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Morning Briefing

On Semis, Consumers & AI Advertising

Check out the accompanying [chart collection](#).

Executive Summary: Another day, another tariff target. President Trump's news Tuesday that new tariffs on imports of semiconductors are coming soon got a muted negative reaction from semiconductor companies' investors, who on the whole have been tolerant of Trump's Tariff Turmoil. Jackie discusses where the industry's players and investors find themselves at this point in time. ... Also: Disney's and McDonald's earnings reports shed light on consumer demand trends last quarter. In our Disruptive Technologies segment: AI is taking advertising and marketing to a whole new level of targeted relevance, and it's working.

Information Technology: Semiconductors in Trump's Crosshairs. Semiconductors initially were exempt from the tariffs President Donald Trump announced on imports from Taiwan and elsewhere, but their rarified status may be about to end. President Trump said on Tuesday that semiconductor-specific tariffs would be announced in the next week or so.

Then, last night after the financial markets closed, the President floated the idea of placing 100% tariffs on semiconductors, with exemptions for companies that are manufacturing in the US or have announced intentions to do so. Specifics weren't forthcoming, and dealmaking will undoubtedly bring that tariff percentage down. Nonetheless, 100% tariffs is certainly a higher starting point than we've seen on other tariffs imposed on countries' imports so far.

The semiconductor industry initially received a reprieve from tariffs on April 11 under a Presidential Memorandum that excluded certain semiconductor products from reciprocal tariffs. But the industry knew the exemption would likely end because the Department of Commerce initiated on April 1 an investigation into the national security impact of imports of semiconductors and related products under Section 232 of the Trade and Expansion Act of 1962, a [primer](#) by Torres Trade Law explains. (Separate investigations under the same section are being conducted into critical minerals and pharmaceuticals and pharmaceutical

ingredients.)

A recommendation from that investigation is required by December 27; but given the President's recent comments in Tuesday's CNBC [interview](#), the report may already be done.

Tariffing semiconductors is tricky because the US imports relatively few semiconductors per se, roughly \$45 billion worth. But it does import many products that include semiconductors (like smartphones). Sanford Bernstein's Stacy Rasgon speculated in a separate CNBC [interview](#) that tariffs could be placed on semiconductors contained in imported devices.

AMD, Apple, Nvidia and other semiconductor makers have their chips manufactured for them by Taiwan Semiconductor Manufacturing Company (TSMC) in Taiwan. President Trump didn't reveal how high the semiconductor tariffs will be or whether they'll be in addition to the existing 20% tariffs on Taiwan's imports. His goal: to push chip manufacturing back to US shores.

The movement to reshore semiconductor manufacturing is well underway. The impetus began during President Trump's first term, when TSMC announced plans to build its first fab in Arizona. The company expanded those plans under President Biden to a second fab announced in 2022 and a third announced in 2024, then doubled down in March under Trump 2.0—adding to its plans another three fabs, two advanced packaging plants, and an R&D team center.

TSMC's investment in the US is now expected to total \$165 billion, though its most cutting-edge chips are still expected to be produced in Taiwan. Ironically, many of the chips TSMC produces in the US may need to be exported to Asia, where they can be placed in electronic products.

So far, semiconductor investors seem to have shrugged off the impact of tariffs during Trump's Tariff Turmoil. The S&P 500 Semiconductor stock price index has risen 28.8% ytd through Monday's close (before Trump's Tuesday CNBC interview), pushed higher by its three largest components, Nvidia (which represents 57.9% of the industry's market capitalization), Broadcom (17.1%), and Advanced Micro Devices (AMD) (3.5%) ([Fig. 1](#) and [Fig. 2](#)). AMD's shares have risen 46.4% ytd through Monday's close, followed by Nvidia's 34.0% gain and Broadcom's 28.4% pop.

Tuesday's news of coming tariffs on semiconductors did elicit a slight response: The S&P

500 Semiconductor stock price index dipped 0.95% that day, albeit on a weak day in the stock market when the S&P 500 fell 0.49%. The lack of panic may reflect the tariff threat's lack of details: Perhaps the new tariffs will roll out over a span of years, giving the industry time to move production into the US?

