weekly investment focus

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"SEMICONDUCTORS ATTEMPT A WELCOME REBOUND"

- When the economy slows, the most cyclical sectors shrink
- This is the case for companies that design, manufacture and distribute computer chips
- Some (but not all) of the bad news is priced in
- A respite could come from the easing of US export restrictions

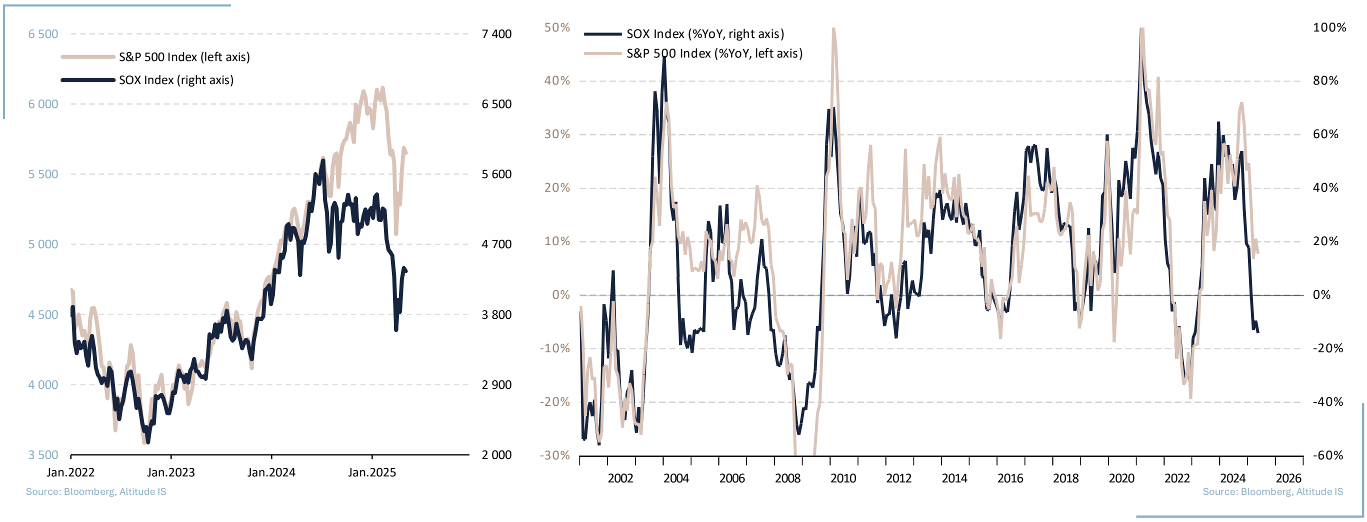
CHART OF THE WEEK: "The SOX correction will depend on the extent of the recession"

Source: Bloomberg, Altitude IS

FINANCIAL MARKETS ANALYSIS

The Trump administration is preparing to simplify the restrictions it imposes on chips designed for Artificial Intelligence (AI). This change, perceived as an easing by investors, offers a respite to the semiconductor sector, which is suffering from the global economic slowdown. The famous "AI Diffusion Rule", drafted under the Biden administration, was due to come into force on 15 May. Deemed too complex and bureaucratic, it is due to be abandoned before it is implemented. The rule divided the world into three levels of restrictions on the export of sophisticated chips, limiting access to these technologies not only for China but also for many of US allies, on the pretext that they could be used as relays to China. The replacement envisaged by the US administration would aim to maintain strong control over foreign sales while radically simplifying its application. There would no longer be automatic quotas per country, but bilateral agreements negotiated on a case-by-case basis, depending on investment promises, diplomatic interests or broader strategic considerations. Restrictions specific to China would remain unchanged or even tightened. This change of direction, welcomed by giants such as Nvidia, Qualcomm and Micron, could boost exports, particularly to countries such as the United Arab Emirates, which Trump is expected to visit in mid-May. The markets reacted positively to the announcement. Nvidia shares jumped by 3.15% on the news and the SOX index, which groups the thirty largest companies involved in the design, manufacture and distribution of semiconductors, rose by 1.7%.

Fig. 2 & 3 - Performance of the semiconductor index and the US market



This contrasts with the previous trend. Since July 2024, the stock market performance of the semiconductor sector has been negative. In the United States, SOX fell by 25%. Over the same period, the S&P 500 has been hit hard but has remained broadly stable (see Fig. 2). This comparison may seem disappointing, given that companies linked to chips usually deliver double the performance of the stock market as a whole, whether up or down (see Fig. 3).

