

The AI Revolution Continues

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Key Takeaways

- The performances of the [WisdomTree AI & Innovation Fund \(WTAI\)](#) and the [WisdomTree U.S. Quality Growth Fund \(QGRW\)](#) offer insights into investor behavior and performance attribution in the AI sector amidst the AI revolution.
- The sustainability of Nvidia's share price is a key focus, with QGRW having significant exposure to Nvidia, while WTAI benefits from a broader base of AI companies.
- Potential market catalysts for AI in the second half of 2024 include new AI-enabled hardware and possible interest rate cuts by the U.S. Federal Reserve.

The world is telling us that we are in the midst of an [AI revolution](#). We have been writing about this topic throughout 2024, and in light of AI Appreciation Day, we wanted to take an updated look at a few of our strategies and their track records in 2024:

- The [WisdomTree Artificial Intelligence & Innovation Fund \(WTAI\)](#) is designed to track the returns, before fees, of the [WisdomTree Artificial Intelligence and Innovation Index](#). The strategy is designed with the recognition that AI represents a broad ecosystem of activities and companies and that, in any given year, different parts of that ecosystem can outperform or underperform. However, over the long term, AI will tend to be bigger and more in use than it is today.
- The [WisdomTree U.S. Quality Growth Fund \(QGRW\)](#) is designed to track the returns, before fees, of the [WisdomTree U.S. Quality Growth Index](#). Exposure to artificial intelligence is not a specific focus of the methodology, but if we simply stop there with our thinking, we do investors a disservice. Even though AI is not a focus of the stock selection or weighting, in February 2024, a major area of AI would be companies that are running and developing large language models. So far, this includes the likes of Microsoft, Meta Platforms, Amazon and Alphabet, to name a few. When the strategy is focusing on growth and quality, these companies tend to score very highly and end up with significant weights in the exposure. We'll, of course, continue to monitor how this evolves and recognize that it could change, but for the time being, the artificial intelligence topic could be an important driver of the return experience in [QGRW](#).

Whether [QGRW](#) or [WTAI](#) is leading or lagging, performance-wise, at any given time can give us important insights into how investors are trading the AI topic. It can also allow us to monitor different types of performance attribution, meaning that in each strategy, one can think about something like “the exposure

to Nvidia” and see how much of a given period’s return is based just on that company. Similarly, one can do the same thing with the group of stocks that we now call the “Magnificent 7.”

Figure 1 gives us a sense of the important “Nvidia Question,” at least in 2024, as well as the exposure to many of the world’s largest companies, whether we are still referencing them as the Magnificent 7 or that title has evolved into something else.

- **The Nvidia Question:** There are many questions surrounding Nvidia, but the one that we focus on regards the sustainability of its incredible share price performance. For basically the last 18 months, when thinking of exposure to this stock, the simple maxim “more is better” has worked out. If people are positioning for the next 18 months, Nvidia’s performance could be more of a question. It is clear that [QGRW](#)’s exposure looks more similar to that of the Russell 1000 Growth Index and does have a significant amount of weight in this company. [WTAI](#), on the other hand, does not place anywhere near as much emphasis on any one company. A broader foundation of share price performance amongst AI companies could benefit [WTAI](#) more than the performance of any single stock.
- If we define the “Magnificent 7” as Nvidia, Microsoft, Apple, Alphabet, Meta Platforms, Amazon.com and Tesla, we can see these stocks in the top 10 of [QGRW](#) and the Russell 1000 Growth Index. Six out of seven (not Tesla) are in the top 10 of the S&P 500 Index. Three of the seven are in the top 10 of [WTAI](#). These companies are important to the AI story, yes, but they are not the only way to think about positioning for exposure to AI-oriented equities.

Bottom Line: No one knows with certainty exactly how different phases of the AI revolution will unfold. When looking at the top 10 of [WTAI](#), Qualcomm, Arm and AMD stand out for not being in the top 10 of [QGRW](#) or either of the two benchmarks. These stocks may see stronger performance based on people purchasing new AI-enabled hardware, like laptops, tablets and smartphones. The biggest platform-oriented companies, like Microsoft, Alphabet and Meta, are pushing further and further with their different large language models. It may not be a question of either devices OR large language models, but we’d note that the market has been excited about large language models for some time at this point.