Trump's tariff announcement was just the latest in a busy news week for the semiconductor industry. Data from AMD and the Semiconductor Industry Association (SIA) indicate that semiconductor sales remain robust:

(1) *AMD fails to impress.* AMD reported Q2 revenue of \$7.7 billion, up 31.7% y/y and slightly higher than the \$7.4 billion analysts expected. Its Q2 adjusted EPS of \$0.48 hit analysts' consensus estimate but was far below the year-earlier \$0.69, primarily due to an \$800 million inventory write-down related to the Trump administration's ban on AI chip sales to China.

For Q3, AMD expects revenue of \$8.4 billion to \$9.0 billion; the midpoint of \$8.7 billion represents 28% y/y growth and is above analysts' revenue forecast of \$8.3 billion. The company's forecast doesn't include the resumption of AI chip sales to China, which most analysts believe will happen given Trump's reversal on the ban last month. The company also should benefit from the June launch of its MI350 chips, which are expected to compete with Nvidia's Blackwell chips.

Nonetheless, AMD shares fell 6.3% in Tuesday's aftermarket trading. The tumble may have more to do with the stock's 44.3% ytd gain through Tuesday's close than company fundamentals. CEO Lisa Su struck an optimistic note during the company's earnings [conference call](#): "Looking ahead, we see a clear path to scaling our AI business to tens of billions of dollars in annual revenue. ... We are in the early stages of an industry-wide AI transformation that will drive a step-function increase in compute demand across all of our markets, positioning us for significant revenue and earnings growth over the coming years."

(2) *Global demand solid, too.* Global semiconductor sales in Q2 rose 7.8% q/q and nearly 20% y/y, lifting sales to a new record, according to a SIA's August 4 [press release](#) ([Fig. 3](#)). On a q/q basis, sales were strongest in Asia Pacific/All Other (18.2%) followed by China (12.2), Europe (3.9), Americas (-0.6), and Japan (-2.7) ([Fig. 4](#)). June's US industrial production release confirmed the industry's strength, with the production of semiconductors and related components rising 15.3% y/y to a new record ([Fig. 5](#)).

Wall Street's analysts remain optimistic that the industry's revenue and earnings growth will

remain robust. The S&P 500 Semiconductors industry's forward revenue per share, forward earnings per share, and forward profit margin each are near or at record-high levels ([Fig. 6](#), [Fig. 7](#), and [Fig. 8](#)). Analysts expect the industry to grow revenue by 27.8% this year and 19.4% in 2026 and earnings by an astounding 40.7% this year and 32.8% in 2026 ([Fig. 9](#) and [Fig. 10](#)). The only cloud on the industry's horizon is valuation. Its 31.5 forward P/E is near recent high levels ([Fig. 11](#)).

Consumer Discretionary: McDonald's & Disney on Consumers. Investors got the latest data points on consumers' economic health from Disney's and McDonald's earnings reports. Disney's customers are cruising and buying pricey amusement park tickets as usual, but McDonald's lowest income customers have cut back on visits.

Execs on the two companies' conferences calls had these observations about the consumer demand they've been seeing:

(1) *Some bypass the golden arches.* McDonald's US same-store sales rose 2.5% in the quarter, besting its competitors' performance. But management highlighted the double-digit declines in low-income consumers' visits to fast food restaurants last quarter. Declining real income has made these consumers uneasy.

"Reengaging the low-income consumer is critical, as they typically visit our restaurants more frequently than middle- and high-income consumers. This bifurcated consumer base is why we remain cautious about the overall near-term health of the US consumer. In this environment, we will continue to remain agile with respect to our value offerings to ensure the US strengthens its leadership in value and affordability," said CEO Christopher Kempczinski on the company's earnings [conference call](#) Wednesday. With that in mind, the company offers a \$5 meal and a \$2.99 snack wrap.

