GWM GREENE WEALTH MANAGEMENT

Your Journey Towards Financial Independence Begins Here

4Q 2026 - GWM Quarterly Letter

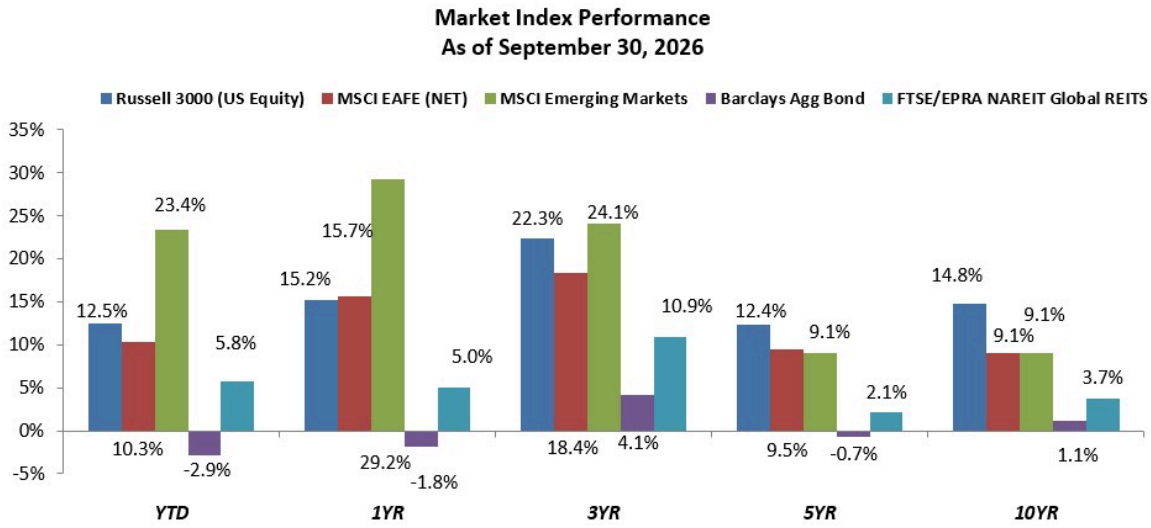
In our last letter, we described a fragile but real de-escalation and noted that a serious breakdown in the Middle East remained the primary tail risk to the outlook. The 3rd quarter tested that view directly. The April ceasefire gave way in July, oil retraced its entire 2nd quarter decline, and the Federal Reserve raised interest rates for the first time since 2023. Yet the S&P 500 still set new record highs and finished the quarter higher. *Markets once again demonstrated notable resilience in the face of multiple headwinds.*

As we enter the final quarter of 2026, three themes are dominating our conversations with clients: the trajectory of artificial intelligence and the capital being spent to build it, the war in Iran and its renewed pressure on energy prices and inflation, and upcoming midterm elections.

3rd Quarter & Year-to-Date Performance

The S&P 500 gained approximately 2.3% in the 3rd quarter and is up roughly 12.7% year-to-date. Beneath the surface, leadership narrowed considerably: large technology companies carried the major indices. Internationally, developed markets (MSCI EAFE) added 0.8% and are up 10.3% year-to-date, and emerging markets remain the year's leading equity category at 23.4% despite a flat quarter. GWM clients have benefited from this breadth as globally-diversified investors.

Bonds had a more difficult quarter. As energy prices rose and the Fed turned to rate increases, the 10-year Treasury yield climbed from roughly 4.4% at the end of June to approximately 5.3% by late September - levels last seen in 2007. The Bloomberg U.S. Aggregate Bond Index fell 3.5% for the quarter and is down 2.9% year-to-date. The flip side is meaningful: starting yields across nearly every maturity now sit near their highest levels in almost two decades, and historically, starting yield has been one of the best indicators of the return's bonds deliver going forward.



AI Developments: A Boom with Earnings Behind It

Artificial intelligence was once again the engine of the 3rd quarter, and with that leadership comes a familiar question: ***is this a bubble?*** History offers a useful comparison. During the dot-com era, the market value of the leading technology companies grew far faster than their earnings, and that gap eventually closed the

hard way. Capital Group's research shows the opposite pattern today - forward earnings for seven of the largest AI-exposed companies have grown faster than their stock prices since 2022. Capital Group has provided this context through the below charts (attached), making the case that there is far more substance behind the AI boom in the form of revenues and net income:

Dot-Com Era: Valuation vs. Earnings

AI Era: Valuation vs. Earnings

J.P. Morgan notes that the S&P 500 now trades near 19 times forward earnings, roughly in line with its long-run average and well below year-ago levels, as profits have outpaced prices.

As with every transformative technology, we expect leadership to rotate from one beneficiary to another as the trend matures. The most meaningful long-term opportunity may lie with the businesses using AI to become more efficient and create new products, not only those building the infrastructure - a view that supports owning the breadth of the market rather than concentrating in a handful of names.

Financing the AI build-out. The scale of investment is now large enough to show up in the bond market. J.P. Morgan estimates the full data center build-out could cost roughly $5 trillion through 2030, and that the largest cloud providers will issue approximately $279 billion in bonds this year, up from just $17 billion in 2024. Some have drawn comparisons to the pre-2008 era. We think the more important distinction is who is borrowing: these are among the strongest balance sheets in the market, and several hold more cash than debt. J.P. Morgan characterizes the likely outcome as "indigestion" - wider spreads and choppier credit markets as investors absorb heavy supply - rather than a credit crisis. That is a reason for selectivity and active management in bond portfolios, not alarm.

