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SEMICONDUCTOR SERIES · 6 OF 6

Semiconductors and Rates

the AI boom vs the Fed: who wins?

Chip stocks have almost doubled this year even as bond yields rose by a full percentage point. Earnings have outrun rates so far. This note looks at the state of the market and at what further rate increases could mean for it.

Global Markets Research · Semiconductors and Rates Desk Prepared by ANDRA MARKETS

SOX +84% YTD with 10y above 5%!

Coverage summary. The Philadelphia Semiconductor Index (SOX) closed at 13,066 on 7 October, up 84 per cent this year and 97 per cent over twelve months, even though the US ten-year Treasury yield has risen from 4.2 to about 5.3 per cent and the Federal Reserve raised rates in September. The industry is in the strongest upswing in its history: global chip sales are forecast to grow about 90 per cent this year, driven by AI data centres and a surge in memory prices. But the path has been volatile, with a 29 per cent fall between June and July and a sharp drop in September when yields passed 5 per cent. This note closes our series on the five largest chip companies with a view of the whole sector and of how it could react if the Fed keeps raising rates.

SOX, 7 Oct	SOX in 2026	Chip sales 2026e	10y real yield
13,066	**+84%**	**~$1.5tn**	**2.91%**
−10.7% from June high	*S&P 500 +12.6%*	*+~90% (WSTS)*	*from 1.93% in January*

Exhibit A. The five largest chip companies (excluding Micron) at a glance

our reports 2026-35 to 39

Company	Market value	Fwd P/E	Latest growth	To target	Results
Nvidia	$5.73tn	19.6x	+106%	+38%	~18 Nov
TSMC	$2.08tn	20.4x	+36%	+18%	15 Oct
Broadcom	$1.80tn	21.7x	+86%	+41%	~10 Dec
AMD	$1.05tn	58.2x	+50%	−1.5%	3 Nov
ASML	$0.69tn	32.8x	+21%	+17%	14 Oct

AMD: the outlier on valuation

Market data at the 7 October 2026 close (StockAnalysis; ADRs for TSMC and ASML). Latest growth is year-on-year revenue growth in the latest reported quarter; TSMC in Taiwan dollars. Upside to the average analyst target is an Andra Markets calculation. Colour convention (charts only): green marks growth, red marks decline or risk.

1.0 Executive Summary

Key takeaways

so far: earnings > rates

Earnings have beaten rates so far. Higher bond yields normally hurt highly valued growth stocks, and in 2022 they sent the SOX down 36 per cent. This year, the opposite has happened: earnings have grown so fast that they have more than offset the rise in yields. On our calculation, the daily link between chip stocks and real yields in 2026 is negative but weak.

the danger: yields + slower AI capex together

The risk is a combination, not rates alone. One more 25 basis point increase in December, which markets already price, should matter little on its own. The real risk is a scenario in which yields keep rising towards 6 per cent, raising the cost of the debt that funds AI data centres, at the same time as investors start to doubt the returns on that spending. That combination drove both sell-offs this year.

Not all chip stocks are equally exposed. Companies on high multiples, such as AMD at 58 times forward earnings, and the most cyclical businesses, equipment makers and memory, would suffer most. Nvidia, TSMC and Broadcom, on about 20 to 22 times earnings with visible demand into 2027, are better protected.

