

Market Update

Global Asset Allocation Viewpoints

28 January 2025

DeepSeek Disruption

The large language model recently released by Chinese start-up company DeepSeek has led to a sell-off in many A.I. infrastructure stocks. We highlight the key takeaways for investors below.

DeepSeek news ripples across A.I. beneficiaries

News that DeepSeek, a Chinese start-up company, could deliver an A.I. model comparable to those of ChatGPT more efficiently and at a fraction of the cost, hit many companies closely aligned to the A.I. boom. And while names like NVIDIA, a leading chipmaker in the space, led markets lower, the sell-off extended across the A.I. ecosystem, including names in the energy, utilities and industrial sectors with exposure to data centers. This has challenged the current market thesis on sectors and companies poised to benefit from A.I. growth.

The promise of A.I. remains intact, if not strengthened

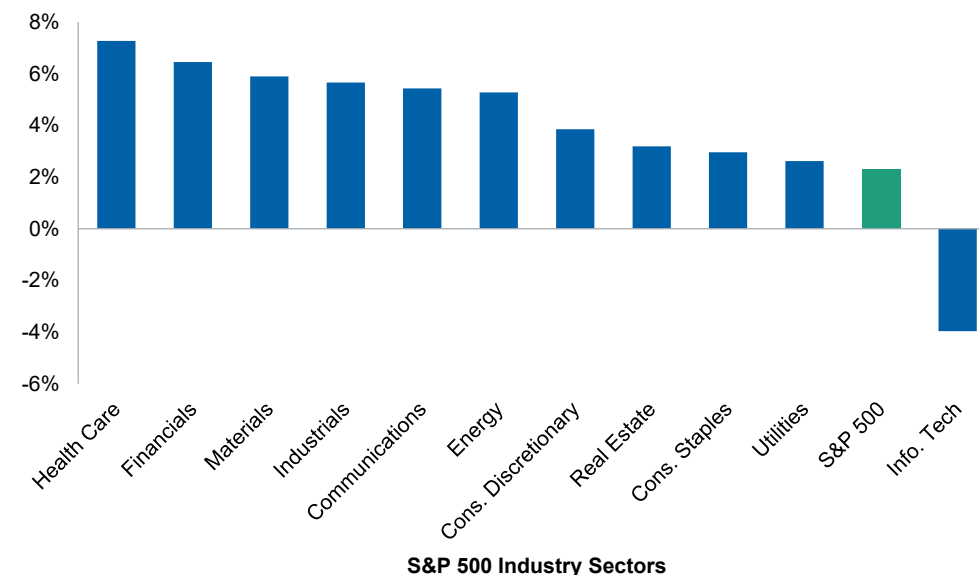
While the news is disruptive to key themes that have played out in the market around A.I., the notable takeaway, if accurate, is that the adoption of A.I. technology could come sooner, at lower costs and with less demand on energy and infrastructure. This not only reinforces, but strengthens, the potential of A.I. to significantly boost economic productivity across a range of sectors.

Winners and losers

Narrow leadership in the U.S., driven by the A.I. build and capital investment narrative, could face further headwinds as the market digests the news. A significant recalibration of spending could call into question the elevated valuations of some U.S. growth and technology sector stocks, helping support a broadening of market participation that we already expected. This also highlights the importance of understanding this rapidly evolving technology and its implications for tomorrow's winners and losers.

A.I. Uncertainty Driving Market Broadening

Year-to-Date as of 27 January 2025



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