BERNSTEIN
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U.S. Semiconductors and Semiconductor Capital Equipment

U.S. Semiconductors and Semicap: A crisis of confidence?



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While the SOX is still up 50% YTD, semi stocks have had a rough go recently, with the index down almost 30% from its June highs, and down 7% just on Friday (**Exhibit 1**). Recent underperformance has been most pronounced within our coverage among the higher-flying semicap and CPU names, while the more traditional AI names (NVDA, AVGO etc) have faired a bit better (presumably given more supportive valuation), with our analog coverage outperforming the sector recently as overall AI sentiment has soured (**Exhibit 2**).

The shine has come off the AI trade, most visible given the sharp multiple compression the group has suffered. In fact, the sector has seen multiples compress this year on any timeframe one chooses (whether 1 month, 3 month, 6 month, YTD, or since the June peak). However, earnings outlooks over all of those time frames have been continually upgraded (**Exhibit 3**). In fact, NTM earnings estimates for the SOX are up almost 140% YTD and even up 40% since June (the latter with multiples almost cut in half).

It is clear that space is suffering a crisis of confidence, with investors increasingly questioning the sustainability of the AI story. The stocks are clearly telling us that investors are getting worried about sustainability of demand, wondering about returns, and doubting more and more about where the funding might be coming from to support the (very strong) forecasts that have been offered up by many companies in the space.

To that end, it feels that the narrative around any incremental datapoint has been read negatively. We note the stocks selling off after many of the hyperscale reports over the last week or two for example with investors worried about spending delays etc. And of course Intel's report last week was taken extremely negatively (with their own shares down almost 30% on the day on Friday).

But even a passing glance at the details suggests reads that remain positive (at least to us?). At a minimum commentary from hyperscalers continues to be very supportive. Some minor near-term spending lightness from a few (MSFT, GOOG?) appears to be mostly timing; all have either maintained or raised spending outlook for this year and all appear to expect significant acceleration as we move into next year (**Exhibit 4**).

Even Intel's report was actually a good thing for AI outlook if you dig in. The company's datacenter results and outlook were actually quite strong and meaningfully above expectations as demand for server CPU and their ASIC business (mostly networking) remains powerful. PC was the big miss, weak not because demand is necessarily bad, but because current memory dynamics are hindering builds (**Exhibit 5**). And why is that? Because AI/datacenter is so strong that it is sucking up all the memory!

We get that investor confidence in the sustainability of the AI trade appears to be fading. But at this point fundamentals do seem to be getting better rather than worse, and we remain constructive. In our coverage we would focus attention in particular on NVDA and AVGO (who are driving the industry) as well as semicap (with datacenter buildouts creating a multiyear strong WFE growth phase); we also like AMD (agentic CPU & MI450 ramp, though acknowledge near-term PC risk), ADI in analog (more secular industrial profile and a growing datacenter story), & PDFS (recurring revenue and eProbe ramp).