(2) *Still sailing.* Consumers can see Mickey Mouse at Disney theme parks or while cruising the high seas. Both activities are captured in the company's Parks and Experiences segment, which saw domestic revenue rise 10% in the June quarter and international revenue climb 6%. Operating income in the segment climbed 22% domestically and declined 3% in international markets.

The domestic operation benefited from higher spending at the theme parks and an increase in passenger cruise days and occupied room nights. Walt Disney World had record revenue in the most recent quarter, and Experiences segment bookings this quarter are up about 6%, said CFO Hugh Johnston on the company's earnings [conference call](#).

Disruptive Technologies: AI in Advertising. Artificial intelligence has been quickly adopted by the advertising industry. AI tools are being used to generate ideas, create ads, and make spending decisions. They allow companies to create ads for less cost that are more precisely targeted and have greater impact. Sometimes that means fewer employees are needed, but not always.

David Gibbs, CEO of Yum! Brands, extolled the benefits of AI in the company's earnings [conference call](#) on Tuesday: "Across the organization, AI is supercharging our marketing. Over 200 million AI-generated communications have been sent this year, delivering up to 5x incrementality compared to traditional approaches. This is not just marketing evolution; it's a revolution, and we're only getting started."

Here are some of the impressive AI use cases we've come across:

(1) *AI helps develop the ad.* Unilever's marketers use 3D pictures of their products and insights about their customers to develop still and video ads using Pencil Pro, a generative AI app developed by Brandtech Group. The system produces creative "assets" 30% faster than before and with twice the effectiveness, as measured by video completion rate and click-through rate, a July 30 [article](#) in Digiday reported. Unilever aims for double-digit percentage savings on its budgets.

Other independent AI image generators include OpenAI's DALL-E, Google's Veo, and Midjourney. P.J. Accetturo used ChatGPT's Gemini to help write a simple script and Google's Veo to convert the script into a 30-second commercial for Kalshi, a "prediction market." It appeared in the YouTube TV stream of Game 3 of the NBA finals on June 11 and has since racked up 3.2 million views on Kalshi's [X account](#).

Unilever isn't using AI to generate images of humans in its ads, but others are. Levi's used an artificial model in a 2023 ad created by Lalaland.ai. In July, fashion bible *Vogue* ran a Guess ad that used an AI-generated model created by Seraphinne Vallora, a firm specializing in AI marketing. The spread sparked backlash from folks worried about out-of-work models and photographers and from those objecting that the AI models' unrealistic bodies could foster negative body images among readers.

But the genie may be out of the bottle. The practice is common online, where human-looking AIs model clothing for brands like H&M, Mango, and Calvin Klein, an August 3 [article](#) in TechCrunch reported. And Internet giants such as Meta Platforms, Alphabet, and Amazon have in-house AI ad platforms that help companies create ad content.

(2) *AI helps hit the target.* Dynamic creative optimization (DCO) platforms use AI to custom-tailor online ad elements (like images, headlines, or calls to action) based on a viewer's data and context. "Location, device, weather and past behavior," all could change the ad shown, according to a [primer](#) on AI in AdTech by DesignRush, which connects businesses with ad agencies.

Nestle Indonesia partnered with Jivox's DCO platform to create 24 ad copies and creatives. The ads feature Koko Krunch when they appeared in the morning, KitKat in the afternoon, and Milo (a chocolate-flavored beverage) in the evening. Making the ads more relevant for the time of day increased purchase conversion rates and expanded average order values by 40%.

AI analytics systems are also allocating ad dollars based on which Internet sites are attracting more traffic. And as cookies fade into the history books, AI-driven customer data platforms are figuring out who viewers are and what they like based on web visits, transaction history, email interactions, and call center logs. AI programs then use that information to determine how likely a viewer is to take a desired action and whether ad element changes are in order to increase those odds. These AI-driven personalization campaigns have increased returns on ad spending by 10%-20%.

