

Commerce Trust Market Brief with Scott Colbert

Why Markets Continue to Advance Amid the Broader Middle East Conflict

Recorded May 13, 2026

Scott Colbert: Good morning. It's Wednesday, May 13th, and the markets are just about to open. So far, the stock market has been on a roller coaster ride, particularly given the Iranian conflict and the spike in energy prices. But amazingly, the S&P 500 (Index) is still up 8.54% year-to-date. And as we go down in capitalization, those stocks are even doing better, with the S&P (400) Midcap Index up more than 11% and the Russell 2000 (Index), a measure of our smallest stock market, up over 15% so far this year.

Internationally, the markets are up as well, but it's kind of a tale of two cities. In the developed markets, think Japan and Germany, they're only up about 6.8% so far this year, and they've actually fallen a couple of percent post the Iranian conflict. On the other hand, the emerging markets are still surging ahead, up over 21% now year-to-date, pulled ahead by Samsung (Samsung Electronics Co., Ltd.) and Taiwan Semiconductor (Taiwan Semiconductor Manufacturing Company Limited) and the chip stocks in those emerging market countries that are filling out this AI (artificial intelligence) build out here in our country.

The laggard is fixed income with interest rates slightly higher this year. So far, the Bloomberg Aggregate (Index), the broadest measure of the investment grade fixed income, is basically flat on a year-to-date basis, with price depreciation offsetting the coupon that you're getting. And the Muni market is up about 1% (as measured by the Bloomberg Municipal Index), but it was up even more prior to the Iranian conflict and the jump in energy prices.

Perhaps the easiest way to track this roller coaster type market is to take a look at the global stock market benchmark (as measured by the Vanguard Total World Stock ETF). It peaked in late February, before the Iranian conflict, fell about 10% into the conflict, and has now rallied almost 15% from the bottom of the markets March 30th.

Of course, pushing us around on this roller coaster is the ever-volatile price of a barrel of oil. Here in this country, it's averaged about \$80 a barrel compared to \$65 last year, and it's working its way pretty quickly towards \$90 or even \$100 a barrel. Overseas, we're seeing similar momentum.

It's a different story, though, when it comes to natural gas. The overseas developed markets like Japan and Europe are being impacted tremendously by these higher natural gas prices because of the closure of the Strait of Hormuz. But since natural gas is largely a byproduct of all of our energy drilling, particularly in the Oklahoma and Permian Basin, down in Texas, our natural gas prices in this country are down about 20% now year-to-date, making this energy impact much less impactful to the United States than it is the rest of the world. Of course, accompanying these higher energy prices is a spike in the U.S. CPI (Consumer Price Index). Three months ago, the CPI was clocking in at only 2.4% year-over-year, and it's now been pushed up to 3.8% year-over-year, with about 1.5% additive just from the energy component alone. Core prices are still a reasonable 2.8% year-over-year, but we do expect there to be some energy bleed pulling those core prices higher as the year progresses.



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Most of our clients, of course, are asking us, how can the stock markets be at record highs and the U.S. economy making forward progress despite these higher energy prices? We would point to four things.

The first thing, of course, is we went into this energy smackdown, I'll call it, with a lot of momentum. Year-over-year, real growth (as measured by real gross domestic product) was 2.7% and nominal growth (as measured by nominal gross domestic product) was 6%, both of those figures higher than the long-term averages. If you can think of the economy as a Boeing 737, it was not only flying faster than it normally flies, but it was also flying at a higher elevation as it went into the higher energy price showdown in February.

Secondly, U.S. stock earnings are accelerating, likely to grow in excess of a double-digit pace this year. Thirdly, energy consumption, as a percent of GDP (gross domestic product), is at an all-time low. It's down nearly 60% since 1980 and only constitutes about 4% of U.S. GDP, and only about half of that are transportation fuels and gas prices. So, the U.S. is relatively unimpacted by these higher energy prices, particularly relative to other countries around the world.

Now, while energy consumption as a percent of GDP is modest, at the household level, it depends upon your income level, how impactful this is. We don't want to understate the impact of higher energy prices. And to those in the lowest quintile or bottom two quintiles, energy prices as a percent of their household expenditures exceed 10% of their budgets.

Finally, job growth has bounced back this year. Average job growth this year has been about 76,000 jobs per month, while last year it was only ten (approximately 10,000 jobs per month). We did expect job growth to bounce back, primarily because what? We weren't going to shut off immigration, we weren't going to repeat the DOGE (Department of Government Efficiency) effect in the firing of the government workers, and finally, the tariff frenzy was likely to begin to fade.

Still, everything hinges basically on the inflationary outlook. So, what's still driving inflation up? Well, certainly there will be some lagged effects from these higher energy prices, particularly as they bleed into the core. The global inventory of oil supply is dwindling, and to the extent that the strait (Strait of Hormuz) remains closed, we're likely to see further pressure on energy prices. It's quite possible that the war re-escalates in an effort to open up the strait. And then, finally, this AI buildout continues, pushing up chip prices, the demand for energy, the demand for data centers.

What might help hold inflation back? Well, certainly any reopening of the (Persian) Gulf is likely to cool energy prices. Productivity is surging, and unit labor costs are actually down on a year-over-year basis. We're working our way through the tariff frenzy, and there will be some tariff relief eventually, as we can't double down on the increase in tariff prices. These higher energy prices are actually acting as a tax and are bound to create some demand destruction, which will slow economic activity.



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We do have higher interest rates today than we had last year. This also will slow economic activity. And finally, home prices are cooling up only about 2% year-over-year. That is the largest contributor to the CPI, and we do expect that the housing component, or the so-called owner's equivalent rent, will continue to decline all year as the year progresses.

Well, that's quite a bit to digest, and we'll keep you up to speed on all the news as it impacts the financial markets. See you in a couple of weeks.

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