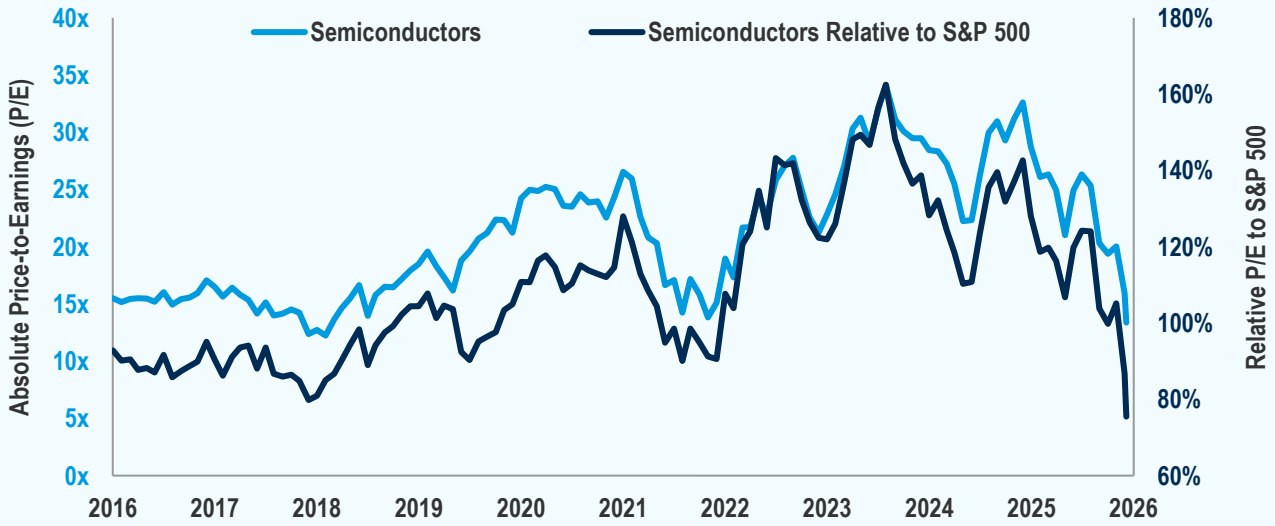
ALGER

Alger On The Money

When the Chips Are Down

Following the midterm elections, investor anxiety about the pace of the artificial intelligence (AI) data center buildout has weighed on AI-related stocks. The selloff has pushed valuations of semiconductor companies, which sit at the center of the AI buildout, well below their historical norms. Where does that leave the technology stocks that play a critical role in powering AI services?

Semiconductor Valuations Have Fallen Sharply



Source: FactSet, S&P Global, Nasdaq, Inc. Semiconductors is the Philadelphia Semiconductor Index. Price-to-earnings multiple based on consensus next 12-month estimates. From 11/30/16 to 11/5/26.

- Semiconductor companies design and manufacture chips that power artificial intelligence. The Philadelphia Semiconductor Index is a representative basket of these stocks, including companies whose chips perform AI computations, store and rapidly retrieve data, manage and convert power, and connect servers across data centers. Together, these companies supply much of the hardware within the data center.
- In the chart above, semiconductor valuations, as measured by the price-to-earnings (P/E) multiple for the Philadelphia Semiconductor Index, were more than one-third below their 10-year average[1] and at their lowest level relative to the S&P 500 in at least 25 years[2], as of November 5, 2026. That marked a notable shift from June 2024, when the group traded at a premium of more than 60% to the broader market. The index's P/E had also fallen nearly 50% since the beginning of 2026.
- While valuation multiples could fall further and earnings estimates could decline, we believe a significant amount of bad news could be reflected in these stocks. In our view, cloud providers, enterprises and governments continue to expand data center capacity, and the need for faster, more efficient computing is likely to grow as AI models grow more capable and adoption broadens across industries. Given the strong fundamental outlook we see for AI computing demand over the next few years, we believe many semiconductor stocks appear attractively valued.

[1] Source: FactSet, Philadelphia Semiconductor Index. As of 11/5/2026, the index's next 12-month P/E was 13.4x. Its 10-year average, based on month-end values from 11/30/2016 through 11/5/2026, was 21.1x.
[2] Source: FactSet, Philadelphia Semiconductor Index, S&P Global. As of 11/5/2026, the index's next 12-month P/E of 13.4x was 75% of the S&P 500's 17.7x, its lowest relative level in data beginning 12/31/1999.

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The PHLX Semiconductor Sector Index, commonly known as the Philadelphia Semiconductor Index, is a modified market capitalization-weighted index of the 30 largest U.S.-listed companies primarily involved in the design, distribution, manufacture and sale of semiconductors. Investors cannot invest directly in an index. Index performance does not reflect the deduction of fees, expenses or taxes.

FactSet is an independent source, which Alger believes to be a reliable source. FAM, however, makes no representation that it is complete or accurate. Earnings per share (EPS) is the portion of a company's earnings or profit allocated to each share of common stock. Price-to-earnings is the ratio for valuing a company that measures its current share price relative to its earnings per share.

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