

Cash Flow and Carey



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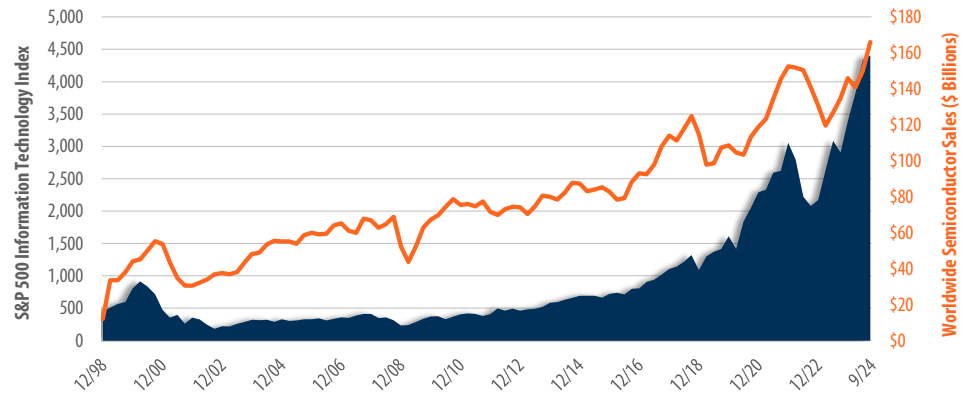
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This chart is for illustrative purposes only and not indicative of any actual investment. There can be no assurance that any of the projections cited will occur. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Information Technology Index is capitalization-weighted and comprised of S&P 500 constituents representing the technology sector. The S&P 500 Communication Services Index is capitalization-weighted and comprised of S&P 500 constituents representing the communication services sector.

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Technology Stocks and Semiconductors

Worldwide Semiconductor Sales vs. S&P 500 Information Technology Index (Price-Only)



Bloomberg. Quarterly Data Points from 12/31/1998 through 9/30/24. **Past Performance is no guarantee of future results.**

View from the Observation Deck

Tracking the direction of worldwide semiconductor sales can provide investors with additional insight into the potential demand for tech-oriented products and the overall climate for technology stocks, in our opinion. As evidenced by recent developments in artificial intelligence (AI) and robotics, as well as the vast market for smartphones, tablets, and wearables, we continue to find creative and innovative ways to integrate semiconductors into our everyday lives.

Semiconductor sales appear to lag fluctuations in the valuations of technology stocks.

As today's chart reveals, changes in semiconductor sales typically occur after changes in the performance of the S&P 500 Technology Index. This phenomenon continues to be true as of today's update to this post. Case in point, the S&P 500 Technology Index increased to its third consecutive quarterly all time high at the end of September 2024. By contrast, prior to the most recent quarter, semiconductor sales hadn't posted a quarterly record since Q4'21.

Worldwide sales of semiconductors totaled a record \$166.0 billion in Q3'24, an increase of 23.2% from Q3'23.

Amidst unprecedented demand, the Semiconductor Industry Association reported that worldwide semiconductor sales surged by 26.2% to a record \$555.9 billion in 2021. In 2022, sales increased to another record (\$574.1 billion), but had begun to stagnate in the second half of the year. In 2023, worldwide sales of semiconductors declined by 8.2% year-over-year to \$526.8 billion. Since then, as evidenced by the third quarter's record, sales of semiconductors increased dramatically. Aggregate semiconductor sales totaled \$456.7 billion year-to-date through 9/30/24, putting them within reach of 2022's record tally.

The technology sector continues to be a top performing sector compared to its peers.

Propelled forward by promising developments in AI and an easing in the global chip shortage, the S&P 500 Information Technology Index increased by 57.84% in 2023. In our view, these factors remain relevant today, and continue to entice investors to the sector. Year-to-date through 11/12/24, the S&P 500 Information Technology Index posted a total return of 36.34%, second only to the S&P 500 Communication Services Index which increased by 37.41% on a total return basis over the same time frame. Despite surging valuations, recent cuts to the federal funds rate appear to have made competing sectors more attractive to investors. Tellingly, the S&P 500 Information Technology Index increased by just 1.58% since 7/9/24, the day Jerome Powell testified that the U.S. economy was no longer overheated, making it the worst performing of all 11 subsectors that comprise the broader S&P 500 Index over the period (7/9 thru 11/12).

Takeaway

It is nearly impossible to discuss semiconductors and technology stocks without mentioning developments in AI, and rightly so. One forecast suggests the global AI market could grow to nearly \$600 billion by 2026 and \$1.8 trillion by 2030, according to Ryan Issakainen, ETF Strategist at First Trust Portfolios L.P. These estimates, coupled with resilient U.S. consumer spending, and increasing demand for semiconductors have served as potent catalysts to technology stocks over the past several years. Despite record technology sector valuations, global semiconductor sales remain below their all-time yearly high set in 2022. That said, increased demand for AI-related chips resulted in record semiconductor sales in Q3'24. Should that trend continue, 2024 could be a record setting year for sales in the space.