Why semiconductors appeal to tactical investors

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Key Takeaways

- Semiconductors are more volatile than the NASDAQ and the S&P 500.
- Big daily moves create frequent trading opportunities.
- Macro, tech trends, and geopolitics keep the sector moving.
- Related Products WisdomTree PHLX Semiconductor 3x Daily Leveraged, WisdomTree PHLX Semiconductor 3x Daily Short Find out more

Most people don't even know what they are or what they do, but our lives revolve around them. Until not too long ago, very few people even knew about their existence, let alone their importance. But today, almost everyone counts them. No, they are not calories. They are semiconductors.

Semiconductors are tiny electronic components that power modern technology. While the foundation of semiconductors was laid by John Bardeen, Walter Brattain, and William Shockley at Bell Labs in 19471, the technology started entering mainstream consciousness during COVID-19, when things ranging from cars to laptops were getting delayed because of a so-called chip shortage. In the world of financial markets, however, semiconductors became lead actors when ChatGPT took the world by storm and Nvidia went from a relatively lesser-known company that, supposedly, made something for video games to a behemoth providing the infrastructure that powers the most transformative technology of our time.

But alongside this spectacular surge to fame, semiconductors have exhibited one property that particularly appeals to tactical investors: they exhibit sharp price movements, in either direction. For those inclined to express directional views in stock markets, semiconductors have – and continue to – provide fertile ground.

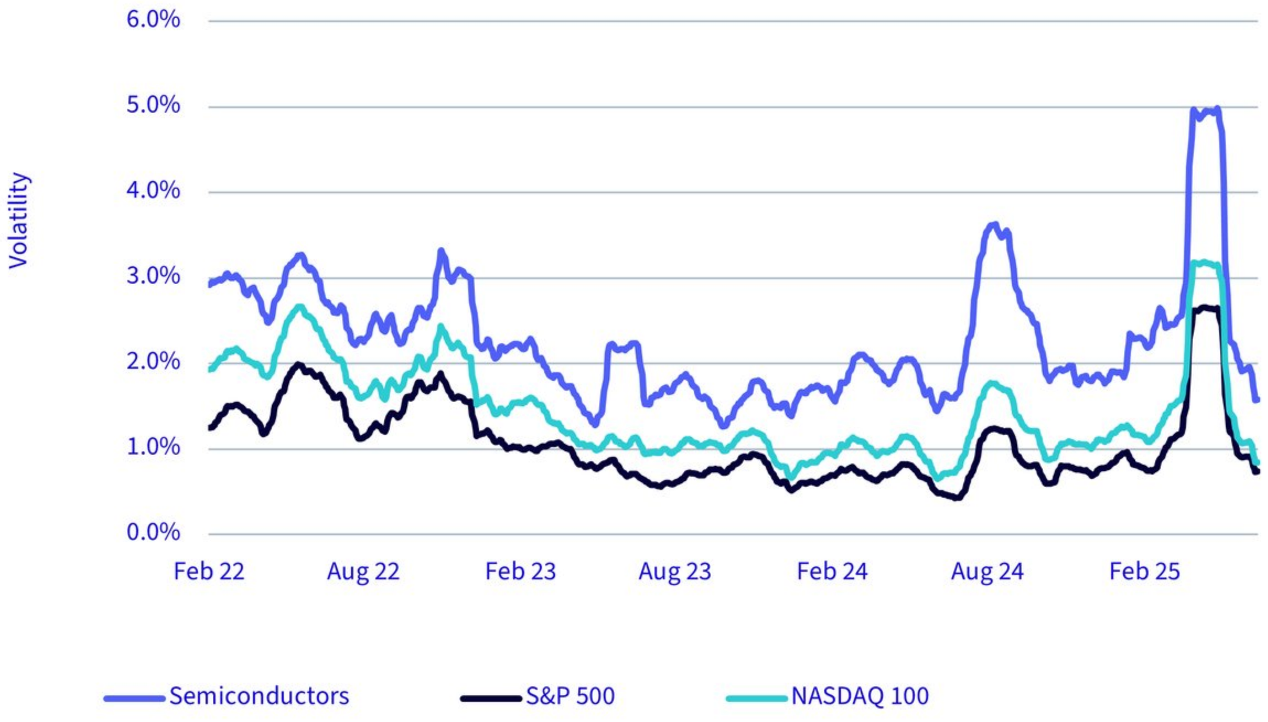
This blog post demonstrates what makes semiconductors so appealing to tactical investors and the factors that drive their prices now that they are in the spotlight.

If you seek volatility, you're looking in the right place

Based on our experience at WisdomTree, the NASDAQ 100 tends to be more popular than the S&P 500 among tactical investors in US equity markets. This is because the NASDAQ has a higher exposure to technology stocks, which creates sharper price movements and, hence, more interesting trading opportunities. Indeed, the chart below confirms how the rolling volatility of the NASDAQ 100 tends to be consistently higher than that of the S&P 500 Index.

