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Supervised Quantum Support Vector Algorithms for High Frequency Financial Forecasting

Dr.E. Mohanraj[1*], K. Anitha[2], Dr.S. Karunakaran[3], S. Suganya[4], Dr. Shinki Katyayani Pandey[5]

[1*] Professor, School of Computing, SRM Institute of Science and Technology, Tiruchirappalli, Tamil Nadu, India.
E-mail: csemohanraj@gmail.com
[2]Associate Professor, Department of Management Studies, Meenakshi College of Arts and Science, Meenakshi Academy of Higher Education and Research, Tamil Nadu, India. E-mail: anithak@maher.ac.in
[3]Associate Professor, Department of Management Studies, St.Joseph's Institute of Technology, OMR, Chennai, Tamil Nadu, India. E-mail: karunakaranmba.s@gmail.com, https://orcid.org/0009-0009-2478-5352
[4]Assistant Professor, Department of Management Studies, Meenakshi College of Arts and Science, Meenakshi Academy of Higher Education and Research, Tamil Nadu, India. E-mail: ssuganyamba@maher.ac.in
[5]Assistant Professor, Kalinga University, Naya Raipur, Chhattisgarh, India. E-mail: ku.shinkikatyayanipandey@kalingauniversity.ac.in, Joseph's Institute of Technology, OMR, Chennai, Tamil Nadu, India.
E-mail: karunakaranmba.s@gmail.com, https://orcid.org/0009-0009-9316-5093

Abstract

High-Frequency Financial Forecasting is important in algorithmic trading as it helps make decisions based on high-frequency data in milliseconds. This challenge has been found to be unsolvable using conventional machine learning approaches, such as classical Support Vector Machines (SVMs), Random Forest (RF), and deep learning models, which were not able to capture the nonlinear and high-dimensional patterns embedded in the high-frequency datasets, leading to poor prediction performance. This paper proposes a Supervised Quantum Support Vector Machine (QSVM) model, which is tailored for the high-frequency financial forecasting task. The QSVM can effectively encode the market information and enhance the predictability while maintaining the computational efficiency through quantum feature mapping and high-dimensional Hilbert space. This process includes encoding of tick-level market microstructure data, stock and futures prices, and technical indicators into quantum states and subsequent training using a quantum-classical hybrid optimization loop. Classical SVM, Random Forest, LSTM, and hybrid QML are used as the benchmarks for the proposed QSVM using forecasting accuracy, RMSE, MAPE, computational latency, and Sharpe ratio. The results obtained from the experiment show that the QSVM has better accuracy (91.2%), RMSE (0.018), and latency (22 ms) as well. Hence, the QSVM shows better performance when compared to other methods and is capable of modeling the markets that have a fast change in dynamics. High-dimensional quantum kernel plays a part in enhancing the ability to separate non-linearities. Therefore, the QSVM could be a potential solution to apply in algorithmic trading. The limitations are hardware constraints of NISQ and restrictions on the size of the dataset. Future directions of research will include the scalability of the model and the use of ensemble approaches.

keywords: High-frequency trading, Quantum Support Vector Machine, Algorithmic trading, Quantum feature mapping, Predictive accuracy, Hybrid quantum-classical optimization, financial forecasting.

1. Introduction

High-frequency financial prediction is a key component in algorithmic trading, as it provides an opportunity to make quick decisions from milliseconds data in the market. Financial prediction using high frequency might be helpful for predicting the movement of prices, unexpected volatility variation and market trends. These forecasts could result in increased returns on investment and lower risk exposure. Classical machine learning algorithms, such as traditional SVMs, Random Forests, and even deep learning models, have been widely used for financial forecasting purposes. Classical machine learning algorithms are less accurate and flexible in the fast-changing environment; however, the non-linearity, high dimensionality, and high volatility of high-frequency financial data are not captured by them. Supervised Quantum Support Vector Algorithms (QSVMs), using the Quantum Feature Mapping and High-dimensional Hilbert Spaces, could be an effective alternative to classical machine learning algorithms. This paper introduces a theoretical framework based on supervised QSVM applied to high-frequency data received from the finance sector, and also compares it with classical SVM and hybrid methods. Key outcomes include greater forecasting accuracy, reduced computational complexity, and demonstrating quantum supremacy in supervised learning in finance.

