega-cap tech stocks). Since the market really thought that the Federal Reserve would be reducing rates way back in July (2024), we've now seen the average stock continue to outperform the S&P 500 by just a bit.

And importantly, we've seen a change in sector outperformance. We can see that the defensive sectors, particularly utilities and consumer staples, are winning this year. Whereas the big losers are what, information technology and consumer discretionary spending, think Mag (Magnificent) Seven. Besides the stock market, of course, there's a lot of other things going on. The U.S. dollar, as we mentioned, has declined materially, down almost 10% from peak to trough year to date, improving just recently as the stock market improved. But the U.S. dollar is still down 7.5% on a year-to-date basis. This is what's really helped boost those international returns.

And of course, as the dollar has weakened, we've seen a tremendous amount of volatility in the U.S. Treasury market. The biggest surprise, of course, was when rates spiked after the huge announcements of the tariffs on April 2nd, only to recover and rebound. So far this year, we've seen 10-Year (U.S.) Treasury Notes peak at almost 4.8% early in the year. They fell to almost 4% and are about 4 and 3/8 percent as we sit here today.

And while the stock market has been volatile and the dollar has bounced around, credit spreads have also followed a similar path. And the average S&P 500 company has a credit of about A- to BBB+. We've noticed a widening of credit spread too, as the year has gone on. It started out that credit spreads were about 1% over Treasuries. They increased to nearly one and a half. And they, too, have rebounded a little bit with the stock market recovery, down to about 1.25% over a similar duration to Treasury bonds.

So, what do we make of all this? Number one, the rebound in the stock market seems to suggest that the probability of recession has declined materially. I do think the stock market is digested and discounting some awfully good news yet regarding tariffs. And of course, we do have talks with China coming up.



Commerce Trust
Banking | Investments | Planning™

commercetrustcompany.com

Investment Products: Not FDIC Insured | May Lose Value | No Bank Guarantee
Commerce Trust is a division of Commerce Bank.

Commerce Trust Market Brief with Scott Colbert

May 9, 2025 – Market Volatility and the Probability of a Recession

We do have a framework now potentially for further tariff negotiations. But we still have to work through a tax reconciliation package where the big focus is going to be on the SALT (State and Local Tax) tax deductions, potential cuts to Medicaid. And the President has even floated a possible tax on millionaires, I believe possibly to let the Republicans know that if they don't want to cooperate and push his tax package through, there might be a way to do it with the Democrats.

Well, there's obviously a lot of news to digest, and we'll be back in several weeks to discuss how it's impacting your investment portfolios.



Commerce Trust
Banking | Investments | Planning™

commercetrustcompany.com

Investment Products: Not FDIC Insured | May Lose Value | No Bank Guarantee
Commerce Trust is a division of Commerce Bank.

Commerce Trust Market Brief with Scott Colbert

May 9, 2025 – Market Volatility and the Probability of a Recession

Important material disclosures regarding the content of this program follow. Commerce Trust is a division of Commerce Bank. Generally, non-depository investments offered in connection with Commerce Trust and its affiliates are not guaranteed, are not FDIC insured, and may lose value. Opinions and other information provided are effective as of the date of the recording and presented for the purpose of general education, information, or illustration only.

This material provided should not be construed as a recommendation to buy, hold, or sell securities or as advice relating to the profitability of any investment product, strategy, or plan. You, as the investor, are fully responsible for any investment transaction you choose to enter into, including determining whether such investment is appropriate in light of your investment objectives and personal circumstance, and you shall not have relied on the preceding information from Commerce as the basis for any investment decision.

This material is not intended to replace the advice of a qualified attorney, tax advisor, or investment professional. In considering whether to trade or invest, you should inform yourself and be aware of the risks. Past performance is no guarantee of future results, and the information in the commentary provided is subject to change based on market or other conditions.

Diversification does not guarantee a profit or protect against all risk.

Commerce Trust does not offer tax, legal, or specific estate planning advice. And while we may provide information or express general opinions from time to time, such information or opinions are not offered as professional tax or legal advice. Commerce Trust does not provide advice relating to rolling over retirement accounts. Commerce Trust is not a Municipal Advisor under Section 15B of the Securities Exchange Act and does not offer advice or recommendations concerning bond proceeds or other municipal advice subject to this section.

Any data contained herein from third-party providers is obtained from what we considered reliable sources. However, its accuracy, completeness, or reliability cannot be guaranteed. This material may not be reproduced or referred to in any publication, in whole or in part, or in any form or manner, without the express written consent of Commerce Trust. Any unauthorized use is prohibited.

May 9, 2025

Commerce Trust is a division of Commerce Bank.



Commerce Trust
Banking | Investments | Planning™

commercetrustcompany.com

Investment Products: Not FDIC Insured | May Lose Value | No Bank Guarantee
Commerce Trust is a division of Commerce Bank.