most exposed: AMD, ASML, memory

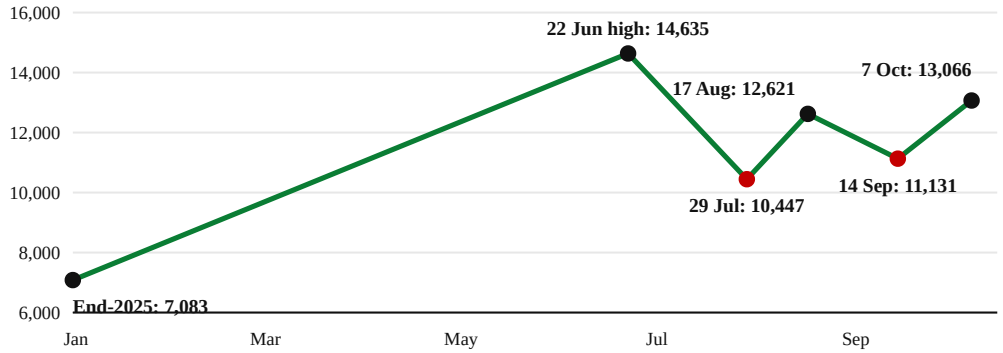
2.0 The State of the Market

A volatile boom

June high, July crash, Sept dip, Oct recovery

The SOX more than doubled in the first half, reaching a record of 14,635 on 22 June. In July, the "AI trade" unwound: the index lost about 10 per cent in a single week and fell 29 per cent from its high by 29 July, amid profit-taking, doubts about AI spending, a strong Chinese open-source AI model and high leverage among investors. It recovered in August, then fell again in mid-September, losing 5.9 per cent on 14 September as the ten-year yield passed 5 per cent and a Fed increase became almost certain. Since then it has rebounded 17 per cent and stands about 11 per cent below its high.

Exhibit 1. Philadelphia Semiconductor Index in 2026, key closes



−29% in 5 weeks

14 Sep: yields hit 5%

Source: Investing.com and Yahoo Finance index closes; Andra Markets selection of points. Lines join selected closes and do not show every daily move. Red marks the two sell-off lows.

3.0 The Demand Engine

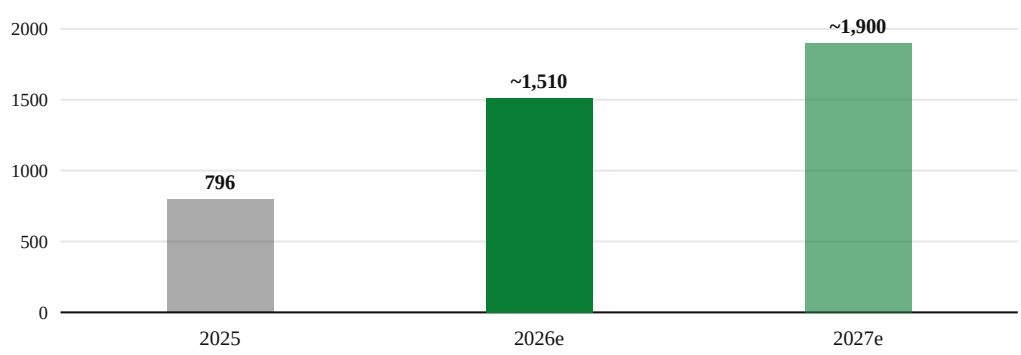
AI and memory

chip market x2 in a year!

The scale of the upswing is unprecedented. According to the Semiconductor Industry Association, global chip sales reached US$146.8 billion in July on a three-month average, 135 per cent more than a year earlier. The industry body WSTS forecasts the market to grow about 90 per cent in 2026 to about US$1.5 trillion, with memory sales up about 250 per cent as prices soar, and a further 27 per cent in 2027 to about US$1.9 trillion. Behind this is the investment of the large cloud companies: Amazon, Alphabet, Microsoft and Meta together plan to spend about US$720 to 745 billion this year on our calculation, and Moody's expects the total to approach US$1 trillion in 2027.

memory +250% = price boom

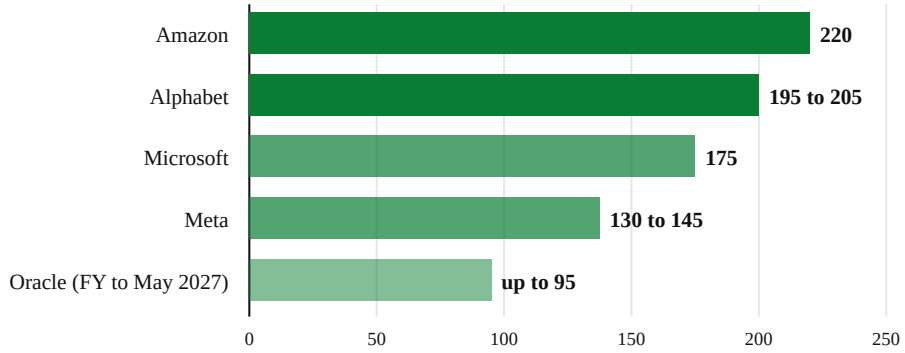
Exhibit 2. Global semiconductor market ($bn)



+90% in one year

Source: WSTS spring forecast (2 June 2026). 2026 and 2027 are forecasts.