Over the last twelve months, the semiconductor sector has had to contend with **a combination of unfavourable geopolitical, economic and industrial factors:**

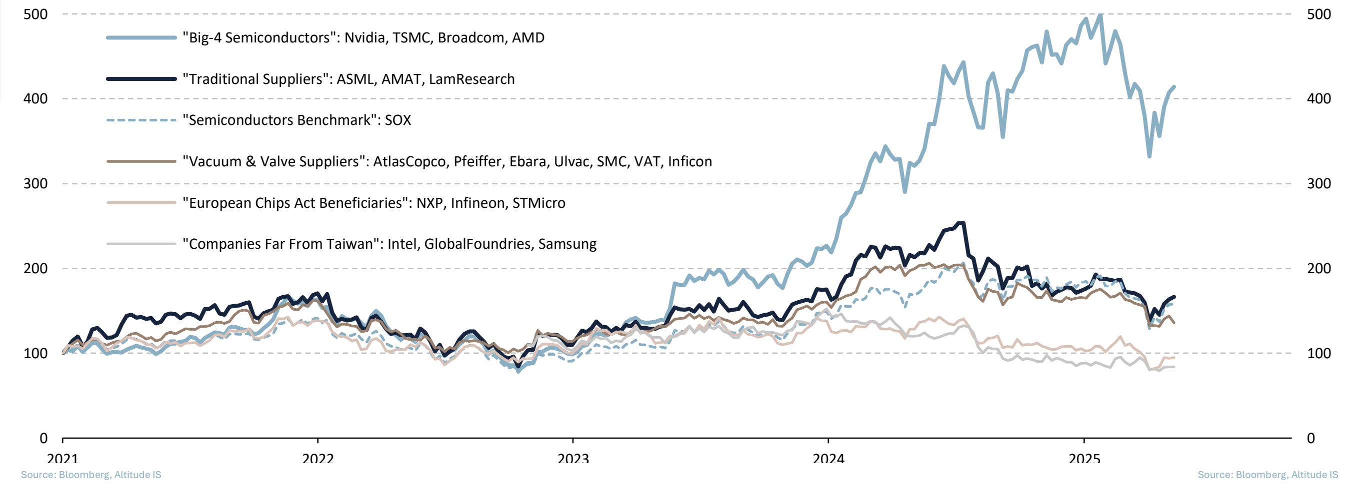
- **US restrictions on China have tightened.** Washington has stepped up its controls on exports of certain advanced technologies, in particular engraving equipment such as EUV and DUV (Extreme/Deep Ultra-Violet) lithography machines. The aim of these restrictions is to curb China's technological capabilities, but this strategy is having a negative impact on companies such as Nvidia, Intel and ASML, whose exports are being slashed. **Tariffs to be applied to China are likely to exacerbate tensions.** For the time being, semiconductors have escaped the trade war launched by the Trump administration but, if plans are followed through, a specific imposition could soon be applied to semiconductors.

- **For its part, China has restricted exports of rare metals.** Difficulties in obtaining supplies of gallium, germanium and antimony for example are jeopardising the manufacture of power semiconductors and optoelectronic sensors.

- **Overcapacity in DRAM and NAND memory production is weighing on prices.** Despite production cuts initiated by players such as Samsung and SK Hynix, stock levels remain high. In this context, manufacturers' pricing power is limited.
- **Demand for chips is down in several key sectors** (consumer, automotive, industry). Excluding AI and cloud computing, the recovery remains fragile. It is preventing any reduction in inventories.
- **The earthquake in Taiwan on 20 January** caused production interruptions, temporarily affecting the capacity of TSMC, the world's leading foundry.
- **The shortage of skilled labour**, particularly in the United States, is preventing new plants from coming on stream. Major projects supported by the CHIPS Act, such as Intel's future foundries in Ohio and TSMC's in Arizona, have been delayed due to a lack of qualified engineers and technicians.

Despite this difficult context, some tech companies in general and the semiconductor sector in particular (see Fig. 4) **are managing to take advantage of the rise of artificial intelligence (AI) and the digital transformation of infrastructures.** Large companies such as Microsoft, Meta and Alphabet have invested massively to develop their own data centres and accelerate the training of generative AI models. These initiatives are stimulating demand for GPUs (Graphic Processing Units), processors originally designed for graphics but now essential for intensive computing. Nvidia remains the undisputed leader in this market. Its products are present in almost all the AI infrastructures of the digital giants. However, the competition is becoming more serious with the arrival of custom chips, in particular ASICs (Application-Specific Integrated Circuits). Broadcom and Marvell stand out in the niche of high-speed interface technologies, providing tailored, energy-optimised alternatives.

