

# The semiconductor rip needs a breather

29 April 2026

## Overview

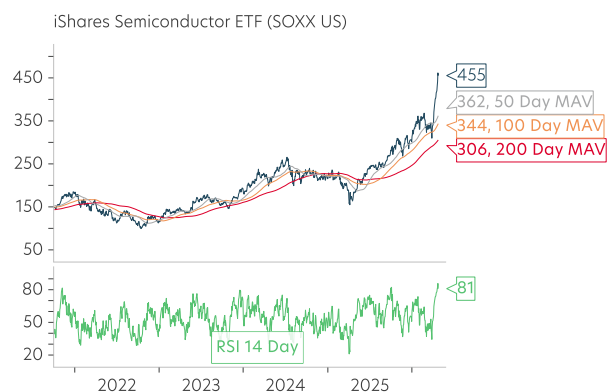
- Semiconductor rally not done yet. The surge still looks structurally supported by AI demand, not just momentum, with the SOX index at record highs as investors price in a longer, stronger cycle rather than a typical rebound.
- Fundamentals remain solid. AI infrastructure spending, tight memory supply, pricing power and earnings upgrades continue to support foundries, memory makers and equipment names across the supply chain.
- The next growth leg is already forming. As AI shifts towards agentic use cases, demand is broadening beyond chips into packaging, networking, cloud software and low-latency inference data centres.
- The risk is valuation, not a collapse. The vertical move needs a breather, and parts of the sector may be nearing peak margins in 2026. Any moderation in hyperscaler spending or memory pricing could trigger volatility.
- Bottom line: This does not look like the end of the supercycle, but the easy gains are behind us; investors should stay constructive, focus on quality, diversify across the stack and remain disciplined on valuation.

### Are we near the end of the semiconductor super cycle?

The semiconductor sector has entered 2026 with exceptional momentum, driven by a structural surge in artificial intelligence (AI) demand. The iShares Semiconductor ETF (SOXX US) has climbed to fresh all-time highs after a historic 18-session winning streak, reflecting a market increasingly convinced that semiconductors sit at the centre of the next investment supercycle.

This rally is not being driven by sentiment alone. It is supported by AI infrastructure spending, tight memory supply, strong pricing power, and earnings upgrades across foundries, memory manufacturers, and semiconductor equipment providers. In short, the sector's fundamentals remain robust, even as valuations attract greater scrutiny and the current vertical move takes a breather.

Figure 1: Big moves post-ceasefire announcement



Source: Bloomberg, UOB Private Bank

### What is driving the rally?

**Blockbuster earnings are reigniting confidence.** Intel's 24% jump on 24 April, its best single-day gain since 1987, and Nvidia's march to a USD5tn market capitalisation show that investors are rewarding companies with credible AI exposure and execution.

**AI demand is no longer incremental;** it is overwhelming the supply chain. From accelerators to memory, the demand tied to AI training and inference is stretching capacity, tightening availability, and reinforcing the view that this is a structural buildout rather than a short-lived spike.

**Memory has become the sector's pressure point,** and pricing lever. A worsening global shortage is pushing prices higher and leaving some suppliers effectively sold out well into 2027, creating one of the clearest earnings tailwinds across the semiconductor complex.

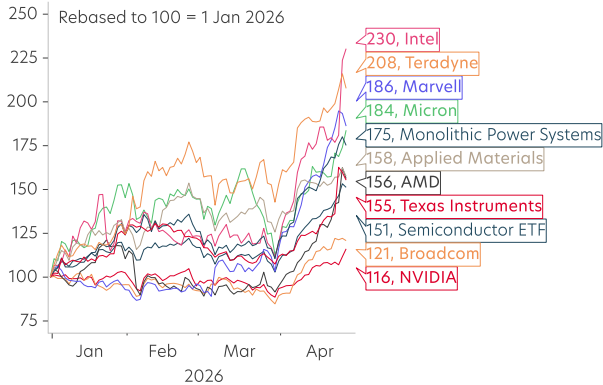
**The spending wave is still building.** Hyperscaler cloud capex is expected to rise 34% year-on-year, while wafer fabrication equipment spending is forecast at USD130-135bn in 2026, underscoring how aggressively the industry is investing in AI infrastructure.

**The market is pricing in a longer, stronger cycle.** With semiconductor sales projected to approach USD1tn or more in 2026, and this upcycle already stretching from 2H23 into 2026, investors are increasingly treating the current rally as the start of an AI-driven supercycle, not a normal cyclical rebound.

