

AI Market Leaders: How Equity Performance Is Evolving among AI Innovators

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Key Takeaways

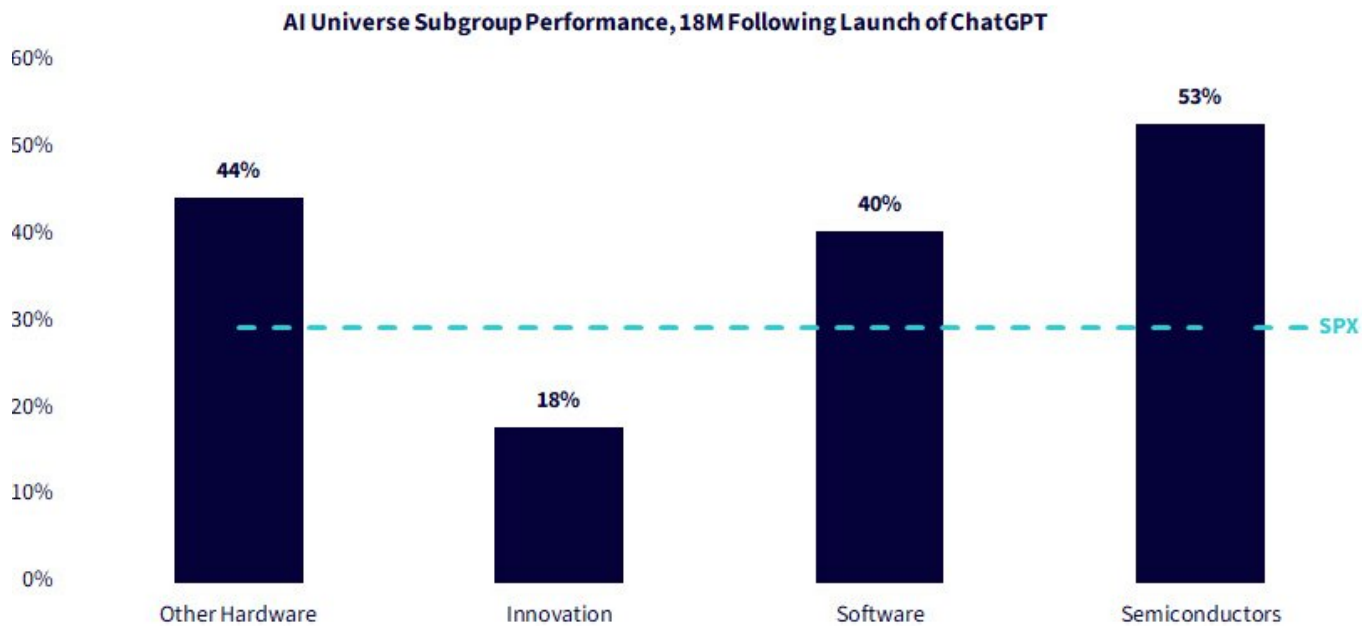
- Semiconductor leaders like Nvidia, Micron and Taiwan Semiconductor have been the cornerstone of Artificial Intelligence's (AI) rapid development, fueled by high-demand chips enabling advanced AI applications.
- As hyperscalers ramp up AI infrastructure investments, networking companies such as Credo Technology and Broadcom have delivered standout earnings, driven by essential high-speed connectivity solutions.
- With AI's scope expanding, firms across diverse sectors—including quantum computing, AI-driven drug discovery and enterprise software—are capturing investor attention, signaling an evolving market landscape.

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Semiconductors as AI's Backbone

The AI market has evolved significantly in the past two years, shifting from a heavy reliance on mega-cap and semiconductor dominance to a more diverse set of beneficiaries. The launch of ChatGPT was a landmark moment for AI and a wake-up call for the market. Semiconductors,¹ particularly Nvidia, took center stage with its graphics processing units (GPUs), driving a 53% gain in the space over the following 18 months—outperforming the S&P 500 Index by more than 20% for the period. Key players like Micron and SK Hynix played important roles with high-bandwidth memory (HBM) chips, while Taiwan Semiconductor booked its advanced chip manufacturing pipeline well into the future. This semiconductor hardware enabled AI's early growth, solidifying semiconductors as the foundation of the AI revolution.

Figure 1: What's Driving AI Equity Performance in a Post-ChatGPT World?



