

Conversations with Commerce Trust

Market Trends Emerging in 2026

Recorded March 11, 2026

David Hagee: Hello and welcome to Conversations with Commerce Trust, our show about the markets, investment themes and economic insights that matter to you. I'm your host, David Hagee, Chief Investment Officer with Commerce Trust. Today we're exploring market trends emerging in 2026 with Brent Schowe, our Director of Research and Sara Swadley, our Portfolio Management Team Manager in the Western Region. Welcome to the podcast.

Sara Swadley: David, thank you.

David: So, I'm excited to have Sara on the podcast. Brent, you've been here before. It's going to be a great day to chat about some market trends that we're seeing emerging. As we're putting this together, the Iranian conflict is really starting to ramp up and so that's had a wider impact on certainly energy prices and volatility in the market. I think it's a year that we anticipated to have some volatility, but of course this just amplifies things as you throw energy into the mix. First and foremost, how about we start with the economy? It's hard not to notice that we've seen jobs sort of bounce around here, right that we've had months of losses, months of gains, but it's generally been trending down I think as part of the replumbing of the U.S. economy that this administration has embarked on. Brent, what are you seeing in terms of jobs for a trend by 2026?

Brent Schowe: Yeah, I think your phrase trending down captures it perfectly. Back in 2024, the average job growth was about 122,000 per month. And then by the end of 2025 for that 12-month cycle, we were at 10,000 a month. So basically, essentially zero at that point.

And then even in the fourth quarter, if you average those monthly numbers, we were down to negative 39,000. So, we're actually losing jobs at a fairly decent clip. Now we've had some recent numbers come in. You said it's been bouncy. In January, we had a nice positive number of 130,000, better than any number we had in 2025. But then it was a little too good to be true because we gave almost all of that back here in February. Just on Friday we had a jobs report that said we lost 92,000 jobs. So, like you said, very bouncy and they do have trouble around Christmas time, around the wintertime because of seasonals. And you know retail workers and that sort of thing. So, it's always been tough to estimate these jobs numbers in those times, but it was a bit of a give back and you know the idea that there's a continued trend in negative job prints, that's not in the market right now. Markets expect something along the lines of 25,000 to 50,000 jobs (on average, per month), probably this year and most of that is because of demographics, right?

We just don't have the growth in the workforce that we used to have. The baby boomers are retiring, and the rest of us aren't having enough babies to refill what's being lost. So, that's going to be a drag on the economy for a while. And then the other thing as you mentioned. The administration



Commerce Trust
Banking | Investments | Planning

commercetrustcompany.com

Conversations with Commerce Trust

Market Trends Emerging in 2026

Recorded March 11, 2026

limiting immigration and that of course is going to, that's going to drain the worker pool. So, it's just a low hire, low fire market and that's kind of where we think it's going to be for the rest of the year.

David: Yeah, it's a great point that there's a lot of dynamics. It's not straightforward like we've seen in past economic cycles of, you know, business slowing down, businesses trying to maintain profitability by cutting headcount. You know, you look at the labor pool, it's certainly diminishing as you mentioned between retirees and the lack of inflows into the labor pool. So, something to certainly keep our eye on. You know, the other thing with the Iranian conflict going on right now is inflation. Certainly that's been the focus of the Fed (Federal Reserve) maybe up until last summer that inflation as it came down out of the hot period out of COVID with all the stimulus dollars floating around. Now we've entered into a different period where it seemed like it was moderating through some tariffs and digesting those, but you know, here we are with energy prices flirting with \$100 a barrel for oil. Energy is a key component inside the U.S., especially for lower income consumers. Brent, what are you seeing in terms of inflation emerging inside 2026?

Brent: Yeah, just most recently, I mean, it's going to be all about the duration of the supply shock, right? How long will the straight be closed? How long will some of these producers have to shut down production because they don't have the storage, right. And so less supply, same demand means higher prices. So, we're seeing that now. It's just how persistent will it be. If it can be on the order of weeks and not months, it'll be a temporary spike to inflation. Right now, I think we're seeing \$85 per barrel price. I think the market's kind of sniffing out that maybe there's a resolution of this sooner rather than later.

But you know, heading into this, as you said, the inflation figures were coming the Fed's direction, at least on the CPI (Consumer Price Index). The core CPI is 2.5% and you know it's really close to the Fed's target of 2%. The problem is the PCE (Personal Consumption Expenditure) is at 3%, the core PCE, and that's the one the Fed likes and that's been stubbornly at 3% for several months now and is projected maybe even tick up here in on Friday when we get the new number. And that's a January number. There's a big lag with all the government shutdown. The Fed's kind of stuck between a rock and a hard place right now as to what to do with rates because you know, granted the jobs market isn't going gangbusters, but inflation is kind of, you know, kind of hanging in there. Especially on the PCE front. So, they're going to have to really think hard about when they make their next rate cut.