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BERNSTEIN TICKER TABLE

			30 Oct 2026		TTM	Adjusted EPS				Adjusted P/E (x)	
Ticker	Rating	Cur	Closing Price	Price Target	Rel. Perf.	Cur	2025A	2026E	2027E	2025A	2026E	2027E
AMD (Advanced Micro)	O	USD	504.80	650.00	87.0%	USD	4.17	7.57	15.82	120.9	66.7	31.9
ADI (Analog Devices)	O	USD	417.11	465.00	68.0%	USD	7.79	12.85	16.77	53.5	32.5	24.9
AVGO (Broadcom)	O	USD	326.08	575.00	(24.5)%	USD	6.82	11.64	18.63	47.8	28.0	17.5
INTC (Intel)	M	USD	65.76	75.00	52.6%	USD	0.43	1.49	1.78	154.2	44.2	37.0
NVDA (NVIDIA)	O	USD	204.64	400.00	(10.2)%	USD	4.77	9.20	15.80	42.9	22.2	12.9
NXPI (NXP Semiconductors)	M	USD	259.61	270.00	14.7%	USD	11.81	15.22	17.48	22.0	17.1	14.9
PDFS (PDF Solutions)	O	USD	41.00	65.00	29.4%	USD	0.94	1.35	1.75	43.5	30.4	23.4
QCOM (Qualcomm)	M	USD	164.79	155.00	(18.1)%	USD	12.03	10.51	8.77	13.7	15.7	18.8
TXN (Texas Instruments)	M	USD	300.84	310.00	76.3%	USD	5.45	9.07	11.73	55.2	33.2	25.7
AMAT (Applied Materials)	O	USD	390.09	700.00	56.6%	USD	9.42	12.76	18.30	41.4	30.6	21.3
KLAC	O	USD	157.91	225.00	18.9%	USD	3.76	5.74	7.34	42.0	27.5	21.5
LRCX (Lam Research)	O	USD	239.11	350.00	37.4%	USD	5.82	9.62	11.69	41.1	24.9	20.5
SPX			7,580.07									

O - Outperform, M - Market-Perform, U - Underperform, NR - Not Rated, CS - Coverage Suspended

TXN estimate is Reported EPS; TXN valuation is Reported P/E (x); NVDA, KLAC, LRCX base year is 2026;

Source: Bloomberg, Bernstein estimates and analysis.

INVESTMENT IMPLICATIONS

AMD (OP, $650): Expectations remain high, but exposure to AI demand driving both a CPU and GPU story can provide substantial growth.

ADI (OP, $465): ADI is executing well with both cyclical and idiosyncratic drivers, and valuation now suggesting better risk-reward.

AVGO (OP, $575): A strong 2026 AI trajectory seems set to markedly accelerate into 2027 and 2028.

INTC (MP, $75): Server strength is helping the company get back on their feet, but sharply negative PC outlook is creating substantial near-term headwinds.

NVDA (OP, $400): The datacenter opportunity is enormous.

NXPI (MP, $270): Company execution is solid and valuation is increasingly inexpensive, but the company is showing less upside to expectations vs peers amid a more auto-weighted mix.

QCOM (MP, $155): Memory headwinds appear likely to pressure smartphone builds and numbers still appear high though the datacenter narrative sounds promising.

TXN (MP, $310): TXN shares feel fully valued in the current environment.

PDFS (OP, $65) A transition to analytics provides for growth and margin expansion amid numerous structural drivers, with eProbe tools representing a new meaningful business opportunity.

AMAT (OP, $700): Exposure to key inflections is strong & valuation vs peers is attractive