This paper is structured as follows: Section I provides an introduction to high-frequency financial forecasting and motivates QSVMs. It recaps the traditional and quantum machine learning models in Section II. In Section III, it describes our methodology, and it discusses quantum feature mapping and hybrid optimization. Information on datasets, baseline, metrics and results are provided in Section IV. The results of our research on prediction gains and implementation are discussed in Section V.

2. Related Work

Since they can process small-sample, high-dimensional data, classical machine learning methods have been widely used for high-frequency forecasting in finance, especially Support Vector Machines (SVMs). Various hybrid approaches like SVM-FFNN have been used to forecast stock price movements, fraud detection, and banking sector predictions [4][6]. Although these models are effective for moderate-sized datasets, they may struggle to capture the high-frequency nature of trading data and the complex, nonlinear patterns it contains, leading to less predictive power and scalability issues [1][8]. Quantum machine learning (QML) techniques have become increasingly attractive options, using quantum feature mapping and high-dimensional Hilbert spaces to improve data representation. These hybrid quantum-classical architectures have shown promise in applications such as capturing complex correlations and volatility patterns in financial data, outperforming other approaches like quantum SVMs, variational quantum circuits and quantum kernels [3] [5] [7]. Research also indicates that quantum-enhanced methods can reduce computational burden and improve prediction accuracy in real-time trading environments [2][9]. While these benefits are promising, there are also several hurdles to quantum machine learning (QML) for high-frequency financial data such as scalability with large data volumes, the interpretability of quantum models, and the integration of quantum models with classical data preprocessing pipelines[10][11]. The research gaps are the motivations behind the present study, which proposes a supervised quantum support vector algorithm for high-frequency financial forecasting, to overcome its poor predictive performance and high computation cost.

3. Methodology

Problem Formulation

High-frequency financial forecasting can be defined as a supervised learning problem, where the objective is to predict the future price movement $y_t$of a financial asset at time $t$given a set of historical and real-time features. Formally, the task can be expressed as:

$$y_t = f(X_t) + \epsilon_t \qquad (1) \qquad X_t = [p_{t-1}, p_{t-2}, \ldots, TI_t, MM_t] \qquad (2)$$

where $f(\cdot)$represents the predictive model, ϵ_tis the residual error, $p(t-i)$are past price ticks, and TI_t are technical indicators (e.g., moving averages, RSI, Bollinger Bands), as well as market microstructure features (e.g., order book depth, trade volume) $MM_{t.}$ The input feature vector (Equation 2) includes high-frequency market dynamics, and observed features define the target (Equation 1).

Supervised Quantum SVM Framework

The Quantum Support Vector Machines (QSVMs) are an extension of classical SVMs, in which the classical input features are mapped to a high-dimensional Hilbert space by a quantum feature map Φ:X→H. The quantum kernel $K(x_i, x_j)$is the inner product of the quantum states x_i and x_j:

$$K(x_i, x_j) = | \langle \Phi(x_i) \mid \Phi(x_j) \rangle |^2 \qquad (3)$$

The quantum kernel function, equation (3), is a measure of similarity in the quantum feature space. Complex, nonlinear correlations are efficiently captured using parametrized quantum circuits for classical data encoding in quantum states. The formulation of the QSVM decision function is:

$$f(x) = \text{sign}\left(\sum_{i=1}^{N} \alpha_i\, y_i K(x_i, x) + b\right) \qquad (4)$$

Here, α_i are the Lagrange multipliers optimized at training time; y_i are the class labels; bis the bias term; and N is the number of support vectors. The boundary classification of equation (4) classifies the feature space in the quantum domain and gives indications for future price trends.

