GWM GREENE WEALTH MANAGEMENT

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3Q 2026 - GWM Quarterly Letter

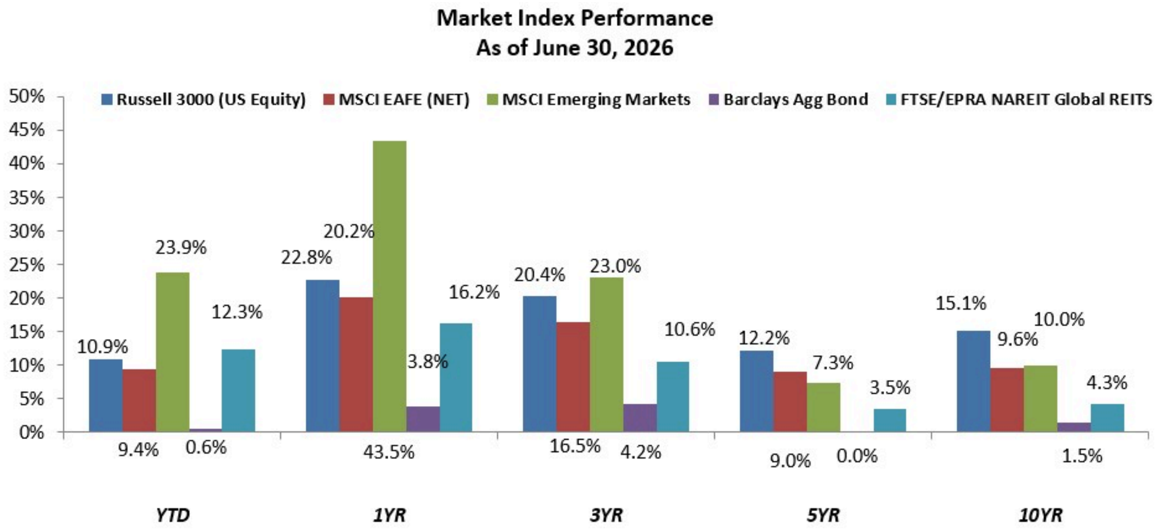
The 2nd quarter of 2026 decisively answered the question we posed at the close of the 1st quarter: ***whether markets could look past an acute geopolitical shock toward resolution.*** They did. After a 1st quarter defined by the opening weeks of the war in Iran and the closure of the Strait of Hormuz, the 2nd quarter delivered a meaningful recovery, as diplomatic progress, resilient corporate earnings, and a normalizing energy market combined to erase March's market drawdowns and carry major indices to new highs by the end of the 2nd quarter.

On February 28, the United States and Israel launched a sustained campaign against Iran, and the ensuing closure of the Strait of Hormuz - produced the sharpest energy supply shock since the 1970s and sent markets into a sharp drawdown. An initial ceasefire between the United States and Iran took hold on April 8, followed by a period of fits and starts - including a serious flare-up in early June and renewed strikes on regional targets late in the month - before a more durable calm took hold heading into July. The Strait of Hormuz, closed for much of spring, is once again moving tanker traffic at close to pre-war volumes, and oil prices have fallen back to roughly where they stood before the conflict began.

1st Half Performance

U.S. equities staged one of their sharpest reversals in decades. The S&P 500 rallied approximately 15% in the second quarter alone, its best quarterly performance since the post-pandemic rebound of 2020. The rally began with large-cap growth and AI-related names leading off the March lows, but broadened meaningfully by quarter's end, with a broad range of equity benchmarks all reaching new record highs alongside their large-cap peers.

Investment-grade bonds were roughly flat for the first half, as yields ticked higher on renewed inflation concerns and a more cautious Federal Reserve. Gold, which had surged earlier in the year as investors sought a hedge against geopolitical risk, gave back a significant share of those gains as risk appetite returned - posting its worst quarterly performance in over a decade.



From Shock to Resolution: Oil Completes the Cycle

In our last letter, we described the recognizable pattern that every major oil shock since the postwar era has followed: an acute phase of price dislocation and inflationary pressure, a secondary phase in which the real economy absorbs the drag, and a resolution phase in which supply is restored, prices normalize, and equity markets reprice the assets that were indiscriminately punished during the shock. The second quarter of 2026 played this pattern out almost exactly as history would have suggested.

