

A Changing Investment Landscape

Higher rates, resilient stocks, and policy
uncertainty shape the Q4 outlook

OCTOBER 2026

The third quarter presented a mixed picture for investors, shaped by two powerful forces. Interest rates climbed to 20-year highs, while strong corporate earnings continued to underpin equity markets. Against this backdrop, oil prices surged back above \$100 per barrel, the Federal Reserve raised rates for the first time in three years, and attention is turning toward November's midterm elections.

Despite these crosscurrents, major U.S. stock indices ended the quarter near all-time highs, and the gains were broad-based. The energy sector, international equities, and commodities all contributed positively. Bond yields, while reflecting the pressure of rising rates, have reached their most attractive levels in years. These dynamics underscore why maintaining portfolio balance remains essential, particularly as new opportunities and challenges emerge heading into the fourth quarter.

Key market and economic drivers in Q3 2026¹



The S&P 500 returned 2.3% in the third quarter and the Nasdaq Composite gained 2.6%, while the Dow Jones Industrial Average declined -2.3%. Year-to-date, the three indices have returned 12.7%, 16.1%, and 7.2%, respectively.



Developed market international stocks (MSCI EAFE) gained 0.9%, while emerging market stocks (MSCI EM) declined -0.4% over the quarter, both in U.S. dollar terms.



The Bloomberg U.S. Aggregate Bond Index fell -3.5% in the third quarter for a year-to-date decline of -2.9%, with longer-dated bonds struggling. The 10-year Treasury yield climbed to 5.29%, a two-decade high.



The Bloomberg Commodity Index jumped 15.1% over the quarter. Brent crude ended the quarter at \$103 per barrel while WTI finished at \$90.



Gold fell further to \$4,156 per ounce, while the U.S. Dollar Index recovered to 101.45.



August headline Consumer Price Index (CPI) rose 3.4% year-over-year, while core CPI, which excludes volatile food and energy prices, increased only 2.4%. The core Personal Consumption Expenditures (PCE) price index, the Fed's preferred measure of underlying inflation, rose 3.0% year-over-year in August.



The Federal Reserve raised its key policy rate to a range of 3.75% to 4.00% in September.



The third estimate of second quarter Gross Domestic Product (GDP) showed that growth was better than expected at 2.2% quarter-over-quarter. This was primarily driven by a 2.5% gain in personal consumption expenditures.