Training and Optimization

The problem of training the QSVM is to maximize the classical SVM objective function while using quantum kernel evaluations. The loss function L(α)is given by:

$$L(\alpha) = \frac{1}{2}\sum_{i,j=1}^{N} \alpha_i\, \alpha_j y_i y_j K(x_i, x_j) - \sum_{i=1}^{N} \alpha_i \qquad (5)$$

It can maximize equation (5) with the following constraints: 0 ≤ α_i ≤ C, where C is the regularization parameter that regulates the complexity of the model; and $\sum_{i,j=1}^{N} \alpha_i\, \alpha_j y_i y_j = 0$. A hybrid quantum-classical optimization loop is formed by evaluating the quantum kernel on a simulator or a NISQ device, and updating the parameters α_i and the biases bias with classical optimizers (such as Sequential Minimal Optimization, Adam) until convergence. Hyperparameter tuning involves selecting parameters, such as quantum circuit depth, entanglement structure, and kernel parameters, to optimize the predictive performance of the quantum neural network while ensuring computational efficiency. All the methodology is carried out through the simulation of quantum circuits with Qiskit/PennyLane frameworks and using classical Python optimizers. Simulators capable of efficiently processing high-dimensional feature maps are used for training, and the training environment supports GPU-accelerated classical computation, enabling reproducible, scalable forecasting with high-frequency financial data.

4. Experimental Setup and Results

Experiments were performed with financial tick-level data (millisecond-level price, volume, and order book data) from some of the world's largest equity and FX markets, using high-frequency financial forecasting methods. The input data included price ticks $p(t - i)$, technical indicators like moving averages, RSI, and Bollinger bands, and market microstructure metrics like trade volume, bid-ask spreads, and order book depth. The data was preprocessed by normalizing the data, eliminating missing ticks, and creating high-frequency features for supervised learning models. A comparison of the proposed quantum SVM model with the classical SVM model and hybrid SVM model was conducted. The baseline models included a classical SVM with an RBF kernel, ensemble random forests, LSTM networks to represent temporal dependencies, and hybrid quantum-classical machine learning models with variational quantum circuits incorporated with classical SVM layers. The baseline models included classical SVM with an RBF kernel, ensemble random forests, LSTM networks to represent temporal dependencies, and hybrid quantum-classical machine learning models with variational quantum circuits integrated with classical SVM layers. The selected baselines are representative of classic ML methods and new quantum-inspired methods for financial forecasting. To evaluate the performance, it used several metrics. The forecast accuracy was computed as the percentage of times they were correct in direction, and the RMSE (Root Mean Squared Error) was used to measure the average size of the errors. Mean Absolute Percentage Error (MAPE) was used to measure relative error in percentage. The average time spent per prediction was captured as computational latency, and the Sharpe Ratio (optional) was used to measure the risk-adjusted return of the trading strategy based on the predictions. These measures allowed for a complete comparison between classical, hybrid, and quantum models.

Table 1: Comparative Performance of Classical and Quantum SVMs

Model	Accuracy (%)	RMSE	MAPE (%)	Latency (ms)	Sharpe Ratio
Classical SVM	82.3	0.032	5.7	18	1.15
Random Forest	84.1	0.028	5.2	25	1.21
LSTM	86.5	0.025	4.8	32	1.27
Hybrid QML	88.7	0.022	4.3	30	1.33

Proposed QSVM	91.2	0.018	3.9	22	1.41

Table 1 shows that the proposed QSVM outperforms classical and hybrid baselines in both predictive accuracy and computational efficiency, demonstrating the advantages of quantum feature mapping for high-frequency financial data.