Semiconductors exhibit even higher levels of volatility compared to the NASDAQ 100. Not only do they do this consistently, but the differential between semiconductors and the NASDAQ is often much bigger than the differential in rolling volatility between the NASDAQ and the S&P. At times when volatility has spiked, the spike in semiconductors is much more pronounced. The most recent and vivid example of this is President Trump's Liberation Day on 2 April 2025.

Figure 1: Semiconductors consistently exhibit relatively higher levels of volatility



Source: Bloomberg, as of 30 June 2025. Chart shows the 5-day moving average of the 30-day rolling standard deviation of daily returns. 'Semiconductors' is the PHLX Semiconductor Sector Total Return Index. S&P 500 is the S&P 500 Total Return Index. **Historical performance is not an indication of future performance and any investments may go down in value.**

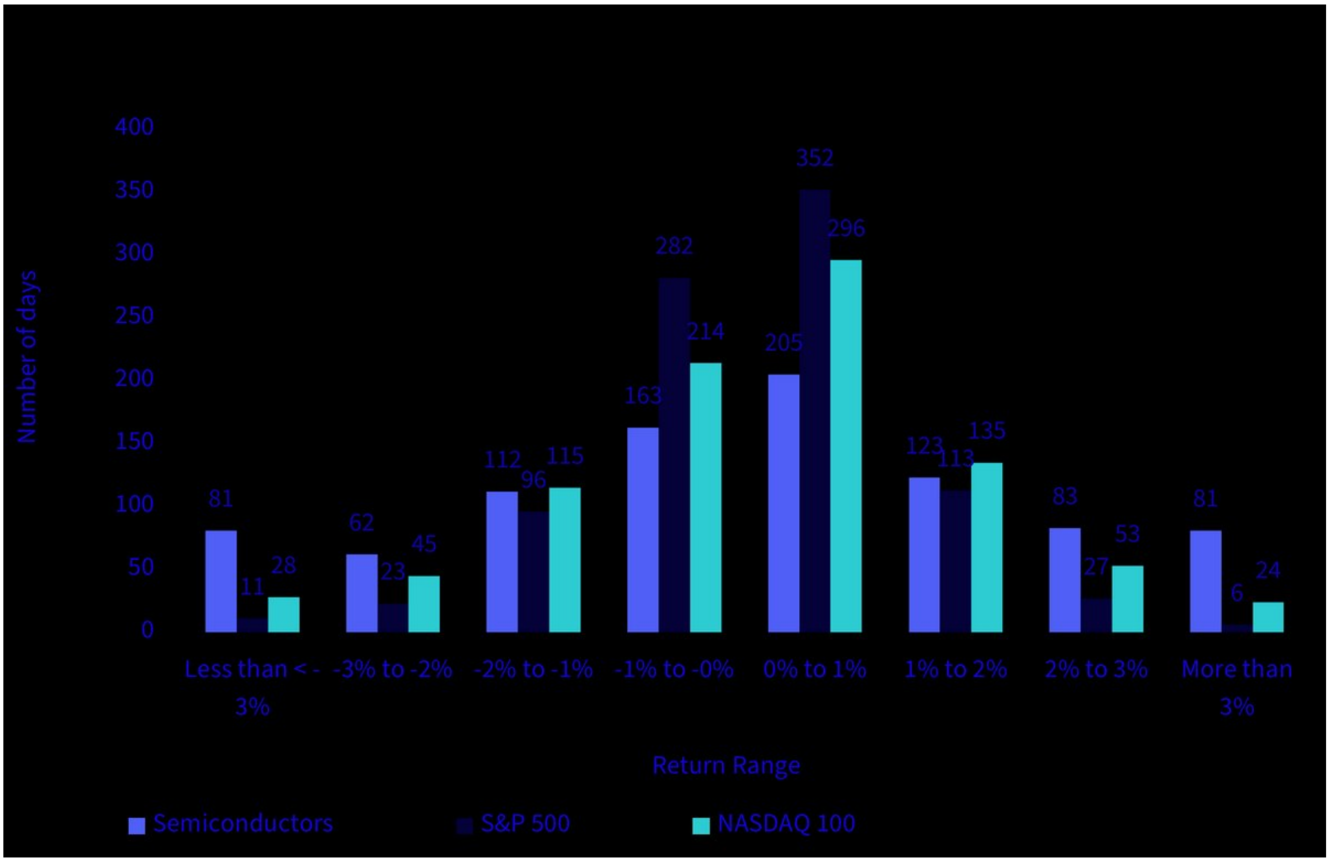
Big promise and big daily moves

Stronger, faster, more efficient semiconductor chips promise to change the world around us. Artificial intelligence (AI) on our computers is not enough. We want it on our mobile phones, our watches, our headphones, and even our lawnmowers. Better chips, better AI, quicker results, happier customers.