David: Yeah, that's a great point. Both on the jobs point, on the job side as well as the inflation side, it's been consistently inconsistent, if you will, right, that numbers are bouncing around and that it's hard to pick up an overall trend. I'm sure for policy setters at the Federal Reserve, they are faced with a greater challenge than normal in terms of trying to anticipate where the economy is headed.



Commerce Trust
Banking | Investments | Planning

commercetrustcompany.com

Conversations with Commerce Trust

Market Trends Emerging in 2026

Recorded March 11, 2026

But if there has been one thing that's been consistent over the past couple of years, it has been the growth of AI and the Magnificent Seven. Sara, you know, as we talk about this, the big story inside 2026 so far has been AI disruption and staying power, maybe we could we talk a little bit about this trend around the Magnificent Seven stocks as well as AI. What are you seeing for 2026?

Sara: Yeah, so 2025 was the third consecutive year that the Mag Seven really did the heavy lifting in the market. These stocks were kind of the spotlight as they really built out the backbone of artificial intelligence. They've almost moved in lockstep together, rising tide floats all boats type situation. But towards the end of 2025 and into 2026, we saw that starting to change a little bit. High valuations became a frequent topic of conversation in the market and also the discussion around the need for massive capital expenditures to really build out this infrastructure that's necessary for artificial intelligence has caused a little bit of discussion around the valuations and really what type of business models are these seven stocks. And so they're kind of delineating between the three. They're looking at infrastructure builders, which the market is calling hyper-scalers, and integrators and suppliers, your hyper-scalers are going to be Microsoft, Amazon, Alphabet, Meta, your integrators are going to be Apple, with device AI, and then parts of Meta advertising, and then your suppliers are going to be NVIDIA and Broadcom. And if we were talking about the gold rush, they would be the ones that would be supplying the picks and shovels.

So, what is different about this is not traditional software spending. This is more like a telecom fiber rollout or railroad expansion. So, the spending is spilling over and benefits the rest of the economy as the market broadens out, and that's what we're really seeing. And Ed Yordini has kind of coined the beneficiaries of this infrastructure buildout as the "Impressive 493."

So, you have industrial companies that are supplying electrical equipment, transformers, cooling systems, of course the surging power demand is a benefit to utilities and then natural gas demand is rising because of the base load to support electricity needs and then steel, copper, and cement needs are going to benefit materials. So, we're talking about approximately \$600 to \$700 billion in capital expenditures just this year in 2026, and that's going to be happening for the next several years to come as well.

David: Yeah, I think that's really helpful. You know, as we look at this space around AI, certainly I think it's oftentimes presented as just a monolith. Here's AI. But to be able to segment this out into the different areas that are working, I was struck by a recent story that the AI firms, OpenAI, Anthropic, and others are starting to connect more with consultants like McKinsey and so we may we might be moving from this hyper scaling phase into more of an applied phase and that that could have impacts on the jobs market. The other item that has taken hold really over the past, say, 15 months or so has been a weaker dollar and international equity investments have really led the



Commerce Trust
Banking | Investments | Planning

commercetrustcompany.com

Conversations with Commerce Trust

Market Trends Emerging in 2026

Recorded March 11, 2026

charge in markets over the past 15 months or so. In terms of that trend, how are we thinking about that, Sara?

Sara: So, the domestic markets dramatically outperformed international for about 15 years and that's been primarily because of the mid-cap technology companies that that we just spoke about and I think long term the U.S. is a global leader when it comes to profitability and innovation that hasn't changed. But we did see the dollar points last year and that's presented a tailwind for U.S. investors that are investing internationally, you know, if we do have more Fed rate cuts later this year that would even give a little bit more bias around a softer dollar as well. But when we look at the construct of the international indexes relative to domestic, they are much less weighted towards the technology space. And more heavily weighted into the value space with industrials and financial exposures and things of that nature. And those multiples are much lower. When we looked at performance in 2025, the developed international markets were up over 30% and emerging market was up even more. Up to this point in 2026, we've continued to see international outperform by about 3 to 7% when we're looking at domestic or when we're looking at developed versus emerging markets.

