PERSPECTIVES Viewpoint Equity

Semiconductor stocks reset but AI demand holds

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Key takeaways

- Semiconductor stocks have corrected after a strong AI-driven rally: The SOX has fallen around -19% from its June peak as investors have reassessed the durability of AI-related demand and infrastructure spending.
- Demand and earnings momentum however remain exceptionally strong: Recent corporate earnings results continue to point to robust demand for advanced chips, with analysts raising both earnings forecasts and AI infrastructure spending expectations.
- We remain constructive as the recent price correction has not been accompanied by a comparable deterioration in fundamentals. We note however the potential for further near-term volatility.

Reasons for the correction

Since mid-June, semiconductor stocks have corrected meaningfully. The Philadelphia Semiconductor Index (SOX), which includes leading US and US-listed global semiconductor companies, has fallen by around -19% from its June 22 high. The pullback follows a period of exceptional performance (see Figure 1), as semiconductor companies have been among the primary beneficiaries of the ongoing AI investment cycle.

The correction does not appear to reflect a comparable deterioration in current demand for semiconductors. Instead, investors have become more sensitive to risks surrounding the durability of the upcycle. Reports of potential excess computing capacity among hyperscalers (the major providers of cloud and computing infrastructure), the emergence of increasingly capable open-source AI models, the prospect of additional semiconductor capacity coming online in the years ahead, and persistent uncertainty around AI monetisation have raised questions about how long infrastructure spending and semiconductor demand can continue to expand at their present pace. These concerns appear to have encouraged investors to reduce exposure and realise profits following the strong rally. High levels of market participation and leveraged positioning amplified the move, turning a reassessment of elevated expectations into a sharp correction. The adjustment was particularly pronounced in memory-chip stocks, which had previously recorded some of the strongest gains.

One upward driver before the correction had been the growing adoption of agentic AI and thus token volumes (individual units of text and data processed by AI models) as applications perform more intermediate steps and feedback loops. This has raised memory requirements and, in turn, demand for High Bandwidth Memory (HBM) chips, which provide the high-speed memory needed to process increasingly complex AI workloads. Strong demand here has encountered already tight chip supply, driving a sharp improvement in the profitability of memory chip manufacturers and prompting analysts to significantly raise their earnings forecasts. More demanding AI workloads have also increased the need for advanced packaging technologies, which connect processors and memory more closely to improve performance and efficiency.

These developments had supported chip makers' share prices but had also raised expectations – and, as result, increased the market's sensitivity to any signs that momentum might slow.

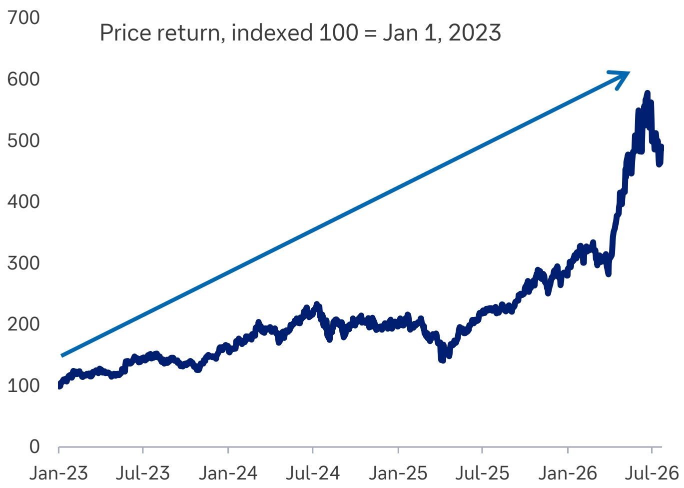
Differentiation in the AI value chain

The correction also needs to be viewed in the context of a longer-running differentiation across the AI value chain. Semiconductor and other AI infrastructure providers have so far been the most direct beneficiaries of rising AI investment as this has translated into immediate demand for computing capacity. This strong demand backdrop had helped semiconductor stocks attract the strongest investor enthusiasm across the AI ecosystem.