Sources: WisdomTree, FactSet, as of 11/30/24. The AI universe consists of more than 500 companies held across 10 AI-focused exchange-traded funds with more than \$50 million in AUM in the WisdomTree Thematics Universe. Classifications are proprietary and made as described according to the WisdomTree Artificial Intelligence & Innovation Index methodology. Performance is calculated on an equal-weighted basis within each group. **Past performance is not indicative of future results.**

Other firms offering AI solutions—spanning software, robotics, autonomous vehicles and other AI applications—failed to catch the initial wave that benefited semiconductor stocks. Hyperscalers such as Amazon, Microsoft, Alphabet and Meta are leading the AI data center buildout, buying Nvidia’s chips and other semiconductor equipment to create what Nvidia CEO Jensen Huang calls “AI factories.” This infrastructure development is ongoing, with hyperscalers investing more than \$200 billion in capex in 2024 and planning an additional \$300 billion in 2025. As these AI factories come online, the foundation for AI will be set, and value creation could extend further across the entire AI ecosystem.

Earnings in Focus: Networking Shines While Software Faces Mixed Results

Earnings over the last week² have highlighted that we haven’t made the shift just yet. While compute and memory semiconductors like GPUs and HBMs have historically been the focus, networking firms are now stepping into the spotlight. Companies like Credo Technology (+47.9% following its earnings announcement) and Marvell (+23.2%) posted stellar results due to their capacity to deliver high-speed connectivity solutions for data centers. Broadcom (+24.4%), the designer of Google’s tensor processing unit, also had strong earnings, driven by its networking capabilities. Notably, Elon Musk’s Colossus supercomputer, which connects 100,000 Nvidia GPUs, relies on low-latency, high-bandwidth networking infrastructure to support training at an unprecedented scale. With the latest Nvidia Blackwell chip expected to suffer from supply constraints, investing in the most advanced networking equipment to scale up to a

greater total number of GPUs is becoming essential in training more intelligent large language models (LLMs).

Figure 2: Early December Earnings Recap, Select AI Firms

Ticker	Name	Group	Report Date	EPS Adj- Avg	EPS Adj- Actual	EPS Adj- % Surp	Price Reaction 1D
CRDO	Credo Technology Group Holding Ltd	Semiconductors	12/2/24	0.05	0.07	34.6%	47.9%
MRVL	Marvell Technology Inc.	Semiconductors	12/3/24	0.41	0.43	5.5%	23.2%
GTLB	GitLab Inc.	Software	12/5/24	0.16	0.23	44.4%	1.7%
MDB	MongoDB Inc.	Software	12/9/24	0.69	1.16	68.9%	-16.9%
ADBE	Adobe Inc.	Software	12/11/24	4.67	4.67	3.0%	-13.69%
AVGO	Broadcom Inc.	Semiconductors	12/12/24	1.39	1.42	2.0%	24.5%

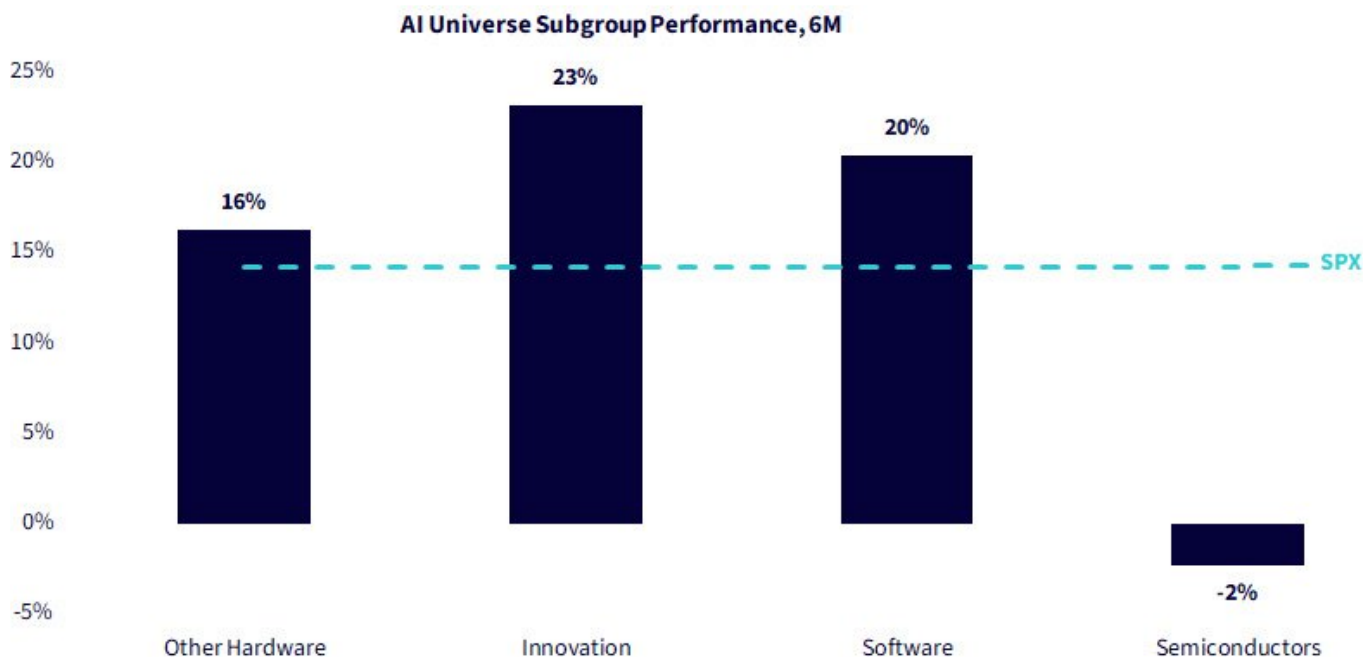
Source: Koyfin, as of 12/16/24. All amounts in USD. Refers to a relevant subset of the AI universe companies that reported earnings within this week's time. **Past performance is not indicative of future returns.**

