

Are AI Stocks Driving the Market?

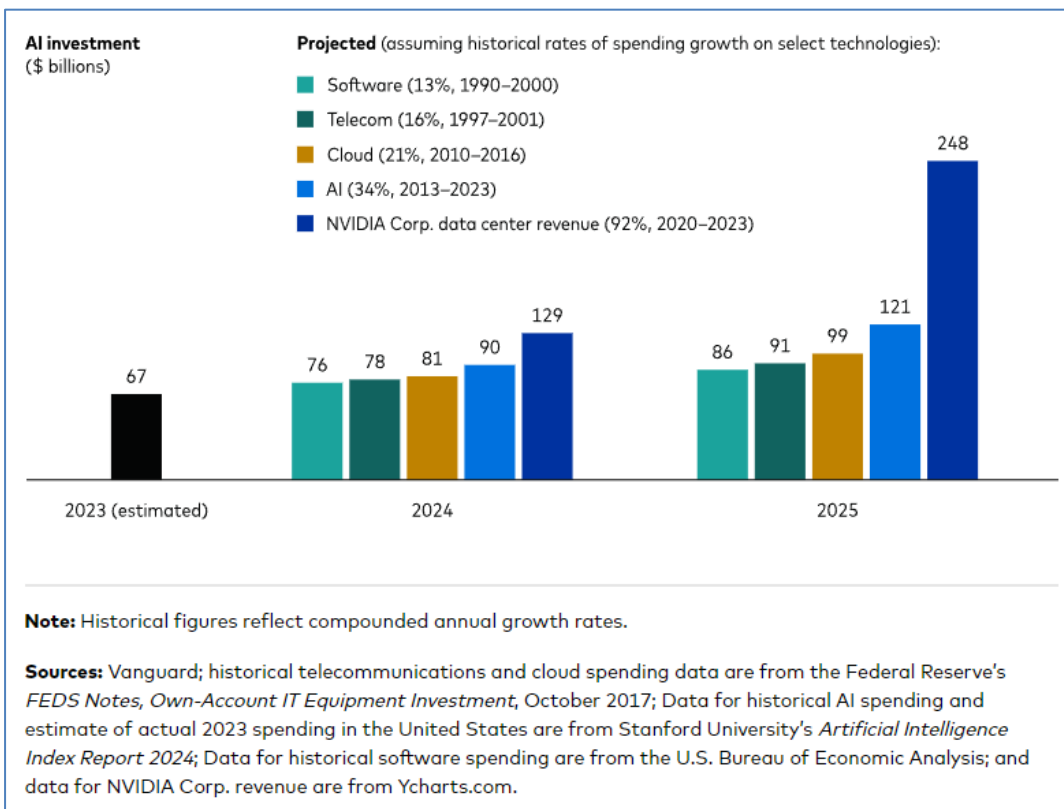
by Steve Byrne • October 13, 2024

Over the past two years, we've witnessed remarkable growth in AI-driven stocks, with companies like NVIDIA (NVDA) and Super Micro Computer (SMCI) experiencing significant gains. Even more interestingly, many companies that supply components, materials and technology to AI giants like NVIDIA, show a strong correlation in performance.






This leads to two key questions:

1. Are AI stocks driving the overall market?
2. If so, will they continue to do so in the future?

The following chart indicates how AI stocks have been performing recently. It also shows what is expected in 2025.



Observed and expected growth of AI technologies in 2024 & 2025

Name	Market Cap
 Apple AAPL	\$ 3.459 T
 NVIDIA NVDA	\$ 3.306 T
 Microsoft MSFT	\$ 3.094 T
 Alphabet (Google) GOOG	\$ 2.017 T
 Amazon AMZN	\$ 1.981 T

Market Caps from <https://companiesmarketcap.com/>

Current AI Stock Performance

AI-related stocks, particularly in the tech sector, have seen sharp rises. Take a look at how AI stocks have been performing recently and what experts predict for 2025.

It's no secret that most of the tech giants in the Nasdaq 100 Index have heavily invested in AI. For instance, NVIDIA is second only to Apple in market capitalization.

