

## Commerce Trust Market Brief with Scott Colbert

### Four Major Themes So Far This Year in the Markets

Recorded February 17, 2026

**Scott Colbert:** Good morning. It's Tuesday, February 17th, and the markets are open and trending higher. There have been four major themes so far this year in the markets.

Number one is focused on AI (artificial intelligence) and AI volatility. Number two, we've seen a rebound in payrolls, which is a positive sign for the economy. Number three is we've seen a benign CPI (Consumer Price Index) print so far this year, which is good for inflation. And finally, we have a choppy market, but our outlook is one that we're likely to still see positive returns, not a market that drops.

As you can see with the return so far this year, the S&P 500 (Index) is basically flat. But when you go down in capitalization, the average stock is up 5.95% (as measured by the S&P 500 Equal Weight Index), mid-cap (capitalization) stocks up 7.92% (as measured by the S&P 400 Midcap Index), and the small-cap stock market, as measured by the Russell 2000 (Index), up 6.77%. You can see the breadth of the market increasing largely at the expense of those mega-cap seven (Magnificent Seven stocks).

The international markets continue along with a very, very positive result, spurred a bit by the falling (U.S.) dollar. The dollar is down 1.25%, but you can see better than 7% gains, whether you're looking at large-cap developed markets (as measured by the MSCI EAFE Index) or the emerging markets (as measured by the MSCI Emerging Market Index). And fixed income markets are also positive (as measured by the Bloomberg Aggregate Index and Bloomberg Municipal Index), as we've seen interest rates decline ever so slightly this year.

In terms of the large rotation, we can see that, over the last three years, of course, those mega-cap seven stocks have been driving the results. Just last year alone, the mega-cap seven was up 22.96%, and the rest of the S&P 500 was only up 15.31%. This year, however, it's been a reversal where we can see that the mega-cap seven, in fact, all seven stocks now are negative on a year-to-date basis, whereas the rest of the market, the 493 remaining stocks in the S&P 500, are up about 3% to 4%.

In terms of the economy, we've seen a positive rebound in job growth in the month of January. Note how we've seen job growth slow down in 2024, and a rather remarkable negative growth in the fourth quarter of 2025. In fact, average job growth last year was only 15,000 jobs per month. But fortunately, we've seen a strong rebound in January, 130,000 jobs created in January. A rebound almost to the averages that we saw at the end of 2024. Now, nobody knows exactly what job growth is going to be this year, but we are expecting to see some acceleration in economic activity. And along with that, some improvement in employment as the year progresses.



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And not only were payrolls positive, but inflation also was exceptionally mild for the month of January. So far, inflation has fallen to 2.5% year-over-year, as measured by the CPI. And on a core basis, when we X out food and energy, it's only 2.4%. We certainly believe that these lower inflationary statistics are likely to afford the Fed (Federal Reserve) the opportunity to cut rates as the year progresses.

We're still projecting two interest rate cuts (in 2026). One about mid-year and then one towards the end of the year. Keeping along with the theme where the Fed cut rates 1% in 2024, 75 basis points in 2025, and 50 basis points possibly here in 2026, as they push monetary policy to what we think is a longer-term neutral stance.

And of course, as the market adjusts to the outlook where the Fed is likely to lower rates as the year progresses, we've seen the entire yield curve come down a bit. The 2-year Treasury now is eight basis points lower, or about a 10th of a percent lower than where it started the year. And the 10-year Treasury has drifted down even a touch more. Maybe perhaps 13 basis points so far on a year-to-date basis. The market focuses on the 10-year Treasury so much, because it's the part of the yield curve that typically drives mortgage interest rates.

So, we've seen the market rebound in terms of payrolls, a fairly benign inflation report, and a broadening out of the stock market. That doesn't mean, though, we won't escape quite a bit of volatility this year. Recognizing that going into the year with relatively high valuations, you can certainly expect quite a bit of bounciness in the S&P 500.

Typically, in a year, you get three 5% drops as the year progresses. And historically, when valuations are this high, it's almost a certainty that we'll at least have a 5% drawdown somewhere along the year. But the odds of an even bigger drawdown are higher this year than most years, because we enter the year with such high valuation levels.

Offsetting the worries about stock market volatility are the likelihood that we'll still end up with the market positive by the end of the year. This is driven by four major themes. Number one is growing profitability. We see that the S&P 500 profits last year grew about 15%, and the projections are similar for this year.

Not only will profitability likely grow in the S&P 500, but as you move down in capitalization, we expect earnings growth to increase even more. And not only with profits expanding, but we expect economic growth to increase on a year-over-year basis relative to last year.



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And so not only are profits growing, but our economy continues to expand, and our forecast is that we're certainly likely to have four quarters of economic growth. And economic growth in 2026 is likely to be better than it was last year. And if our economy is expanding, the odds of the S&P 500 falling are very minimal.

And lastly, to address those concerned that we've already had three great consecutive years of positive returns. It is true that it becomes more difficult to have a fourth year [of positive returns], but on average, in the fourth year after having three consecutive double-digit returns, and we've already had nine of those instances, we are in the 10th instance right now. The average return of the S&P 500 is about 7.5%.

So that's a lot of financial market news to digest, and we'll be back in several weeks to keep you up to speed on how the news is impacting the financial markets on a going-forward basis.

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