

THNQ Index 3Q24 Index Commentary

September 30, 2024

Nearly two years after ChatGPT's public launch, the gap is shrinking between AI ideation, invention, and deployment. While individual behavior can change rapidly, our perception of this change often lags, mired in skepticism. Hundreds of millions, if not billions, already use AI, knowingly or not. The technological bar rises swiftly as AI applications become commonplace. Amidst abundant projections of AI's impact, technology built by humans for humans shifts in real time to AI-driven systems and infrastructure, like computer vision and resilient connectivity, crafted for both machines and people. This evolution is forging an entirely new tech stack, with established industry leaders at the helm of this transformation.

Q3 2024 saw the [ROBO Global Artificial Intelligence Index \(THNQ\)](#) deliver a modest 2.7% return, marking a shift in performance patterns compared to the previous 12-24 months. Six of the eleven subsectors posted positive returns, reflecting a changing landscape. The Q2 earnings season was remarkably strong, with 93% of constituents beating EPS expectations and 84% surpassing sales forecasts. The average earnings surprise was an impressive 18.5%, while sales surprises averaged 1.9% (weighted average, FactSet consensus). This robust performance underscores the sector's resilience and growth potential despite the muted price action.

The ecommerce subsector emerged as a standout performer (+22.5%), driven by strong gains from **JD.com** (+54%) and **MercadoLibre** (+26%), which serve as key AI and automation gateways for China and Latin America, respectively. **Shopify** also posted impressive growth (+20%), while **Amazon** (-3%) was the segment's only underperformer. The healthcare subsector (+18.2%) showed significant promise, with **Veracyte** (+55.8%) and **Illumina** (+25%) delivering solid updates and earnings beats. This performance suggests a potential reversal in healthcare valuations, which have been relatively depressed in recent quarters.

The business process subsector, the third largest in THNQ, posted modest gains (+6.1%), with mixed performance among its constituents. **Samsara** (+41%) and **Fair Isaac** (+29%) continued their upward trajectory, while B2B SaaS players like **JFROG** (-22%), **HubSpot** (-9.1%), and **Adobe** (-7.2%) faced headwinds. Notably, the cognitive computing subsector, despite its smaller overall position, delivered impressive returns (+30.0%). This was largely driven by significant gains from industry titans **IBM** (+28.5%) and **Tesla** (+31.6%), both of which continue to make strides in their respective AI initiatives.

The semiconductor (-7.0%) and network and security (-4.4%) subsectors experienced a correction this quarter, following two years of robust performance. In network and security, CrowdStrike's notable glitch, while causing short-term volatility, doesn't diminish our conviction in its role as a leader in AI cybersecurity — a critical component in an increasingly automated world. Despite Pure Storage's retraction (-22.4%), its best-in-class innovation and expanding end-markets maintain our positive outlook. Similarly, in the Semiconductor space, industry pillars like **ASML** (-19.2%) and **Lam Research** (-24%) faced headwinds, but their crucial role in AI advancement and projected growth underscore their long-term potential. This normalization may present attractive entry points for investors looking to capitalize on the AI revolution.

The most transformative AI opportunities in automation, innovation, and societal efficiency are still emerging. THNQ provides exposure to a diverse ecosystem of AI leaders across multiple sectors, many of whom are already profitable but poised for further growth as AI adoption accelerates. As AI continues to reshape industries and daily life, the strategy is positioned to reflect the broader impact of this technological shift.

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