Exhibit 3. Capital spending plans for 2026 ($bn)



Source: company guidance as reported by W.Media, Fortune, Meta, Reuters and The Standard (June to July 2026). Ranges shown at the midpoint.

4.0 Valuation

Not as stretched as the rally suggests

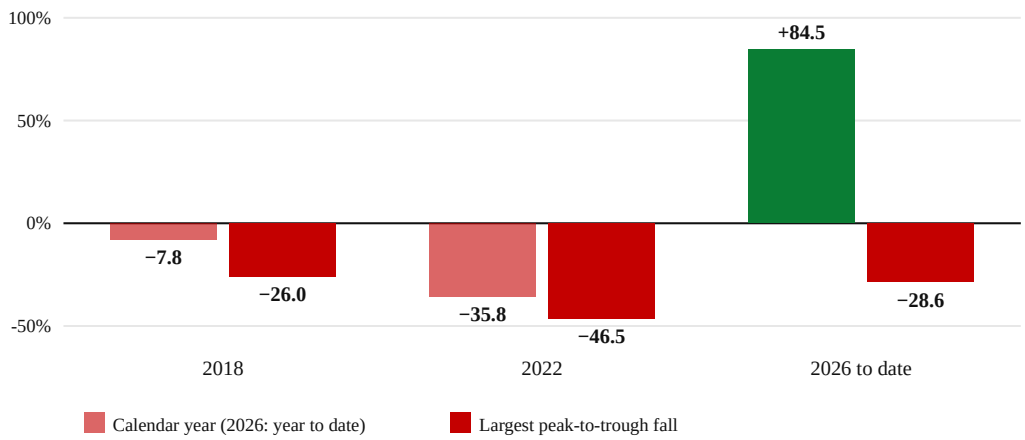
Despite the rally, sector valuations are not extreme, because earnings have risen almost as fast as prices. In July, the SOXX exchange-traded fund traded at 22.8 times forward earnings against 20.3 times for the S&P 500, according to LSEG data, while Standard Chartered estimated in September that semiconductors traded at about 16 times, below their five-year average of about 20. The difference depends on which companies are included and on how quickly analysts have raised forecasts. For comparison, the SOX traded at 18.2 times at the bottom of the 2022 bear market, and memory makers such as Micron and SK hynix trade at single-digit multiples because investors expect their profits to fall when the cycle turns.

5.0 How Rate Increases Affect Chip Stocks

Four channels

Higher interest rates can affect the sector through four channels. The first is valuation: a higher risk-free rate lowers the present value of profits far in the future, which hurts growth stocks the most. The second, specific to this cycle, is financing: the large cloud companies issued about US$170 billion of bonds in the first half of 2026 to fund data centres, Meta's long bonds trade in line with lower-rated BBB credits, and Oracle is raising about US$40 billion of debt and equity; higher rates make each new data centre more expensive. The third is demand from consumers and industry, since higher borrowing costs weigh on purchases of phones, PCs and cars. The fourth is the dollar, which tends to strengthen when the Fed tightens and reduces the value of foreign sales for US companies.

Exhibit 4. The SOX in Fed tightening years (%)



Source: Andra Markets calculation from Yahoo Finance SOX closes; FRED for real yields. Ten-year real yield: 2018 +0.5 points, 2022 +2.6 points, 2026 to date +1.0 point. 2026 green bar is the year-to-date gain.

why 2026 is different: earnings

History shows how damaging the combination can be. In 2018, when the Fed raised rates four times, the SOX fell 8 per cent over the year and 26 per cent from peak to trough. In 2022, when the Fed raised rates by more than four percentage points and the ten-year real yield rose from minus 1 to plus 1.6 per cent, the index lost 36 per cent, and analysts cut their earnings forecasts by 17 per cent. The difference in 2026 is that earnings are rising, not falling. As long as that continues, higher rates slow the rally rather than reverse it.