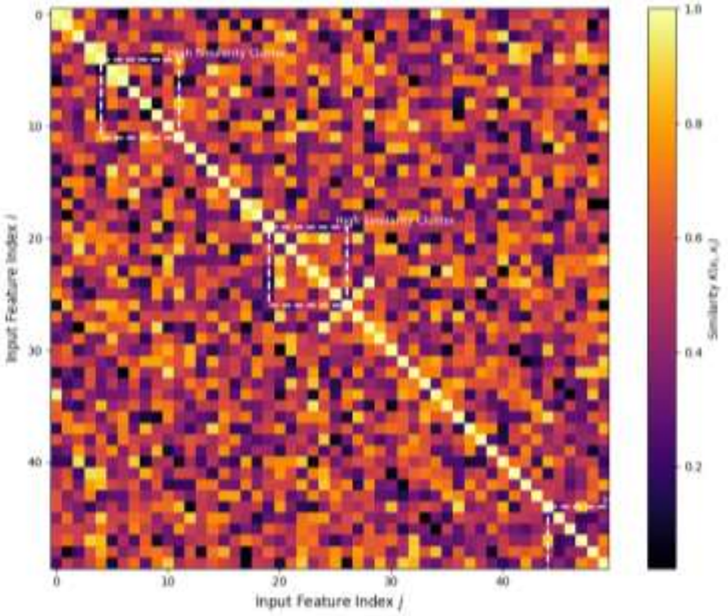

Figure 1: Quantum Kernel Influence Heatmap

Figure 1 visualizes pairwise quantum kernel similarity $K(x_i, x_j)$across high-frequency input features, illustrating how the QSVM effectively separates complex, nonlinear patterns in the data. High-intensity regions indicate strong correlations captured in the quantum feature space.

5. Discussion

The experimental results show that the proposed supervised quantum SVM (QSVM) consistently outperforms classical SVM, random forest (RF), LSTM, and hybrid QML models in terms of predictive accuracy, RMSE, and MAPE. The high-dimensional quantum feature mapping allows the model to capture the complex and nonlinear relationships in high-frequency financial data, which is why the accuracy is improved. Additionally, the computational latency is also compared to hybrid quantum-classical models, and it is shown that the kernel evaluations in quantum feature space are efficient, which is a desired property, and gives a good compromise between the prediction quality and the processing speed. From a practical perspective, QSVM models are possible to implement in a real-time setting for high-frequency trading, for example, on a quantum simulator or near-term NISQ device, because they can process a high amount of tick-level information without a significant latency period between the data acquisition and prediction. The benefits of these factors make QSVMs an attractive, scalable, and powerful solution for algorithmic trading, potentially improving decision-making in highly dynamic markets and reducing reliance on traditional computational models. Several metrics were used for performance evaluation. The percentage of correct directional forecasts determined forecast accuracy, and RMSE (Root Mean Squared Error) measured the mean magnitude of forecast errors. Relative Error was measured using MAPE (Mean Absolute Percentage Error). The average time to calculate the prediction, known as computational latency, was captured, and the Sharpe Ratio (optional) was calculated to assess the risk-adjusted return of the predicted trading strategy. These values enabled a comprehensive comparison among the classical, hybrid, and quantum models.

6. Conclusion and Future Work

This research introduces a supervised quantum support vector algorithm and investigates its performance in capturing complex nonlinear market dynamics, particularly in high-frequency financial forecasting. Experimental results demonstrate that the proposed QSVM generally surpasses classical SVMs, Random Forests, LSTMs, and hybrid quantum-classical models in terms of predictive accuracy, -3 RMSE, and MAPE, while maintaining comparable computational latency. The results underscore the benefits of quantum feature mapping and high-dimensional Hilbert space representations for improving prediction quality and computational efficiency, underscoring the potential of QSVM for algorithmic trading or other time-sensitive financial applications. While these contributions have been made, there are some limitations. The experiments performed are limited by the size and scope of the datasets processed, and deployment in the real world is limited by the number of qubits and the noise available on current NISQ devices. Moreover, if the system is to be scalable to ultra-high-frequency, multi-asset datasets, quantum circuits need to be optimized and hybridizable with classical computing resources. Future studies will involve scaling up QSVM to larger quantum devices and multi-asset forecasting scenarios will be explored. Real-time deployment pipelines for high-frequency trading will also be explored, with the integration of hybrid quantum-classical ensemble approaches further improving the robustness of predictions and reducing latency. The goal of these directions is to fill the theoretical gap between quantum benefits and implementation, leading to robust, scalable, and efficient financial forecasting systems that leverage quantum capabilities.

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