AMPLIFY ETFs™

Market and
Economic **Update**

Market Update: AI Uncertainty, Yield Surge, and Middle East Unrest

Volatility Returns, but the Broader Trend Endures

AUGUST 2026

July proved to be a difficult month for markets, with major indices finishing slightly in the red. That said, this pullback comes against a backdrop of solid year-to-date gains, and the broader market remains not far from its all-time high. Several factors shaped daily market movements throughout the month, including fresh concerns about AI spending, Treasury yields pushing toward multi-year highs, oil prices climbing after a breakdown in the Middle East ceasefire, and the Federal Reserve opting to hold rates steady.

Many of these developments reflect longer-term themes that could continue to generate volatility in the months ahead. At the same time, these same trends have helped propel markets higher this year, underscoring the value of portfolio balance and a longer-term perspective. What can investors take away from July as they look toward the remainder of the year?

Key Market and Economic Drivers in July

- The S&P 500 and Nasdaq declined -0.1% and -3.2%, respectively, while the Dow Jones Industrial Average rose 0.3% in July.
- Volatility jumped in the middle of the month with the VIX index climbing as high as 21 before settling back toward 16.
- International developed markets returned 1.9% based on the MSCI EAFE Index in U.S. dollar terms, while emerging markets fell -3.3% based on the MSCI EM Index.
- The 30-year Treasury yield surged to a 19-year high to close around 5.28% and the 10-year Treasury yield ended the month at a peak of 4.74%. The Bloomberg U.S. Aggregate Index fell -1.3%.
- Oil prices rose with Brent crude climbing above $100 before closing at $90 per barrel and WTI at $85 per barrel.
- The U.S. Dollar Index (DXY) fell just under 100 while the Japanese Yen depreciated significantly, closing around 157. Gold ended the month approximately unchanged at about $4,050 per ounce.
- Second quarter real GDP growth increased at an annual rate of 1.5%, down from the 2.1% growth recorded in the first quarter of the year.
- At the July FOMC meeting, the Federal Reserve decided to keep rates unchanged at 3.50%-3.75% in a 9-3 vote.

