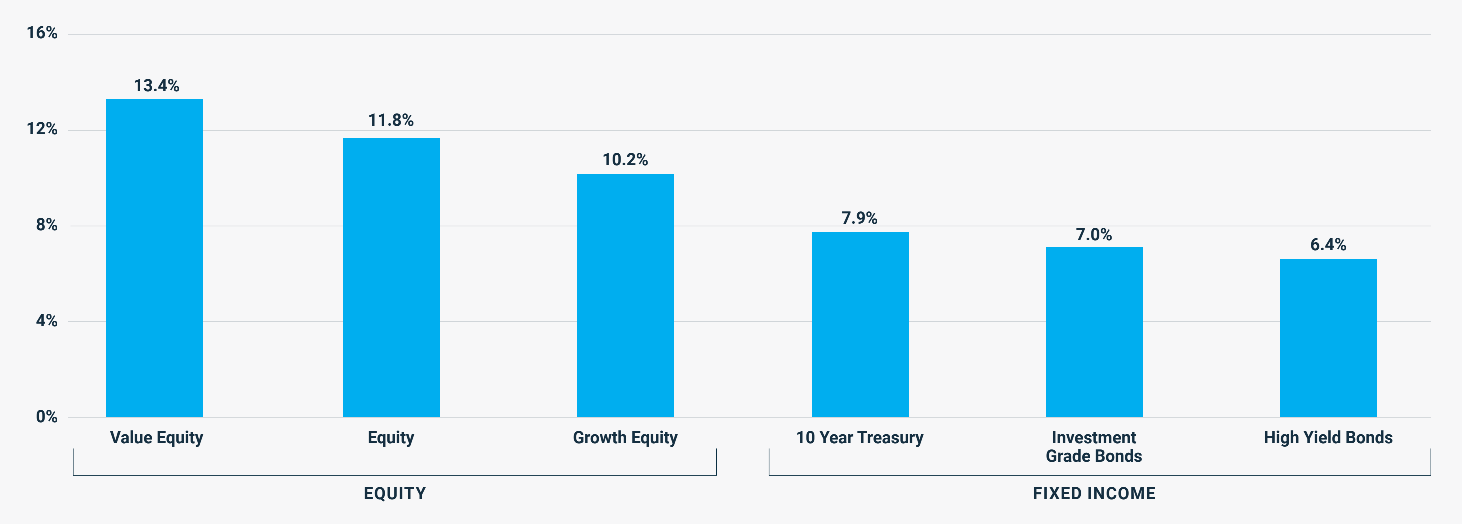
Amplify ETFs

# What Happens After the Fed Tightening Stops?

Over the last 40 years there have been eight instances of the Federal Reserve ("Fed") ending their rate hiking cycle (measured by the last rate hike before an eventual rate decrease). The below chart shows that both equity and fixed income asset classes experienced positive performance in the six-month period following the final Fed rate hike in a tightening cycle.

## Average Six-Month Performance After Fed Hiking Cycle Ends




***Past performance isn't a guarantee of future results.*** *Indexes are unmanaged and it's not possible to invest directly in an index. See below for asset class/index definitions. Data is as of 09/30/2023.*

The returns for each of the asset classes are an average of the returns from each six-month period immediately following the final rate hike in a tightening cycle.

Overall, absolute performance was positive with higher grade corporate bonds outperforming lower rated high-yield bonds. In addition, U.S. Treasury securities performed well, however, the bulk of the performance in corporate bonds was driven by the performance of the reference Treasury securities. U.S. Treasuries on average had stronger performance with less credit risk than other fixed income asset classes—corporate bonds and high yield.

When the perspective shifts to equities, the story is equally intriguing. Typically, when investors have greater appetite for risk, growth equities outperform value. Despite that tendency, the data shows that value equities provided, on average, more than 3% of outperformance relative to growth equities in the six months following the final rate hike. This is notable as risk-averse investors generally prefer value equities over growth equities.

We know the goal of a rate hiking cycle is to slow the economy without triggering a recession.

The Fed pausing rates may be a signal of either:

- Slowing job growth, lower levels of lending, declining inflation, and an economy operating near the levels targeted by Fed officials.

**or**

- Rates have gone too high, and the economy is contracting too quickly.

In both cases, historically that is a trigger for the Fed to pivot. Of course, no one will know for sure that the Fed is done tightening until rates are cut or an announcement is made that the cycle has ended.

In either of the aforementioned scenarios where the Fed feels the need to stop raising rates, investors have tended to lean towards less volatile securities such as bonds, especially if inflation is coming closer to the Fed's long-term target. Bonds are generally considered less risky and are seen as a less volatile option in the event of economic upheaval. On the equity side, investors tend to prefer the operating stability and dividends typically generated by value equities rather than the more speculative risks associated with growth equities. As mentioned, value equities provided stronger historical performance in the six months following the final rate hike on average.

All in, whether or not the Fed makes one more rate hike as they hinted at during their most recent press conference following the Federal Open Market Committee (FOMC) rate decision, it's become clear that they may be getting close to signaling a change in policy.

*The value equity is represented by the Russell 1000® Value Total Return Index that measures the performance of the large-cap value segment of the US equity universe.*

*The equity index is represented by the S&P 500 Total Return Index, which is a market-capitalization weighted index of the 500 largest U.S. publicly traded companies.*

*The growth equity is represented by the Russell 1000® Growth Total Return Index that measures the performance of the large-cap growth segment of the US equity universe.*

*The 10 Year Treasury is represented by the Bloomberg US Treasury Bellwethers 10 Year Total Return Index that measures the on-the-run (most recently auctioned) U.S. Treasury bond with 10 years' maturity.*

*The investment grade bonds are represented by the Bloomberg US Agg Total Return Index that measures the investment grade, US dollar-denominated, fixed rate taxable bond market.*

*The high yield bonds are represented by the Bloomberg US Corporate High Yield Total Return Index that measures the USD-denominated, high yield, fixed-rate corporate bond market.*