Commerce Trust Market Brief with Scott Colbert

Oil Prices, Inflation and the Interest Rate Outlook

Recorded September 21, 2026

Scott Colbert: Good morning. It's Monday, September 21st and the markets are open. Last week, the Federal Reserve (Fed) pushed rates up by 25 basis points for the first time since July of 2023. This put a slight damper on the market and pushed results down just a touch. But broadly speaking, the equity market returns across the board are still very positive.

The S&P 500 (Index) is up 12.69% year to date. The average S&P 500 stock (as measured by the S&P 500 Equal Weight Index) is still up 11.89%. Smaller stocks, the mid-cap (capitalization) market (as measured by the S&P 400 MidCap Index), up about 11.46%. And the Russell 2000 (Index), the smallest part of our stock market, up 16.39% so far on a year-to-date basis.

International stocks also remain extremely positive, although they're down just a little bit. 10.73% positive returns for those large-cap developed markets (as measured by the MSCI EAFE Index). And the emerging markets, as measured by the Morgan Stanley indexes (MSCI Emerging Market Index), are up a whopping 23.62% year to date. Those include, of course, South Korea and Taiwan, really pushing those indexes forward.

The big disappointment in the market so far, though, has been the bond market, which is down about 1.5% (as measured by the Bloomberg Aggregate Index, -1.86% for the Bloomberg Municipal Index), whether it's broad speaking, investment grade corporate bonds or municipal bonds, driven by the higher interest rates that we've seen so far this year due to the inflationary pressures from oil.

As we mentioned, the Federal Open Market Committee (FOMC) pushed its short-term rate up by 25 basis points last week. That didn't surprise the markets tremendously. And the biggest information, I think, that we got out of the committee (Federal Open Market Committee) meeting was that 16 of the 18 members there would suggest that there is at least one additional rate hike coming this year.

There is though, a considerable discrepancy between the market's expectation for how high short-term rates will go versus the FOMC's. The market expects three additional rate hikes to occur by the middle of next year, whereas the FOMC thinks that they can be one and done.

Driving the expectations of both the Federal Open Market Committee, as well as the financial markets for this forward increasing interest rate bias, is the elevated inflation rate that we currently face today. The core CPI (Consumer Price Index) clocks in at about a 2.4% pace on a year-over-year basis. Whereas the core PCE (Personal Consumption Expenditures Price Index), the Fed's preferred measure, is clocking in still at a 3.4% increase on a year-over-year basis.

We often get asked the question, what the heck is the difference between the CPI and the Personal Consumption Expenditures Index? It basically boils down to three things.

Number one, the CPI is a fixed basket of goods and services, and it only gets changed once a year, whereas the PCE Index picks up on your changes to your basket of goods and services that you buy as the year progresses. For example with higher energy prices, I would assume that the average person is driving a little bit less. That won't get picked up in the CPI until next year, when they rebalance our basket of what we buy.

The second effect has to do (with) the weighting of both indexes. The biggest differential here has to do with housing. The CPI has a lot more housing in terms of its weight than the PCE. The reason for that is the CPI focuses on the median household, which consumes about 30-plus percent of their average pay on housing and shelter. Whereas when you look at the market on a top-down basis, the entire economy, wealthy people don't spend nearly that much on housing. And so the average effect is a lot less than the median effect.

Finally, there's a scope or breadth of measurement. The Federal Reserve prefers the PCE because they find that it's a broader measurement. It includes all the fringe benefits that corporate America provides to the households, whereas the household CPI basket doesn't include any of that, as well as any charitable work done by nonprofits out there. The CPI basket doesn't pick up the effect of any charitable work at all.

The biggest wild card, of course, is the price of a barrel of oil. And I don't think any of us have any real sense on what the ultimate resolution of the Iranian war and the conflict in the Gulf is going to be. Fortunately, the forward markets do expect the price of a barrel of oil to eventually decline. The bad news is they don't expect it to decline as much today as they did just after the initial start of the war back in March.

Commerce Trust Market Brief with Scott Colbert
Oil Prices, Inflation and the Interest Rate Outlook
Recorded September 21, 2026

The biggest question our clients are asking us is simply this, what does it mean when short-term rates go up and how does it impact the stock market? Goldman Sachs put out a recent study that said, over the last seven rate hiking cycles, on average, the S&P 500 (Index) is down 2% three months after the first rate hike. First rate hike, of course, was last week.

However, 12 months after the first rate hike, next September of next year, the market on average is up over 9%. And of course, those are just averages and no one can really predict the stock market on a day-to-day basis or frankly, even a year forward. But it does give you the sense that the market can typically adjust to a rate hiking cycle and make forward progress.

Well that's a lot of market moving news to digest, and we'll be back in several weeks to keep you up on all the new news and how it's impacting the financial markets.