

Commerce Trust Market Brief with Scott Colbert

U.S. Market Resilience Amid Geopolitical Conflict and Energy Price Volatility

Recorded April 23, 2026

Scott Colbert: Good morning. It's Thursday, April 23rd and the markets are open. So far this year, most equity markets are at record levels, despite the fact that we have a rather obvious Middle East conflict. Since the war began, global stock markets have fallen about 10% (as measured by the Vanguard Total World Equity ETF) and have recovered most of those results and, in fact, are higher in many cases.

The S&P 500 (Index) is up 4.63% year-to-date. The average S&P 500 stock is up over 6% (as measured by the S&P 500 Equal Weight Index). And as we work our way down in capitalization, we see even larger returns so far. The S&P 400 Midcap (Index) up over 10% and the Russell 2000 (Index), perhaps one of the laggards for the last decade, is up 12.64% as their earnings continue to grow.

Overseas, the story isn't quite as good, particularly in the international developed markets. Prior to the Iranian conflict, the markets were up about 10% (as measured by the MSCI EAFE Index) for large-cap (capitalization) international stocks. They're now only up 6% year-to-date, as basically the European stocks, Japanese stocks probably hurt the most by the energy price spike. And the emerging markets stocks, up about 15% year-to-date (as measured by the MSCI Emerging Market Index). Many of those helped out by the broadening of the AI (artificial intelligence) infrastructure buildout.

Fixed income, though, has been pushed back a little bit. We all know that interest rates are a little bit higher, as inflation has been pushed up by the higher energy prices. Total returns in the bond market are positive, but not quite as positive as they were prior to the Iranian conflict.

Almost all of the stock market action can be boiled down to one chart, as shown here in the Vanguard Global Stock Market ETF, its ticker is "VT." You can see that, prior to the war, the market was at record levels. It fell about 9-10% to the bottom, March 30th, and since then has recovered all of that and then some, with the global stock market about 50% S&P 500, about 10% smaller-cap stocks here, and about 40% international stocks, having surged to record levels.

Of course, oil prices still remain very elevated, but the forward markets still expect to see a dramatic decline in energy prices as we work our way through this conflict. Perhaps the most stark differential has to do with natural gas prices. Overseas, natural gas prices are still very elevated, up about 50-60% depending upon where you are. But here in this country, natural gas prices have actually fallen on a year-to-date basis, largely because natural gas for us is a byproduct of all the fracking that goes on down in the Permian Basin.



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And while one of the reasons that this country is making it through this energy shock is because we're much less energy dependent, that still doesn't mean that lower-income households aren't dramatically impacted by these higher transportation fuel prices. If we look at households in the lower-income quintiles, you can see they spend a disproportionate amount of their money on energy. So, we don't want to minimize the impact that higher energy prices are having on certain select groups of the population.

It's also interesting to note that gas prices have largely tracked a similar pattern as we saw during the Russian invasion, going from about \$3 per gallon to about \$4 per gallon several months into it. Of course, post the Russian invasion with Ukraine, the world adjusted to it, and gas prices fell back to basically where they were prior to the invasion. And we think the market is largely expecting a similar pattern to occur this year as well.

And of course, these higher energy prices are having an impact both on the economy and inflation. Our economic growth forecast has been pulled back about half a percent because [of] the rise in energy prices, and of course, the CPI (Consumer Price Index) is already up 0.9% on a year-over-year basis. We expect that the energy price increases will also continue to pull the CPI upward, offset by a downward trend in housing prices, but it will peak by mid-year and then begin to roll over and get back to the 2-3% ranges that it was prior to the energy price shock.

And recall, we've always mentioned that this country makes forward progress as long as there is some type of job growth. Last year, we saw job growth decline dramatically, and in fact, in the fourth quarter, we actually had negative jobs created in this country. This year, we thought that job growth would bounce back for three reasons.

Number one, we wouldn't have all the government firings. Number two, you couldn't repeat the shutdown in immigration. And number three, we thought the country was adjusting to all the tariff situation.

And since we last talked, we've had another employment report. And the employment report generally is the report that impacts the markets the most. The reason for that, of course, is if we start to lose jobs, the country typically tips into a recession. Note that last year in the fourth quarter, we actually didn't have any job growth at all, but that was largely the effect of the fourth quarter government layoffs.



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This year, we expected job growth to rebound, and it has, largely because we wouldn't have what? A repeat of all the government firings, the total shut off in immigration, we couldn't compound that again, as well as the initiation of all the tariffs that we've started to grow used to. Now, offsetting some of the job growth this year, of course, are still what? The headwinds now of this energy price shock, as well as the implementation of artificial intelligence, which is no doubt slowing some type of job growth in certain parts of the economy.

And we just mentioned AI in terms of holding back job growth, but it's certainly not holding back the equity markets. And while initially it was largely concentrated in the largest-cap stocks, think NVIDIA (NVIDIA Corporation) and Microsoft (Microsoft Corporation), that AI basket of stock returns has been broadening out. Those largest-cap stocks have a hard time staying as big as they are, or at least relative to all of its other stock market competitors.

In fact, over any five-year period, on average, four out of the top ten market cap stocks will fall out of that top ten basket. And it's kind of interesting to note that out of the current top ten, only one of them was in the top ten at the turn of the century, and that was Microsoft.

And finally, the biggest question that we're getting at Commerce has to do with how can the stock markets be at record levels, despite the rather obvious war in the Middle East? We would point to four major themes that are helping markets stay at these record levels. Number one, the market is probably past peak uncertainty, and we've largely moved from what? A kinetic warfare to one more focused on diplomacy. That doesn't mean it couldn't flare up again, but the markets are expecting that we've worked past the peak of the conflict.

And number two, we went into the Persian Gulf conflict with a bit of an energy cushion. With the higher prices, of course, we've seen some demand destruction. We've had record reserve releases so far, natural gas prices in the United States are actually lower, and the acute shortages are limited to just several emerging markets at this point in time.

Number three, we've seen robust earnings growth. So far this quarter, 80% of S&P 500s (S&P 500 companies) are beating their estimates, and analysts are largely raising the overall earnings expectation for the market. And as you move down in capitalization, those earnings are only even accelerating further.



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And finally, the AI trade is back. We've seen memory chip maker stocks soar. Earnings are accelerating pretty much across the curve with almost any basket of AI stocks. Taiwan Semiconductor (Taiwan Semiconductor Manufacturing Company Limited) just raised its revenue forecast for the year, and Samsung's (Samsung Electronics Co., Ltd.) last quarter reported earnings were eight times bigger than they were a year ago.

Well, there's certainly quite a bit to talk about, and we'll be back in several weeks to keep you up to speed on all the news that's impacting the financial markets.

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