1. AI investment fuels mixed results across the tech sector

SECTORS RELATIVE TO THE S&P 500

S&P 500 Index and GICS Sector Total Returns

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Utilities 19.9%															
Cons. Stap. 14.0%					Energy 27.4%						Energy 65.7%				
Healthcare 12.7%			Real Estate 30.2%	Cons. Disc. 10.1%	Comm. 23.5%						Utilities 1.6%				
Real Estate 11.4%	Financials 28.8%		Utilities 29.0%	Healthcare 6.9%	Financials 22.8%	Tech 38.8%	Healthcare 6.5%				Cons. Stap. -0.6%				Energy 34.7%
Comm. 6.3%	Cons. Disc. 23.9%	Cons. Disc. 43.1%	Healthcare 25.3%	Cons. Stap. 6.6%	Industrials 18.9%	Materials 23.8%	Utilities 4.1%		Tech 43.9%	Energy 54.6%	Healthcare -2.0%		Comm. 40.2%		Industrials 16.5%
Cons. Disc. 6.1%	Real Estate 19.7%	Healthcare 41.5%	Tech 20.1%	Tech 5.9%	Materials 16.7%	Cons. Disc. 23.0%	Cons. Disc. 0.8%	Tech 50.3%	Cons. Disc. 33.3%	Real Estate 46.2%	Industrials -5.5%	Tech 57.8%	Tech 36.6%	Comm. 33.6%	Tech 15.7%
Energy 4.7%	Comm. 18.3%	Industrials 40.7%	Cons. Stap. 16.0%	Real Estate 4.7%	Utilities 16.3%	Financials 22.2%	Tech -0.3%	Comm. 32.7%	Comm. 23.6%	Financials 35.0%	Financials -10.5%	Comm. 55.8%	Financials 30.6%	Tech 24.0%	Real Estate 14.3%
Tech 2.4%	Healthcare 17.9%	Financials 35.6%	Financials 15.2%	Comm. 3.4%	Tech 13.8%	Healthcare 22.1%	Real Estate -2.2%	Financials 32.1%	Materials 20.7%	Tech 34.5%	Materials -12.3%	Cons. Disc. 42.4%	Cons. Disc. 30.1%	Industrials 19.4%	Cons. Stap. 10.3%
S&P 500 2.1%	S&P 500 16.0%	S&P 500 32.4%	S&P 500 13.7%	S&P 500 1.4%	S&P 500 12.0%	S&P 500 21.8%	S&P 500 -4.4%	S&P 500 31.5%	S&P 500 18.4%	S&P 500 28.7%	S&P 500 -18.1%	S&P 500 26.3%	S&P 500 25.0%	S&P 500 17.9%	S&P 500 10.1%
Industrials -0.6%	Industrials 15.3%	Tech 28.4%	Industrials 9.8%	Financials -1.5%	Cons. Disc. 6.0%	Industrials 21.0%	Cons. Stap. -8.4%	Industrials 29.4%	Healthcare 13.4%	Materials 27.3%	Real Estate -26.1%	Industrials 18.1%	Utilities 23.4%	Utilities 16.0%	Materials 10.1%
Materials -9.8%	Materials 15.0%	Cons. Stap. 26.1%	Cons. Disc. 9.7%	Industrials -2.5%	Cons. Stap. 5.4%	Cons. Stap. 13.5%	Comm. -12.5%	Real Estate 29.0%	Industrials 11.1%	Healthcare 26.1%	Tech -28.2%	Materials 12.5%	Industrials 17.5%	Financials 15.0%	Healthcare 6.0%
Financials -17.1%	Tech 14.8%	Materials 25.6%	Materials 6.9%	Utilities -4.8%	Real Estate 3.4%	Utilities 12.1%	Financials -13.0%	Cons. Disc. 27.9%	Cons. Stap. 10.7%	Cons. Disc. 24.4%	Cons. Disc. -37.0%	Real Estate 12.4%	Cons. Stap. 14.9%	Healthcare 14.6%	Utilities 5.3%
	Cons. Stap. 10.8%	Energy 25.1%	Comm. 3.0%	Materials -8.4%	Healthcare -2.7%	Real Estate 10.8%	Industrials -13.3%	Cons. Stap. 27.6%	Utilities 0.5%	Comm. 21.6%	Comm. -39.9%	Financials 12.1%	Energy 5.7%	Materials 10.5%	Financials 4.9%
	Energy 4.6%	Utilities 13.2%	Energy -7.8%	Energy -21.1%		Energy -1.0%	Materials -14.7%	Utilities 26.3%	Financials -1.7%	Industrials 21.1%		Healthcare 2.1%	Real Estate 5.2%	Energy 8.7%	Comm. 1.4%
	Utilities 1.3%	Comm. 11.5%				Comm. -1.3%	Energy -18.1%	Materials 24.6%	Real Estate -2.2%	Cons. Stap. 18.6%		Cons. Stap. 0.5%	Healthcare 2.6%	Cons. Disc. 6.0%	Cons. Disc. 0.0%
		Real Estate 1.6%						Healthcare 20.8%	Energy -33.7%	Utilities 17.7%		Energy -1.3%	Materials -0.0%	Cons. Stap. 3.9%	
								Energy 11.8%				Utilities -7.1%		Real Estate 3.2%	

Past Performance is no guarantee of future results. *Sources: Clearnomics, LSEG, Standard & Poor's. ©Clearnomics. 1/1/2011 – 7/31/2026*

Second quarter corporate earnings reports brought new scrutiny to AI investments and sparked notable market swings. Investor concern centered on the free cash flow of large technology companies, commonly referred to as "hyperscalers," which continue to pour hundreds of billions of dollars into data center construction and AI infrastructure. Markets are closely watching whether these enormous capital expenditures will ultimately translate into meaningful profits. Notably, spending on data centers alone has grown into a significant contributor to U.S. economic activity, surpassing all other categories of office construction.[1]

The scale of these investments is also rippling into international markets, particularly among global semiconductor companies. Major chip suppliers experienced sharp corrections during the month, contributing to a 24% decline in the South Korean KOSPI 200 index in July, following a significant run-up in 2025. This illustrates that while AI remains a powerful market theme, it also brings periods of meaningful volatility.

A notable AI development in July was the launch of a new large language model, Kimi K3, by the Chinese company Moonshot AI.[2] This model reportedly competes with the most advanced models from companies such as OpenAI, Anthropic, and Alphabet. It is also "open weight," meaning that anyone with the right hardware can run the model themselves, in contrast to most frontier models which are proprietary.