For hyperscalers, however, the financial (and thus share price) implications of AI investment are more balanced. Higher AI spending by hyperscalers supports their future growth prospects but also pressures their free cash flow today. As a result, investor concerns about capital discipline and cash generation have started to weigh more obviously on share prices. Among software and other downstream companies, the outlook is also still uncertain, as investors are assessing which business models will benefit from AI adoption and which may face disruption.

Investor attention has therefore increasingly shifted beyond current demand conditions towards the durability of the investment cycle and the expectations already reflected in current share prices. Recent Q2 2026 earnings reports from chipmakers, equipment suppliers and hyperscalers continue to suggest strong future demand for advanced semiconductors. Nevertheless, they have so far failed to produce a sustained recovery in the SOX, as uncertainty over future investment levels, technological developments and AI monetisation has gained an increasing influence over sector performance.

Figure 1: SOX semiconductor index performance



Source: LSEG Datastream, Deutsche Bank AG. Data as of July 23, 2026.

Demand and earnings should continue to provide support

For investors, the recent decline is best viewed in the context of the sector's exceptionally strong preceding rally. Even after falling by around -19% from its peak, the SOX remains more than 65% higher than at the start of this year. Setbacks are characteristic of the sector: since 2023, the index has experienced nine corrections of more than 10% (**see Figure 2**).

Historically, such corrections have often occurred near peaks in year-on-year revenue growth – i.e. when growth remained strong but was no longer accelerating – but without immediate signals of a broader downturn. The latest decline could fit this pattern. Quarterly revenue growth for semiconductor stocks is approaching an exceptional 70% YoY, while high expectations for future growth are already embedded in share prices. The strength of the preceding upcycle helps explain the magnitude of the subsequent correction, which may have been amplified by elevated and increasingly one-sided positioning built up during the rally.

Most importantly, the fundamental backdrop remains supportive. Major cloud providers continue to increase their planned investment in AI infrastructure and report that demand for computing capacity exceeds available supply, resulting in growing order backlogs backed by substantial customer commitments. Recent hyperscaler earnings reports have broadly reinforced this trend, with consensus estimates now pointing to hyperscaler investment of around USD750bn in 2026 and more than USD950bn in 2027.

The well-known argument here is that, in line with the so-called Jevons Paradox (originally applied to the efficiency of steam engines, not AI), lower costs should make new applications economically viable and encourage more frequent and complex AI use, potentially driving total computing demand higher despite efficiency gains. If the cost savings and productivity benefits generated by AI are seen to exceed the cost of deploying it, businesses have a clear incentive to adopt the technology more broadly. Rising adoption would increase demand for computing capacity, support returns on hyperscalers' data-centre investments and, in turn, sustain spending on chips and other AI infrastructure.

Against this backdrop, supply is likely to remain particularly tight for leading-edge chips and memory products for the foreseeable future, with high technological barriers to entry and concentrated market structures further supporting pricing power and sector margins. The earnings outlook for semiconductor companies reflects these favourable conditions. Since the start of the year, analysts have raised their 2026 earnings growth expectations for S&P 500 semiconductor companies by more than 40 percentage points. Consensus expects profits for the sector to roughly double this year, followed by growth of around 58% in 2027 and 22% in 2028. While earnings growth is therefore expected to moderate eventually from exceptionally strong levels, results released so far in the Q2 2026 earnings season have generally reinforced perceptions of a still-strong demand outlook and suggest further upside potential to current consensus estimates.

Lower share prices combined with rising earnings expectations have materially reduced valuations for S&P 500 semiconductor companies. The sector's 12-month forward price-to-earnings ratio has fallen to around 19x currently, approaching the lower end of its range over the last few years (see Figure 3). The stocks may appear even more attractively valued relative to longer-term earnings expectations. In short, share prices already reflect investor caution about the durability of growth, while analysts' forecasts continue to assume a supportive fundamental environment.