In contrast, software firms have faced a more mixed reception. While MongoDB—a company offering vector database solutions for LLMs—posted a 68.9% earnings surprise, its stock fell 16.9%, signaling investor concerns about valuation amidst a challenging macroeconomic backdrop. GitLab's earnings beat barely moved its stock (+1.7%), further reflecting a market that is focused on earnings quality and forward guidance. The valuation reset in the software sector—driven by inflation concerns and questions about interest rates—has led to a recent heightened scrutiny of software firms.

Signs of a Broadening Market Ahead?

The past six months have offered possible early signs of a narrative shift. While the broader semiconductor group's performance has recorded a 2% loss, and the "AI factory" buildout continues, other players are entering the spotlight. Investors are beginning to recognize that AI's impact extends beyond Nvidia and a few other key players. Software firms are evolving their strategies to monetize AI capabilities. Meta's growing advertising revenues, Salesforce's release of "AgentForce" AI service agents and OpenAI's \$200/month premium tier for advanced AI are all notable examples. Google's "Willow" project has drawn attention to developments in the space of quantum computing, and smaller players like IonQ have shown early promise. Innovative companies leveraging AI for drug discovery, cybersecurity, robotics and autonomous systems have also captured investor attention, further broadening the scope of beneficiaries. As these technologies and applications mature, the convergence of AI's influence across industries will become more pronounced.

Figure 3: Innovation Companies Take the Lead over the Past Six Months



Sources: WisdomTree, FactSet, as of 11/30/24. The AI universe consists of more than 500 companies held across 10 AI-focused exchange-traded funds with more than \$50 million in AUM in the WisdomTree Thematics Universe. Classifications are proprietary and made as described according to the WisdomTree Artificial Intelligence & Innovation Index methodology. Performance is calculated on an equal-weighted basis within each group. **Past performance is not indicative of future results.**

Conclusion

The AI ecosystem is approaching an inflection point. What began as a hardware-driven story is now transforming into a broader narrative, encompassing software integration, next-generation infrastructure and beyond. Investors who understand how these elements fit together will be better positioned to capture the AI investment theme. The future of AI is vast, and as adoption scales, value will be created across the entire ecosystem—from hardware providers to end users.

At WisdomTree, the rubber meets the road with the [WisdomTree Artificial Intelligence & Innovation Fund \(WTAI\)](#), which is designed to track the total return performance, before fees and expenses, of the WisdomTree Artificial Intelligence & Innovation Index. This index is seeking to generate investment returns by allocating across the different aforementioned groups: 1) Semiconductors, 2) Software, 3) Innovation and 4) Other Hardware.