Fig. 4 - Main semiconductor groups



Qualcomm is experiencing strong growth in the field of connected cars and the Internet of Things (IoT). It is developing SoCs (System-on-Chip), chips integrating several components on a single circuit, designed for autonomous vehicles and intelligent objects. Texas Instruments is consolidating its position in power semiconductors, used to manage energy in industrial equipment, automobiles and networks. Despite competition, ASML remains the world leader in EUV lithography machines, essential for etching the most advanced circuits. Although subject to export restrictions to China, the company continues to grow, driven by demand from its main customers, particularly in Taiwan. TSMC, the world's leading foundry, is pursuing its ambitious policy of international expansion. To better serve its customers (Apple, Nvidia, Qualcomm) and reduce its geographical dependence on Taiwan, a geopolitically sensitive area, the company is looking to build new factories in the United States, Japan and Germany.

The semiconductor sector continues to be characterised by high volatility. Over the past twelve months, the shares of the majority of manufacturers have recorded negative performances. This correction can be explained by a contraction in demand in the personal computer and automotive segments, and by an abrupt adjustment in expectations around advanced technologies for artificial intelligence. The market, which had priced in sustained growth in AI-related investment, was surprised by disappointing earnings reports and cautious outlooks from a number of industry leaders. The worsening economic climate and the freeze on several expansion projects only fuelled the pessimism.

The outlook for the second half of 2025 is not promising. After several years of exceptional growth driven by AI, the cyclical slowdown in the global economy and the end of inventory building are weighing on order books. This is having an impact on the earnings momentum of companies in the semiconductor sector, with profits struggling to grow as fast as analysts had hoped. Their optimistic forecasts for the coming quarters (see Fig. 5) will have to be revised downwards. As a result, valuation ratios are still far too high (see Fig. 6). The SOX index is trading at 34 times current earnings, lower than a year ago but still historically high and out of touch with operating reality. A further adjustment would not be incongruous. The sector's stock market consolidation phase, although ahead of the overall indices, is therefore probably not over.

Fig. 5 - Earnings growth

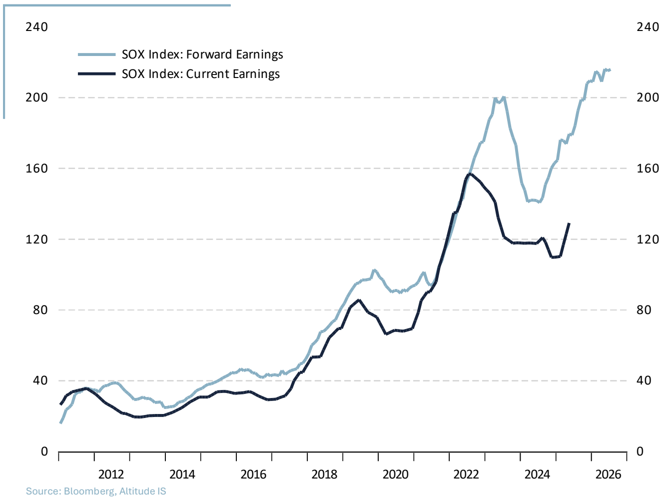
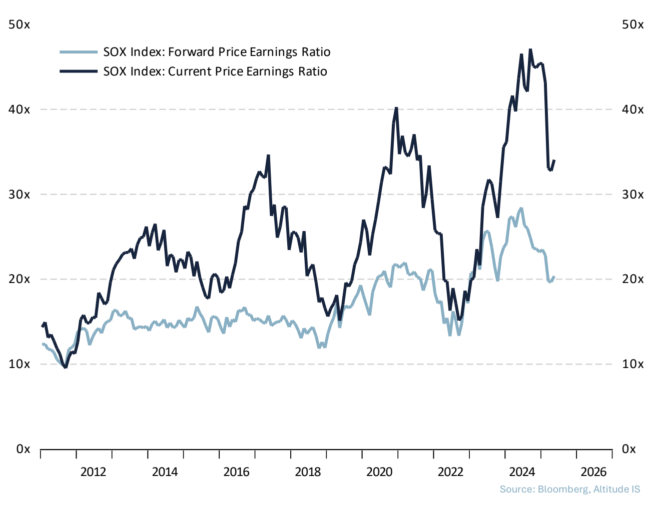


Fig. 6 - Valuation ratios



Among the big names in the industry, two issues deserve more attention. The first because it seems (at last) to be coming out of the doldrums, the second because it is still suffering: Intel in the United States and STMicroelectronics in Europe.

