Commerce Trust Market Brief with Scott Colbert

Market Volatility and Geopolitical Risks as Energy Prices Rise

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Scott Colbert: Good morning. It's Thursday, March 12th. The markets are open and trending down as they continue to digest all the situation over in Iran. The S&P 500 (Index) so far this year has been barely dented, just down 79 basis points. The average stock is up 2.66% when you look inside the S&P 500 (Equal Weight Index). Smaller-cap (capitalization) stocks are winning up somewhere between 2% to 3%.

International stocks are doing pretty well so far on a year-to-date basis as well, with the developed markets up 2.84% (as measured by the MSCI EAFE Index) and the emerging markets up still a surprising 8.17% (as measured by the MSCI Emerging Market Index). And interest rates on a year-to-date basis have barely budged. The Bloomberg Aggregate (Index), a broad measure of the bond market, is up about 29 basis points on a year-to-date basis, and munis (municipal bonds) are outpacing investment grade bonds, up 1.09% so far (as measured by the Bloomberg Municipal Index).

But those relatively benign returns hide all the volatility in the stock market. Markets were higher just prior to the Iranian conflict and have fallen considerably since February 25th. The S&P 500 has fallen 4%. Smaller-cap stocks have fallen 6% from their peak prices this year, and international markets have been hit even harder, down 8 to 10% depending upon which index you're looking. And of course, interest rates have been pushed up by the worry about oil prices pushing up inflation, and the bond market has given back about 1% of the gains that it had through mid-February.

And while interest rates on a year-to-date basis are almost totally unchanged since the start of the conflict, the 2-year Treasury has jumped 25 basis points, or 0.25%. The 10-year Treasury, where mortgages are largely spread off of, are up 19 basis points, and even the 30-year (Treasury) bond has increased by 17 basis points.

And as you might expect with stock prices falling, credit spreads are widening. In other words, the bond market is worried. Investment grade credit spreads are up eight basis points. Triple B credit spreads (BBB), the lowest part of the investment grade market, are up 11 (basis points). And the high yield market down at the most about 15 basis points more extra yield to buy a high yield bond today than prior to the conflict.

Now what would any presentation be right now without a chart of energy prices? And when we look at domestic crude oil, it's been dropping considerably over the last few years since Russia invaded Ukraine. The average price of a barrel of oil in this country was about $75 a barrel in 2024, and it fell $10 a barrel during 2025 to average about $65 a barrel. And that's been about the average price so far this year, $65, but of course, that masks all the volatility, with U.S. energy prices currently trading about $90 a barrel for WTI (West Texas Intermediate) crude in Cushing, Oklahoma.

Now, the impact of these higher crude prices around the world are going to be felt differently depending on where you are. One would normally think the Middle East would benefit, of course, because they export all this oil. But of course, most of that oil is bottled up right now in the Strait of Hormuz.

The big winner is likely to be Russia, which is a huge energy exporter. And the U.S. is affording Russia the ability to sell its oil on the global market to keep prices down right now. Canada is a big exporter of oil, as is Norway. They should benefit marginally, but of course, recognize that all of their consumers in those countries are going to be paying higher gas prices, just like they will in the US.

And of course, here in the U.S., we're relatively energy-independent because we can produce 22 million barrels of oil per day, and we only consume 20. The folks that are hurt the most are probably China, who is buying most of the sanctioned Iranian oil. Japan, because they have to import so much of their energy as a percent of GDP (gross domestic product). And India, a large importer of oil as well.

And of course, the American consumer is impacted directly by gas prices. And the average household in this country spends about 3% of their paycheck on transportation fuels, mostly gasoline. And of course, gas prices follow the cost of a barrel of oil. Currently, the average price of a gallon of gas is $3.54 per AAA, and it was $2.87 just before the conflict started. What does it take to get to $4 gas? Probably oil in the range of $110 to $120 a barrel. And what would it take to $5 per gallon average gas prices? Oil prices of about $140 a barrel.

Now, these higher energy prices, of course, are likely to dent economic growth. The Fed (Federal Reserve) would estimate that for every $10 increase in the price of oil, if it was the last an entire year, would shave about 0.1 to 0.2% off economic growth. Of course, with energy at about $90 a barrel so far this year, $65 (per barrel) to start the year, we're looking at something like perhaps as much as a 0.5% dent to GDP if these energy prices stay elevated.

The forward markets, though, do not expect energy prices to remain this elevated. In fact, you can buy oil for delivery in December right now for $72 a barrel. Now, that's still about $15 higher than it was to start the year, but the markets are expecting, of course, tensions to ease and energy prices to fall.

And as we mentioned, the U.S. is relatively immune to these higher energy prices because of our energy independence. But we also use a lot less energy per unit of GDP than we used to. In fact, we use half as much energy per unit of GDP than we did back in the 70s (1970s). This is why the impact to us in the United States is likely to be less than it is to other countries around the world.

And while these higher energy prices are likely to shave economic growth, they're also putting pressure on inflation. And this has likely pushed out an eventual interest rate cut. We still expect to see an interest rate cut or two this year, but you should know that the market's projection now has pushed the first interest rate cut out to 2027, now that we have these additional tariffs coming on, and of course, the inflationary pressures from higher energy prices.

And while there's no doubt that these higher energy prices will dent our economic growth, ultimately, our growth depends upon job growth. We've watched job growth fall dramatically over the last several years, and last year it only averaged about 15,000 jobs created per month. This year, we've seen a lot of volatility in job creation. A large positive print in January, a large negative print in February, but the average growth rate is just about the same as last year. As long as we keep adding jobs, the economy is unlikely to tip into recession.

Finally, of course, most people are worried about their portfolios, of course, and what the energy prices are doing to their investment returns. Goldman Sachs put out a recent piece where they took the 15 most impactful geopolitical events dating back to 1970. It's very difficult to time the market. And they looked at where the market's return was six months after the start of the conflict.

This included Liberation Day last year, where stock prices did fall for a considerable period of time, the Russian invasion back in 2022, the start of the Gulf War back in 1991, and even all the way back to the Yom Kippur War in 1973. The average returns six months after these geopolitical events for the S&P 500, though, was a positive 7.5%.

So it's very difficult to time the market around these geopolitical events. We think we're likely to work through this, and of course, the sooner we get to stable energy prices, the easier it will be for the market to rebound. And we do have hints of that because whenever energy prices have fallen so far during this 12-day conflict, we've seen the market rebound considerably.

Well, obviously, a lot's happened over the past three weeks, and we'll continue to keep you up to speed on all the news impacting the financial markets.

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