

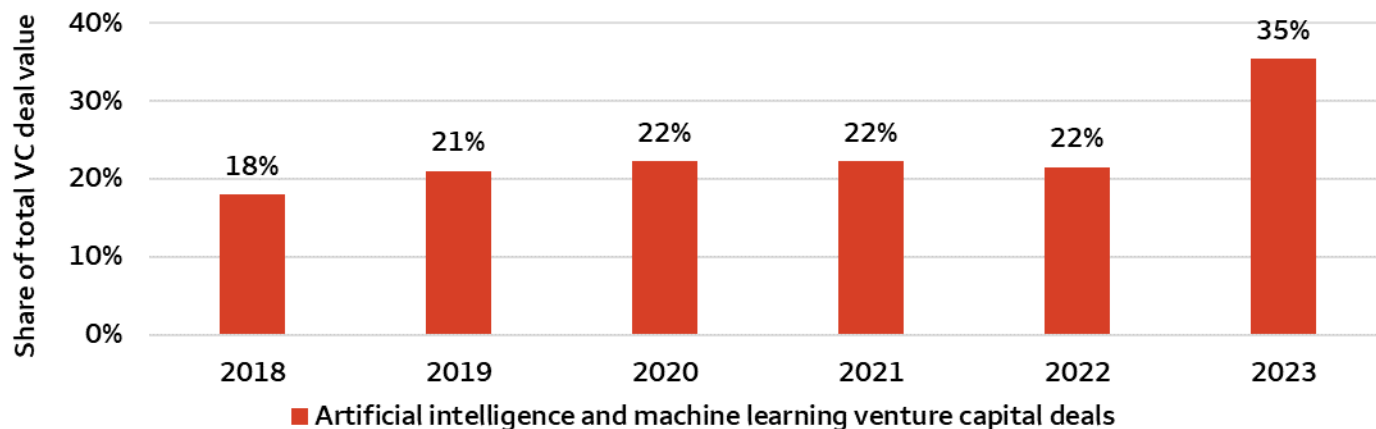


Chart of the Week

Weekly market analysis on key market indexes

April 2, 2024

Venture capital deepening artificial intelligence focus



Sources: Wells Fargo Investment Institute and Pitchbook. Data as of February 28, 2024. VC = venture capital. Alternative investments, such as hedge funds, private equity, private debt and private real estate funds are not appropriate for all investors and are only open to “accredited” or “qualified” investors within the meaning of U.S. securities laws.

Artificial intelligence and machine learning accounting for a growing share of deal volumes

Venture capital investment has historically been a crucial driver of innovation and emerging technology, providing funding and support to early stage, high-growth corporations not accessible through the public markets. This dynamic has played out in the realm of artificial intelligence (AI) and machine learning (ML) in recent years — between 2018 and 2022, venture capital¹ committed about 20% of its yearly deal value to AI and ML startups, as shown in the chart above. Notably, venture capital established this focus before widespread enthusiasm was seen in public markets.

The release of generative AI technologies like OpenAI’s ChatGPT helped validate their potential transformational impacts over the long run and further fueled investor interest in AI and ML startups. As a result, AI and ML saw an increase in their share of venture capital deals to 35% in 2023, totaling \$90 billion across over 7,000 deals. Venture capital investment also broadened its participation across many AI areas, including foundational code development, data center establishment, industry-specific applications, and other nascent opportunities.

What it may mean for investors

Our short-term view on venture capital investment remains neutral, but we think it should be considered a long-term investment option. Qualified, long-term investors who are interested in the transformative potential of emerging technology may want to consider investing in early stage startups offered by venture capital funds. We would note our preference for developing a diversified allocation in an effort to achieve a more favorable balance between return and risk over the long term.

Chao Ma, PhD, CFA, FRM; Global Portfolio and Investment Strategist

Excerpted from *Investment Strategy Report* (April 1)

Investment and Insurance Products: ➤ NOT FDIC Insured ➤ NO Bank Guarantee ➤ MAY Lose Value

1. Venture capital is a type of private equity investing that focuses on startups and early-stage companies with long-term, high-growth potential. Pitchbook sources information of venture capital funds globally.

Risk Considerations

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve.

Alternative investments, such as private equity, are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. They entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification, absence and/or delay of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds. Hedge fund, private equity, private debt and private real estate fund investing involves other material risks including capital loss and the loss of the entire amount invested. A fund's offering documents should be carefully reviewed prior to investing.

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