Creating an AI-Focused Portfolio

I decided to explore whether AI stocks are indeed driving the market by creating a dedicated portfolio of AI stocks instead of tracking a regular index. There are over 100 AI-related stocks spread across large-cap, mid-cap, and small-cap indexes.

For my portfolio, I set the selection criteria as follows:

- Stocks must be sufficiently liquid.
- New stocks to the market are avoided.
- High-cap stocks (>\$10 billion) and mid-cap stocks (\$2 billion - \$10 billion) are prioritized.
- I also set a minimum volume-to-price (VxP) of \$100 million for selection, resulting in a list of 32 AI-focused stocks.

Given NVIDIA's leading role, I expected the Nasdaq 100 Index ETF (QQQ) to track closely to NVIDIA's performance. With many AI stocks correlating strongly with NVIDIA, I introduced both QQQ market entry and exit strategies into my portfolio.

Analysing AI Stock Performance

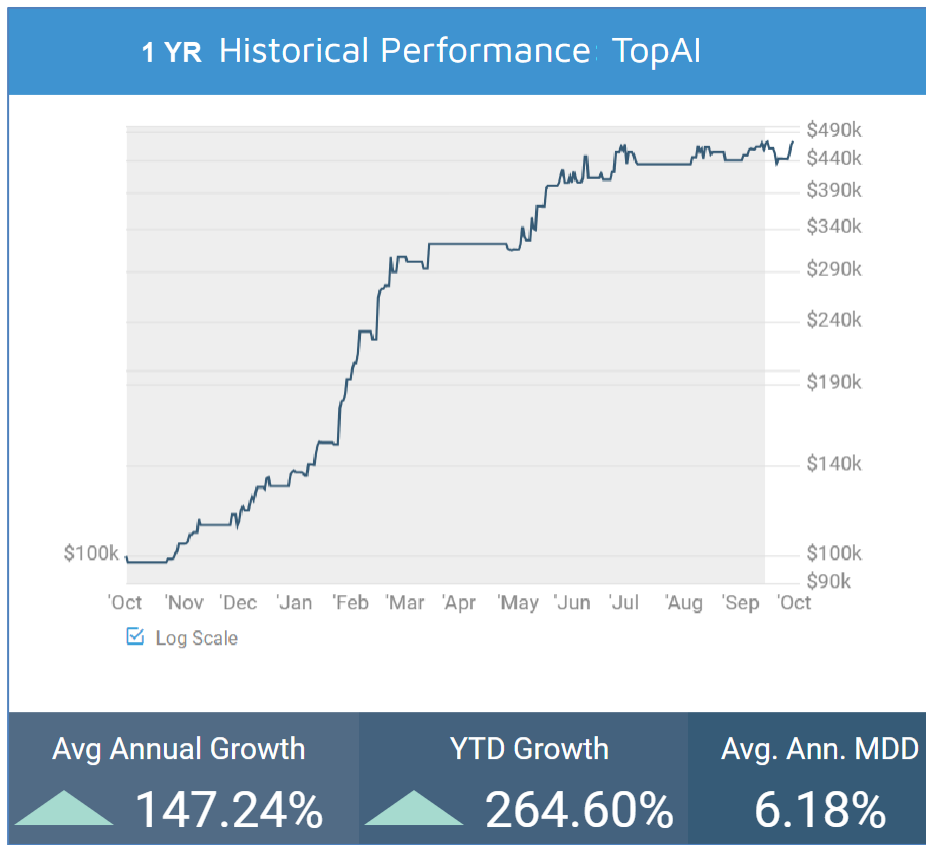
The Nirvana Systems OmniFunds platform was ideal for analyzing the performance of AI stocks. OmniFunds technology allows filtering, ranking, and switching of stocks while protecting against stock drawdowns or extended market downturns. This way, top-ranked stocks are traded when they are in an uptrend and exited during declines.

Because many AI stocks are relatively new compared to older tech stocks (like the FANG group), I ran a short-term Back Test over the last year rather than a longer simulation. This allowed me to gauge whether AI stocks are currently driving the market.

Here are the two charts I analyzed: the Nasdaq 100 Index ETF (QQQ) and the Top-AI Portfolio. * You can clearly see the correlation between them, confirming that AI stocks are playing a major role in driving market performance.