2022: earnings fell + rates rose

6.0 Scenarios

If the Fed keeps going

Exhibit B. Three rate scenarios and their likely effect on chip stocks (illustrative)

Scenario	Fed and yields	Likely effect
Base: one more hike	Dec +25bp to 4.25%; 10y ~5.0 to 5.5%	limited; earnings dominate
Hawkish: two or more hikes	peak 4.50% or higher; 10y towards 6%	multiples compress; AMD, ASML, memory hit most
Pause	no more hikes; 10y back below 5%	relief rally; high multiples benefit

Andra Markets illustrative scenarios based on bank forecasts in our note 2026-34 and market pricing; not a forecast.

market prices this one

risk case, cf. Danske 6%

A simple calculation shows why valuation matters in the hawkish case. If higher yields led investors to pay three fewer times earnings for a company on 20 times, such as Nvidia or TSMC, its shares would fall about 15 per cent with unchanged forecasts; if AMD's multiple fell from 58 to 45 times, its shares would fall about 22 per cent. These figures are illustrative, but they show that the most expensive stocks have the most to lose if rates keep rising, while strong earnings growth can absorb part of the blow, as it has this year.

58x to 45x = −22%

20x to 17x = −15%

7.0 Risk Considerations

Beyond rates

the cycle always turns, eventually

Rates are only one of the risks. The largest is the AI investment cycle itself: chip demand depends on a few very large buyers whose spending is now partly financed with debt, and a slowdown would hit equipment makers and memory first. Memory prices, which have driven much of this year's growth, could fall as quickly as they rose once new capacity arrives. US tariffs on imported chips may be extended to servers and devices, export controls limit sales to China, and tensions around Taiwan remain a risk for the whole supply chain.

tariffs: Section 232 phase 2

8.0 Outlook and Monitoring Points

A busy calendar

The next weeks will test both sides of the story. ASML reports on 14 October and TSMC on 15 October, the first reads on AI demand for 2027; SK hynix reports around 27 October, AMD on 3 November, Nvidia around 18 November and Broadcom around 10 December. On rates, the September inflation data and the Fed meetings of 28 October and 9 December will decide whether one more increase is the last. Investors should also watch the ten-year yield around 5 to 5.5 per cent and the cost of corporate bonds issued to fund AI. As long as earnings keep rising faster than yields, the sector can live with a tighter Fed.

14 Oct ASML, 15 Oct TSMC

28 Oct: Fed. 9 Dec: Fed

9.0 Series Conclusions

Five companies, five verdicts

cheapest: NVDA, TSMC

Exhibit C. Our verdicts on the five companies in this series

Company	Verdict	Next test
Nvidia	growth at ~20x; the risk is the cycle	Rubin ramp, margin (~18 Nov)
TSMC	safest way to own AI chips, with Taiwan risk	Q3 margin (15 Oct)
Broadcom	biggest upside, biggest customer risk	Google share, FY27 AI (~10 Dec)
AMD	best story, most demanding price	Helios ramp (3 Nov)
ASML	the toll booth of the industry	2027 outlook (14 Oct)

priciest: AMD

Andra Markets verdicts from reports 2026-35 to 2026-39; not investment recommendations.

2 weeks that matter: 14 to 15 Oct

Across the series, the picture is consistent: demand for AI chips exceeds supply into 2027 at every company we reviewed, and the main differences lie in valuation and in exposure to specific customers or regions. For investors worried about rates, the companies on the lowest multiples with the most visible demand, Nvidia and TSMC, offer the most protection; AMD offers the most upside if everything goes right and the most downside if rates or execution disappoint.

verdict: rates are a headwind, not the end of the cycle.
watch earnings, not just the Fed

Methodology and Source Notes

Method. This note summarises the semiconductor sector as of 7 October 2026 and draws on our company reports 2026-35 to 2026-39 and our note 2026-34 on bank views of rates. Index returns, drawdowns, the correlation between SOX returns and real yields, capex totals and the illustrative valuation scenarios are Andra Markets calculations from the sources listed. Scenarios are illustrative and not forecasts. Handwritten notes and highlights are informal commentary by the desk. This note is analysis, not investment advice.

Principal sources. Investing.com and Yahoo Finance, SOX and SMH data; Reuters via The Star, on the July sell-off (17 July 2026); Swissinfo and Herald Corp, on the August and September falls; Morningstar/MarketWatch (LSEG data), AJ Bell and Standard Chartered, on valuation; SIA (August and September 2026) and WSTS (June 2026), on industry sales; company guidance and Moody's via DCD, on capex; Aviva Investors, on hyperscaler bond issuance (July 2026); FRED, for real yields; Advisor Perspectives (Bloomberg data), on 2022 valuation; TariffLens, on tariffs; StockAnalysis, for company market data.

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