1. Investors are adjusting to a higher interest rate environment

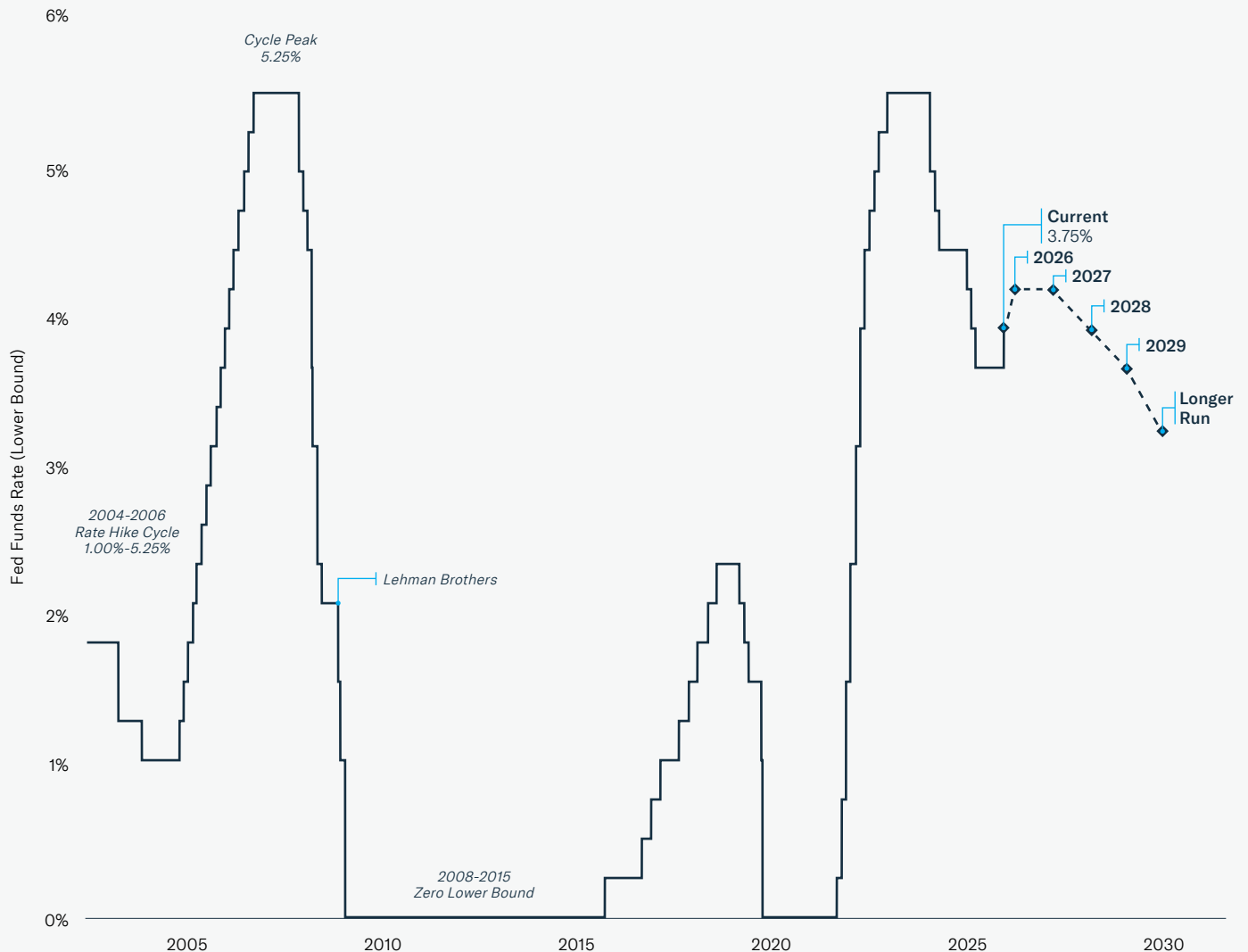
HISTORICAL INTEREST RATES
10-year and 2-year yields since 1960



Past performance is no guarantee of future results. Sources: Clearnomics, Federal Reserve. ©Clearnomics. 1/4/1960 - 9/30/2026

The defining feature of the third quarter was the persistent rise in interest rates to levels not seen since the early 2000s. From the early 1980s through 2020, interest rates experienced a long, gradual decline, often described as a 40-year bull market in bonds. The low-rate environment that followed the 2008 global financial crisis is no longer the prevailing backdrop for portfolio decisions. With bonds now offering more income, this shift carries meaningful implications for asset allocation.

