
WHAT IS (AND ISN'T) WORKING WITHIN TECHNOLOGY STOCKS?

Christopher Gannatti – Global Head of Research, WisdomTree.
04 Jul 2024

Why is [insert name of technology-focused ETF] underperforming in 2024?

This is a recurring question that we are facing in June 2024. Part of the reason is that, while we spend all this time trying to formulate more complete exposures to different technology-oriented thematic equity areas, Nvidia has been performing so strongly that performance so far this year has been determined by:

- More weight to Nvidia = stronger performance in the first half of 2024
- Less weight to Nvidia = weaker performance in the first half of 2024

We readily admitted the risk of being 'too exposed' to Nvidia within ETF strategies in March 2024 when Nvidia was hitting a market capitalisation of \$2 trillion. Roughly three months later, we sit looking at Nvidia with a market capitalisation of around \$3 trillion. If there is a risk, it hasn't yet materialised in the form of significantly negative returns.

Three broad-based technology-oriented thematic ETFs can tell us a lot

When we think about 'technology-oriented' ETFs in our thematic range, we tend to discuss:

- The [WisdomTree Artificial Intelligence UCITS ETF \(WTAI\)](#): This strategy is designed to track the total returns, before fees and expenses, of the Nasdaq CTA Artificial Intelligence Index. Companies in the eligible universe are classified into three groups based on each company's position in the AI value chain and its estimated revenue exposure to AI.
- The [WisdomTree Cloud Computing UCITS ETF \(WCLD\)](#): This strategy is designed to track the total returns, before fees and expenses, of the BVP Nasdaq Emerging Cloud Index. This index is rebalanced back to equal-weight twice a year and focuses on business-oriented cloud computing firms that derive more than 50% of their revenues from cloud computing. It is a diversified array of Software-as-a-Service (SaaS) companies.
- The [WisdomTree Cybersecurity UCITS ETF \(WCBR\)](#): This strategy is designed to track the total returns, before fees and expenses, of the WisdomTree Team8 Cybersecurity Index. The focus is on pure-play cybersecurity companies that deliver exposure to at least one of eight distinct cybersecurity themes defined by Team8. The index is monitored at semi-annual rebalances each year.

These strategies tend to provide most of their exposure within the software and semiconductors industries. While Nvidia is the first semiconductor name that people are thinking about – and have been thinking about for about 18 months – there is a much longer tail of notable companies that can benefit significantly if consumers and businesses are inspired to update their hardware and buy AI-enabled devices, largely laptops and smartphones. Apple just announced its ‘Apple Intelligence’ suite of functionality, completing the picture and allowing even those in the Apple universe of products to have this option.¹

It's also interesting that, if one is looking at the market performance, it feels like people cannot get far enough away from most software-oriented strategies. [WCLD](#) and [WCBR](#), of late, have been running into the wind by way of performance. However, if people are really excited about AI – essentially what we will be using the Nvidia chips for – how it will be used will be through software, so we will also need a lot of cybersecurity solutions to ensure a safer experience.

As we watch the software space today, we seek to find those companies that embrace AI and are providing innovative solutions that appear to stack up strongly against the large, generalised foundation models, be it GPT-4o, Microsoft Copilot or Google Gemini, to name a few.

Current consensus, forward guidance and returns

If we create a list of all the constituents within [WTAI](#), [WCLD](#), and [WCBR](#), we can order it based on changes to forward guidance as of the most recent quarterly earnings report. The thinking here is that companies that are particularly confident in their prospects this year will be raising guidance more significantly, and then, if management is really concerned about their prospects, they will be lowering guidance. When reading recent earnings announcements, there has been a lot of focus on guidance for the coming quarter and the rest of 2024. In a sense, guidance represents a data point that bakes in a company's forward-looking expectations.

In Figure 1:

- Six of the 10 best forward sales revision firms, post guidance, were in a semiconductor-related sub-industry. Nvidia was there, but people may not have immediately predicted the presence of Ambarella, Analog Devices, Teradyne, Broadcom or QUALCOMM. Teradyne, Nvidia, Broadcom, Ambarella and QUALCOMM delivered double-digit returns seven days after their announcements.
- The tides of returns in software stocks can change quickly, and we see Monday.com, Q2 Holdings, AppFolio all raising guidance, at least a small amount. Monday.com and Q2 saw their shares up by more than 20%, each, seven days after their announcements.
- Software-as-a-Service has been tough. UiPath, Fastly, and Sprout Social are examples of companies in WCLD that all lowered their revenue guidance in their most recent announcements. These three companies' shares were down more than 35% seven days after this information hit the tape.

- Of the companies in the 10 Worst Forward Sales Revision firms, post guidance, Salesforce got significant negative attention – we think too much. Salesforce basically met consensus expectations and then lowered guidance a small amount. To see a company of this stature – companies that use Salesforce for their client data cannot simply stop on a dime – losing 20% of its market capitalisation in one day is a huge move. Maybe one interpretation is that the market wants to see more from Salesforce concerning generative AI integrations.

