

Commerce Trust Market Brief with Scott Colbert

Economic Resilience Despite Government Shutdown

Recorded October 6, 2025

Scott Colbert: Good morning. It's Monday, October 6th. The federal government is shut down, but the stock markets are open. We continue to see very broad positive market returns. The S&P 500 (Index) so far this year up 15.3%. Small-cap (capitalization) stocks are catching up. They're up 12.19% (as measured by the Russell 2000 Index). That's about the most narrow spread we've seen between the large-cap and the small-cap markets all year. The average stock in the S&P 500 (as measured by the S&P 500 Equal Weight Index) still up about 10% to 11%, which indicates that the market is still being driven at the top end by those huge technology-related companies.

International stocks, though, are the huge winners this year. International large-cap stocks, as measured by the (MSCI) EAFE Index, are up over 27%. And the emerging markets have largely trailed those larger stocks, but they've now swung ahead. They're up 30% (as measured by the MSCI Emerging Market Index), driven most recently by all the tech stocks in the Chinese stock market.

Fixed income is having a positive year, too. Interest rates have come down this year. The 10-year Treasury is about 40 basis points lower, and the short end is even less than that because the Federal Reserve has already cut interest rates now by 25 basis points. The total return of the Bloomberg Aggregate (Index), the most broad measure of the fixed income market, is up 6.39%. And munis (municipal bonds) are positive now too (as measured by the Bloomberg Municipal Index), up a solid 2.86% tax-free year-to-date.

There are four key drivers to these excess international returns. Number one is probably valuation. Of course, the U.S. market has basically won for about 12 out of the last 14 years versus most international stocks, so international stocks on a relative basis were much less expensive. Number two, of course, we've seen this decline in the U.S. dollar of about 10%, which makes all the international assets worth about 10% more in dollar terms. Number three, we've seen a bit of deficit spending over in Europe, sparked largely in the defense space to help the Ukraine situation.

Finally, the emerging market indexes have surged, largely driven by the technology exposure to the Chinese stock market. Companies like Alibaba (Alibaba Group Holding Limited), Baidu (Baidu, Inc.), and Tencent (Tencent Holdings, Ltd.) have moved up considerably in sympathy with our U.S. tech rally.

Of course, year-to-date in the United States, the sector returns (in the S&P 500 Index) are still the best in the information technology and communication services sector(s). (Both) up more than 23% year-to-date, where we find most of those large-cap U.S. stocks.

The good news here, though, is the market returns have been relatively broad with every sector of the market participating, including health care, which had been negative for most of the year, now up 6.7% on a year-to-date basis.



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Still, at the top end of the market, driving everything is an AI (artificial intelligence) surge. How big has the AI spend been so far? Well, Morgan Stanley estimates over the next two years that the top five producers or users of artificial intelligence in this country are likely to spend over \$700 billion cumulatively. That's about the equivalent of what we spend annually on the maintenance and investment in all of the roads, bridges, and transportation infrastructure in the country. So, AI spend now is the equivalent, effectively, of what we're putting into our domestic transportation infrastructure.

So, while stock market returns have been spectacular this year and interest rates have been very well behaved, the market is largely ignoring a government shutdown that is now five-plus days in the making. This is probably because historical shutdowns haven't impacted the economy very much at all.

Over the last 50 years, we've had 20 shutdowns. That's a shutdown about once every two and a half years. The average shutdown, historically, has lasted eight days, but this is somewhat distorted by a number of short-term one-, two-, or three-day shutdowns that occurred under the Reagan administration. More recently, over the last 30 years, there's only been five shutdowns, so that's just one shutdown for every six years. But the average duration of the shutdowns has increased to something closer to 16 or 17 days.

And most of you probably still remember the last government shutdown. This was the fight over the border walls being built by the Trump administration. That last shutdown lasted for 34 days.

The markets, of course, are largely ignoring this shutdown so far, but that's probably because it's only five to five and a half days old. To the extent that the shutdown lasts, I think markets are going to be more focused on it as time accrues. The betting markets, if you will, as measured by polymarket.com, don't expect the shutdown to end anytime soon.

Less than 4% of those folks out there that are wagering on this think the shutdown will last just another five days or so. Most people think the shutdown in total will last between 10 and 30 days, but there is a significant portion of folks out there who are willing to bet that the shutdown will last over 30 days.

I will say it feels like both parties, the Democrats and the Republicans, have a pretty entrenched position here. And so if I was a betting person, I might lean a little bit towards longer rather than a quicker resolve to this shutdown.



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And of course, while the government is shut down, we're not getting any government data at all. One key piece of information that we missed was last Friday's jobs report. Recall that job growth has been slowing materially and has fallen to about 29,000 jobs per month. On top of missing last week's jobs report, earlier jobs report by private industry, the ADP private payroll report, had suggested that jobs actually declined in the month of September. So it'll be interesting to see how the market digests news once the government reopens and you begin to get all this latent data.

Finally, of course, we've got a Federal Reserve meeting that's going to occur whether or not the government is shut down or not on October 29th. There, the markets expect the Federal Reserve to continue along their interest rate cutting path with almost near certainty that there's a 25-basis point rate cut coming in October.

The markets are equally certain between December and January that there's a third rate cut coming after the first one in September. And then next year, they expect to see at least one additional and perhaps two rate cuts as the year progresses. So effectively, this is the Federal Reserve lowering rates by about 125 basis points from just where they were in September.

The markets, of course, [have] picked up on this and expect similar outcomes. And this is definitely one reason why the stock market has maintained its positive forward path. Well, that's quite a bit to digest, and we'll be back in several weeks to keep you up on all the news that's impacting the financial markets.

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