Figure 4: Standardized Returns

Fund/Index Name	Fund Ticker	Fund Inception Date	Fund Expense Ratio	Year-to-Date	1-Year	3-Year	5-Year	10-Year	Since Fund Inception
WisdomTree Artificial Intelligence & Innovation Fund (NAV)	WTAI	12/9/21	0.45%	-3.29%	14.98%	N/A	N/A	N/A	-7.80%
WisdomTree Artificial Intelligence & Innovation Fund (MP)	WTAI	12/9/21	0.45%	-3.48%	14.80%	N/A	N/A	N/A	-7.85%
S&P 500 Index				22.08%	36.35%	11.91%	15.98%	13.38%	N/A

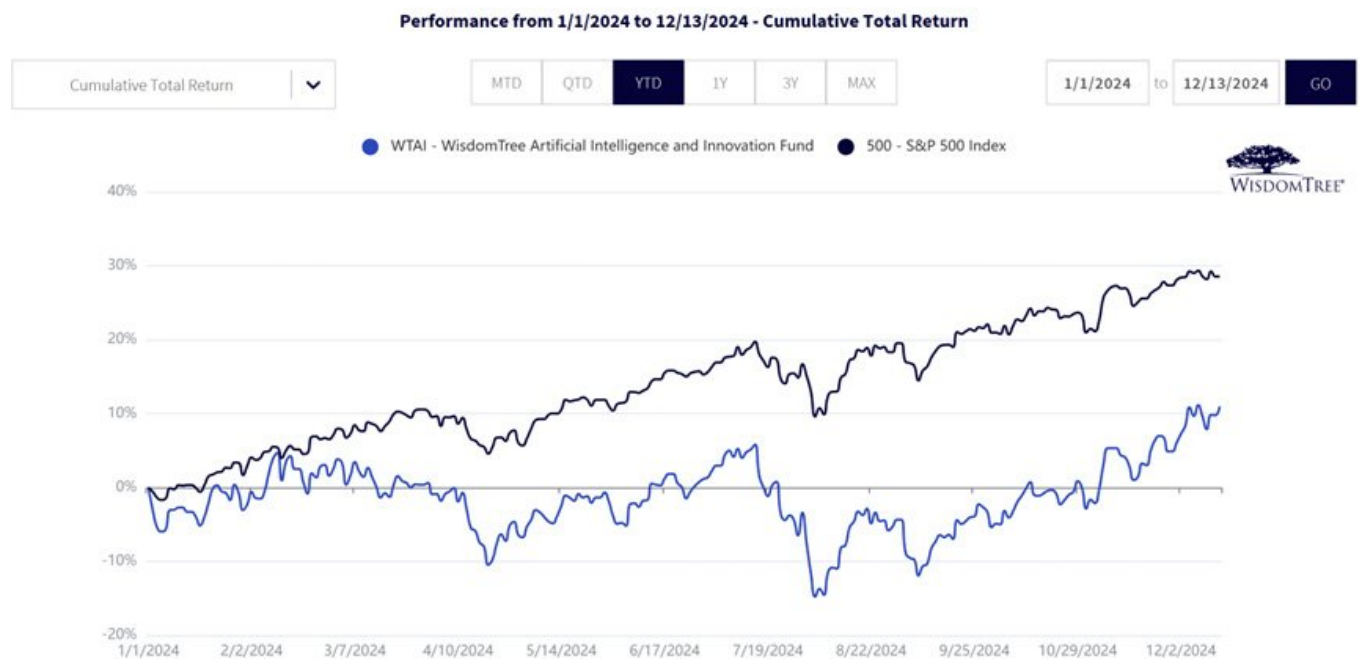
Source: WisdomTree, specifically data from the Fund Comparison Tool in the [PATH suite of tools](#), as of 12/14/24. NAV denotes total return performance at net asset value. MP denotes market price performance. **Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performances and to download the Fund’s prospectus, click the ticker: [WTAI](#).**

Within figure 5, we see the “2024 experience,” at least so far, with the year nearly on the books. Many are familiar with a strong S&P 500 Index benchmark, delivering nearly 30% cumulatively over this period. Even though the AI topic has generated a lot of attention, WTAI has delivered a return closer to 10%.

We can say that this is a relatively short period and that when we think of AI, we are thinking of a 10–15-year megatrend—not any single year—but we also understand the reality that people may look year-by-year, and they may compare strategies to the big benchmarks.

However, we are encouraged by the period that looks like it starts in early August 2024 in this figure and continues on through the end of the period.

