Commerce Trust Market Brief with Scott Colbert

Economic Momentum Tempers Recession Concerns

June 23, 2025

Scott Colbert: Good morning. It's Monday, June 23rd, and the markets are just now opening and they're opening in slightly positive territory. So far this year, the market has eked out a bit of a positive return, with the S&P 500 (Index) generating a positive 2.12% so far year-to-date, despite last week's modest drop going into this weekend's big worries about Iran. Small cap (capitalization) stocks continue on in negative territory but are making some modest positive improvement, only down about 4% or 5% as measured by the Russell 2000 (Index).

International stocks have been the big winner. The EAFE (MSCI EAFE Index), a measure of large cap international stocks, is up 15.81% so far year-to-date, pushed along by that (U.S.) dollar depreciation and perhaps some deficit spending coming from the EU (European Union). Emerging market stocks have also continued to make forward progress up more than 12%, as measured by the Morgan Stanley Emerging Market Index (MSCI Emerging Markets Index).

Bonds have been winners in general, with the taxable market up 2.95% as measured by the Bloomberg Aggregate (Index), the broadest measure of the taxable bond market. And even municipal bonds are clawing their way back to even (as measured by the Bloomberg Municipal Bond Index). Note that the municipal market has been pressured by the worries about the tax bill (One Big Beautiful Bill Act) reducing some of the tax-exempt status of state and local government bonds.

Of course, this is Monday morning now, and I mentioned that the markets are opening in positive fashion. This is despite U.S. military intervention over the weekend with regards to the Iranian nuclear production and those facilities. Why is it that the markets are taking this in such a nonplussed fashion?

Well, first off, probably it's that Iran largely stands alone. Their big helpers, if you will, are Russia, who's involved in their own shooting war (Ukraine-Russia war), and China, who very much wants them to continue production of oil because they purchase almost all of it on the on the foreign markets. The key focus of the world is probably on the Straits of Hormuz. And so far, we haven't seen much impact there.

It's pretty recognizable that Iran has a very limited ability to strike back, particularly given the what happened over the weekend and limited shots being fired. And then finally, in the back of everybody's mind is the fact that OPEC (Organization of the Petroleum Exporting Countries) has a tremendous amount of excess capacity or excess production capacity that they could bring on market to the extent that we lose any Iranian production at all.

So let's take a look at some key energy statistics. First off, let's take a look at the price of a WTI barrel of oil. WTI stands for West Texas Intermediate, and it's the price that people pay down in Cushing Oklahoma for a barrel of oil. Last year, in 2024, oil prices averaged $75 to $76 a barrel. So far this year, in 2025, oil prices have actually only averaged $67 to $68 a barrel as the economy has cooled and as OPEC continues to produce oil.

So we have seen energy prices spike recently, and they were about $75 a barrel as we entered the weekend. But today, post the Iranian strikes over the weekend, oil is trading at about $71 a barrel, down $4 from its recent run up. How could that be?

The number one reason is the Straits of Hormuz are still open to traffic. You can see here that average traffic is still about what it's been basically all year long. And while it moved up a little bit earlier in the year and has moved down recently, as far as we know right now, there's no constraint on capacity to move oil through the Straits of Hormuz. You've probably heard, of course, that about 19% of all liquid natural gas moves through the strait and about 12% of global oil production. And quite a bit, of course, of OPEC production moves down the strait.

The second reason is that the rest of OPEC has quite a bit of excess production capacity. Now Iran only produces, and I say only produces, about 3.3 to 3.4 million barrels per day of oil. And this is relative to the world that consumes about 100 million barrels of oil per day. But when you look at OPEC and its excess capacity, there is approximately 6 to 7 million excess barrels of production that OPEC itself could produce even if Iran was to totally go offline. This provides the market a considerable cushion about daily supply.

Third, and we don't think about this a lot, but the U.S. is fairly energy independent. And while the rig count in the United States has been coming down, primarily because energy prices have been so low, we have the ability to bring our rig count up. Recently, you can see that our rig count has declined here, and we have the immediate ability at $75 a barrel to bring that capacity back online.

Now, with all this focus on energy, we almost forgot that the Federal Reserve met last week. And the Federal Reserve basically didn't change interest rates. Nobody was expecting them to. The biggest reason is the impact or the recent impacts to the tariffs, with regard to the CPI (Consumer Price Index). We have projected that short-term inflation might continue to rise as the year progresses, moving from today’s 2.8% rate to something around 3.6% to 4% by the end of the year. Before then, it would begin to roll over and absorb the one-time inflationary impact of the tariffs.

This appears to be an overly assertive estimate. So far, per a recent report by Goldman Sachs, is that only four basis points of the tariffs have filtered through to the CPI, as basically importers and corporate America absorbs most of the price increase in terms of their margin. And the consumers are absorbing much less of a direct blow.

If we had to revise our estimates, we would take our estimates down as to the ultimate impact of tariffs. And of course, to the extent the tariffs are not impacting the economy as much as people are focused on, then that also increases the probability that the economy continues to make forward progress. And it certainly reduces the odds of a recession.

And finally, we would note as an expression of this ongoing, likely positive economic momentum, while we had this huge run up in container traffic, cargo ships from China to the United States to beat the tariff. And we had a collapse in the second quarter, which will probably actually boost growth. We've seen a recent rebound now that the tariffs have come down to more reasonable numbers.

In fact, shelves are being restocked. Christmas doesn't look so bad. The GDP (gross domestic product) now forecast produced by the Atlanta Fed (Federal Reserve Bank of Atlanta) is about 3.5% for the second quarter, making up almost entirely for the near 0% growth in the first quarter. And it certainly looks like recession fears are largely being put aside and moved off the table.

So certainly, with this weekend's activity and all the recent gyrations in the market, there's a lot to absorb. And we'll be back in several weeks to discuss how it's all impacting your portfolios.

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