CIO favors the semiconductor companies that are driving the investment in AI infrastructure at the data center and at the edge. (UBS)

What's next for semiconductors?

02 August 2024, 3:21 pm CEST, written by UBS Editorial Team

Semiconductor stocks have come under pressure recently, with a well-watched gauge of the most prominent US semi companies down around 18% from recent highs.

CIO thinks solid fundamentals of supply-demand imbalances, healthy operating margins, and more reasonable valuations can support a semiconductor rebound. We still advise investors to seize the AI opportunity, with a focus on the enabling layer that includes semiconductors.

Semiconductor stocks have fallen as part of a broader tech correction.

- The Philadelphia Stock Exchange Semiconductor Index ("SOX") has fallen around 18% from recent July highs.
- More broadly, key global benchmarks like MSCI AC World Technology Index have fallen 10% from recent peaks.
- Geopolitics, mixed second-quarter earnings, and select margin concerns have weighed on semiconductor producers in particular.

But we see semi opportunities based on solid fundamentals.

- Customers of the world's most prominent semiconductors for AI report still-robust demand and difficulty in securing supply, supportive of operating margins.
- Second-quarter earnings results suggest consensus estimates for big tech's AI capex may rise by USD 9bn, implying a robust 43% year-over-year growth rate.
- CIO analysis finds that, over the past decade, tech indexes have rebounded strongly over the next six months after a 10% valuation reset as investors reward the sector for its strong growth.

So, we still like quality tech stocks and the enabling layer of the AI value chain, including semis.

- We see scope to find tactical buying opportunities in select global semiconductor names, especially in AI accelerator names.
- Investors concerned about further potential consolidation—including swings around US export control renewals in October—could consider the use of structured strategies to capture potential gains, while limiting potential losses through capital-preservation features.

Did you know?

- We segment the investable AI universe into a value chain: The enabling layer that provides the backbone for AI development, the intelligence layer that that turns computing and energy resources into intelligence, and the application layer that embeds the tools from the intelligence layer.
- The artificial intelligence market potential is large—we estimate that AI value creation could amount to USD 1.16 trillion by 2027.

Investment view

We have a most preferred view on the US information technology sector. Within the AI opportunity set, we like the enabling layer for its mix of attractive and visible earnings growth profiles, strong competitive positioning, reinvestment runway, and reasonable valuations. We favor the semiconductor companies that are driving the investment in AI infrastructure at the data center and at the edge.

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Original report - **What's next for semiconductors?, 2 August 2024.**