FEDERAL FUNDS RATE Target range lower limit

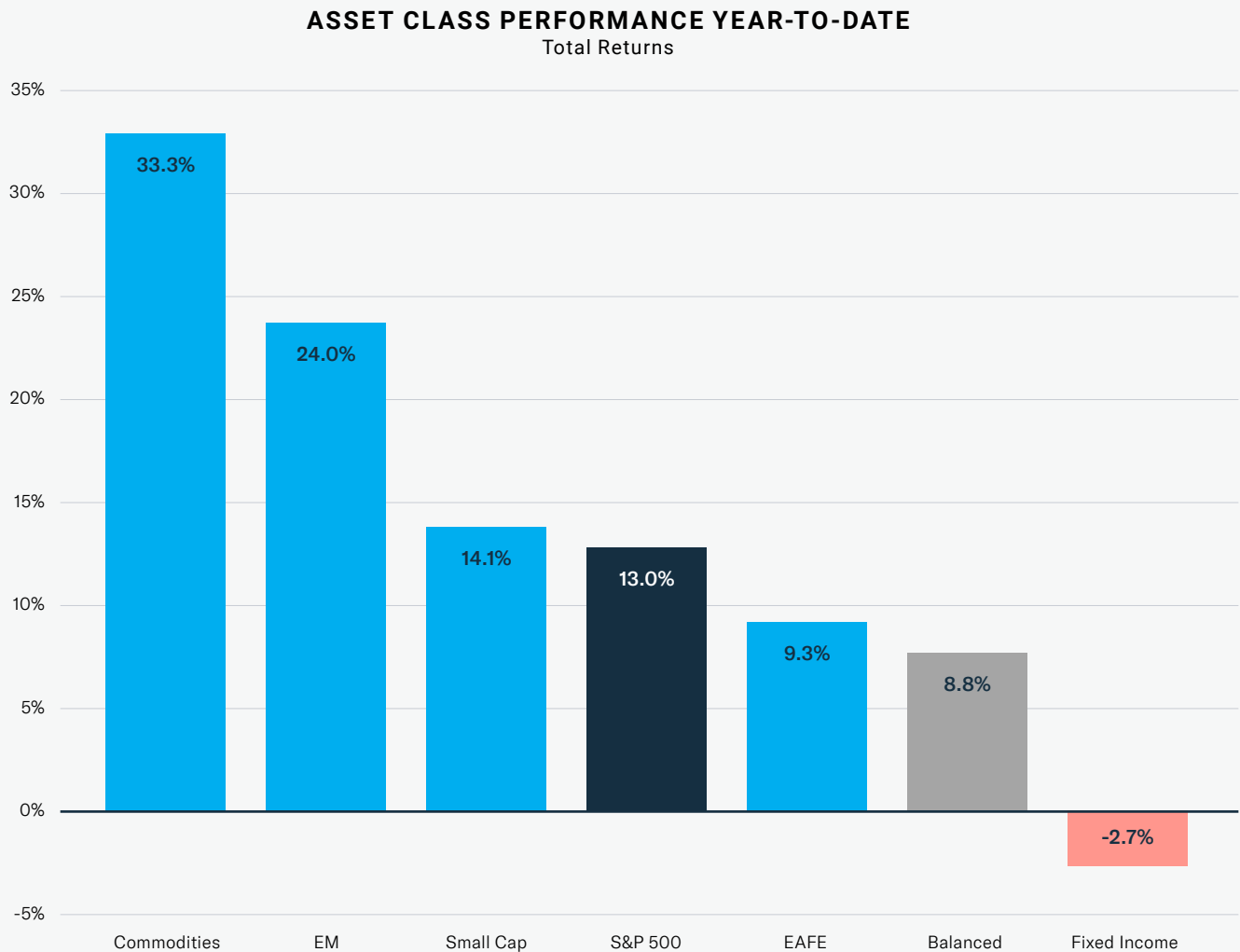


Past performance is no guarantee of future results. Sources: Clearnomics, Federal Reserve. ©Clearnomics. 1/1/2002 - 9/30/2026

At its September meeting, the Fed raised policy rates by one-quarter of a percent to a range of 3.75% to 4.00%, the first hike in three years following a period of rate cuts from September 2024 to December 2025.

This hike is primarily a response to higher energy prices, a dynamic economists describe as “cost-push inflation.” The Fed’s goal is to prevent energy-driven price increases from spreading more broadly through the economy. Projections from Fed officials suggest one additional hike may follow before a pause through 2027, though these outlooks are subject to change. Historically, markets and interest rates have often moved higher together later in the business cycle, and the third quarter offered a timely reminder of this dynamic.