The Intel case: Once the undisputed leader, Intel is currently undergoing a major industrial transformation with the aim of regaining market share from its competitors, notably TSMC and Samsung. Lagging behind in AI technology and facing falling financial results, the microprocessor giant has announced a major restructuring. In March 2025, Pat Gelsinger was replaced by Lip-Bu Tan at the head of the group. This change in governance was followed by a massive cost-cutting plan, including a 20% reduction in the global workforce. Intel has also decided to sell off some of its non-core assets, such as its subsidiary Altera. This will enable the company to reduce its debt and refocus on its foundry and AI chip activities. Intel has also reviewed its European ambitions, freezing several of its projects on the Old Continent in favour of refocusing on the US market, which is considered to be more buoyant. The company plans to build new factories in Arizona, Ohio and Oregon. This resolutely "America First" strategy is designed to capture the bulk of the subsidies provided under the CHIPS Act. Finally, Intel has just signed a strategic contract with AWS (Amazon Web Services). This partnership is seen by investors as a positive signal for the group's industrial future (see Fig. 7).

Fig. 7 - Intel share price

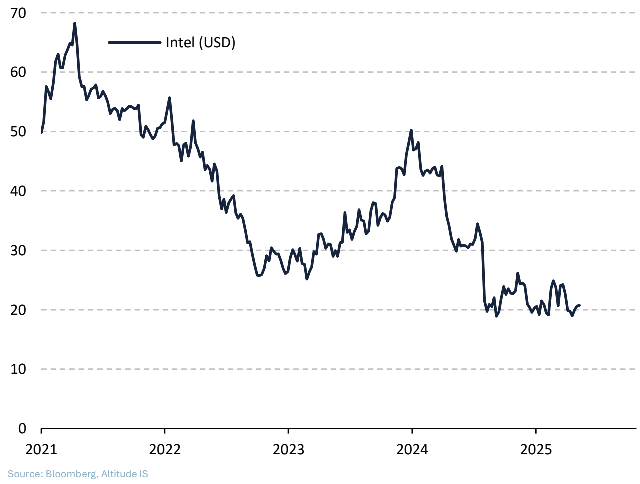
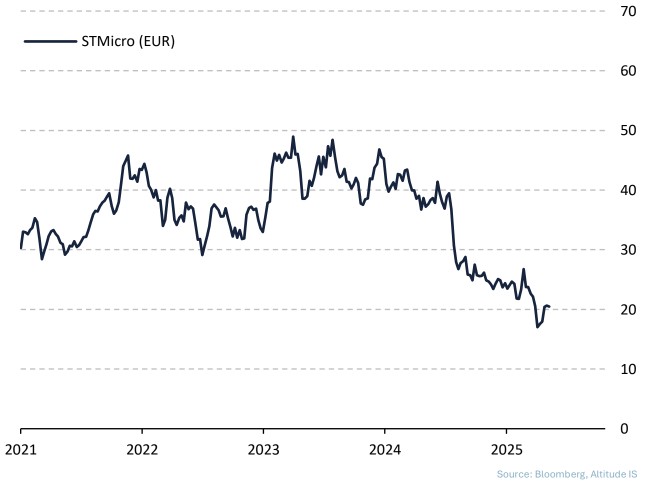


Fig. 8 - STMicroelectronics share price



The STMicroelectronics case: In Europe, the Franco-Italian multinational incorporated under Dutch law is facing a very difficult economic climate. It is feeling the full force of the downturn in demand in the automotive and industrial sectors, its two main markets. Since the end of 2024, a succession of disappointing quarterly reports has fuelled a growing climate of mistrust among investors (see Fig. 8). In the first quarter of 2025, sales fell by more than 25% year-on-year, and net profit plummeted by almost 90%. The Group has been forced to announce the closure of a number of unprofitable production lines and a plan to cut 2,800 jobs worldwide by 2027. These economic difficulties are compounded by political tensions. Last month, the Italian government openly challenged the company's governance. As a minority shareholder, it tried to impose a new representative on the supervisory board, without success. But this episode of contestation reflects growing concern about the group's strategy, accused of lacking responsiveness in a highly competitive environment. Despite the group's sharp stock market correction, analysts remain cautious about its ability to bounce back in the short term. While the rest of the sector is at least partially succeeding in taking advantage of opportunities linked to AI and power electronics, STMicroelectronics seems to be caught in a downward spiral, both economic and political.