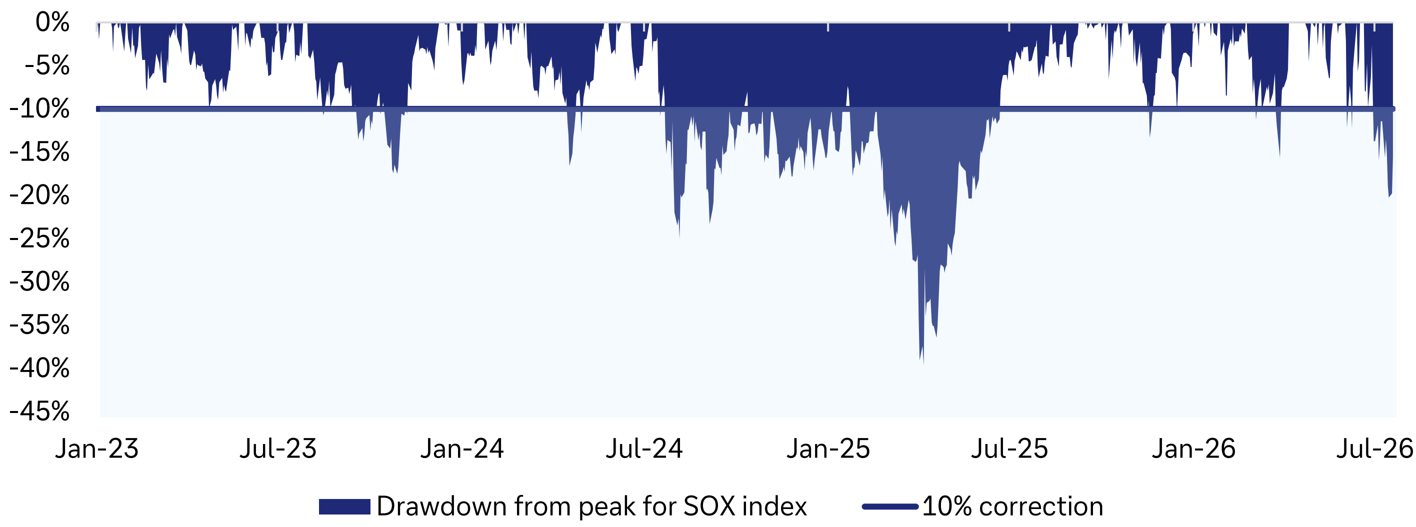
Conclusion

We believe that a constructive future demand and investment backdrop should ultimately carry greater weight than current concerns. Major cloud providers continue to expand AI infrastructure, while broader adoption, recurring replacement demand and high technological barriers are likely to support demand across the semiconductor value chain. If these drivers remain intact, the current divergence between equity prices and earnings expectations should narrow over time.

However, this does not imply a linear recovery. Current earnings forecasts depend on continued infrastructure investment and broader AI adoption. Investor sentiment will therefore remain sensitive to any changes in the capital-expenditure plans of major cloud providers and to further evidence on the extent to which AI can deliver sufficient revenues and measurable productivity gains. With expectations likely to stay elevated for a multi-year time frame, incoming news could continue to trigger considerable share-price fluctuations.