2. Earnings Growth and AI Continue to Support Markets



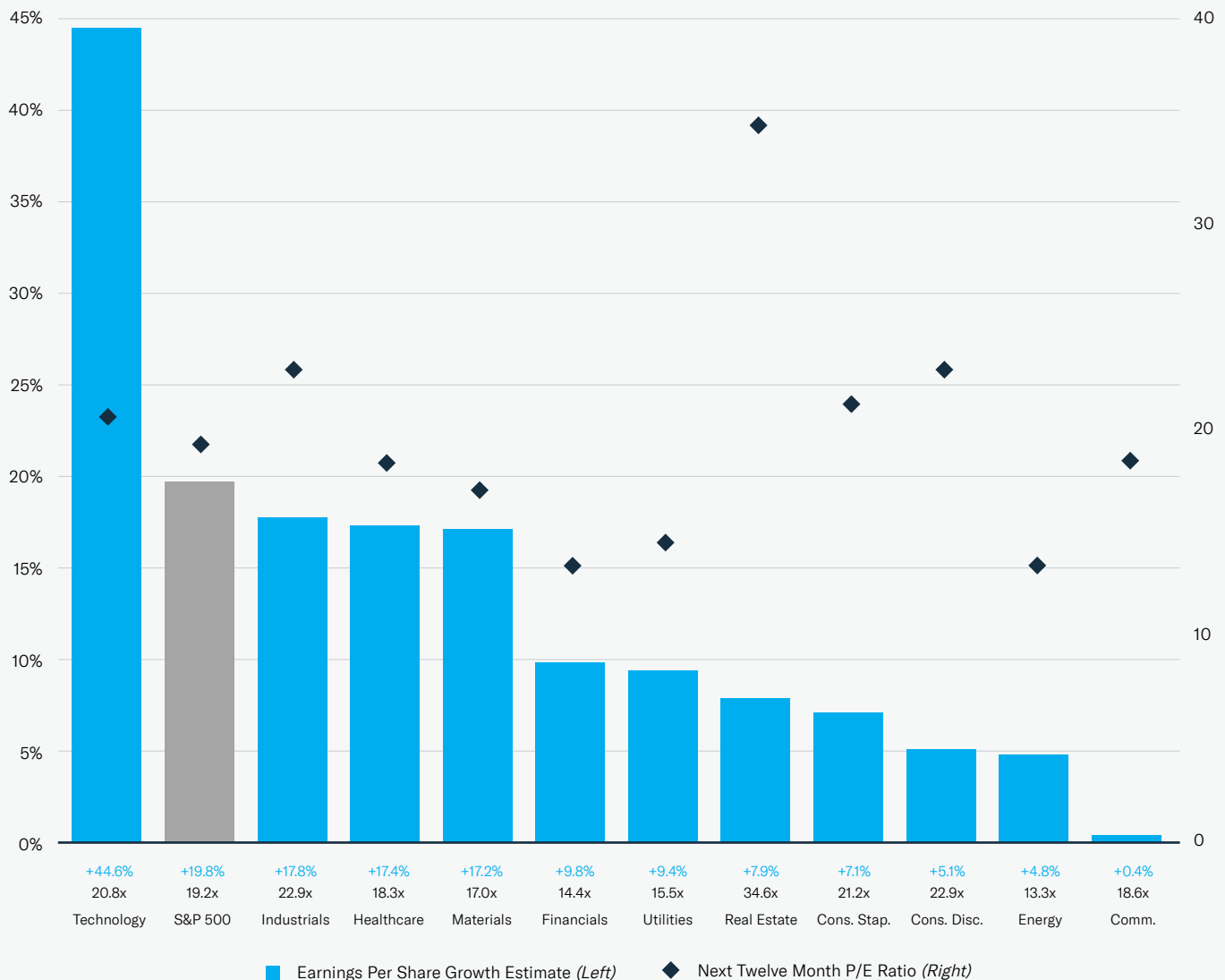
Past performance is no guarantee of future results. Sources: Clearnomics, LSEG. Balanced portfolio is a 60/40 historical index calculation consisting of 40% U.S. large cap, 5% small cap, 10% international developed equities, 5% emerging market equities, 35% U.S. bonds and 5% commodities. ©Clearnomics. 1/1/2026 – 9/30/2026

The S&P 500, Nasdaq, and Dow Jones Industrial Average all reached new all-time highs in the third quarter, supported by a resilient economy and continued investment in AI infrastructure. Current consensus estimates suggest that the S&P 500 could experience earnings growth of over 30% across 2026.²

Positive performance has extended beyond U.S. large cap stocks, with other regions and asset classes also benefiting from AI-related themes, particularly semiconductor companies in Asia.³ Commodities have added further broadening, with oil prices climbing from around \$70 per barrel in early July to over \$100 in September due to Middle East tensions, while copper and diesel also reached notable highs. The breadth of these contributions highlights the value of a well-considered asset allocation heading into the fourth quarter.