QQQ ETF Representing the Nasdaq 100



Historical Performance of The TopAI Portfolio

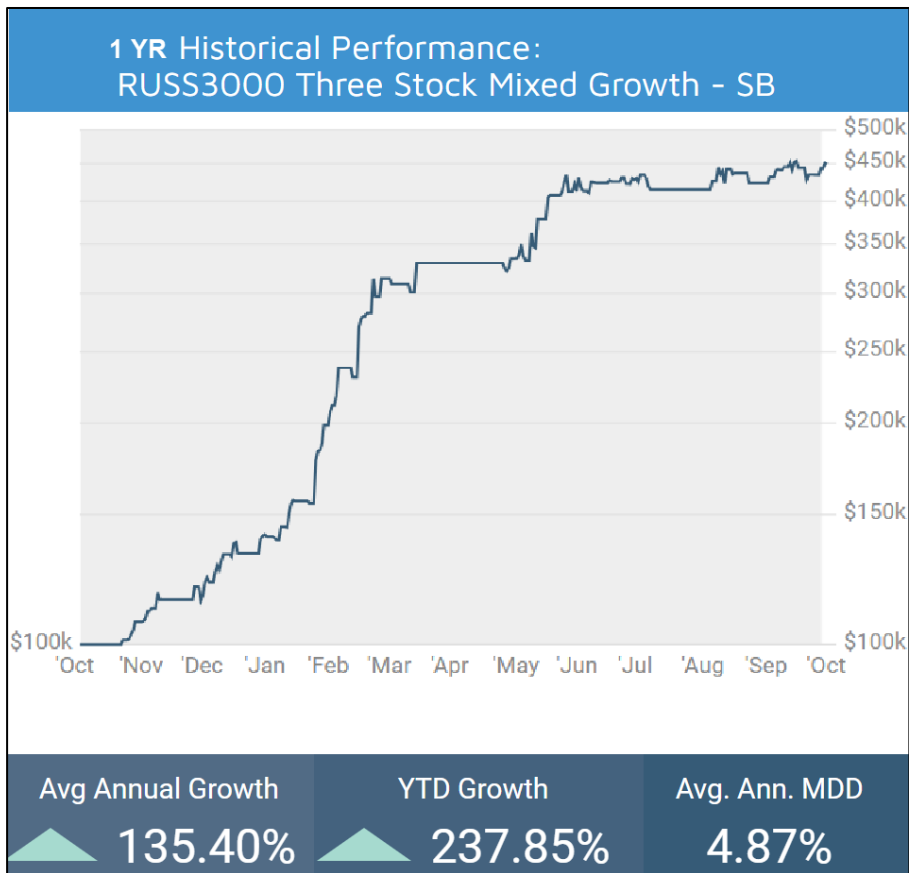
** Editor's Note: "TopAI" is one of the Portfolios used in the new "NAS100 & AI Mixed Growth" OmniFund released October 15, 2024.*

Further Evidence: The Russell 3000 Index

To further confirm whether AI stocks are truly driving the market, I expanded my analysis to the Russell 3000 Index, which better represents the broader market than the Nasdaq 100. Many top AI stocks are likely included in the Russell 3000, making it an excellent benchmark.

Again, using OmniFunds, I designed a Russell 3000 portfolio, focusing on highly liquid growth stocks. Similar to my Top-AI analysis, I implemented exit strategies to avoid stock drawdowns and prolonged market downturns.

Comparing the Russell 3000 chart with the top AI stock charts, I found further evidence of AI stocks influencing market performance. The resemblance between the two charts strongly suggests that AI stocks are indeed driving the market.



Historical Performance of the “RUSS3000
Three Stock Mixed Growth” Portfolio

*** Editor's Note: The “RUSS3000 Three Stock Mixed Growth” Portfolio is used in the “NAS100 & RUSS3000 Mixed Growth” OmniFund released October 15, 2024.*

Conclusion

The data is clear: AI stocks are currently driving the market. If this trend continues, we can expect AI stocks to play an even larger role in shaping future market movements.