

THNQ Index 1Q24 Commentary

March 31, 2024

The ROBO Global Artificial Intelligence Index THNQ delivered a 7.1% return for Q1 2024, slightly underperforming the VettaFi Full World Index's 8.20% return. Overall, it's clear the market is now in a more tempered "wait-and-see" for AI-related revenues and business moats to appear. This is the start of a paradigm shift of business models that are turning towards "AI-to-consumer" and "AI-to-enterprise" and the accompanied rise of supporting infrastructure.

The **Semiconductor** sector (+13.8%) continued to outshine, driven by unabated demand for AI chips. **NVIDIA** reignited performance boosters with +86.9% performance, driven by large upwards revisions and strong demand. followed by other key AI-semi enablers **AMD** (+20.7%), **ASML** (+28.5%), **Lam Research** (+23.7%), and **TSMC** (+27.4%). At CES, companies like **Ambarella** (-9.1%) unveiled groundbreaking chips capable of on-device LLMs for computer vision applications, an area slated to see incredible growth as real-world use cases expand. Similarly, **Qualcomm** (+7.3%), an addition from the quarter prior, recently introduced its XR2 Gen 2 chip for augmented reality.

The **Network & Security** sector (+9.6%) was propelled by scalable data-storage pioneer **Pure Storage** (+46.0%), which is experiencing surging demand and heightened expectations for its crucial role in supporting AI and machine learning technologies across data preparation, training, and inference.

In the **Business Process** sector (+9.2%), **Nice Limited** (+30.6%), **JFrog** (+27.8%), and **Fiserv** (+20.3%) led with robust fundamental performance. **Adobe** (-15.4%) disappointed investors with its latest earnings and AI outlook, which may have been overambitious. Adobe remains a frontrunner in the ever-expanding creative and digital economy. **CoStar Group** (+10%), a global real estate technology company leveraging AI for data analysis, is seeing positive tailwinds following the resolution of the lawsuit involving the National Association of Realtors (NAR) and their 6% fee practices eliminated.

The **Big Data / Analytics** sector (-4.3%) was the quarter's biggest underperformer, a stark contrast to its +70.0% gain in 2023. As businesses scale their AI solutions, we anticipate this segment to gain significant importance, with observability platforms becoming an integral part of operations, not only for performance but also for transparency and explainability, aligning with recent AI regulation trends in both the EU and USA.

In our **Consumer** subsector (+19.1%), **Spotify** surged +40.4% following a substantial win against Apple (not a THNQ constituent) with a 1.8B euro antitrust fine, which could be the start of further similar headwinds for Apple, including other antitrust issues. For Spotify, this victory may be the tip of the iceberg, unlocking additional services-related revenue opportunities and potential for margin expansion.

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