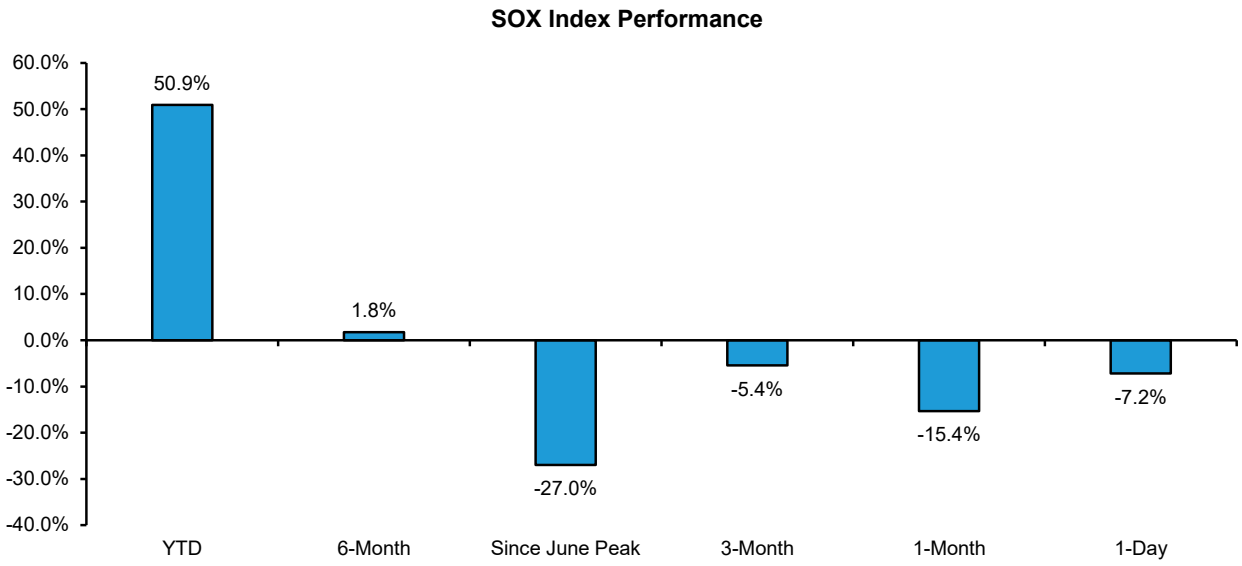
LRCX (OP, $350): The company is benefiting from key inflections (GAA, packaging, HBM, NAND upgrades), margins are strong, and CY27 commentary seems supportive.

KLAC (OP, $225): Amid positive WFE trends KLAC possesses structural growth drivers, a strong and durable c position, lower China replacement risk, and disciplined capital allocation, warranting premium valuation.



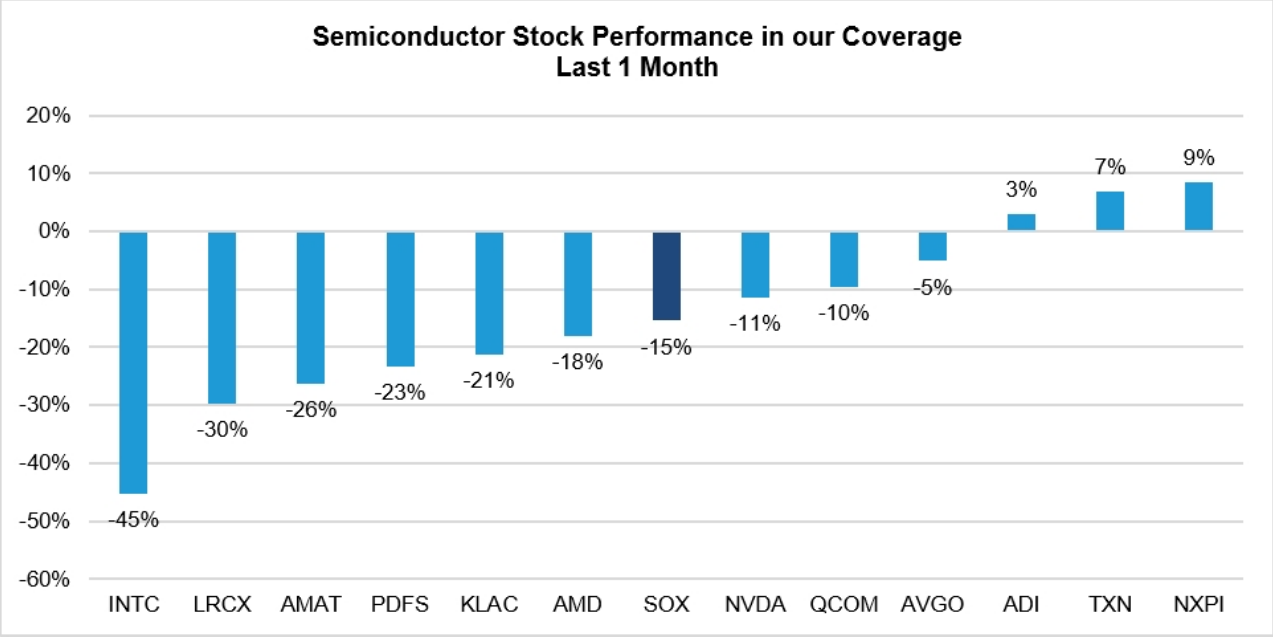
DETAILS

EXHIBIT 1: **While still up 50% YTD, the SOX index is down almost 30% from the June peaks, and fell 7% just on Friday**



