

Cash Flow and Carey



Robert Carey, CFA
Chief Market Strategist



Peter Leonteos
Market Strategist

2/18/25

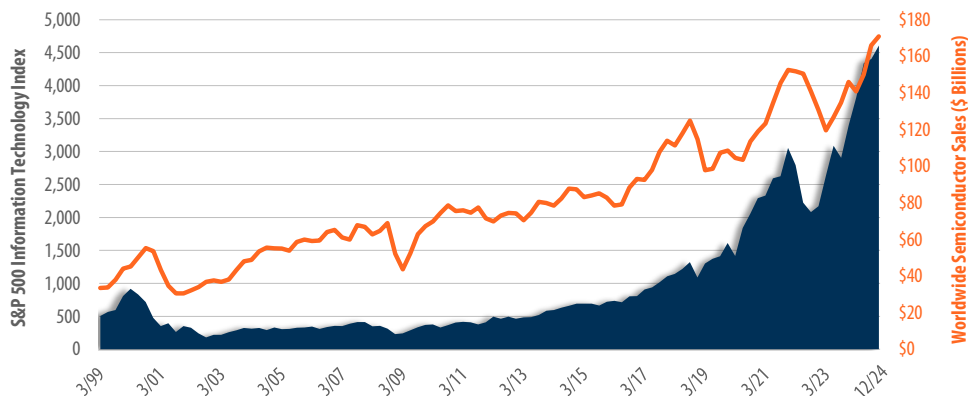


This chart is for illustrative purposes only and not indicative of any actual investment. There can be no assurance that any of the projections cited will occur. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest 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.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

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 12/31/2024. 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 continued 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 remains true as of today's update to this post. Case in point, the S&P 500 Technology Index increased to its fifth consecutive quarterly all time high at the end of December 2024. By contrast, prior to Q3'24, semiconductor sales hadn't eclipsed a quarterly record since Q4'21.

Worldwide sales of semiconductors totaled a record \$170.9 billion in Q4'24, an increase of 17.1% from Q4'23.

Amidst unprecedented demand, the Semiconductor Industry Association reported that worldwide semiconductor sales totaled a record \$574.1 billion in 2022 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. Semiconductor sales rebounded in 2024, with worldwide sales surging by 19.1% year-over-year to a record \$627.6 billion.

Despite record semiconductor sales, technology stocks underperformed most of their peers in the latter half of 2024.

The promise of AI and an easing in the global chip shortage propelled the S&P 500 Information Technology Index (Information Technology Index) to total returns of 57.84% and 36.61% in 2023 and 2024, respectively. That said, these catalysts appear have weakened of late. The Information Technology Index increased by just 1.79% from 7/9/24 thru 12/31/24, ranking it eighth of the 11 sectors that comprise the broader S&P 500 Index over the period. We chose 7/9/24 as the starting point as it was the day Jerome Powell testified that the U.S. economy was no longer overheated.

Takeaway

It is nearly impossible to discuss semiconductors and technology stocks without mentioning developments in AI. 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 served as potent catalysts to technology stocks over the past several years. Nevertheless, record semiconductor sales were unable to buoy the performance of technology stocks in the second half of 2024, with the sector increasing by 6.52% (total return) vs. 23.17% and 18.46% for the S&P 500 Consumer Discretionary and Financials Indices over the same period. This trend remains in 2025. While we do not have semiconductor sales figures for 2025 yet, we can report that the Information Technology Index increased by just 1.62% year-to-date thru 2/14/25. The S&P 500 Consumer Discretionary Index is the only sector fare worse over the period, posting a total return of 0.98%.