While last year's DeepSeek models demonstrated that AI models could be built more efficiently, Kimi K3 signals that newer open models can rival cutting-edge proprietary ones. This introduces further uncertainty about the trajectory of the AI industry, spanning both hardware and infrastructure requirements, as well as which country will lead the next phase of AI development.[3]

For long-term investors, it is worth remembering that AI is just one of many factors driving market performance. The chart above highlights that other sectors, including Energy, Industrials, and more, have also performed well this year. As markets continue to assess the long-term economic impact of AI, maintaining a balanced approach across sectors and asset classes remains important.

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2. Middle East conflict briefly pushes oil back above $100

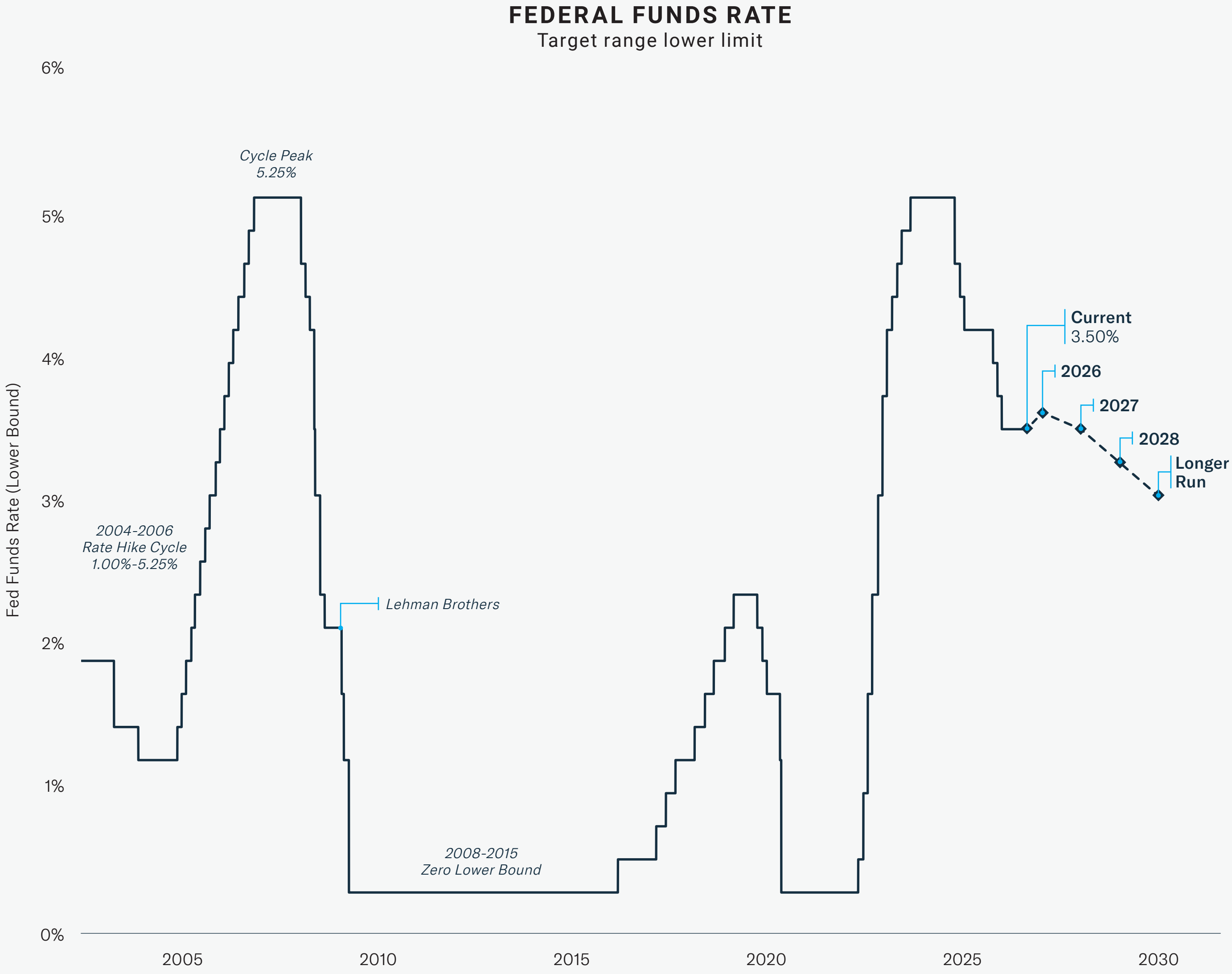
GLOBAL OIL PRICES
WTI and Brent Crude

Past Performance is no guarantee of future results. *Sources: Clearnomics, LSEG. ©Clearnomics. 1/1/2005 – 7/31/2026*