Figure 1: Current consensus, forward guidance and returns

Grouping	Company Name	Sub Industry	Sales Surprise vs. Median Consensus Estimate	Upcoming FPE nd	Fwd Sales Revision Post Guidance	1 Day Return	7 Day Return
10 Best Forward Sales Revision Firms, Post Guidance	Teradyne, Inc.	Semiconductor Materials & Equipm	6.0%	30/06/2024	10.8%	8.2%	12.9%
	Analog Devices, Inc.	Semiconductors	2.8%	31/07/2024	5.4%	10.9%	7.8%
	NVIDIA Corporation	Semiconductors	8.2%	31/07/2024	5.2%	9.3%	20.9%
	Ambarella, Inc.	Semiconductors	0.9%	31/07/2024	4.4%	20.6%	19.2%
	Broadcom Inc.	Semiconductors	3.3%	31/07/2024	2.1%	12.3%	20.5%
	AppFolio Inc Class A	Application Software	4.6%	30/06/2024	2.0%	12.0%	9.0%
	monday.com Ltd.	Systems Software	3.3%	30/06/2024	1.9%	21.4%	32.8%
	QUALCOMM Incorporated	Semiconductors	0.9%	30/06/2024	1.7%	9.7%	10.0%
	Q2 Holdings, Inc.	Application Software	1.3%	30/06/2024	1.6%	15.2%	20.5%
	Kratos Defense & Security Solutions,	Aerospace & Defense	10.9%	30/06/2024	1.5%	5.8%	6.9%
10 Worst Forward Sales Revision Firms, Post Guidance	Salesforce, Inc.	Application Software	-0.1%	31/07/2024	-1.2%	-19.7%	-24.2%
	Freshworks, Inc. Class A	Application Software	0.8%	30/06/2024	-1.7%	-19.6%	-24.3%
	ZoomInfo Technologies Inc	Interactive Media & Services	0.5%	30/06/2024	-1.8%	-24.2%	-18.9%
	Rapid7 Inc.	Systems Software	0.5%	30/06/2024	-2.4%	-17.0%	-16.8%
	Akamai Technologies, Inc.	Internet Services & Infrastructure	0.3%	30/06/2024	-2.6%	-11.0%	-10.6%
	Sprout Social, Inc. Class A	Application Software	0.5%	30/06/2024	-2.7%	-40.1%	-40.8%
	Definitive Healthcare Corp. Class A	Health Care Technology	0.8%	30/06/2024	-3.6%	-26.2%	-24.8%
	Intel Corporation	Semiconductors	0.1%	30/06/2024	-4.4%	-9.2%	-13.1%
	Fastly, Inc. Class A	Internet Services & Infrastructure	0.4%	30/06/2024	-6.0%	-32.0%	-58.7%
	UiPath, Inc. Class A	Systems Software	0.6%	31/07/2024	-11.4%	-34.0%	-57.9%

Sources: WisdomTree, FactSet. As of 17 June 2024, we sought companies within [WTAI](#), [WCLD](#), and [WCBR](#), as constituents and looked at their most recent earnings announcement, any change to forward guidance and subsequent returns from that announcement to try to gauge reaction to that specific announcement. Historical performance is not an indication of future performance and any investments may go down in value.

Conclusion: The megatrend is bigger than Nvidia

It’s possible that market participants are starting to believe that Nvidia is bigger than anything. We must remember that building out compute infrastructure is merely one step in the AI journey. The bigger and more important step involves considering what we will use this compute infrastructure for.

In the near term, we have seen companies announcing an array of options for those looking for AI-enabled smartphones. Samsung, Apple, and Google are all tossing their respective hats into the ring here. Additionally, AI is starting to be infused into the operating system of new laptops and tablets. We are watching the sales figures for these devices because if we see significant sales in 2024 heading into 2025, it goes a long way to making AI ubiquitous. It will make using AI-enabled applications more normalised and speed up the transition to the next stage of computing. We’ll also have to keep thinking about cybersecurity throughout.

[WTAI](#), [WCLD](#), and [WCBR](#), albeit in different ways, capture different parts of this technological evolution.

¹ Source: “[Apple Intelligence Preview](#).” Apple.

Related Products

- + [WisdomTree Artificial Intelligence UCITS ETF – USD Acc \(WTAI/INTL\)](#)
- + [WisdomTree Cloud Computing UCITS ETF – USD Acc \(WCLD/KLWD\)](#)
- + [WisdomTree Cybersecurity UCITS ETF – USD Acc \(WCBR/CYSE\)](#)

Related Blogs

- + [Are megatrends the crystal ball that investors need?](#)
- + [Software investing: Riding the rollercoaster](#)
- + [Where might investors find the next Nvidia?](#)

View the online version of this article [here](#).

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 Factors' 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.

WisdomTree Cloud Computing UCITS ETF

Nasdaq® is a registered trademark of Nasdaq, Inc. (which with its affiliates is referred to as the "Corporations") and is licensed for use by WisdomTree Management Limited. The WisdomTree Cloud Computing 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.

The information set forth in the BVP Nasdaq Emerging Cloud Index is provided for informational and discussion purposes only and is not intended to be, and shall not be regarded or construed as, a recommendation for a transaction or investment or financial, tax, investment or other advice of any kind by Bessemer Venture Partners ("BVP"). BVP makes no warranty or representation regarding any such information or the data presented in such materials. BVP and/or pooled investment vehicles which it manages, and individuals and entities affiliated with such vehicles, may purchase, sell or hold securities of (a) issuers that are constituents of the BVP Nasdaq Emerging Cloud Index or (b) the Fund itself from time to time and at any time, including in advance of or following an issuer being added to or removed from the BVP Nasdaq Emerging Cloud Index.

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.