Most recently, we have seen Meta issue stock to raise cash for extensive AI capital expenditures – there is a likelihood we see this approach expand, putting real cash behind investment rather than leverage.

Outlook for the AI evolution. We believe the AI evolution is still in its early innings. The potential is considerable, and so are the uncertainties and risks. AI is already driving meaningful gains in capability and economic growth. The open question is whether returns will keep pace with the enormous investment over time. What is certain is that the path will be cyclical, with peaks and valleys along the way, and portfolios should be prepared for that. Going forward, we will be watching valuations, returns on investment, financing and credit risks, infrastructure constraints, and the evolving regulatory landscape.

Portfolio Perspective. Clients often ask how GWM is managing exposure to the AI buildout. The largest AI companies, including the hyperscalers and the chipmakers that supply them, are concentrated in the U.S. stock market, where they now make up roughly a third of its value. Our clients' most direct AI exposure therefore comes through market-weighted U.S. index strategies.

GWM has not made a concentrated bet on AI. We hold it at a market weight and diversify around it. Developed international markets carry meaningfully less AI exposure than the U.S., which reduces concentration risk. On the fixed income side, a holding-by-holding review of our bond managers found that AI-related debt is less than 1% of each fund, so direct exposure to AI credit risk is limited.

Taken together, AI-related companies make up about 15% of a GWM balanced portfolio. Within the stock allocation alone, the share is about 23%, compared with roughly a third for an investor holding only the S&P 500. Given the scale of the AI evolution, every investor carries some exposure to its swings in both directions. We believe our approach strikes the right balance: enough exposure to participate in AI-driven growth, with diversification to help protect against a downturn in the trade.

War in Iran: A Second Energy Shock

Tensions in the region rose again through Summer and into the Fall after de-escalation efforts stalled, and disruptions to shipping through the Strait of Hormuz increased. The market impact has come mainly through energy.

Oil prices are well above pre-conflict levels, and consumers and businesses are feeling it at the pump. The global energy system has adapted by rerouting supply and expanding alternative export routes, keeping prices well below the worst-case expectations. Recent diplomatic efforts have eased prices somewhat, but the outlook remains uncertain.

Historically, every major oil shock has eventually moved toward resolution as supply is restored. The open question is when that happens, not whether.

The Federal Reserve and Inflation

On September 16, the Federal Reserve raised its target rate by a quarter point to 3.75%-4.00%, its first increase since 2023. Chair Warsh framed the move as removing a dose of accommodation and emphasized the Fed's task of preventing an energy shock from broadening into everything else. At the October meeting, the Fed held rates steady - Markets currently expect a further increase at the December meeting.

The inflation picture is best understood as energy-led rather than broad-based. Headline CPI rose to 3.7% in September, with gasoline alone accounting for more than half of the monthly increase, while core inflation - which excludes food and energy - remains a more contained 2.6%. Research from the Dallas Fed suggests energy shocks lift headline inflation far more than core, and that the effect fades as supply normalizes.

Midterm Elections

Voters go to the polls on November 3. As of late October, forecasters and prediction markets favor Democrats to win control of the House, with Decision Desk HQ placing those odds near 80%. The Senate is considerably closer: most forecasts lean modestly toward Democrats. These are probabilities, not predictions, and polling has missed meaningfully in recent cycles. A divided Congress remains a realistic outcome, consistent with the view we shared last quarter.

Election results could shape the path of taxes, energy policy, and deficit spending, and we will track those developments closely - but corporate earnings and the economy have always mattered far more to long-term returns than which party controls Congress.

General Economy

The economy accelerated in the 3rd quarter, with GDP growing at a 3.4% annualized pace, up from 2.2% in the 2nd quarter and ahead of expectations despite higher oil prices and rising interest rates. Corporate earnings remained a powerful tailwind: S&P 500 companies are on pace for roughly 29% year-over-year earnings growth, the third straight quarter above 25%. Consumer spending held steady despite renewed pressure at the pump, though a cooling labor market, with just 29,000 jobs added in September, bears watching as higher costs work through household budgets.

A Closing Word

The 3rd quarter provided yet another example of staying disciplined through uncertainty - Within three months, a ceasefire gave way, oil rose more than 30%, the Fed began raising rates, and market leadership rotated sharply - all while the market barely registered the turmoil. Portfolios built to avoid depending on any single outcome - across asset classes, market capitalizations, and geographies - were not immune to the quarter's bond losses, but they captured the strength of international markets, the higher yields now available in bond markets, and the continued growth of corporate earnings. We continue to view this as an environment that rewards discipline, diversification, and alignment with long-term goals.

We are encouraged that clients continue to stay on track for long-term objectives. Please never hesitate to let us know how we can support you during this time and be the best partner we can in achieving your most meaningful goals. As always, we will be in touch into year-end as we continue to navigate the changing landscape of the world and how it might impact our clients.

Wishing everyone a great balance of the year as we move towards the holiday season!

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