Conclusion:

The semiconductor sector is operating in an unfavourable environment, marked by weak demand, production overcapacity, trade restrictions and high stock market volatility. As usual, when stock markets are in a correction phase, the companies that design, manufacture and distribute chips suffer amplified losses. However, the sector has already corrected significantly, and remains structurally driven by the powerful technological engines of artificial intelligence, connectivity and computing power. Keep the head down.

RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2025 Year-to-Date (%)	2024 (%)	2023 (%)
Equities							
World (MSCI)	847.0	62.18	-0.2%	8.1%	1.4%	18.0%	22.8%
USA (S&P 500)	5 660	57.47	-0.4%	3.8%	-3.3%	25.0%	26.3%
USA (Dow Jones)	41 249	54.94	-0.1%	1.7%	-2.5%	15.0%	16.2%
USA (Nasdaq)	17 929	58.75	-0.3%	4.7%	-7.0%	29.6%	44.7%
Euro Area (DJ EuroStoxx)	557.1	63.17	1.2%	16.9%	12.0%	10.2%	19.5%
UK (FTSE 100)	8 555	57.85	-0.4%	11.9%	6.3%	9.6%	7.7%
Switzerland (SMI)	12 087	50.54	-1.3%	12.6%	7.0%	7.5%	7.1%
Japan (Nikkei)	37 554	63.75	1.8%	18.3%	-5.1%	21.3%	31.0%
Emerging (MSCI)	1 138	65.65	0.5%	14.9%	6.8%	8.0%	10.2%
Brasil (IBOVESPA)	136 512	66.82	1.0%	6.8%	13.5%	-10.4%	22.3%
Mexico (IPC)	56 551	58.96	1.5%	8.7%	15.7%	-11.0%	22.4%
India (SENSEX)	81 682	55.73	-1.3%	7.6%	1.9%	9.6%	20.3%
China (CSI)	3 870	56.94	2.0%	4.5%	-1.9%	18.2%	-9.1%
Com. Services (MSCI World)	125.5	57.49	-1.7%	5.0%	0.9%	31.9%	38.1%
Cons. Discretionary (MSCI World)	400.3	61.06	0.6%	7.3%	-4.7%	20.7%	29.5%
Cons. Staples (MSCI World)	294.8	54.20	-0.8%	5.6%	9.2%	4.7%	3.2%
Energy (MSCI World)	238.0	51.90	0.3%	4.7%	0.2%	2.9%	6.0%
Financials (MSCI World)	194.6	65.89	0.7%	11.6%	9.6%	25.1%	16.4%
Health Care (MSCI World)	341.9	39.74	-4.1%	0.5%	-1.3%	1.5%	4.1%
Industrials (MSCI World)	405.7	68.99	0.8%	12.6%	8.5%	12.8%	22.5%
Info. Tech. (MSCI World)	719.3	62.78	0.5%	9.1%	-6.3%	31.9%	51.4%
Materials (MSCI World)	324.5	60.49	0.0%	10.7%	7.0%	-7.7%	12.6%
Real Estate (MSCI World)	985	59.52	-0.7%	8.2%	3.6%	-0.4%	5.3%
Utilities (MSCI World)	176.8	60.18	-0.1%	8.2%	11.2%	13.0%	1.6%
Bonds (Bloomberg)							
World (Aggregate)	3.57%	51.75	-0.5%	1.6%	4.7%	-1.7%	5.7%
USA (Sovereign)	4.18%	46.64	-0.3%	0.0%	2.4%	0.6%	4.1%
Euro Area (Sovereign)	2.72%	51.69	-0.1%	0.8%	0.1%	1.9%	7.1%
Germany (Sovereign)	2.26%	47.87	-0.2%	0.0%	-0.7%	0.6%	5.6%
UK (Sovereign)	4.43%	52.81	-0.4%	1.6%	2.5%	-3.0%	5.6%
Switzerland (Sovereign)	0.41%	62.67	0.5%	1.4%	0.5%	5.4%	7.9%