David: Yeah. You know, as we look at this, that international space certainly has had some lift from the declining dollar, but then also on their own merits from a valuation perspective, I think investors have been excited about it. You know, you talk about the Impressive 493, or the Magnificent Seven. I'm not sure if it's a trend yet, but we certainly have seen inside 2026, small cap start to take hold here. So smaller size U.S. securities, probably the feeders into AI in terms of thinking about small cap, what should we, what should we be thinking in that space?

Sara: Yeah. Small cap has also lagged for several years relative to large cap and valuations in the small cap space really reflect that. They're trading at a meaningful discount to large caps at this point and investors are looking for better value as we have this conversation about the high valuations and the technology space.

So, looking at cyclical sectors in the small cap space, financials, industrials, materials, energy, those are all of course going to be beneficiaries of this infrastructure buildout. When we look at potential again more potential rate cuts later this year that could if those, if those actually do materialize, that could be another supporting factor for the continued favorability of small caps. Does that mean you go out and buy indiscriminately? No. Quality really does matter at this point. And so far, the small caps as a group have been doing better than large caps and more cyclically, I'm sorry, the more economically sensitive areas like energy and materials and that's where we've seen really the stars out performance so far.



Commerce Trust
Banking | Investments | Planning

commercetrustcompany.com

Conversations with Commerce Trust

Market Trends Emerging in 2026

Recorded March 11, 2026

David: Yeah. You know, Sara, you mentioned the Federal Reserve may be cutting rates. I think that's a great transition over to Brent in the fixed income markets as we're talking about certainly no shortage of cross currents affecting our vision into where rates are headed and how fixed income portfolios are doing. Throw on top of that a leadership change at the Federal Reserve Open Market Committee really lends itself to some interesting times with our fixed income portfolios. Brent, how are we thinking about the fixed income markets right now and what sort of stress that they're under?

Brent: Yeah, we've got a new chair. Jerome Powell leaves in May and Kevin Warsh arrives. And you know, I think Donald Trump has made no secret that he likes rates lower rather than higher. And you know, Chair Warsh will have to lead the committee. It's a twelve-person committee and he is actually a creature of the Federal Reserve. He was the youngest Fed board governor ever at age 35 back in 2006. He was on the Board of Governors for five years. So, he knows the institution. He knows it's a consensus-building institution. You do have, you know, some very visible chairs in its history, names like Paul Volcker and Alan Greenspan that everyone knows that kind of led the committee and didn't have to have a whole lot of consensus because everybody followed them, but it's gotten more consensus oriented over the years and you have had some dissents here and there and some of the voting. And so, he can't just come in and say my way or the highway. There are 12 members that have to agree, at least a majority of the members. And so, the market is telling you that yes, you know we're going to get that first, we're going to get another rate cut probably now late fall is where it's at. We were at two rate cuts just at the start of the year and now they're cutting that back to just one this year. I think it's going to be a steady-as-she-goes fixed income market, the 10-year treasury bonds in the low fours, that's about where we started the year and it just seems like the markets are kind of waiting to see what happens in Iran before they move one way or the other in fixed income.

David: Yes, certainly. As you look at fixed income, I think the other story that we've been watching, Bloomberg has not hesitated to bring it up every single day, is around private credit. It seems like there is some serious stress inside that market. Brent, as we look at, as we look at the different areas of fixed income investing, you know, what are we seeing in terms of trends there?

Brent: Right. That's interesting. I'll start with our world, the investment grade public bond market. It has hardly, it is basically yawning at all of this. We're only and it spreads are what we measure risk in the market. That's the amount of yield you get over and above a Treasury bond and those have hardly moved. We're about five basis points, so five one hundredths of a percent wider today than where we were to start the year. So, the investment grade bond market isn't all that concerned about things in the economy or certainly what's going on in Iran. Where it is getting a little dicier is



Commerce Trust
Banking | Investments | Planning

[commercetrustcompany.com](https://www.commercetrustcompany.com)

Conversations with Commerce Trust

Market Trends Emerging in 2026

Recorded March 11, 2026

in that private bond market, which what we call private credit, and those bonds don't trade every day. They're in hands that theoretically are supposed to hang on to them. But what some of the issuers have found is that the holders of those bonds are now wanting some liquidity. And to get at that liquidity, they may have to sell some loans is what they are. They're not technically bonds, they're actually loans, might have to sell some loans at some discounts and it's really centered in the software space.

Sara was talking about the hyper-scalers and all the massive investment going into that. That's being done by firms like Amazon who just issued \$37 billion of public bonds yesterday with no problem, the fourth largest bond issuance in history and the market gobbled it up like it was nothing. So that that's going just fine. It's just these, kind of second and third tier AI plays or maybe software is going to get disrupted. You're seeing those loans kind of come under some pressure.

