

Commerce Trust Market Brief with Scott Colbert

What Rising Inflation Means for Interest Rates and Markets

Recorded June 2, 2026

Scott Colbert: Good morning. It's Tuesday, June 2nd, and the stock markets are about to open. Most stock market benchmarks around the world are near record highs. We can see that the S&P 500 (Index) is near its record high, up 11.5% so far this year. Even the average stock in the S&P 500 is up nearly 10% (as measured by the S&P 500 Equal Weight Index). And smaller-cap (capitalization) stocks are actually still doing better than their large-cap brethren.

Mid-cap stocks up 13-plus percent (as measured by the S&P 400 Midcap Index). And the smallest stocks, as measured by the Russell 2000 (Index), up over 17% year-to-date. International markets are exceptionally positive as well. Large-cap developed markets (as measured by the MSCI EAFE Index) are up about eight-plus percent. And with emerging markets, that's where we've seen our biggest jump with the Morgan Stanley emerging market stock index (MSCI Emerging Market Index) up 27-plus percent so far year-to-date.

Interest rates, of course, are up this year, which pushes bond prices down. That's why you see such modest returns in the bond market with the Bloomberg Aggregate (Index), the broadest measure of investment rate bonds, barely positive on a year-to-date basis. Munis (municipal bonds) doing a bit better as people continue to seek tax exempt income.

And those emerging market indexes are being driven higher, of course, by the AI (artificial intelligence) semiconductor trade. South Korea, part of many emerging market benchmarks, is up over 100% year-to-date. Half of their benchmark index (Korea Composite Stock Price Index) is comprised of two chip companies Samsung (Samsung Electronics Co., Ltd.) and Hynix (SK Hynix Inc.).

And of course, chip stocks have been on fire. Note the rapid increase in semiconductor chip sales, basically more than doubling over the past two years. This, of course, has brought the price of all the chip stocks up materially. The VanEck Semiconductor ETF, probably the biggest ETF in the space, up over 149% over the last two years.

And while AI, chip stocks, and the data center buildout are dominating most of the equity benchmarks around the world, we still have a problem in the Persian Gulf, and our energy prices are still very elevated. So far this year, the price of a barrel of oil has averaged about \$83 a barrel, but of course, we all know that right now it's somewhere between \$90 and \$100 a barrel.

Those higher energy prices are likely to sap economic growth, and already they've impacted first-quarter growth down a bit compared to what we've expected. To the extent that energy prices remain elevated, global growth as well as US domestic growth will likely slow as the year progresses.



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And while the global stock markets have largely ignored, so far, the energy price spike, and expect to see energy prices come down in the future, we would note that inventories around the world are being drawn down fairly rapidly, both here and abroad. To the extent that these inventories continue to deplete, this is likely to put further pressure on the price of a barrel of oil.

And while the stock market has largely escaped the problems with higher energy prices, inflation hasn't. You can see here on a month-to-month basis the recent large bounces in inflation. We've shown you a chart here that averages both the Personal Consumption Expenditures Index (PCE) and the CPI (Consumer Price Index) to kind of smooth things out.

But note that two months ago, combined, it was an 80-basis-point increase in inflation. Last month was a 50-basis-point increase in inflation. And we would project this coming month's will be another 40 basis points, which will pull year-over-year inflation up to 4%, as measured by either the CPI or the Personal Consumption Expenditure Index.

Recall that at the beginning of the year, the markets thought that there might be two rate cuts coming to us towards the end of the year, as inflation was cooling and the economy was making modest forward progress. But with this spike in energy prices now, the markets expect the Federal Reserve possibly to raise rates as soon as early next year.

And of course, ultimately, our economic expansion depends upon job growth. And so far this year, as we expected, job growth has bounced back considerably from last year's rather weak 10,000 (jobs created) per month average. So far this year, in the first quarter, job growth has averaged 63,000 jobs per month, 115,000 (jobs) were created last April, and we expect to see this Friday, May's employment report produce positive numbers again. To the extent that we continue to create jobs, we will be able to overcome the rather obvious pushback from higher energy prices.

Of course, everything's not perfect. We've had to reduce our growth expectations. We're just about to produce our midyear outlook, and we pulled our expectation for growth this year from 2.2% down to 1.7% because of the higher energy prices.

Fortunately, though, employment is bouncing back, which should afford us four quarters of positive growth this year. And of course, we have to adjust to a new Fed (Federal Reserve) chair. He's facing a committee that is biased towards at least keeping rates the same, if not pushing them higher, to combat against this higher inflation.



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Those oil inventories are dropping, and that's troubling, which suggests that we do really need to get some type of progress made in the Persian Gulf. And AI is still the big driver of equity returns. If not for all the AI and chip-like stocks, the S&P 500 would only be flat this year.

And of course, inflation is the primary focus of the market. Inflation is currently 3.8% year-over-year, up from its low tick of 2.4% just prior to the Persian Gulf war. We expect inflation to crest just over 4% before it makes downward progress as the year progresses. But of course, this is all highly contingent on the outcome in the Persian Gulf.

And as always, there's a lot of financial market news to digest. We're here to help you do that, and we'll be back in several weeks to update you on all the news impacting the financial markets.

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