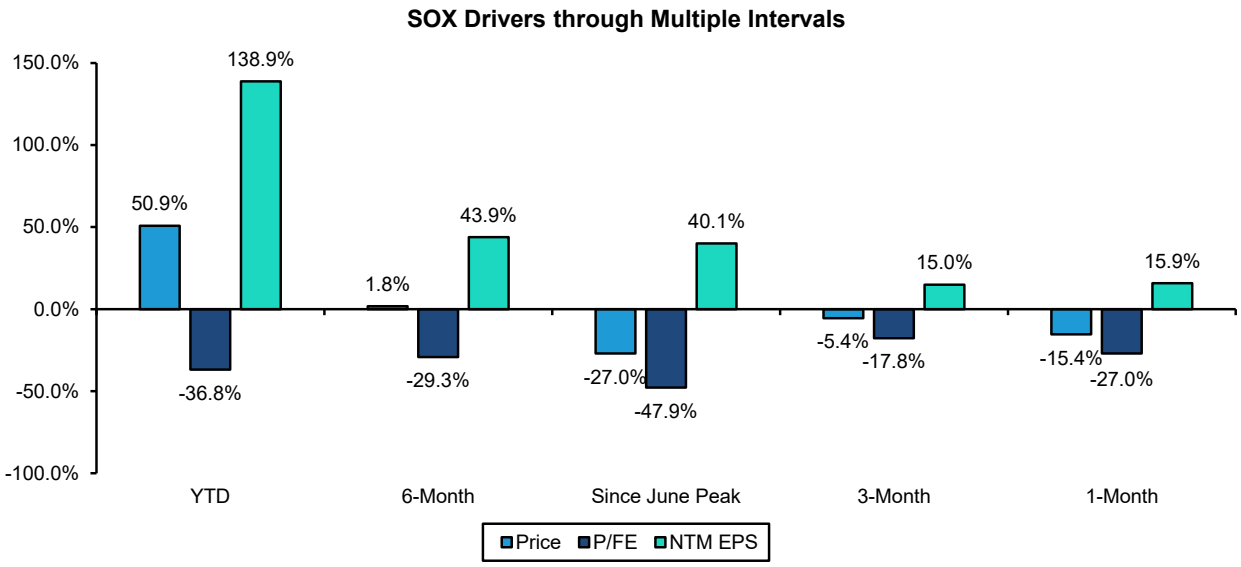
As of 10/30/2026
Source: Bloomberg, Bernstein analysis

EXHIBIT 2: **Recent underperformance within our coverage has been dominated mostly by semicap and CPU stories where valuation was higher, with more traditional AI names (NVDA, AVGO) holding up a bit better, and with analogs outperforming**



Source: Bloomberg, Bernstein analysis

EXHIBIT 3: **Sector underperformance has been driven entirely by multiple compression across all timescales, but with earnings outlooks continually upgraded**