Figure 5: The Year-to-Date 2024 Performance Picture



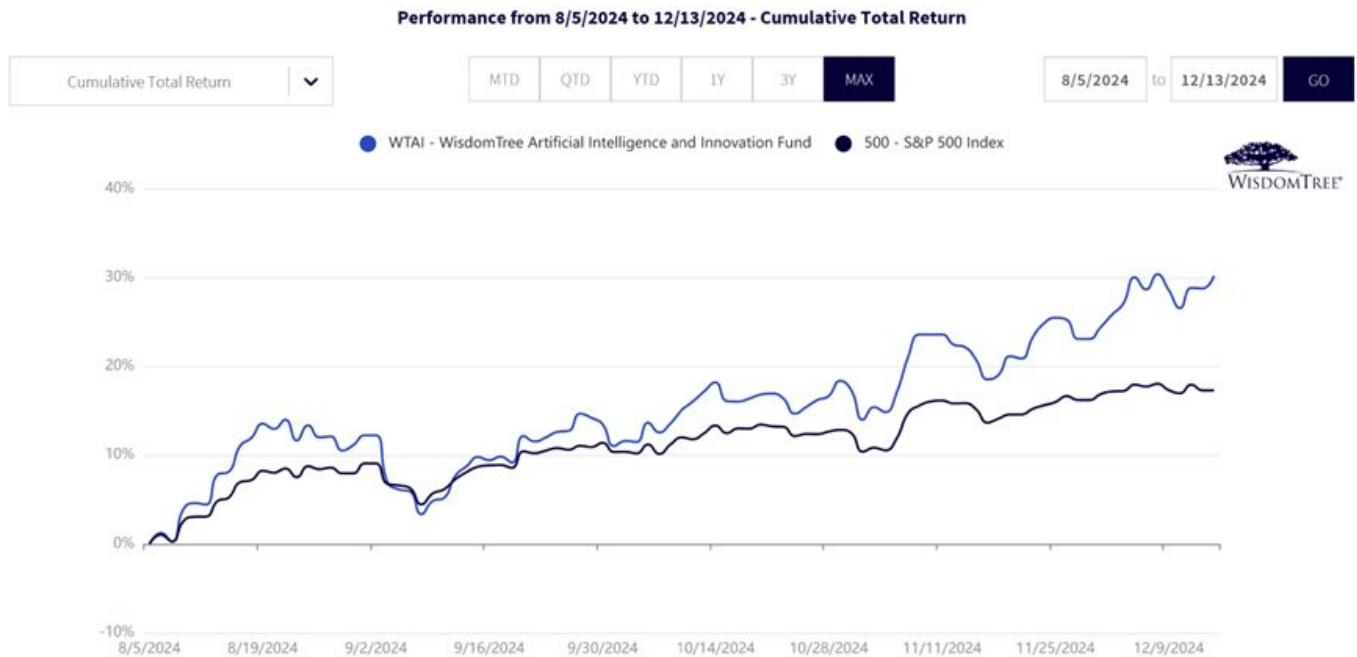
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If we zoom in on the period from August 5, 2024, to December 13, 2024, we do, in fact, see an acceleration of WTAI's performance. The strategy did deliver outperformance over the S&P 500 Index benchmark over this period.

We are, of course, encouraged, but we know that this is still a relatively short period, and many investors would want to see this on a more sustained basis. We believe there is a chance it can continue. We look at this this way:

- The chances of this acceleration look more positive the more we see broad-based companies performing well, offering strengthening earnings guidance and being featured in different important breakthroughs for the space. It was refreshing, for example, to hear a bit about quantum computing and move away from every AI advance featuring Nvidia.
- The big benchmarks, like the S&P 500 Index, are well positioned if the biggest companies continue to drive with the best performance. That was the story for the better part of the last two years. We know that "trees don't grow to the sky," but we also know that we are not aware of the exact limit as to how high they can climb.

Figure 6: Zooming In



Source: WisdomTree, specifically data from the Fund Comparison Tool in the [PATH suite of tools](#), for the period 8/5/24 to 12/13/24. NAV denotes total return performance at net asset value. MP denotes market price performance. **Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performances and to download the Fund's prospectus, click the ticker: [WTAI](#).**

We remain very excited about the prospects for AI and think that 2025 may be an exciting year.

Check out our [PATH suite of tools](#) yourself to explore more around WTAI's performance and read the latest [WisdomTree U.S. Thematic Monthly Update](#) for more AI insights.

Important Risks Related to this Article

For current holdings, please click [here](#). Holdings are subject to risk and change.

There are risks associated with investing, including the possible loss of principal. The Fund invests in companies primarily involved in the investment theme of artificial intelligence (AI) and innovation. Companies engaged in AI typically face intense competition and potentially rapid product obsolescence. These companies are also heavily dependent on intellectual property rights and may be adversely affected by loss or impairment of those rights. Additionally, AI companies typically invest significant amounts of spending on research and development, and there is no guarantee that the products or services produced by these companies will be successful. Companies that are capitalizing on innovation and developing technologies to displace older technologies or create new markets may not be successful. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. The composition of the Index is governed by an Index Committee, and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.