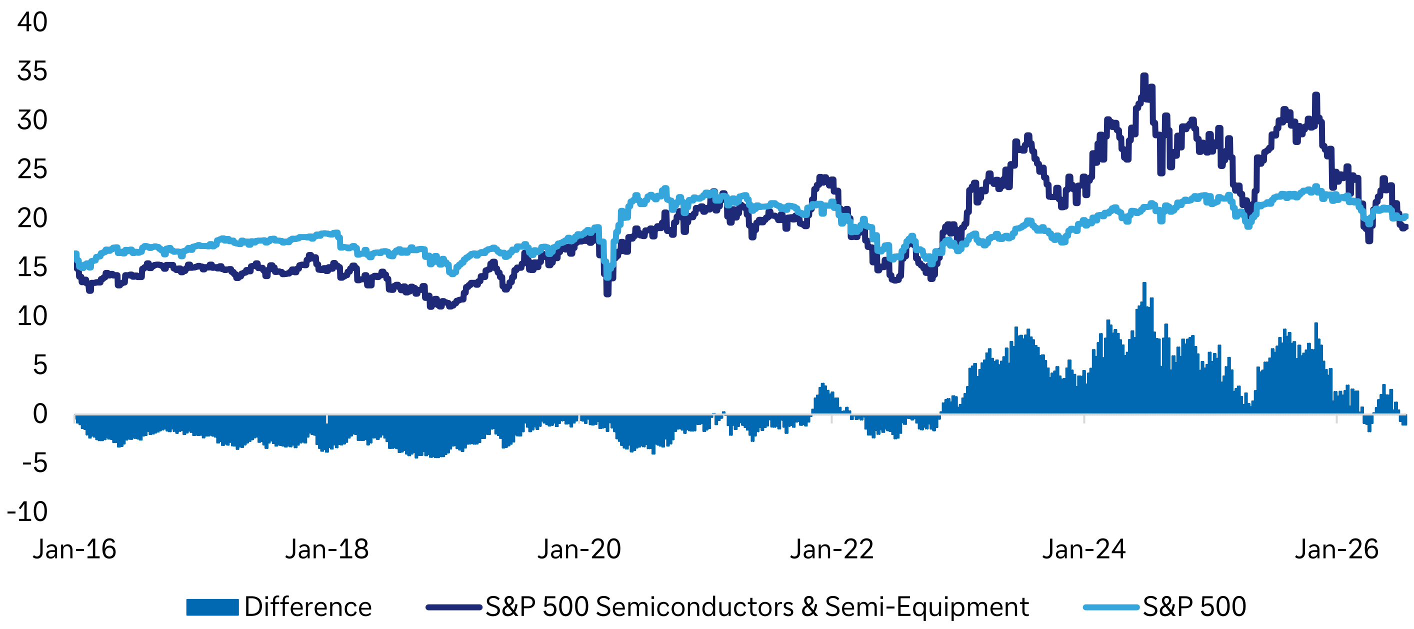
Overall, we remain constructive on the entire AI value chain, including semiconductors. The recent pullback has dialled back some of the previous market enthusiasm without being accompanied by a comparable deterioration in demand, investment or earnings expectations. As companies identify tangible productivity benefits from AI, adoption and infrastructure spending should continue to expand. Volatility is likely to remain elevated, but the fundamental case for sustained demand for computing power remains intact.

Figure 2: SOX gains have been accompanied by multiple corrections



Source: LSEG Datastream, Deutsche Bank AG. Data as of July 23, 2026.

Figure 3: Valuations close the gap to the broader market (NTM P/E ratio)



Source: LSEG Datastream, Deutsche Bank AG. Data as of July 23, 2026.

Appendix

Glossary

Advanced packaging technologies connect processors and memory more closely to improve semiconductor performance and efficiency.

Agentic AI refers to AI systems that can plan and perform multi-step tasks with limited human direction.

Free cash flow is the cash a company generates after operating expenses and capital expenditure.

High Bandwidth Memory (HBM) is high-speed memory used to process complex AI workloads.

Hyperscalers are major providers of cloud and computing infrastructure.

Jevons Paradox describes how efficiency gains that lower costs can increase total consumption of a resource.

NTM stands for next twelve months in the context of earnings and thus price/earnings ratios.

Price/earnings (P/E) ratios measure a company's current share price relative to its per-share earnings. In this context, LTM refers to last twelve months' earnings.

Q2 refers to the second quarter of a calendar or fiscal year.

The **S&P 500 Index** includes 500 leading US companies capturing approximately 80% coverage of available US market capitalization.

The **Semiconductor Sector Index (SOX)** Index is composed of companies primarily involved in the design, distribution, manufacture, and sale of semiconductors.

Token volumes refer to the individual units of text and data processed by AI models.

USD is the currency code for the US Dollar.

Volatility is the degree of variation of a trading-price series over time.

Historical performance

	26.7.2021 - 26.7.2022	26.7.2022 - 26.7.2023	26.7.2023 - 26.7.2024	26.7.2024 - 26.7.2025	26.7.2025 - 26.7.2026
S&P 500	-10.0%	18.5%	21.3%	18.6%	17.4%
S&P 500 Semiconductors & Semiconductor Equipment	-11.3%	59.4%	81.1%	40.4%	56.1%
Philadelphia Semiconductor Index	-15.2%	33.1%	37.9%	10.6%	109.3%

Source: Deutsche Bank AG, Bloomberg Finance L.P., LSEG Datastream. Data as of July 26, 2026.

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