Figure 1: Top 10 Holdings of QGRW & WTAI, with the S&P 500 and Russell 1000 Growth Indexes as Benchmark References

QGRW		WTAI		S&P 500 Index		Russell 1000 Growth Index	
Company Name	Weight	Company Name	Weight	Company Name	Weight	Company Name	Weight
Nvidia	11.05%	Nvidia	2.86%	Microsoft	6.96%	Microsoft	11.61%
Microsoft	10.76%	Qualcomm	2.47%	Apple	6.30%	Apple	10.53%
Apple	10.03%	Alphabet	2.34%	Nvidia	6.11%	Nvidia	9.79%
Alphabet	6.55%	Arm	2.32%	Alphabet	4.23%	Alphabet	7.13%
Meta Platforms	5.75%	Meta Platforms	2.27%	Amazon.com	3.64%	Amazon.com	5.97%
Amazon.com	5.35%	AMD	2.20%	Meta Platforms	2.32%	Meta Platforms	3.88%
Broadcom	3.13%	SK Hynix	2.14%	Berkshire Hathaway	1.70%	Eli Lilly	2.61%
Visa	2.72%	TSMC	2.14%	Eli Lilly	1.48%	Broadcom	2.15%
Tesla	2.68%	Micron	2.13%	JP Morgan	1.32%	Tesla	1.85%
Mastercard	2.14%	ASML	2.11%	Broadcom	1.32%	Visa	1.63%
Total	60.16%	Total	22.98%	Total	35.38%	Total	57.15%

Source: WisdomTree; specifically, data is from the PATH Fund Comparison Tool, as of 5/31/24. Holdings are subject to change. You cannot invest directly in an index.

Second Half of 2024: What Is the AI State of Play?

Writing in July of 2024, we recognize two things:

- Artificial intelligence has remained a hot topic. ChatGPT was released in late November 2022, and much of 2023 was spent admiring the “cool stuff” that we as a society might be able to do with it. Now, most of the companies in the so-called “Magnificent 7” that we mentioned earlier have their own compute platforms and approaches to large language models. The major providers of smartphones (Samsung, Google, Apple) have all indicated models with direct AI capabilities on the device. As of July 2024, AI has not yet completely changed the world, but there are many exciting advances all proceeding apace.
- It feels like we are due for a shift in market leadership. Nvidia’s share price return and increase in market capitalization have been historic. The returns of five of the other six “Magnificent 7” firms have been pretty strong—most recently, many have focused on Apple’s share price performance after its announcement of “Apple Intelligence.” Tesla has been volatile, but as we write these words, August 8 is about a month away, and we all await what type of robotaxi announcement we should be able to see. **Will the rest of 2024’s equity market performance continue to hinge mostly on these extremely large market capitalization stocks?**

We recognize that we do not know exactly how the equity market's returns will unfold in the second half of 2024—we wish the crystal ball offered a clearer picture. However, we can think of a couple of different catalysts that could lead us down different paths.