SECTOR EARNINGS AND VALUATIONS

Earnings Growth and P/E Ratios, Next Twelve Month Estimates

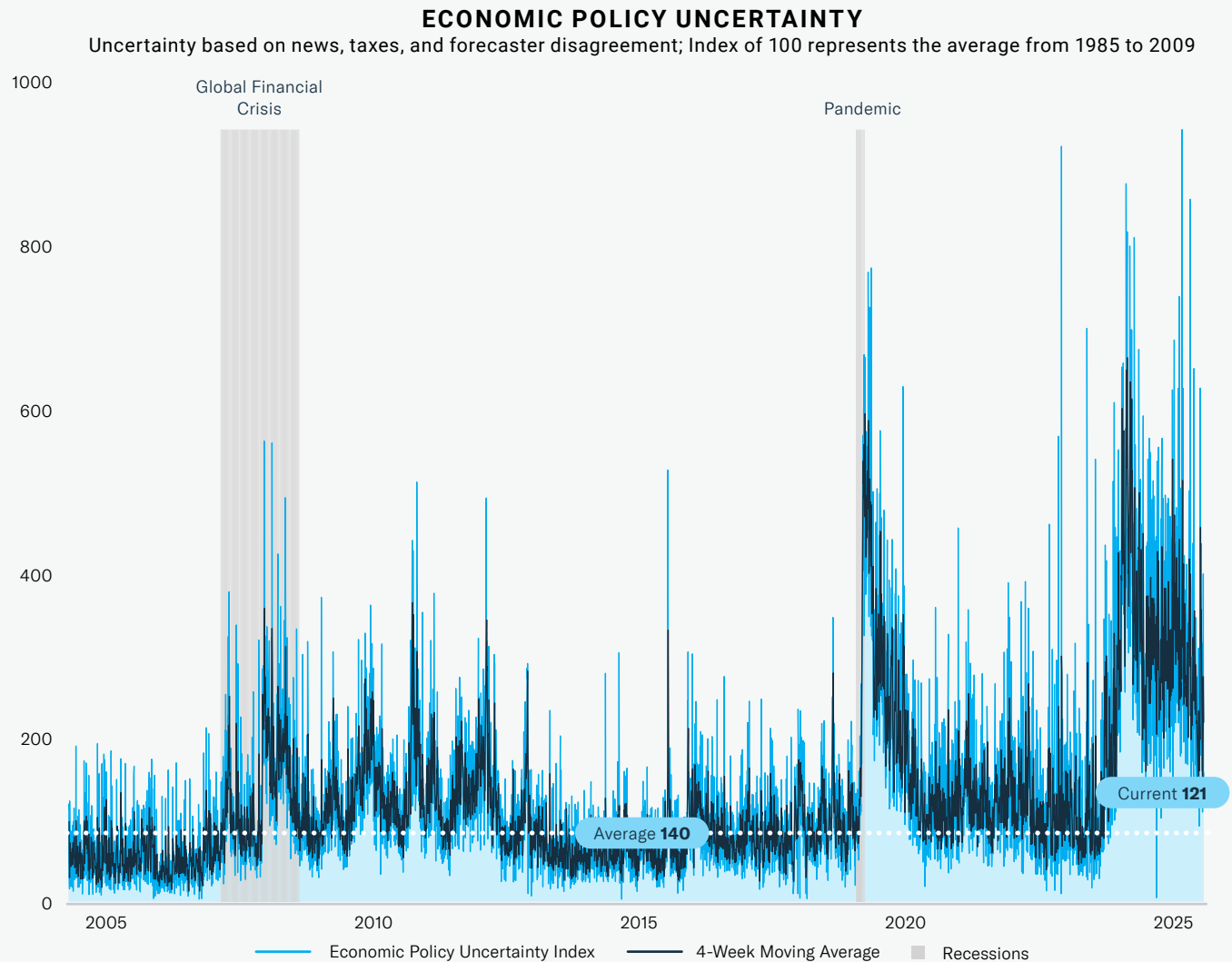


Past performance is no guarantee of future results. Sources: Cleonomics, LSEG, Standard & Poor's. ©Cleonomics. Latest data as of 9/30/2026

The chart above illustrates the divergence in earnings growth between Information Technology and the other ten S&P 500 sectors.⁴ While some investors are concerned about concentration risk, other sectors have also contributed meaningfully, with energy standing out as the best performer at a 37.4% year-to-date gain through the third quarter.

A key open question is whether AI will generate lasting productivity gains. The 2020s have so far seen average productivity growth of 2.1% per year, compared to only 1.2% in the 2010s, but whether this trend continues will likely shape markets and the broader economy for years to come.

3. Elections, Policy Uncertainty, and the Road Ahead



Past performance is no guarantee of future results. Sources: Clearnomics, Baker Bloom and Davis, Federal Reserve. ©Clearnomics. 1/1/2005 - 9/30/2026

November's midterm election is unfolding against a complex backdrop of tariffs, geopolitical conflict, inflation, and questions around AI. As the chart above illustrates, elevated economic policy uncertainty over the past two years has contributed to short-term market volatility. At the same time, markets have also shown the ability to stabilize and recover in ways that can surprise investors. History shows that the S&P 500 has averaged annual total returns of 8.6% across midterm election years since 1933,⁵ and markets have performed well on average across varying configurations of Congress.⁶

Beyond the electoral outcome, investors are also focused on fiscal challenges. Total federal debt recently exceeded \$40 trillion for the first time, representing nearly \$120,000 per American, and the annual budget deficit is projected to exceed \$2 trillion for the government's 2026 fiscal year.⁷ Over time, these trends could increase government borrowing costs. The most constructive response for investors is to maintain a portfolio built to perform across a range of political and economic environments, rather than attempting to predict any single outcome.