WTI crude, which peaked above $110 a barrel in the acute phase of the conflict as Gulf output was slashed by an estimated 11 million barrels per day, has since fallen back to roughly $80 a barrel - much closer to pre-crisis levels. Gulf exports topped 10 million barrels a day again in June, OPEC+ approved its fifth consecutive monthly production increase, and tanker traffic through the Strait of Hormuz reached pre-war daily counts in early July. This is the resolution phase in real-time, and it is a significant part of why equity markets recovered as quickly and as broadly as they did.

War in Iran: A Fragile but Real De-escalation

The trajectory of the conflict remains the most important variable for markets heading into the 2nd half of the year, though the picture has clearly improved since March. The April 8 ceasefire between the United States and Iran has, on balance, held - despite real tests, including a serious exchange in early June and strikes on regional targets in late June that briefly reintroduced uncertainty around Strait of Hormuz shipping. The Lebanon front has proven the more persistent source of friction, with intermittent Israeli strikes and Hezbollah responses continuing even as the broader U.S.-Iran track has stabilized; a U.S.-brokered framework between Israel and Lebanon in late June was described by U.S. officials as an early step in a longer diplomatic process, not a final resolution.

Our base case remains that continued, gradual normalization is more likely than a return to the turmoil of March and April. We are watching this trajectory closely, as a durable resolution would likely remove one of the meaningful sources of “risk-off” pricing in markets, while a serious breakdown remains the primary tail risk to the outlook.

The Federal Reserve and Inflation

The Federal Reserve held its target rate steady at 3.50%–3.75% at its June meeting — the first meeting under new Chair Kevin Warsh, who was confirmed this spring and used his first press conference to reinforce the Fed's commitment to price stability. Inflation accelerated through the spring as energy costs worked their way through the economy, with headline CPI reaching 4.2% in May, and the Fed's own projections in June leaned more hawkish than earlier in the year.

The most recent data available offers encouraging signs: June CPI, released in mid-July, cooled to 3.5% year-over-year - below consensus expectations - as energy prices fell sharply in the month, the largest monthly decline in headline CPI since April 2020. This is consistent with the oil market's resolution phase working its way through the broader economy, and it keeps the door open for the Fed to resume cutting rates later this year if the trend holds. The labor market has remained a source of stability throughout: job growth exceeded expectations in both April and May, and the unemployment rate has held steady near 4.3%.

Midterm Elections

With the economic backdrop still the defining variable for November, generic congressional ballot polling built a meaningful and durable lead for Democrats over the course of the first half of the year - a shift that the spring's economic turbulence reinforced rather than reversed. Historically, this kind of environment has favored the president's opposition party, however, the picture remains genuinely competitive by historical standards. We continue to view a divided government after November as a realistic and increasingly likely outcome. Results could have meaningful impacts for the trajectory of taxes, energy policy, and deficit spending that we will track closely as the fall campaign unfolds.

General Economy

GDP growth held at a 2.1% annualized pace through the 2nd quarter - modest, but well ahead of the contraction many feared at the height of the conflict. Corporate earnings provided a powerful tailwind: S&P 500 companies posted 28.6% year-over-year earnings growth in the first quarter, the strongest since 2021, and estimates for the second quarter point to continued growth in the 20% range. Consumer spending, which softened under the weight of higher prices at the pump during the acute phase of the conflict, has begun to stabilize as energy costs retreat.

A Closing Word

The first half of 2026 offered a clear illustration of why discipline, not reaction, defines successful long-term investing. Investors who resisted the impulse to retreat at the depths of March's uncertainty were rewarded for that discipline by June.

We remain confident that the same discipline that carried portfolios through the first half will continue to serve our clients well through whatever the second half brings - a fragile peace to monitor, a midterm election to navigate, and a Federal Reserve recalibrating in real-time. Markets are cyclical. News is cyclical. Our commitment to staying in front of these evolutions and to communicating with you clearly and directly as they unfold does not change. Thank you for the continued trust and partnership that make our work on your behalf possible - empowering the wealth of our clients remains at the core of our mission.

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