

Investing for 2034, but Realizing it's 2024...

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We have a very difficult time looking out into the future, and systematically underestimate the impact technology can have.

A lot of attention is now focused on the pay package of Tesla CEO Elon Musk being discussed in the courts. A pay package with a headline figure of \$55 billion seems surreal. Yet this package was agreed when the market capitalization of Tesla was below \$60 billion and the only way to secure it was to see Tesla hitting certain revenue and profit targets while concurrently increasing Tesla's market cap beyond \$650 billion.¹

In 2018, the coverage indicated there was only the smallest possible chance this could be achieved, even if Musk touted a belief Tesla could be a trillion-dollar market-cap company. This was a rare example of putting money, a lot of it, behind the specific execution of a future goal. Many were certain that this was impossible...and yet it happened. Tesla has hit a \$1 trillion market cap.²

This was a clear, exponential result most people did not see coming—and results like this don't necessarily conform to the cadence of quarterly earnings calls.

Megatrends, Like AI, Are Not Realized in the Current Year

During the first quarter of 2024's earnings reporting cycle, we paid particular attention to Microsoft, Meta Platforms, Amazon.com, Alphabet and Apple to evaluate their AI journeys.

Microsoft—The Story Is Hitting on All Cylinders

Part of being a public company is execution, and another part is getting the market to reward your focus on what you believe is important. Microsoft CEO Satya Nadella is putting on a multi-year masterclass on both fronts. We would have liked more details about the number of Microsoft Office 365 Copilot customers, in less than a year it is notable that, when considering the year-over-year growth in Azure revenue, in the range of 30%, already 6% of this is catalyzed by AI³.

Azure customers could not plug into Open AI's GPT-4 even a year ago. GPT-4 didn't come out until March 2023.⁴ Office 365's Copilot integration, available at a cost of \$30 per user per month, was not available until November 2023.⁵ We are still really, really early in this journey, but Microsoft is threading the needle, showing results while also showcasing there is a long way further to go.

It's possible this is all reflected in the share price and market cap, but the tens of billions being invested by Microsoft to build out infrastructure to support it is about where the company is planning to be in 2034—10 years out from now—not 2024.

Alphabet—Not Necessarily Getting Credit for its AI Efforts

Do you know what the “GPT” in ChatGPT or GPT-4 stands for? Generative Pre-Trained Transformer. A now-famous research paper titled “Attention Is All You Need,”⁶ introduced this manner of structuring an AI model.

That paper, upon which the current generative AI euphoria is largely based, came from Google researchers. The AI talent sitting within DeepMind (owned by Alphabet), is incredible and responsible for such things as AlphaGo, AlphaZero and AlphaFold, to name a few. Some of the most intriguing work on AI we’ve seen deals with DeepMind pursuing paths for multi-modal models that exist at the intersection of generative AI and robotics.⁷

While Alphabet has capable models, such as Bard and Gemini, as well as the DeepMind unit, when the earnings come out we largely hear about advertising. Alphabet is not being credited, at least in its equity performance, for being on an AI journey.

If the market begins to appreciate Alphabet’s AI efforts more, that could lead to share price appreciation. Like Microsoft, the company is also spending tens of billions of dollars building out infrastructure in preparation for a generative AI future.

Meta—Huge Investments, but Also Huge Distributions to Shareholders

Meta Platforms, parent company of such businesses as Facebook, Instagram and WhatsApp, can be a lightning rod for controversy. Facebook has roughly 3.05 billion monthly active users.⁸

CEO and Founder Mark Zuckerberg is not afraid to make bold investments. We saw it with the metaverse a few years ago, and we see it now with his noting that Meta will have roughly \$9 billion worth of Nvidia’s graphics processing units set to run its AI models.⁹ Zuckerberg’s decisions cannot really be seriously questioned by shareholders, given the company’s dual class shareholder structure, which is often widely discussed. At the same time, the company announced a \$50 billion share buyback and the initiation of a quarterly dividend.

Even if U.S. politicians score as many points for being negative on Facebook as they do for being negative on China, the company is generating plenty of cash flow. What’s less clear to us is the vision behind open-sourcing its generative AI model and then seeking to open-source, in the future, general AI. Successfully developing general AI would be a coup, but it’s in a class similar to widely available quantum computing, autonomous driving or even electricity generated by fusion. It might be possible with a very uncertain timeline and benefits that might be impossible to forecast fully.