(3) *The bad guys use AI, too.* Fake AI video advertisements made by scammers are the latest thing Internet users have to be on guard against. An excellent June 21 Mashable [article](#) highlights online video scams purporting to be ads by small businesses running going-out-of-business sales. Eagle-eyed observers can tell they're fake due to subtle errors, like AI-generated humans with mangled hands.

Even more disconcerting are the scams that literally put words in the mouths of celebrities whose likenesses they steal. Often "the advertisers take real social media videos and change the audio and lip movements to make the subjects say whatever they want."

Mashable looked primarily at ads on YouTube. The website and its parent Google prohibit the use of AI for misinformation, misrepresentation, or misleading activities on their websites. Google reports that it has stopped 5.1 billion bad ads, including 147 million ads pulled for misrepresentation. But AI ad creation is so easy and cheap that surging volumes of AI ads will make eliminating fake or deceptive materials a challenge, to say the least.

Calendars

US: Thurs: Nonfarm Productivity & Unit Labor Costs 1.9% & 1.4%; Initial Claims 221k; Wholesale Inventories 0.2%; Consumer Inflation Expectations; Fed's Balance Sheet; Bostic. **Fri:** None. (Source: FX Street)

Global: Thurs: Germany Industrial Production -0.6%m/m, -0.6%y/y; BoE Interest Rate Decision 4.00%; ECB Economic Bulletin; Japan Household Spending -3.0%m/m, 2.8%y/y; Bailey. **Fri:** France Unemployment Rate; Canada Unemployment Rate 7.0%; China CPI & PPI -0.1% & -3.2%y/y. (Source: FX Street)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins ([link](#)): During the July 31 week, the S&P 500's forward revenues rose 0.6% w/w to a record high for the first time since the July 3 week, and its forward earnings rose 0.7% to a new record high. The forward profit margin was steady at a record high of 13.7% and is now 3.6ppts above its seven-year low of 10.3% during April 2020. The consensus expectations for forward revenues growth rose 0.1ppt w/w to a 35-month high of 5.8%. It has gained 3.5ppts from its 33-month low of 2.3% during the February 23, 2023 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. The forward earnings growth ticked down 0.1ppt w/w to 12.0% from a 16-week high, up 1.1ppts from its 15-month low of 10.9% during the May 29 week. From a longer-term perspective, that's a bit stronger than its 20-year average of 11.4% and slowing from a 38-month high of 14.3% during the December 12 week. That's also down from its 23.9% reading at the end of April 2021, which was boosted by the recovery from the pandemic to its highest reading since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 5.1% in 2025 (up 0.3ppt w/w) and 6.1% in 2026 (unchanged w/w), compared to a 4.9% rise in 2024. They expect an earnings gain of 10.1% in 2025 (up 0.2ppt w/w) and a 13.6% rise in 2025 (down 0.2ppt w/w) compared to 2024's earnings gain of 11.3%. Analysts expect the profit margin to rise 0.6ppt y/y to 13.1% in 2025 (unchanged w/w) and 0.9ppt y/y in 2026 to 14.0% (unchanged w/w), compared to 2024's 12.5%. Looking at valuation data as of July 31, the S&P 500's weekly forward P/E was steady w/w at a 4-1/2 year high of 22.5, up 3.3pts from a 16-month low of 19.2 during the April 17 week. It's now 7.2pts above its 30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020,