Japan (Sovereign)	1.09%	48.49	-0.6%	-0.5%	-0.9%	-2.1%	0.9%
Emerging (Sovereign)	6.97%	56.32	0.3%	3.5%	2.2%	7.0%	11.0%
USA (IG Corp.)	5.30%	49.32	0.0%	1.7%	1.5%	2.1%	8.5%
Euro Area (IG Corp.)	3.17%	58.68	0.2%	0.9%	0.9%	4.7%	8.2%
Emerging (IG Corp.)	6.76%	54.62	0.2%	2.0%	1.8%	7.0%	6.7%
USA (HY Corp.)	7.74%	64.37	0.1%	3.0%	1.5%	8.2%	13.4%
Euro Area (HY Corp.)	5.88%	66.45	0.4%	2.5%	1.4%	8.2%	12.1%
Emerging (HY Corp.)	8.63%	61.26	0.7%	4.1%	1.8%	14.9%	13.1%
World (Convertibles)	462.9	71.91	0.5%	6.5%	5.1%	9.4%	12.3%
USA (Convertibles)	610.6	65.85	0.5%	5.8%	2.0%	10.1%	14.6%
Euro Area (Convertibles)	272.9	78.24	1.5%	9.9%	17.3%	14.7%	7.3%
Switzerland (Convertibles)	276.5	68.55	0.6%	5.8%	14.8%	-10.5%	5.8%
Japan (Convertibles)	227.5	64.64	0.7%	3.9%	0.4%	6.4%	7.6%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 594	72.62	n.a.	-0.4%	-1.0%	11.1%	7.8%
Macro	1 317	59.57	n.a.	-2.1%	-1.9%	7.4%	1.6%
Equity Long Only	2 108	59.25	n.a.	-0.9%	-4.6%	12.0%	15.9%
Equity Long/Short	1 661	70.95	n.a.	0.3%	-0.9%	14.0%	7.7%
Event Driven	1 707	71.71	n.a.	-0.4%	-1.1%	8.7%	7.3%
Fundamental Equity Mkt Neutral	1 668	92.17	n.a.	0.8%	1.0%	12.4%	6.6%
Quantitative Equity Mkt Neutral	1 682	85.05	n.a.	-1.0%	1.1%	9.8%	7.8%
Credit	1 624	95.78	n.a.	0.3%	1.7%	8.5%	8.1%
Credit Long/Short	1 641	99.84	n.a.	0.0%	0.8%	10.0%	11.2%
Commodity	1 893	93.35	n.a.	3.7%	5.8%	14.7%	7.3%
Commodity Trading Advisors	1 282	48.81	n.a.	-3.3%	-4.5%	7.9%	-3.6%
Volatility							
VIX	21.90	42.21	-3.4%	-34.9%	26.2%	39.4%	-42.5%
VSTOXX	20.52	43.40	-0.1%	-55.3%	20.7%	25.3%	-35.0%
Commodities							
Commodities (CRB)	545.6	n.a.	-0.6%	0.4%	1.7%	5.1%	-8.0%
Gold (Troy Ounce)	3 278	n.a.	-1.7%	1.3%	24.9%	27.2%	13.1%
Silver (Troy Ounce)	32.90	n.a.	1.3%	1.7%	13.8%	21.5%	-0.7%
Oil (WTI, Barrel)	61.02	n.a.	4.7%	-2.1%	-14.9%	0.1%	-10.7%
Oil (Brent, Barrel)	63.42	n.a.	3.3%	1.3%	-14.4%	-4.6%	-4.5%
Currencies (vs USD)							
USD (Dollar Index)	100.60	50.24	0.8%	0.5%	-7.3%	7.1%	-2.1%
EUR	1.1227	49.79	-0.8%	-1.1%	8.4%	-6.2%	3.1%
JPY	145.94	45.56	-1.5%	-2.0%	7.7%	-10.3%	-7.0%
GBP	1.3286	54.73	-0.1%	0.7%	6.2%	-1.7%	5.4%
AUD	0.6432	56.13	-0.6%	1.6%	3.9%	-9.2%	0.0%
CAD	1.3924	51.11	-0.7%	-0.4%	3.3%	-7.9%	2.3%
CHF	0.8340	50.03	-1.4%	-2.3%	8.8%	-7.3%	9.9%
CNY	7.2266	63.29	0.6%	1.1%	1.0%	-2.7%	-2.8%
MXN	19.466	63.28	1.2%	3.2%	7.0%	-18.5%	14.9%
EM (Emerging Index)	1 809.5	76.84	0.4%	4.2%	4.7%	-0.7%	4.8%
XBT	104 010	n.a.	7.5%	21.6%	11.0%	120.5%	157.0%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)

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