Commerce Trust Market Brief with Scott Colbert
A Resilient Market Faces a Sticky Inflation Picture
Recorded July 13, 2026

Scott Colbert: Good morning. It's Monday, July 13th. So far this year, the S&P 500 (Index) has returned a bit more than 11%. And we've seen a broadening out in the market with the mid-cap (capitalization) stocks up about 15% (as measured by the S&P 400 Midcap Index) and the smallest-cap stocks, as measured by the Russell 2000 Index, up almost 20% year-to-date.

Overseas we've seen a similar pattern with the largest-cap developed markets like Germany, France, England, Japan, only up about 9 to 10% so far this year (as measured by the MSCI EAFE Index), whereas the emerging markets that have benefited the most from the AI (artificial intelligence) buildout up over 21% now year-to-date.

The bond market this year has generated much smaller return because interest rates have moved up in response to the elevated levels of inflation. The broadest measure of the bond market, the Bloomberg Aggregate (Index), is only up four basis points, let's call it flat, on a year-to-date basis. Munis (municipal bonds) have fared better because investors have rotated towards tax exempt income, but even the muni market is up less than 2% year-to-date (as measured by the Bloomberg Municipal Index).

One of the key reasons that we've been able to avoid a slowdown going into this gulf war is that we went in with quite a bit of economic momentum. Real growth was averaging 2.7%. That's about 20% higher than average since the turn of the century. And our nominal growth rate of six-plus percent was about 33% faster than we typically travel as a country on a year-over-year basis. But that doesn't mean that we won't begin to be impacted. We do expect to see growth slow down in the second quarter as the full impact of those higher energy prices take hold.

And the big reason for this slowdown, of course, are the higher energy prices that we've got here with higher gasoline and transportation fuel. Average price of a barrel of oil so far this year in this country has been about $82 to $83 a barrel, compared to about $65 (per barrel) last year. And as a rule of thumb, we typically slow down about 0.1% for every 10% increase in the price of oil. So far this year, we've averaged about a 22%-23% increase in the price of a barrel of oil, so we expect to see growth slow down in the second quarter by about 0.2% to 0.4%.

Of course, these higher oil prices are bleeding into both top-line consumer price indexes and the core price indexes, as measured by either the CPI (Consumer Price Index) or the Personal Consumption Expenditure[s] (PCE) index. If we average top-line inflation, the CPI and the Personal Consumption Expenditure[s] index, and we put energy into the mix, the average rate of inflation right now, as we sit here today, is 4.15% on a year-over-year basis.

We do expect to see this decline when the new CPI is released this week, and the Personal Consumption Expenditure[s] indexes are released later in the week, as energy prices have rolled over post the modest ceasefire in the (Persian) Gulf. The problem is we don't expect to see any improvement in the core prices. When we average the core PCE and the core CPI, you're looking at sticky inflation that's about 3.1% to 3.2% on a year-over-year basis. It was about 40 basis points less prior to the gulf war. This is the inflation statistic that the Fed (Federal Reserve) will be paying the most attention to, and to the extent that it remains elevated, they will likely be raising interest rates at some point during the year.

And we can see that the bond market has already reacted to this. So far this year, the 2-year Treasury is 75 basis points higher in yield, and the 10-year Treasury, it was about 40 basis points higher in yield. This means that short-term loans like auto loans and credit cards have higher yields on them today, and even mortgage (interest) rates are up about 0.375%. The average 30-year mortgage in this country averaging about 6.5%, compared to about 6.125% prior to the start of the gulf war.

And we already see the Federal Reserve reacting a bit. They just had a meeting in June where they raised their so-called dot plot forecast, or the average expectation of the FOMC (Federal Open Market Committee) members for what they think (interest) rates will be at the end of the year. Today, the average fed (federal) funds rate is trading at about 3.375%, and the median forecast of these 18 voting members of the FOMC and the Federal Reserve Bank presidents averages 3.75%.

So the Federal Reserve is basically suggesting they're likely to raise rates at least once, but perhaps as many as two times this year. And the markets have picked up on that as well, because the futures markets are also predicting now one rate hike in September and a second rate hike early next year.

Still looking at the big picture, we expect growth to pick up in the second half of the year. The biggest reason for that is probably that we're past peak uncertainty over in the Gulf, although we see that there's clearly an ongoing conflict and likely to be a tit-for-tat response for some period of time.

We went into the war as the world's biggest energy producer, and we consume a lot less energy than we used to. The stock market’s up because, of course, robust earnings. We're looking at earnings that are likely to grow in the neighborhood of 20% to 25% on a year-over-year basis. And the AI party effectively has never stopped with the AI and data center buildout continuing on.

That doesn't mean there aren't some risks to the economy. Clearly, we think the biggest risk is probably just the extended stock market itself and how expensive stocks have become. We recognize that earnings have soared, but some of them are somewhat circular, and we're not sure that these extended earnings levels can be maintained or certainly are likely to slow down.

There's been a huge wealth effect as the stock market has generated these excess returns. You see it in your 401(k)s and you see it in your savings. Some of that has translated to extra spending, extra consumer spending, even though we're facing a higher interest rate and a higher energy price environment. To the extent that spending slows because of a falling stock market, that too could pull consumption and growth down.

We also think that it's highly likely now that the Fed will be raising rates. That doesn't mean that the stock market will be down and out, but in general, the stock market pauses as they raise rates. And then finally, even though we're past peak kinetic hostility probably in the Gulf, it doesn't mean that things have been solved at all. And of course, on a day-to-day basis, we still see bombing the Strait (of Hormuz) shut down, ships going, ships not going, and energy prices remaining volatile.

So of course, as always, that's a lot of news to digest. And we'll be back in about three weeks to talk about the news that's impacting the financial markets once again.