

Thematic Outlook: Seven AI trends investors need to watch

Published 12 September 2024

Mobeen Tahir

Director, Research

Key Takeaways

- Rate cuts from central banks are expected to become a tailwind for AI and related themes
- As new players emerge, investors will need to constantly reevaluate their AI exposures
- AI will impact other themes like renewable energy, biotech, and cybersecurity
- Related Products WisdomTree Artificial Intelligence UCITS ETF – USD Acc, WisdomTree Cybersecurity UCITS ETF – USD Acc, WisdomTree Renewable Energy UCITS ETF - USD Acc Find out more

In 1997, IBM's Deep Blue defeated world chess champion Garry Kasparov, marking a pivotal moment in artificial intelligence (AI) history. This victory was a sign of things to come, with AI making headlines again in 2016 when Google's AlphaGo bested Go champion Lee Sedol in a match long thought too complex for machines. While instances of AI brilliance have inspired awe over the decades, its widespread adoption has only recently become possible thanks to a connected world that generates vast amounts of data and has access to immense computing power.

Now that AI is mainstream, it creates exciting opportunities for investors. In this blog, we highlight seven trends that will shape the course of AI investing over the coming six to 12 months.

1. There will be a more favourable macroeconomic backdrop

As central banks, particularly the US Federal Reserve, adopt a more dovish monetary stance, mid and small cap companies are likely to benefit. Historically, equities have gained in the first year following an initial rate cut, with small caps often outperforming their larger counterparts. We discuss this in more detail in '[Is the 'great equity rotation' finally coming?](#)'.

Investors seeking pure exposure to AI and related themes will typically find themselves holding a healthy mix of mid and small cap companies. We predict this approach will be fruitful for those investing in AI and related sectors.

2. The hype will extend beyond just Nvidia

The name Nvidia has become synonymous with the AI revolution, and the company's earnings releases have become market-moving events. However, while Nvidia understandably dominates the headlines,

given the company's leadership in the semiconductor space and its astronomical ascent in recent years, other companies are quietly making notable strides, too. Qualcomm, Broadcom, Micron Technology, and Marvell Technology are just a few examples of companies that have built a strong customer base and are making great strides without the same hype.

As the AI landscape evolves, investors will likely diversify their portfolios to include a broader set of players beyond the likes of Nvidia.

Source: Bloomberg, returns based on stock prices. Historical performance is not an indication of future performance and any investments may go down in value.

3. The Internet of (AI-enabled) Things is about to begin

The number of Internet of Things (IoT) devices is set to nearly double by 2030, rising from under 18 billion in 2024 to over 30 billion. These devices will not only be connected, but many will also be AI-enabled, ushering in a new era of smart devices that collect and process real-world data in real time.

Number of Internet of Things (IoT) connections worldwide



Source: Statista, in cooperation with Transforma Insights, June 2024. Forecasts from 2024 onwards.

Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.

Apple's "Apple Intelligence" announcement in June 2024 exemplifies this trend, positioning the company as a leader in integrating AI into daily life. Android phones are doing the same. From wearables to vehicles, AI will increasingly power the devices around us, changing the way we interact with technology.

Investors must constantly reevaluate which companies can be classified as AI stocks and where they fit within the AI value chain.

4. In some cases, David will beat Goliath

OpenAI's launch of ChatGPT in 2022 caught the tech giants off guard, demonstrating that smaller, more agile companies can lead in AI innovation. According to Bessemer Venture Partners, foundational AI models are the "new oil," with startups like OpenAI capturing a significant share of venture capital funding in AI.

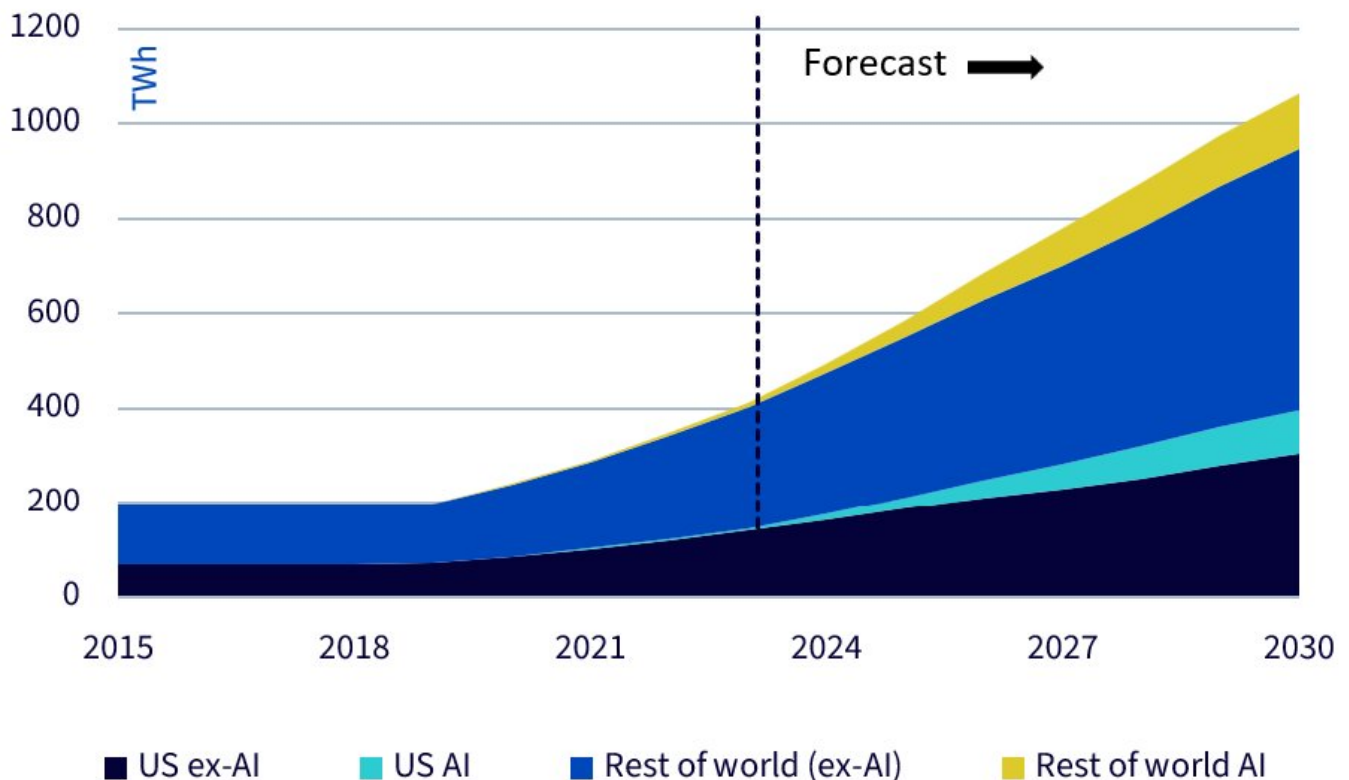
In public markets, smaller companies have the potential to outmanoeuvre larger rivals, either becoming acquisition targets or growing independently. As supportive monetary policies come into play, these companies could see significant growth.

