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Monthly Insights: August Outlook

Information Technology Sector

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Sector Price Action & Performance Review: Information Technology Sector



Tech stocks remain leadership heading into August. Strong demand for AI related gear and chips has been confirmed through the current reporting season. Evidence of increased capital spending and favorable policy developments are a recent tailwind.

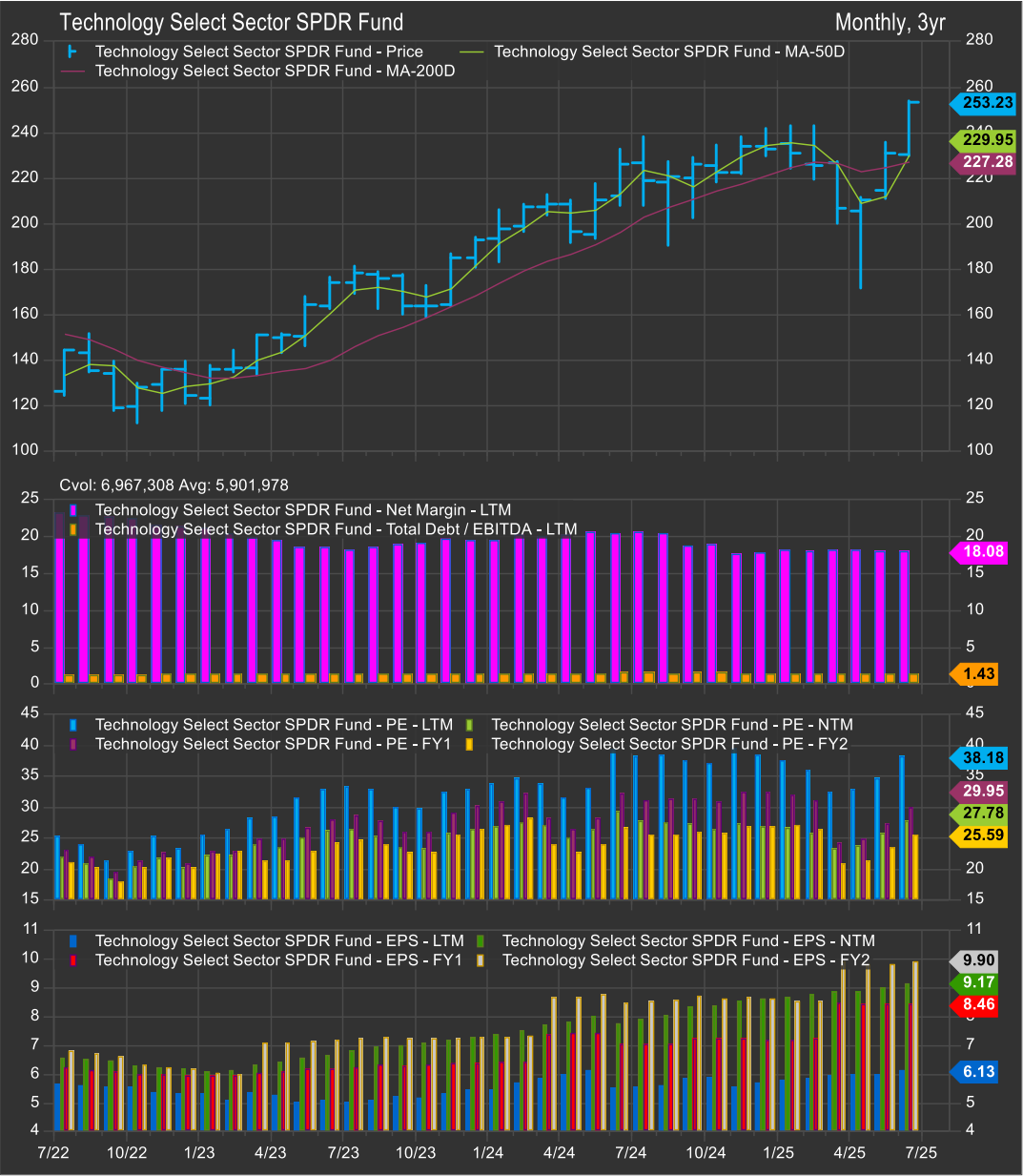
Momentum studies have sustained in overbought condition which is a sign of strong buyer enthusiasm. Strength across Semiconductors, Electronic Equipment, Networking and Software have offset some weakness in the Hardware Industry. AAPL shares are in a funk in the near-term.