The ongoing conflict in Iran contributed to short-term market disruptions during July. Tensions escalated mid-month after the U.S. conducted additional airstrikes against Iranian military sites, slowing traffic through the Strait of Hormuz, a critical chokepoint for global oil supply. The conflict broadened when Yemen's Houthi forces struck Saudi Arabian oil tankers in the Bab al-Mandeb Strait in the Red Sea, drawing another key waterway into the conflict.[3]

In response, Brent crude briefly surpassed $100 per barrel before retreating to approximately $90 by month-end. For context, oil had fallen as low as $72 per barrel earlier in July. Elevated energy prices carry broad economic consequences, as they directly increase fuel costs for both households and businesses. Gasoline prices remain around $4.10 per gallon nationally, a level that could keep headline inflation elevated.[4]

3. The Federal Reserve holds rates amid a divided committee



Past Performance is no guarantee of future results. *Sources: Clearnomics, Federal Reserve. ©Clearnomics. 1/1/2002 – 7/31/2026*

At its July meeting, the Federal Open Market Committee (FOMC) opted to keep the federal funds rate unchanged within a range of 3.50% to 3.75%, even as inflation concerns persisted.[5] This decision contributed to additional market volatility as bond yields rose and investors worked to assess the likelihood of future rate increases.

New Fed Chair Kevin Warsh has deliberately reduced the level of communication regarding how the Fed may act at future meetings and declined to address how the Fed might respond to various economic scenarios. The market's reaction to this reduced "forward guidance" was a rise in bond yields, with both nominal and real Treasury rates climbing to their highest levels in recent years.

For investors, uncertainty around Fed policy could translate into greater volatility in yields. At the same time, higher yields present potential opportunities for portfolio diversification.

New tariffs add more economic uncertainty

New tariffs introduced additional complexity to the economic environment in July. After the Supreme Court ruled that last year's reciprocal tariffs under the International Emergency Economic Powers Act were illegal, the administration responded by implementing new tariffs under a separate trade law, Section 122 of the Trade Act of 1974. Those tariffs expired in July, prompting the White House to implement further tariffs under different trade rules.

The net result is that many countries now face tariffs ranging from 10% to 12.5%. Certain countries face considerably higher rates, including a 50% tariff on specific Canadian goods such as cement, dairy, and alcohol. These tariffs were introduced under Section 338 of the Tariff Act of 1930, citing what the administration described as discriminatory treatment of American products.[6]

As is typically the case, the full economic effects of these tariff measures will take time to become apparent. For long-term investors, a key observation is that many of the market and economic concerns stemming from tariffs have not materialized to the extent some had anticipated. While tariffs do affect specific industries and consumer prices, companies have the ability to adapt and adjust their pricing strategies over time. In fact, the economy has continued to grow steadily and the S&P 500 has reached multiple new all-time highs over the past year.

The bottom line?

July reinforced the importance of keeping a long-term perspective. Market challenges can create opportunities for investors who are positioned across different asset classes. Staying focused on the bigger picture, rather than reacting to the news headlines, remains key to pursuing long-term financial goals.

[1] https://www.census.gov/construction/c30/c30index.html

[2] https://forum.moonshot.ai/t/kimi-k3-is-here-our-most-capable-model/480

[3] https://apnews.com/article/yemen-saudi-houthis-attack-shipping-red-sea-4e25fbdad821762e478173e6308884fb

[4] https://gasprices.aaa.com/

[5] https://www.federalreserve.gov/newsevents/pressreleases/monetary20260729a.htm

[6] https://www.whitehouse.gov/fact-sheets/2026/07/fact-sheet-president-donald-j-trump-imposes-additional-tariffs-on-canada/

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