David: Yeah, you know, along the lines of volatility, if volatility can be a trend, which I think is a contradiction, but nonetheless, you know, we've had fantastic years in the market as Sara mentioned earlier the past three years, historically after you've had three years of double-digit returns, your odds of having an up year are about half, but with that the up year is somewhat constrained or the positive return year is somewhat constrained at averaging around 7.5% or so. What I am struck by though is that when we start a market at these valuation levels at a price to earnings level that we're at today, it's about a two-thirds chance we'll see a 15% drawdown over the course of the year and it's about a one-third probability that we'd see a 20% drawdown over the year. So, you know, Sara, any thoughts around the volatility surrounding the market and you know, maybe where we finished the year up at?

Sara: Sure. Yeah. When valuations run high, like what we're seeing now, markets are more prone to pullbacks and high valuations don't cause drawdowns, but they do reduce the margin of safety. So when price-to-earnings run high, investors are pricing in strong growth and solid margins. But when those expectations are already high, it takes very little to trigger repricing. So, there's less cushion against earning misses and geopolitical shocks. And obviously recent events in the Middle East introduce a new geopolitical variable that the markets are evaluating, and they're particularly around energy supply risk and historically, markets absorb geopolitical shocks relatively quickly unless they translate into sustained supply disruptions. And that's what we're seeing the market kind of trying to weed out right now is how long is this particular shock to the to the market going to last.

David: Yeah, you know, that's a great point that that often these geopolitical events certainly gather the headlines. But at the end of the day, it's earnings that power the market and we still have a



Commerce Trust
Banking | Investments | Planning

commercetrustcompany.com

Conversations with Commerce Trust

Market Trends Emerging in 2026

Recorded March 11, 2026

positive outlook for earnings inside the U.S., you know, maybe even 11% to 13%. So really an up year there.

You know, the final thought maybe around the economy. Certainly last year I think we were surprised to the upside of around, I think final numbers will probably come in around 2.5% real GDP growth for 2025. This year we have the One Big Beautiful Bill Act (OBBBA) coming online, as it were. You know, Brent, what are we thinking in terms of the economy for 2026?

Brent: Yeah. If you just kind of take out what has happened in Iran over the last couple of weeks, you know, the thought was that we were going to have a little bit of a bump over the 2.2% GDP growth we had in 2025. So, something in the mid-, even high twos was possible. And of course, the OBBBA is going to be part of that. That's stimulative. It extended the tax cuts from 2017, gave you some more in terms of the lower end where you had the provision for no tax on tips and no tax on overtime. You had increases in the child tax credits, you got some deductions for seniors and so that was going to be stimulative up to about over \$500 billion by some estimates as to what was going to hit accounts when the refunds came in. Now how much of that's going to be absorbed by higher gas prices. It is yet to be seen, but that was certainly going to be a nice tailwind heading into the spring.

David: Yeah. You know, as we kind of look at the pros or the, you know, balance of positives and negatives inside the market right now and the economy, certainly it's easy to see that there's a lot of positives between the OBBBA stimulus. AI continues to expand, but we have this backdrop of some volatility there through this period of market tension. As with most periods of market tension, we remain steadfast to our core belief that asset allocation is the driver of returns, and your asset allocation should reflect our client's goals, characteristics and circumstances. While re-evaluating and re-balancing portfolios remains our path to investing success.

Thank you for the interesting discussion today, Sara and Brent. I really appreciate it. For more on this topic, please visit www.commerstrustcompany.com for additional commentary and our Look at the Markets. If you've enjoyed what you've heard today, you can subscribe to our show on Apple Podcasts, Spotify, Amazon Music, or wherever you get your podcast from. Thank you for joining us on Conversations with Commerce Trust. I'm David Hagee. We'll talk again soon.

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.



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.

Conversations with Commerce Trust

Market Trends Emerging in 2026

Recorded March 11, 2026

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 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. Investors are fully responsible for any investment transaction they choose to enter into.

This material is not intended to replace the advice of a qualified attorney, tax advisor, or investment professional. Past performance is no guarantee of future results. Diversification does not guarantee a profit or protect against all risk.

Commerce Trust does not offer tax, legal, or specific estate planning 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.

Any third-party data is obtained from sources considered reliable but its accuracy cannot be guaranteed. This material may not be reproduced or referred to in any publication without the express written consent of Commerce Trust.

March 11, 2026

Commerce Trust is a division of Commerce Bank.



Commerce Trust
Banking | Investments | Planning™

commercetrustcompany.com