Earnings season has indicated a 30-50% increase in capital spending aimed at AI implementation. Tariff policy is expected to raise costs in the low-to-mid single digits (FactSet sites 3-7%), but supply chains for key manufacturers (NVDA, TSMC, AMD) remain intact. The Trump Administration has show willingness to carve out exceptions to export restriction, though the lack of clear policy in this regard is of concern.

The Information Technology sector has reestablished itself as the bull market leader. Omnipresent concerns over valuation and the business cycle aside, AI demand remains strong, and momentum is a tailwind as well.

We start August with an **OVERWEIGHT allocation to the Information Technology Sector of **4.33%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Information Technology Sector



The chart (left) shows S&P 500 Information Technology Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins contracted in the back half of 2024 (chart, panel 2) and that has held steady into 2025

While valuation multiples are high on a LTM basis (panel 3), earnings season revealed upbeat forward guidance where it was available raising FY2 estimated EPS and compressing forward valuations. This is the positive dynamic that sets the sector up to outperform as long as the business cycle doesn't hit further snags from global trade tensions or other exogenous events

Industry/Sub-Industry Performance and Breadth: Information Technology Sector



Information Technology Industries (chart, left): Semiconductors and Electronic Equipment industries led the technology sector higher in June. AAPL took the Tech Hardware Industry lower while IT services stocks accelerated to the downside

Information Technology Sector Internals (chart, right): Breadth has narrowed since May, but >70% of stocks in the sector are above their 50-day moving average while the longer-term series is near best levels for the year

Top 10/Bottom 10 Stock Level Performers: Information Technology Sector

| Symbol | Name | CHART_PATTERN | MktVal Co | Valuation Multiple Rel to Index | Momentum Score | Div Yld Multiple rel to Index | 3y BETA Rel to Loc Idx | 1-Month Excess Return vs. BMK |
|--------|------------------------------------|------------------|-----------|---------------------------------------|-------------------|-------------------------------------|------------------------------|--|
| ▼ | ▼ | ▼ | ▼ | ▼ | ▼ | ▼ | ▼ | ▼ |
| SNPS | Synopsys, Inc. | Bullish Reversal | 117,652.6 | 1.57 | 22.1 | 0.0 | 1.09 | 23.2 |
| TEL | TE Connectivity plc | Bullish Reversal | 61,805.9 | 0.90 | 28.8 | 0.9 | 1.32 | 22.1 |
| AMD | Advanced Micro Devices, Inc. | Bullish Reversal | 287,702.0 | 1.41 | 49.9 | 0.0 | 1.99 | 20.1 |
| SMCI | Super Micro Computer, Inc. | Bullish Reversal | 34,991.4 | 0.84 | 50.9 | 0.0 | 1.83 | 19.9 |
| PTC | PTC Inc. | Consolidation | 24,492.2 | 1.21 | 14.5 | 0.0 | 1.27 | 17.3 |
| CDNS | Cadence Design Systems, Inc. | Bullish Reversal | 100,004.4 | 1.97 | 12.2 | 0.0 | 0.93 | 16.7 |
| GLW | Corning Inc | Bullish Reversal | 53,084.1 | 0.94 | 21.5 | 1.2 | 1.37 | 16.3 |
| FSLR | First Solar, Inc. | Consolidation | 19,499.2 | 0.38 | 14.3 | 0.0 | 1.79 | 16.2 |
| PLTR | Palantir Technologies Inc. Class A | Uptrend | 353,556.5 | 9.42 | 32.6 | 0.0 | 1.49 | 16.2 |
| ANET | Arista Networks, Inc. | Bullish Reversal | 148,977.4 | 1.69 | 21.6 | 0.0 | 1.21 | 16.1 |