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**Figure 2: Semicon. YTD leaders and laggards**



Source: Bloomberg, UOB Private Bank

**Figure 3: SOXX ETF technicals (Overbought ≠ Sell)**

Timeframe	Signals	Avg Return	Win Rate	Wins	Losses	Best	Worst
1 Week	73	-0.14%	49.30%	36	36	11.04%	-8.41%
4 Weeks	69	3.04%	75.40%	52	17	13.078	-24.94%
3 Months	57	8.84%	80.70%	46	11	24.80%	-15.20%

Source: Bloomberg, UOB Private Bank

SOXX may look overbought, but history suggests that has usually been a sign of strength, not a warning shot. With RSI at 85.7, the ETF is firmly in stretched territory, yet past episodes since the ETF inception show that extreme readings have tended to support momentum over time. One-week returns from an overbought position (i.e., when RSI ascends above 70) were essentially flat, averaging -0.14% with a 49.3%-win rate, but the medium-term picture was far stronger: +3.04% over four weeks with a 75.4%-win rate, and +8.84% over three months with an 80.7%-win rate. In short, an overbought situation has meant “stay with the trend”, not “sell the rally”.

## The next leg: Agentic AI

As AI shifts from content generation to reasoning, orchestration and autonomous task execution, the investment opportunity is broadening. The winners are no longer just chip designers. They now span the full stack, from semiconductor equipment and advanced packaging to cloud platforms, networking, and low-latency inference data centres. This will become even more topical with the upcoming trillion-dollar IPO listings of OpenAI, Anthropic and SpaceX.

**Semiconductor and Equipment Leaders:** These companies remain the most direct beneficiaries of rising AI compute intensity.

**ASML:** The critical “picks-and-shovels” name, with unmatched EUV lithography exposure that underpins next-generation AI chip production.

**TSMC:** The leading-edge foundry at the centre of the AI supply chain, with 2nm and CoWoS capacity seen as highly constrained into 2026.

**Nvidia:** The clearest near-term beneficiary through AI accelerators, systems and platform dominance.

**Broadcom:** increasingly important in custom AI silicon and networking, with deeper exposure to hyperscaler and frontier-model infrastructure demand through Alphabet and Anthropic.

**Cloud and Software Enablers:** As agentic AI moves into enterprise workflows, platform distribution and software integration matter more.

**Microsoft:** Best placed to monetise enterprise AI through Azure, Copilot and its broad software footprint.

**Alphabet:** Leverage across Search, cloud infrastructure and proprietary AI models gives it multiple monetisation paths.

**Salesforce:** Well-positioned as AI agents become embedded into frontline enterprise workflows through Agentforce.

**Networking and Enterprise Infrastructure:** Agentic AI increases east-west traffic, model access and real-time orchestration needs, all of which require more connectivity, switching and hybrid deployment infrastructure.

**Arista Networks:** A direct beneficiary of AI-led networking upgrades.

**Dell:** Well-placed for hybrid enterprise AI deployments spanning servers, storage and services.

**Cloudflare:** Attractive for AI-native traffic management, developer tooling and secure access to data and content.

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**Inference Data Centres:** The next leg of the AI buildout. This is the new bucket investors should watch closely. If training built the first wave of AI infrastructure, inference is shaping the next one. Unlike large remote training campuses, inference-oriented facilities need to be closer to end users, highly interconnected and built for low-latency workloads; this is a structural tailwind for metro-adjacent colocation and edge-style data centre operators.

**Equinix:** Best positioned for enterprise and interconnection-heavy AI inference, with growing evidence that bookings are increasingly tied to AI deployments in core metro hubs.

**Digital Realty:** Gaining traction as inference demand rises, helped by higher-density deployments and liquid-cooling capability for AI workloads.

**Digital Core REIT:** Gives investors listed exposure to a portfolio of mission-critical data centres in key global markets, backed by Digital Realty's platform, which is leaning into the inference opportunity in Asia and other major hubs.

**Keppel DC REIT:** A relevant Singapore-listed proxy for the inference buildout, with AI-ready hyperscale assets and exposure to supply-constrained markets such as Singapore and Japan, where proximity and connectivity matter more as AI shifts toward inference.