The bottom line?

Stocks reached new highs in the third quarter, with many asset classes contributing to portfolios, despite bonds struggling as interest rates rose. As new developments unfold and the midterm election approaches, investors should continue to stay balanced and focus on financial goals.

¹ Return figures represent total returns with reinvested dividends. All figures as of September 30, 2026

² Clearnomics research using LSEG data, as of September 30, 2026

³ Clearnomics research using FTSE Russell and MSCI data, as of September 30, 2026

⁴ Clearnomics research using LSEG and Standard & Poor's data, as of September 30, 2026

⁵ Clearnomics research using Standard & Poor's data, as of September 30, 2026

⁶ Clearnomics research using Standard & Poor's data, as of September 30, 2026

⁷ FiscalData, Treasury.gov, as of September 30, 2026

Indexes are unmanaged and it's not possible to invest directly in an index. The S&P 500 Total Return Index is a market-capitalization weighted index of the 500 largest U.S. publicly traded companies. CBOE Volatility Index (VIX) is a measure of implied volatility, based on the prices of a basket of S&P 500 Index options with 30 days to expiration. Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors. MSCI EAFE Index is designed to measure the equity market performance of developed markets outside the U.S. and Canada. MSCI Emerging Markets (EM) Index is designed to measure large- and midcap representation across emerging market countries. Bloomberg U.S. Aggregate Bond Index is designed to measure the performance of the U.S. investment grade bond market. 10-year Treasury is represented by the Bloomberg US Treasury Bellwethers 10 Year Index that measures the on-the-run (most recently auctioned) U.S. Treasury bond with 10 years' maturity. Bloomberg Commodities Index measures the performance of

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MEU-COM-1026