

# **Goldman Sachs The Markets**

## **What tech investors are looking for now**

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**Sam Grobart, Host**

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**Sam Grobart:** With all eyes on the tech sector, we take a deeper dive. This is The Markets.

Hi, I'm Sam Grobart. Today, I'm joined by Peter Callahan, TMT specialist here at global banking and markets. Peter, thanks so much for joining us today.

**Peter Callahan:** Thanks for having me.

**Sam Grobart:** This week, we saw some indicators that inflation is still a little stickier than people would prefer. How does that affect the almighty tech sector? Or does it?

**Peter Callahan:** Yeah, it's a good question, Sam. The short answer is it impacts or affects parts of the tech market. And so if you looked at what happened last week, areas like small caps or nonprofitable tech were a little bit

more sensitive and underperformed, down 2-5% on the week. And you'll ask why. Think of it because there's a little bit more sensitivity to cost of capital, meaning they're more exposed to interest rates and also they are longer duration assets. So when that discount rate might go up, if the market starts to think about higher for longer, you did see some underperformance in those pockets of tech.

**Sam Grobart:** Got it. But if you're a big tech company with just wads of cash, you're?

**Peter Callahan:** Smooth sailing.

**Sam Grobart:** Got it. Obviously tech has been the driver of so much gain -- the Magnificent Seven, etc. -- but we are seeing some dispersion in markets this week. The equal weighted S&P 500 set a new record after nearly two years. Is that saying something about the tech sector or more about the rest of the market?

**Peter Callahan:** Probably a little bit about both. I think, tactically, it may have said something about tech that it'd just maybe run a little bit too far, too fast to start the year and just sort of natural reversion in the market. Maybe no

surprise there.

But for what's going on outside of tech, to your point, you are starting to see the market maybe embrace this view that economic growth is hanging in, the market's trying to figure out what to do with inflation at this point in time. So I do think it says a little bit more about everything else than it does tech specifically. But, sure, tactical implications for the sector as well.

**Sam Grobart:** One of the blips we've been seeing in the tech sector are some declines among chip makers. And this is after they've been at the center of some record-breaking closes. How are you thinking about that?

**Peter Callahan:** The story's still a good one there, right? Semiconductors are up 15% this year, even after the pullback we've seen over the last week. But to your point, expectations have been high, the stocks have really started to work quite a bit over last six months, and I think the market is starting to say, "Okay, for AI that's been a really good story, but what about the rest? How's the core business? How's the non-AI stuff going?" And I think some of the earnings we've seen over the last week or two

highlighted maybe the market's looking for a little bit more than just AI at this point. Can you do that and deliver strength in your core business?

**Sam Grobart:** There's more to tech than just AI, even if AI takes up the lion's share of everyone's consciousness.

**Peter Callahan:** Believe it or not, it appears that's the case.

**Sam Grobart:** So Peter, outside of semiconductors and AI, what else in the tech sector are investors looking at, thinking about?

**Peter Callahan:** You know, the last couple weeks, there's been definitely a bigger focus on software, which has started to underperform, particularly relative to the NASDAQ and relative to semiconductors. And I think investors are trying to figure out, okay, how much of this is fundamental driven and related to earnings? How much of this is just everyone's going out and chasing semiconductors? How much of this is a function of interest rates and the market's view on the "higher for longer" or not? And so that's the pocket of tech that almost feels, two

or three years ago, it's all anybody talked about. Right now, all anyone's talking about is semiconductors, and so this is a sector that's starting to bubble back up to the forefront of investor conversations.

**Sam Grobart:** Last question, Peter. What are you going to be focused on next week?

**Peter Callahan:** Two things really. One, micro, which will be Nvidia's hosting their big semiconductor conference throughout next week, and so the market will be focused on that both for that stock but also broadly RE: AI and all the other exciting things going on. And then of course on the Fed. That'll be on Wednesday. And the market, we came into this year thinking six rate cuts. Now, only three are priced in. And so how does Powell talk to that in light of the recent inflation prints? And what's the path forward for the rate curve?

**Sam Grobart:** Peter Callahan, thank you so much.

**Peter Callahan:** Thanks for having me.

**Sam Grobart:** That does it for another episode of The

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