But with high expectations comes high market sensitivity. This means excitement when Jensen Huang announces the next generation of chips from Nvidia, or when Broadcom announces earnings above expectations. Equally, it means disappointment when the threat of tariffs raises concerns about the flow of chips around the world.

The chart below shows how semiconductors have much fatter tails in the distribution compared to the S&P 500 and the NASDAQ 100. In other words, since the start of 2022, the number of days when semiconductors have exhibited large price moves – both positive and negative – is much higher than that of the S&P and NASDAQ. Whether they are chasing momentum or taking contrarian positions, such price moves appeal to traders who are prepared to make directional bets.

Figure 2: Distribution of daily returns - semiconductors have fatter tails



Source: Bloomberg, as of 30 June 2025. Chart shows the number of days for each index when the daily return was in the given range. 'Semiconductors' is the PHLX Semiconductor Sector Total Return Index. S&P 500 is the S&P 500 Total Return Index. **Historical performance is not an indication of future performance and any investments may go down in value.**

There is always something going on

What causes semiconductors to exhibit such sharp price moves and generally higher levels of volatility? Several factors are at play.

There are macro influences. Interest rates and monetary policy affect all businesses, but they hit emerging or high-growth sectors – where future cash flows are less predictable – even harder.

Trade tensions are another driver, but for semiconductors, they carry added weight due to the geopolitical significance of the technology and the strategic importance of chips that are designed in the US and fabricated in Taiwan.

Excitement around major technology trends like AI, cloud computing, electric vehicles, autonomous driving, and robotics drives structural growth for the sector.

Supply chain disruptions, as seen during COVID-19 in 2021, can also trigger sharp market reactions.

Capital expenditure announcements often signal optimism – and, of course, company-specific catalysts like earnings are impossible to ignore.

Semiconductors are exciting, and they are here to stay

Semiconductors are like the beating heart of modern technology. The heart can be strengthened with cardiovascular exercise, but it cannot be replaced. Similarly, semiconductors are likely to keep getting stronger and capable of greater things, enabling the development of new technologies, but they are unlikely to be replaced. Certainly not for now.

Their importance keeps them on centre stage in markets. This makes them very appealing to tactical investors.

WisdomTree's New Semiconductor Products

WisdomTree has just launched the following exchange-traded products (ETPs) to allow investors to tactically trade semiconductors.

The ETPs now available are:

- WisdomTree PHLX Semiconductor 3x Daily Leveraged (3SEM)

WisdomTree PHLX Semiconductor 3x Daily Leveraged is a fully collateralised, UCITS eligible ETP to provide investors with a leveraged exposure to the Semiconductors. The ETP provides a total return comprised of 3 times the daily performance of the PHLX Semiconductor Sector Net Total Return Index (SOXNTR), adjusted to reflect fees and costs inherent to maintaining a leveraged position in stocks. For example, if the PHLX Semiconductor Sector Net Total Return Index rises by 1% over a day, then the ETP will rise by 3%, excluding fees. However, if the PHLX Semiconductor Sector Net Total Return Index falls by 1% over a day, then the ETP will fall by 3%, excluding fees.

WisdomTree PHLX Semiconductor 3x Daily Short is a fully collateralised, UCITS eligible Exchange Traded Product (ETP) designed to provide investors with a leveraged short exposure to the Semiconductors. The ETP provides a total return comprised of -3 times the daily performance of the PHLX Semiconductor Sector Gross Total Return Index (XSOX), adjusted to reflect fees as well as the costs and revenues inherent to shorting stocks. For example, if the PHLX Semiconductor Sector Gross Total Return Index rises by 1% over a day, then the ETP will fall by 3%, excluding fees. However, if the PHLX Semiconductor Sector Gross Total Return Index falls by 1% over a day, then the ETP will rise by 3%, excluding fees.

S&L ETPs amplify both the positive and negative returns of an investment. A leveraged position's potential returns and losses will be greater than the equivalent unleveraged position and due to the daily leverage and its compounding effect, short and leveraged ETPs are unsuitable for investors employing a traditional buy-and-hold strategy. S&L ETPs have a recommended holding period of one day and are designed for tactical and short-term trading. It is essential for investors to understand the product attributes and all the associated risks before investing in S&L ETPs. Investors seeking education about the opportunities and the risks presented by short and leveraged ETPs can access a wide range of educational material around S&L ETPs on the dedicated section of the WisdomTree website.

1 Computerhistory.org, 2025.

Important Risks Related to this Article

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