**CoreSite (private):** Offers a compelling "core-to-edge" angle, as AI inference workloads increasingly require compute closer to end users and devices. CoreSite is already seeing inference and machine learning become one of its fastest-growing use cases.

## Key investment takeaway

The agentic AI theme is no longer just about owning GPU winners. The more durable opportunity may lie in owning the full enabling stack: advanced semiconductor tools, foundry and packaging capacity, enterprise software distribution, networking, and the next generation of low-latency inference data centres that sit closer to the user.

## Portfolio positioning (for existing holders)

Investors already exposed to the sector may wish to maintain core positions, given hyperscaler capital expenditure is expected to rise from USD367bn in 2025 to USD495bn in 2026. At the same time, the right approach may now be to rebalance toward quality, favouring names with stronger pricing power, more visible AI demand, and better execution. Do expect some consolidation in the meantime.

Valuation discipline, however, matters more from here. Sector margins, excluding Nvidia, are already near normal cyclical highs, and 2026 may mark the earnings peak for parts of the group. That raises the case for trimming weaker or more speculative names if momentum begins to fade.

## Portfolio positioning (for new entrants)

Fresh buyers may prefer to wait for pullbacks. The end of the 18-day winning streak, combined with increased scepticism from big-name contrarian investors, suggests near-term volatility could rise. Having said that, valuations are not universally stretched: the semiconductor industry's forward P/E of roughly 22x, alongside more than 50% projected earnings growth for FY2026, implies the group remains reasonably supported on growth-adjusted metrics.

The best entry strategy may be to diversify across the supply chain including equipment, foundry, packaging, memory, and networking, rather than concentrate only in the most crowded AI winners.

## Risks to Watch

Despite the favourable backdrop, several risks could challenge the bull case:

- TSMC expects a 2-3 percentage point gross margin headwind in the second half of 2026 due to the N2 ramp.
- Supply constraints remain acute, with Rubin GPU supply projected below 2.0m units in 2026, partly due to HBM4 qualification delays.
- Higher memory prices feed into cost of phones, PCs, and consumer electronics, raising the risk of demand destruction in non-AI end markets.
- In addition, the biggest strategic risk is that the market has already begun to price in a near-perfect AI demand environment. Any pause in hyperscaler spending, delays in product ramps, or memory pricing reversal could lead to sharp valuation de-rating.

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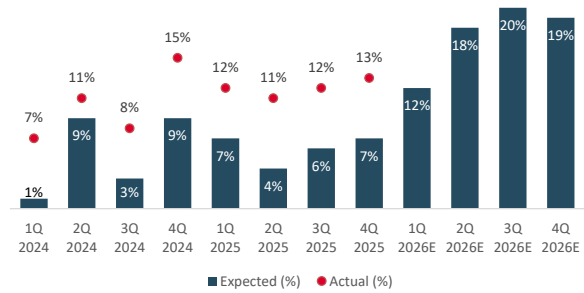
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## Investment conclusion

The semiconductor sector remains one of the clearest beneficiaries of the AI investment cycle, and the strength in SOXX reflects more than short-term momentum. This appears to be a structurally stronger upcycle, supported by tight supply, expanding AI use cases, and sustained capital expenditure across cloud and enterprise infrastructure.

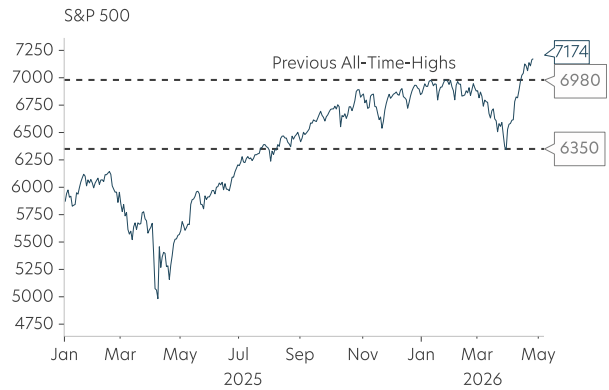
Having said that, this is no longer an undiscovered trade. For investors, the right stance is likely to be constructive but selective: stay invested in the highest-quality names, diversify across the AI supply chain, and maintain valuation discipline as margins move closer to peak levels.

Figure 4: S&P 500 EPS growth actual vs estimates



Source: Bloomberg, UOB Private Bank

Figure 5: S&P 500 previous ATH forms a support



Source: Bloomberg, UOB Private Bank

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