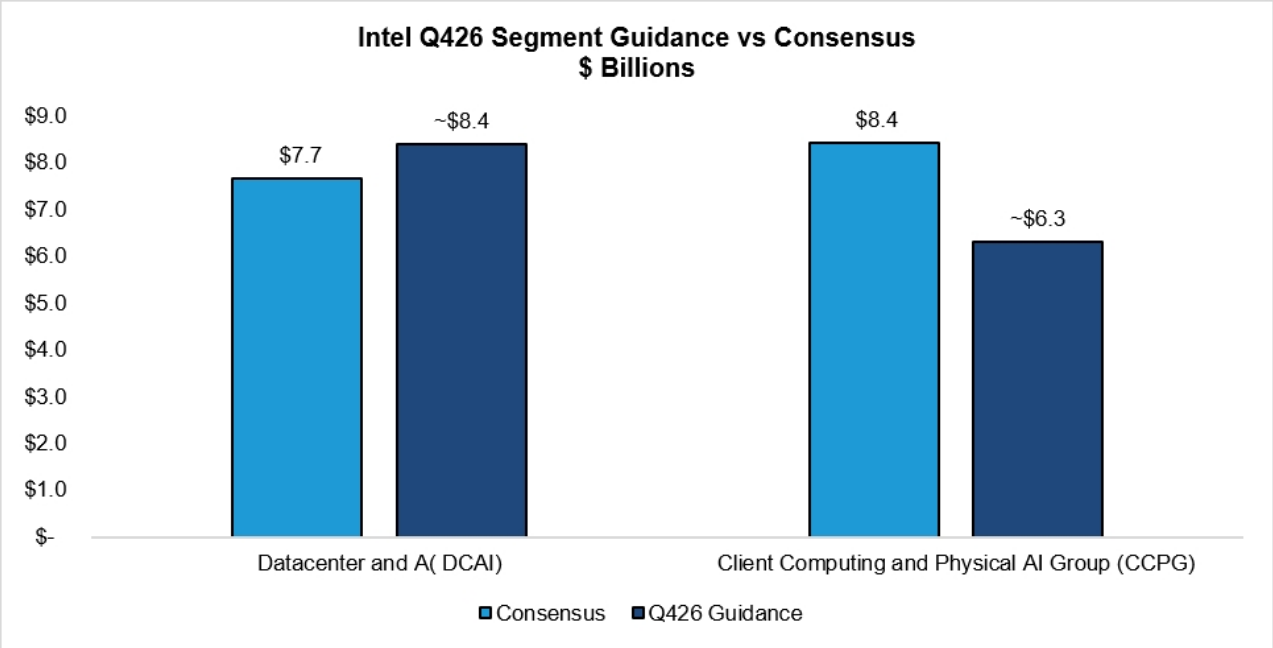
As of 10/30/2026
Source: Bloomberg, Bernstein analysis

EXHIBIT 4: **Hyperscale capex commentary remains supportive**

Meta	*We anticipate 2026 capital expenditures, including principal payments on finance leases, to be in the range of $135 billion to $145 billion, narrowed from our prior outlook of $130 billion to $145 billion.*
Google	*Our full year 2026 CapEx guidance range of $195 billion to $205 billion remains unchanged. We continue to expect our CapEx to increase significantly in 2027 and will provide further details on our Q4 call.*
Amazon	*We still expect 2026 cash CapEx of approximately $220 billion, the majority for AWS, and expect to spend meaningfully more in 2027 with a clear line of sight to attractive financial returns as I laid out on our last call.*
Microsoft	*In Q2, we expect CapEx spend will be over $50 billion. Therefore, for the calendar year, spend should be approximately $170 billion due to the 3P capacity delays noted earlier. In the second half of the fiscal year, we currently expect CapEx spend to accelerate primarily from CPUs, inclusive of higher memory and storage costs, and GPUs, as well as the 3P capacity deliveries that shifted to H2.*
SpaceX	*At this point I would say I'm fairly confident of being able to bring an incremetnal 10 GW of compute online in 2027. This would be in addition to the roughly 3GW that we'll have online by the end of this year. So I'll put it this way, I would be surprised if we've brought on less than 13 GW of compute by the end of next year*

Source: Company reports and transcripts, Bernstein analysis

EXHIBIT 5: **Intel's datacenter guidance was meaningfully above expectations; weakness was rather concentrated in the client segment**



Source: Company reports, Bloomberg, Bernstein analysis



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