Americas Technology: Semiconductors: 3Q Preview: Expect stocks to work on better numbers following sector-wide pullback

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Most estimate upside for SemiCap/Compute/Storage - risk/reward more favorable
We see upside to estimates across most sub-sectors of the semiconductor ecosystem heading into 3Q earnings. Following a significant pullback in the sector over the past two months driven by significant de-risking (SOX down 11% vs. SPX up 4%), we see a more constructive trading setup ahead of earnings. This stands in stark contrast to the 2Q setup, where we signaled a more cautious tactical outlook heading into results. We expect significant positive estimate revisions for SemiCap companies given pull-ins to WFE spending, and long-term visibility into 2028. In compute, given an upward bias to hyperscaler CapEx, we see upside for both server CPUs (increasing agentic AI attach) and key ASIC programs. We are favorable on analog given upside to estimates - and we prefer stocks with the greatest industrial, aero/defense and datacenter exposures. Finally, we see fundamental upside for the memory/storage complex, but prefer HDDs and NAND given a lack of near-term supply additions.

Tactical Ideas: See upside for AMAT, STX, MCHP; downside for QCOM, KLAC, WDC
AMAT (Buy) – We expect Applied to raise its margin targets and provide a robust growth outlook at SEMICON West in October, ahead of earnings - where we expect the company to deliver a strong report driven by DRAM and advanced logic.

CDNS (Buy) – We expect Cadence to tick up guidance for 2026 and provide positive commentary on its momentum in recurring revenue growth tied to agentic AI, in line with peer Synopsys' positive commentary at its Investor Day.

MCHP (Buy) – We expect upside to the quarter driven broad industrial demand, plus upside in aerospace/defense and datacenter. We believe the Street continues to under-model the analog recovery; MCHP is among our favorite names.

QCOM (Neutral) – We expect modest upside to the quarter, but we think the stock may be ahead of itself on a tactical basis, given very strong investor expectations tied to agentic AI and its benefit to CPU vendors such as Qualcomm.

KLAC (Neutral) - Despite upside to the quarter/guidance, we expect results to lag peers, as WFE spending is skewed toward DRAM, where process control - despite expectations for mid-20% revenue growth through 2027.

WDC (Neutral) – Although we expect WDC to deliver modest upside to the quarter, we expect results to under-perform peer STX as its HAMR ramp is likely to drive stronger near-term exabyte growth and gross margin expansion.

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