- **The Hardware Refresh Catalyst:** When people see Apple's share price performance after the June 2024 announcement of Apple Intelligence, it's interesting to hypothesize what this is truly responding to. Apple's actual AI capability is not necessarily that far ahead or behind that of any of the other big players, although people do appreciate its reputation for handling the privacy aspect of people's data. However, if people look at where Apple can make the bulk of its revenues, the best thing that can happen is that the world buys more iPhones. If Apple Intelligence creates enough curiosity to get users thinking that they need to try out that iPhone 16, that can have a huge impact on Apple's bottom line. We would remind people that a new smartphone does not just have one or two chips powering it—there is a “memory board” with multiple different chips, there is a “frequency board” with multiple different chips, and there is a “logic board” with multiple different chips. If we are reading reports of people buying tens of millions or hundreds of millions of new smartphones in the coming months, there is a broad semiconductor ecosystem that would be supporting those demands—and the Nvidia chips that have been getting the world excited for 18 months are very different from the chips that power smartphones.
- **The Lower Interest Rate Catalyst:** It was interesting to watch the last two months of 2023, when equity market investors decided that the U.S. Federal Reserve would be cutting interest rates quite quickly in 2024. We saw software-oriented companies, in particular, respond very positively—but so far in 2024 (we are writing this in July), we have not seen any rate cuts. Software investors have been disappointed during the first half of 2024 as share price performance has corrected from the overly enthusiastic expectation for a shift in U.S. Federal Reserve policy. If the fall of 2024 is characterized by falling interest rates and expectations of cuts, it's possible that the share prices of these software stocks—after a disappointing first half of 2024—respond positively. It's not a certainty that it plays out this way—software companies are now competing against the large language models of the big platform players, needing to prove that their solutions can still add value against the seemingly ever-increasing capabilities of GPT-4, Gemini, Claude, Llama, etc. It's something we are watching, however, since the sentiment has been getting very negative.

Within AI, we think it is important to have “realistic expectations” for a given period. If investors are thinking about the second half of 2024 and the start of 2025, people and companies will have the opportunity to choose to buy new AI-enabled devices, and it is possible that the U.S. Federal Reserve might cut its policy rate. If people are trying to think about bigger possibilities, like AI helping uncover new drug therapies or cars actually driving themselves, these are far more difficult forecasts to make. Even large language models—it will take years for these to proliferate across most industries as company-level adoption and employee usage happen far more slowly than we might expect. The two catalysts we have noted, while certainly not guarantees, are things that plausibly could occur over the coming 12 months.

Conclusion: Keep an Eye on the Growth Figures

QGRW has significant exposure to many of the stocks that have delivered performance during this current phase of the AI revolution, which we could say started with the release of ChatGPT in November 2022. It has been clear that the market has been excited about 1) Nvidia’s capability to provide AI-accelerator chips and 2) the largest AI companies being able to create and deploy large language models to large bases of users.

The AI ecosystem is broader, however, than just the largest companies. We believe we are watching a revolution that will be playing out over the next 10 to 15 years, and investors will get excited about different types of companies along the way. **WTAI** is positioned to recognize that there will not be just one topic, like large language models, that remains exciting for the next decade.

Figure 2 is something that we monitor, in the sense that at times like what we see in July 2024, we can look at recent share price performance and see that the largest companies are difficult to ignore. Why bother even thinking about the broader AI ecosystem? One answer, for us, lies in growth. If one thinks about Apple or Nvidia or Microsoft as three examples, these are some of the most widely followed and analyzed stocks in the world. Smaller, newer firms have the possibility to offer those positive (and negative) growth surprises to the market. Figure 2 gives a sense of the sales growth behavior over a few different time frames—one can see that **WTAI** is on par with **QGRW** and the benchmarks and, in some cases, even ahead.

Figure 2: Median and Weighted Average Sales Growth Figures for QGRW, WTAI and the S&P 500 and Russell 1000 Growth Indexes

GROWTH CHARACTERISTICS as of 5/31/2024		Median Sales Growth			Weighted Average Sales Growth		
Ticker	Fund	1-Year	3-Year	5-Year	1-Year	3-Year	5-Year
QGRW	WisdomTree U.S. Quality Growth Fund (NAV)	10.12%	16.86%	13.47%	16.94%	21.37%	19.58%
WTAI	WisdomTree Artificial Intelligence and Innovation Fund (NAV)	12.07%	16.82%	13.11%	13.37%	20.24%	15.91%
500	S&P 500 Index	4.57%	9.32%	6.44%	11.62%	15.36%	12.53%
RU1000G	Russell 1000 Growth Index	7.59%	12.41%	9.51%	17.03%	18.96%	17.08%

Source: WisdomTree; specifically, data is from the PATH Fund Comparison Tool, as of 5/31/24. Holdings are subject to change. **Past performance is not indicative of future results.** You cannot invest directly in an index.

Important Risks Related to this Article

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.