MARKET WATCH JUL2026

PREMIER MITON
ORIGINAL THINKING

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IN BRIEF

- There was one big story in July; semiconductors
- Meaning it was a more of a big dipper ride than a roller coaster for equity markets.
- But will they crash and burn?
- It was, though, busy and newsworthy in other respects.

Semiconductors are to the digital economy, what oil is to the industrial economy.

You will be very used to the word "semiconductors" by now, often shorted to "semis" or referred to as "chips". Think of them as the engines that power the digital world. Every internet search, smartphone call, online purchase, and modern car journey relies on semiconductors. We rely on them in most aspects of our social and working lives. As new technology is devised and released and as the world's use of technology continues to expand in existing areas, so too does demand for these components. That is before I have even mentioned AI.

Semis are one of the most in demand products in the world and are a necessity if the global economy is to function smoothly and grow. There is an endless supply of data to quote on the industry, and the numbers can be so large they just go over your head, so let's just stick to this. The Semiconductor Industry Association announced global sales reached $791bn in 2025, an increase of 25.6% on 2024, and estimated they would grow to roughly $1tr in 2026, which is approximately the size of the whole economy of Switzerland and nearly as big as Saudi Arabia. Moreover, economic growth is not that strong anywhere and much of it is being generated by the growth in the semis market.

Unsurprisingly, there are lot of companies around the world involved in the industry, in all parts of the supply chain and in different types of semis, from the simplest to the most advanced that are at the cutting edge of the development of AI. You will no doubt recognise the name Nvidia, the world's largest company and world leader in the design of semis driving AI, also maybe Taiwan Semiconductor Manufacturing Company (TSMC), the world's largest manufacturer. But there are many more involved in different parts of the industry. Given the growth in the excitement around AI, the share prices of such companies have been very strong.

Just as oil has been a major widespread political issue for decades, leading to price wars, trade battles and as we are still seeing, real global military conflict, the semiconductor industry has become a political football and bargaining chip (excuse the pun). The governments of the US and China are regularly at loggerheads over their import and export; there are genuine national security considerations at stake and that's before we even consider the China / Taiwan relationship. It is a global industry that all counties are part of, just like the oil and energy industry, and it's getting much bigger and influential.

Share prices, not the price of chips.

Whilst the major US semiconductor companies, particularly Nvidia, but also Broadcom and certain AI linked suppliers, were seen as the direct beneficiaries of the AI infrastructure boom, European semiconductor companies were viewed as indirect AI beneficiaries rather than direct ones, with their main customers being automotive and industrial markets, which were relatively weak in 2024/25 and dependent on a broader semiconductor recovery rather than the immediate AI spending surge. In other words, more cyclical, which was a reasonable view. Therefore, different companies share prices have reflected that, but this year, it all came together at the same time, before hitting a brick wall in July.

The Philadelphia Semiconductor Index (SOX) tracks the share prices of around 30 leading companies globally involved in the design, distribution, manufacturing and sales of semiconductors. The chart below shows the index from the end of 2024 to 31 July 2026. As you can see, it more than doubled from just before the end of March 2026 to mid June, until falling by around 25% and jumping back up at the end of July.

The Philadelphia Semiconductor Index 31.12.2024 – 31.07.2026

Source: Bloomberg Finance L.P – Philadelphia Stock Exchange Semiconductor Index from 31.12.2024 – 31.07.2026
Past performance is not a reliable indicator of future returns.

That is a heck of a ride and given the size of the companies, has a meaningful impact on the broader global equity market. The key issue is; have the share prices of the companies become detached from their growth prospects and the outlook for the industry? In other words, has everyone got too excited about them and pushed the shares to valuation levels that are unsustainable? There will be some who will tell you unequivocally that is the case, and others who will tell you the exact opposite, but most will be somewhere in between, which is usually where the truth sits.

What happens next?

Semiconductors sit at the centre of several powerful themes, including; AI, cloud computing, electric vehicles, defence spending and industrial automation. Investors expect strong future growth and after big share price moves changes in sentiment or unexpected company results can lead to very large swings in share prices. The second point is very relevant, as we are in middle of a period when companies are announcing their revenues and profits for the first half of the year and providing guidance for the future. If they do not match expectations, the share prices can be very sensitive.

A combination of high expectations for growth, strong share prices and valuations looking somewhat high can lead to profit taking and share price weakness, if expectations are also dented, that will exacerbate the moves. That is where we sit at present.

Let's be clear though, the fact there will be huge levels of spending on semiconductors and their importance is not in question; it's all about the scale of it and whether it will be profitable enough to drive the share prices of the companies higher, or not.

As for the rest of it.

There was plenty else going on in July.

From the White House we heard there was a planned new round of trade tariffs that would impact industries and countries globally, let's wait to see what happens rather than draw any conclusions. Of more meaningful importance was the escalation of hostilities in the Gulf which drove the oil price higher and elevated concerns on inflation. These concerns were endorsed by the US Federal Reserve, the Bank of Japan and the Bank of England at their meetings in the last week of the month. It is now very likely we will see interest rates rise in those 3 countries and in the Eurozone in September. At a time when economic growth is under pressure that is not great news.

At home, we have a new Prime Minister who has announced numerous policies but little detail so far. His, and the Chancellor's, first budget will be just before Halloween and will be the third one of this parliamentary term; it will be the most anticipated of all of them, which is saying something.

Financial markets can be volatile in the summer, with a lot of people on holiday, markets can trade relatively low levels of activity, which means moves can be exaggerated and lead to volatility upwards and downwards, I expect that will continue through August as there is so much news flow around.

Neil Birrell
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Glossary

Equities

Another name for shares (or stock) in a company.

Cyclical stocks

A company whose business follows the economic cycle of expansion and recession, for example, restaurants, hotel chains, airlines and car manufacturers. These types of business typically benefit from economic expansion when their products and services are more in demand but can experience declining sales and profits during recessions and other challenging economic conditions.

Index

An index is a method of tracking the performance of a group of shares, bonds, other assets or factors. For example, the FTSE 100 Index is made up of the 100 largest companies on the London Stock Exchange.

Risks

Forecasts are not reliable indicators of future returns.

Important Information

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