| Symbol | Name | CHART_PATTERN | MktVal Co | Valuation Multiple Rel to Index | Momentum Score | Div Yld Multiple rel to Index | 3y BETA Rel to Loc Idx | 1-Month Excess Return vs. BMK |
|--------|---|------------------|-----------|---------------------------------------|-------------------|-------------------------------------|------------------------------|--|
| ▼ | ▼ | ▼ | ▼ | ▼ | ▼ | ▼ | ▼ | ▼ |
| ENPH | Enphase Energy, Inc. | Downtrend | 4,377.5 | 0.53 | -39.0 | 0.0 | 1.54 | -21.4 |
| FICO | Fair Isaac Corporation | Retracement | 36,635.7 | 1.73 | -30.3 | 0.0 | 1.40 | -20.4 |
| IT | Gartner, Inc. | Retracement | 26,969.2 | 1.08 | -28.9 | 0.0 | 1.08 | -16.3 |
| MU | Micron Technology, Inc. | Bullish Reversal | 125,297.2 | 0.38 | 15.4 | 0.3 | 1.65 | -13.5 |
| INTC | Intel Corporation | Consolidation | 89,334.6 | 1.83 | -11.9 | 0.1 | 1.57 | -13.3 |
| IBM | International Business Machines Corporation | Bullish Reversal | 244,440.0 | 0.91 | -4.1 | 1.7 | 0.86 | -12.7 |
| GDDY | GoDaddy, Inc. Class A | Retracement | 23,516.2 | 0.99 | -23.0 | 0.0 | 1.08 | -11.6 |
| TXN | Texas Instruments Incorporated | Consolidation | 173,863.4 | 1.24 | -0.4 | 1.9 | 1.23 | -10.9 |
| CRWD | CrowdStrike Holdings, Inc. Class A | Uptrend | 116,027.5 | 4.59 | -4.3 | 0.0 | 0.89 | -10.1 |
| ACN | Accenture Plc Class A | Support | 173,713.6 | 0.82 | -19.2 | 1.4 | 1.16 | -8.4 |

A diverse group of stocks continue to lead the sector on a month-to-month basis, but reflation of AI related names (SMCI, AMD) and a resurgence in Software names (CDNS, SNPS) from AI related business is notable

Some solar stocks have bounced, but not ENPH, while IBM hit a setback in its impressive run of performance YTD

Metrics:
(Formulas are in the appendix at the end of the report)

- Valuation Multiple Relative to Index
Premium (or discount) to benchmark valuation
- Momentum
Long higher scores, short lower scores
- Dividend Yield Relative to Index
Higher scores preferred when rates and equities are moving lower
- Near-term Overbought/Oversold
Price is >10% away from the 50-day moving average Above/Below

GREEN|RED
Company scores positively|negatively for Elev8 Sector Rotation Model for April

Economic & Policy Drivers: Information Technology Sector

Earnings & Margin Trends

Q2 earnings for the tech sector showed strong headline performance, with above-average EPS and revenue beat rates across semiconductors, software, and hardware:

Cloud and AI-driven capex fueled continued strength in data center, GPU, networking, and enterprise software.

Software firms reported mid-to-high single-digit organic growth, with positive operating leverage from disciplined headcount and GenAI integration gains.

Hardware OEMs and device suppliers faced headwinds from higher input costs and tariffs, but offset some pressure via premiumization and AI-featured product lines.

Margins generally stable to slightly expanding, aided by **AI monetization, cost controls, and ongoing cloud demand**.

AI & Cloud Infrastructure Investment

AI deployment remains the dominant narrative, with management teams citing:

30–50% YoY increases in AI infrastructure capex at cloud hyperscalers (AWS, Azure, Google Cloud).

A wave of **custom silicon rollouts** and **accelerator-focused capex**, with next-gen hardware cycles already priced into 2H revenue guidance.

Many SaaS firms discussed **GenAI productivity features** driving seat upgrades and user engagement; multiple cited **AI-enabled upsell rates of 20–30%**.

Tariff, Trade & Supply Chain

Tariff risk continues to build as 1-Aug implementation deadline nears:

Tech sector particularly exposed to **semiconductor tools, display components, batteries, and OEM modules** sourced from China and the EU.