Amazon.com—AWS Growth Slowing, but Don’t Underestimate

When we think of Amazon.com in an AI context, we think of such things as:

- The company’s incredible logistics network, allowing us all to expect our packages within hours.

- The Amazon Web Services (AWS) platform, the world's largest provider of public cloud infrastructure.¹⁰ The company also has deployed its own Trainium and Inferentia chips—specific semiconductors designed by Amazon that facilitate the training and then running of AI models within AWS.
- The fact that there is an extremely wide array of tools on the AWS platform that allow users of differing degrees of technological skill to apply AI to their data. Platforms like this, for a fee, democratize the access to some of the world's strongest AI capabilities.

The most noticeable thing within the Amazon.com earnings, in our opinion, is that the year-over-year revenue growth from AWS appears to be stabilizing below 20%. Now, it's a high base with a trailing 12-month figure of nearly \$100 billion,¹¹ but AWS is not keeping up in recent quarters with Microsoft's Azure on a growth rate basis.

Apple—Impacted by China, but Big Announcement Expected Later in 2024

What is Apple doing in AI? We all assume something, but Siri is an example of something often cited as a missed opportunity, at least so far, to deploy a capable, generative AI model. CEO Tim Cook mentioned “something is coming.”¹² If Apple delivers a better, more exciting phone, it might inspire a hardware refresh cycle where hundreds of millions of people desire that new iPhone model.

A hardware refresh cycle not only benefits Apple, but think for a minute how many semiconductors are in a modern smartphone. The central chip that Apple designs is certainly cutting edge and takes most of the attention, but there are also other specific chips that each performs different functions that then relate to different features for the user. Hundreds of millions of new handsets leads to massive demand across the entire semiconductor value chain.

Advanced Micro Devices (AMD)—Strengthening its #2 Position

AMD expects to sell roughly \$3.5 billion of its new MX300 AI accelerator chips.¹³ This is a small number relative to Nvidia, but the AI ecosystem is searching for a second option after Nvidia. Many are even designing their own chips. Can AMD create an ecosystem around AI, like Nvidia has with its CUDA software? There is a clear difference between being the second option and actually competing with Nvidia.

Bottom Line for Investors: The Biggest Companies Are Still Leading

2023 was the year of large companies. Our team came into 2024 believing equity performance should broaden out. So far, things remain concentrated in the mega caps. As investors look for how to position portfolios, WisdomTree has two ETFs at the center of this megatrend.

- The [WisdomTree Artificial Intelligence and Innovation Fund \(WTAI\)](#), which tracks the [WisdomTree Artificial Intelligence Index](#) before fees, is designed to include a wide array of AI companies. There is some exposure to these extremely large purveyors of large language models, but there is also exposure to other things, like autonomous vehicles. WTAI is designed to capture the multi-year AI megatrend as opposed to just what happens in 2024.

- The [WisdomTree U.S. Quality Growth Fund \(QGRW\)](#), which tracks the [WisdomTree U.S. Quality Growth Index](#) before fees, is designed to provide exposure to companies with strong growth and quality fundamentals in the U.S. It just so happens that the top-weighted positions in this strategy include the world's largest companies at the forefront of AI innovation. If the winners remain in the mega caps, QGRW should benefit.

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13 Source: Adam Clark, "AMD Stock Is Falling," The Bar for AI Plays Is Moving Higher," *Barron's*, 1/31/24.

Important Risks Related to this Article

For current Fund holdings, please click the respective ticker: [WTAI](#), [QGRW](#). Holdings are subject to risk and change.

There are risks associated with investing, including the possible loss of principal.

WTAI: 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.

QGRW: Growth stocks, as a group, may be out of favor with the market and underperform value stocks or the overall equity market. Growth stocks are generally more sensitive to market movements than other types of stocks. The Fund is non-diversified, as a result, changes in the market value of a single security could cause greater fluctuations in the value of Fund shares than would occur in a diversified fund. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit. The Fund does not attempt to outperform its Index or take defensive positions in declining markets and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.