For investors, this means that in the pursuit of gaining exposure to the giants, they must not overlook the smaller players that may be in the earlier stages of the hype cycle but have immense potential.

5. Demand for clean, well-distributed energy will rise

The surge in AI applications is driving unprecedented demand for data centres, which in turn require vast amounts of energy. Amazon's \$150 billion investment in data centres over the next 15 years underscores this trend. By 2030, AI is expected to increase data centre power demand by 160% (see figure below).

Data Centre Power Demand



Source: Masanet et al. (2020), Cisco, IEA, Goldman Sachs Research, June 2024. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

As tech companies rush to secure energy sources, renewables like solar and wind will play a crucial role in powering the AI revolution. For investors, this trend highlights the growing importance of renewable energy providers as a sector that benefits from AI growth.

6. AI's impact across industries will be better appreciated

AI is set to revolutionise every industry, but the pace and scale of this impact remain uncertain. The biotechnology sector, for instance, could see more frequent breakthroughs as AI accelerates drug discovery processes. Eli Lilly's partnership with OpenAI is just one example of how AI can transform traditional industries.

Investors should be on the lookout for sectors where AI's potential has yet to be recognised, as these could offer substantial opportunities.

7. Cybersecurity will assume a broader role in society

As AI becomes more integrated into our lives, cybersecurity will evolve from defending against traditional threats to protecting against new challenges, such as deepfakes. A recent study by Google DeepMind found that shaping public opinion was the most common goal for exploiting AI tools, highlighting the need for robust cybersecurity measures.

For investors, cybersecurity offers an alternative way to access the AI revolution. As the digital landscape becomes more complex, the demand for advanced cybersecurity solutions will only grow.

Conclusion

While the future of AI is filled with promise, it is not without risks. Regulation, trade policies, and geopolitical dynamics will all influence the trajectory of AI development. However, progress is inevitable. Just as we once said, "There's an app for that," we will soon say, "There's an AI for that." Embracing AI is no longer optional – it's essential for staying ahead in a rapidly changing world.

As AI continues to evolve, so too must our approach to investing. Exciting times lie ahead.

The full outlook can be viewed [here](#).

Source

1 Please see the WisdomTree website for a full description of the three categories.

Important Risks Related to this Article

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland. **Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority. WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request. For professional clients only. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment. An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks. The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes. This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents. This document may contain forward looking statements including statements regarding our

belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements. WisdomTree Issuer ICAV The products discussed in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland ("CBI"). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund. Investors should read the prospectus of WT Issuer ("WT Prospectus") before investing and should refer to the section of the WT Prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the Shares. WisdomTree Artificial Intelligence UCITS ETF Nasdaq® and the Nasdaq CTA Artificial intelligence Index are registered trademarks of Nasdaq, Inc. (which with its affiliates is referred to as the "Corporations") and are licensed for use by WisdomTree Management Limited. The WisdomTree Artificial Intelligence UCITS ETF (the "Fund") has not been passed on by the Corporations as to its legality or suitability. Shares in the

Fund are not issued, endorsed, sold, or promoted by the Corporations. THE CORPORATIONS MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE FUND. Notice to Investors in Switzerland – Qualified Investors This document constitutes an advertisement of the financial product(s) mentioned herein. The prospectus and the key investor information documents (KIID) are available from WisdomTree's website <https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports> Some of the sub-funds referred to in this document may not have been registered with the Swiss Financial Market Supervisory Authority ("FINMA"). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent. For Investors in France: The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge

at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto. **For Investors in Malta:** This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority. **For Investors in Monaco:** This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.