which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio ticked down 0.01pt w/w to 3.07 from a record high of 3.08. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Revenues, Earnings, & Margins ([link](#)): During the July 31 week, forward revenues rose for 10 of the 11 S&P 500 sectors, and nine sectors posted gains in their forward earnings. These five sectors had record-high forward revenues this week: Communication Services, Financials, Health Care, Information Technology, and Real Estate. Also close to record-high forward revenues are these four sectors: Consumer Discretionary, Consumer Staples, Industrials, and Utilities. Energy's tumbled 1.9% w/w, at remains depressed at 29.7% below its September 2008 record. Materials' has improved to a 12-month high to 4.8% below its June 2022 record high. These four sectors had record-high forward earnings this week: Communication Services, Financials, Industrials, and Information Technology. These three are less than 1.5% from their recent record highs: Consumer Staples, Real Estate, and Utilities. These two sectors are a bit further from their highs: Consumer Discretionary (3.7% below its March 6 record) and Health Care (3.0% below its April 3 record). Forward earnings remains depressed for the last two sectors, Energy and Materials, but have improved in recent months to 39.1% and 24.0% below their respective highs during 2022. Looking at the forward profit margin, three sectors rose w/w and two fell. Communication Services rose to a new record high, and these five sectors remain close: Consumer Discretionary, Financials, Industrials, Information Technology, and Utilities. These four sectors are struggling, with their forward profit margins at or barely above cyclical or record lows: Consumer Staples, Energy, Health Care, and Materials. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (27.5%, up 0.1ppt w/w and down from its 27.6% record high in September, prior to low-margin Dell's addition to the index, which lowered the margin 1.3ppts then to 26.3%), Financials (20.6, down 0.1ppt w/w from its 20.7 record high), Communication Services (19.4, up 0.1ppt w/w to a new record high), Real Estate (16.7, at a five-month high and down from its 19.2 record high in 2016), Utilities (14.7, 0.1ppt below its 41-month high during the July 10 week and 0.4ppt below its April 2021 record high), S&P 500 (13.7, unchanged w/w at a record high), Materials (10.8, at a 26-week high and up 0.4ppt from 51-month low in late February and down from a 20-month high of 11.6 in July 2023 and a 13.6 record high in June 2022), Consumer Discretionary (9.2, down from a record high 9.4 in early April), Energy (8.8, up 0.1ppt w/w and up 0.3ppt from a 55-month low of 8.5 during the during the May 15 week and down from its 12.8 record high in November 2022), Industrials (11.1, down from its 11.3 record high in early January), Health Care (8.1, down 0.1ppt w/w to a new record low and down

from its 11.5 record high in February 2022), and Consumer Staples (6.7, a 21-month low and down from its 7.7 record high in June 2020).

Global Economic Indicators

Eurozone Retail Sales ([link](#)): Eurozone retail sales in June rose for the fourth time in five months, with all components following suit. Headline sales rose 0.3% in June and 1.1% over the period. Non-food products ex fuel recorded the largest monthly gain in June, climbing 0.6% m/m and 1.3% over the five months ending June, while automotive fuels (0.4% & 2.1%) and food, drinks, and tobacco (0.2 & 0.7) also rose over the comparable periods. Versus a year ago, sales were above year-ago levels across the board: non-food products ex fuel (4.3%), automotive fuels (4.0), and food, drinks, and tobacco (1.7). June data are available for all of the Eurozone's four largest economies. On a month-over-month basis, sales rose in three of the four countries, with Spain (1.2%) posting the largest monthly gain, followed by Germany (0.9) and Italy (0.4), while sales in France (-0.9) contracted during June. On a year-over-year basis, Spain (6.4% y/y) led the pack, followed by Germany (4.8), and France (2.2), with sales in Italy were little changed from a year ago.

Germany Factory Orders ([link](#)): Germany factory orders fell for the second month, by 1.0% in June and a downwardly revised 0.8% decline during May—falling short of consensus expectations of a 1.0% June increase. Foreign demand contracted 3.0% in June, with a 7.8% drop in orders from outside the Eurozone slightly offsetting a 5.2% gain in orders from within the Eurozone. June saw a 23.1% collapse in orders from aircraft, ships, trains, and military vehicles, while demand was also in the red for autos (-7.6%) and fabricated metals (-12.9). Meanwhile, electrical equipment (23.1) orders soared during the month. By sector, capital goods (-5.3%) sank during the month, while intermediate goods (6.1) orders posted a sharp gain, and consumer goods (0.5) orders showed little change, though did post a small gain. Excluding large-scale orders, billings ticked up 0.5% during the month.

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