Some firms flagged **3–7% cost pressure from tariffs**, with mitigation efforts including reshoring, component substitution, or cost pass-through.

Commerce Department reportedly paused export restrictions temporarily to avoid derailing ongoing U.S.–China trade talks; final clarity expected by mid-August.

Supply chains for key nodes (TSMC/NVDA/AMD ecosystem) remain intact, though companies flagged logistical disruptions due to Red Sea and Asian shipping constraints.

Regulatory & Antitrust Developments

New privacy frameworks and AI accountability rules remain under discussion but **not yet enforceable**, helping sustain confidence in near-term monetization.

July congressional hearings offered no material progress on comprehensive federal AI legislation; tech CEOs widely cited for self-regulatory initiatives.

The **FTC and DOJ maintain pressure on large-cap platforms**, but **no new enforcement actions announced** in July; recent M&A (e.g. in cybersecurity and chip design) has drawn scrutiny but not yet resulted in injunctions.

Capital Markets, Flow of Funds & Valuation

Tech remained a **magnet for systematic fund inflows**, with **Q2 earnings beats reinforcing institutional overweight** across cloud, semis, and AI SaaS names.

Valuation dispersion widened: AI infrastructure and platform firms command **25–30x forward EV/EBITDA**, while legacy hardware and mobile OEMs trade at low-teens multiples.

Analysts noted that **peak AI momentum may moderate**, but spending cycles still have legs through 2026.

Labor, Hiring & Wage Inflation

Wage pressures stabilized relative to 2022–2023 highs, though firms continued to cite:

Competition for AI and ML talent, with top firms offering **comp packages up 10–15% YoY** for senior roles.

Software productivity gains from GenAI offsetting need for incremental hiring.

Layoffs at smaller tech names appear to have slowed, while large-cap firms resumed modest hiring for sales and infrastructure roles

August 2025 Outlook

August 1: Tariff implementation on select Chinese and EU-origin tech components (notably input for semis, batteries, and IoT devices). Watch for pricing commentary in earnings calls.

August 2 & 7: Senate and House Commerce Committee follow-up hearings on **AI oversight and national security**, with CEOs from major cloud and chip firms expected to testify.

Key macro catalysts:

Treasury refunding details could impact long-duration tech multiples.

FOMC commentary on inflation stickiness may affect rate-sensitives within growth tech.

Appendix: Metric Interpretation/Descriptions

Valuation Multiple Relative to Index

Higher scores correspond to more expensive earnings than the index, lower scores are cheaper

Valuation Multiple Relative to Index

(Company Price/NTM EPS)/ (Index Price/NTM EPS)

Dividend Yield Relative to Index

Higher scores correspond to higher company dividend yield relative to the S&P 500 Index dividend Yield

Dividend Yield Relative to Index

Company FY1 Rolling Dividend Yield / Index FY1 Rolling Dividend Yield

Momentum

Long higher scores, short lower scores

Momentum (simple mean)

1-Month Excess Total Return (vs. S&P 500) * 0.2

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.5

Plus

6-Month Excess Total Return (vs. S&P 500) * 0.3

Metric Interpretation/Descriptions

Price Structure

We categorize stock chart patterns into 7 categories

Uptrend—Stock exhibits sustained outperformance

Bullish Reversal—Stock has outperformed over the past 3-6 months by > 10% vs. benchmark

Consolidation—Sideways price action, generally a bearish pattern in a bull market

Retracement—A sharp move lower in a previously strong chart

Distributional—A topping pattern

Downtrend—Sustained underperformance, lagging the benchmark by >15% per year

Support—Price has reached a level where major bottom formations or basing has occurred in the past

Basing—A protracted consolidation at long-term support

Deviation from Trend

Intermediate-term: Price % Above/Below 200-day moving average

Near-term: Price % Above/Below 50-day moving average

Overbought/Oversold (We want to sell overbought charts with declining momentum)

Overbought = Stock price > 25% above 200-day m.a.

Oversold = Stock price > 20% below 200-day m.a.

Near-term Overbought/Oversold (Signals depend on trend context)

Overbought = Stock price > 15% above 50-day m.a.

Oversold = Stock price > 15% below 50-day m.a.