

US exceptionalism has a flipside

By Tom Westbrook, Reuters, January 27, 2025

The exceptionalism that drove Wall Street to record highs on the back of America's peerless technology firms suddenly has it looking vulnerable and maybe not so peerless after all. Chinese startup DeepSeek's shoestring AI model wiped nearly \$600 billion from the value of chipmaking market darling Nvidia (NVDA.O) on Monday, as the assumptions behind a two-year rally in everything to do with AI suddenly looked fragile. Never has a single company lost so much value in a day.

DeepSeek says it was able to match U.S. AI performance with much less data and computing power. Cue a vicious unwind of all the positions in data centres, cable-makers, electricity sellers and all sorts of AI-ancillary businesses. For once, the absence of many such businesses or any colossal technology names from Europe's markets has a silver lining, allowing the broad markets in London and the continent to escape the worst of the thrashing.

German software giant SAP (SAPG.DE), which held up fairly well on Monday, beat earnings forecasts and expects accelerating cloud growth, it said early on Tuesday, though traders may scrutinise how much of that growth it expects AI to deliver. Chip manufacturing equipment maker ASML (ASML.AS), which fell 7% on Monday, may come in for further pressure as selling extended in Tokyo on Tuesday. French consumer confidence and full-year results at LVMH (LVMH.PA) and Christian Dior (DIOR.PA) are also on the calendar.

In the Asia day, Nasdaq futures steadied as did shares in Nvidia in after-hours trade, as well as equity futures for the FTSE and Europe. Markets in China, Taiwan and South Korea were shut for a holiday, while Hong Kong trade was shortened on the eve of Lunar New Year, leaving the attention concentrated on Japan. Shares in Nvidia supplier Advantest (6857.T) fell 11%, leaving the two-day drop near 20%. Furukawa Electric (5801.T), which makes optic fibres for data centres and tripled in value last year, has notched a similar drop this week.

Boeing (BA.N), General Motors (GM.N) and Starbucks report in the U.S. day. Later in the week, fragile markets face earnings at Meta (META.O), Microsoft (MSFT.O) and Tesla (TSLA.O) - all reporting on Wednesday. Analysts say DeepSeek's pricing blows away anything from the competition and may have some of these companies dialling down their AI spending plans. Policy meetings are also due later in the week in the U.S. and Europe. Monday's market rout had traders pricing in about an extra 9 basis points of Federal Reserve easing. A rate cut in Europe on Thursday is all but priced in.

AI optimism supercharged Wall Street in recent years

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— Magnificent 7 market capitalization



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DeepSeek Shows Silicon Valley's Huge Blindspot on AI

OpenAI and others have coasted along believing money was their moat. It's not.

By Parmy Olson, Bloomberg, January 27, 2025

Last year, the chief executive officer of a leading AI firm was asked at a private Silicon Valley dinner about how his company differentiated from others building "foundation models," the systems underpinning chatbots like ChatGPT. Did he have a moat? Yes, he answered, according to another CEO who was there. No one else had raised the billions of dollars that he had. That was his moat.

This shortsighted approach to doing business, that huge sums of money alone can keep competition at bay, is why giants like Meta Platforms Inc. are in panic mode about DeepSeek, a Chinese company that's built a formidable AI model for roughly the salary of a single AI executive in the US. Its breakthroughs now pose a shift in the balance of power and a reckoning for tech giants, who are suddenly no longer the guaranteed winners of AI.

On Monday the panic had spread to Wall Street, as Nasdaq 100 futures fell by more than 3% and put tech stocks on track for a \$1 trillion rout.

The reason is obvious. OpenAI recently raised the largest venture capital round in history (\$6.6 billion), while Mark Zuckerberg has said Meta will spend up to \$65 billion on AI projects this year. Tech giants have been spending heavily on AI, and now it looks like a giant waste.

DeepSeek's latest R1 model, released on Jan. 20, was built with just \$6 million in raw computing power and inferior AI chips, a fraction of the money and resources spent by firms like OpenAI and Alphabet Inc.'s Google. It's not only tied with ChatGPT in a closely watched ranking of AI model capabilities and can perform chain-of-thought reasoning, it's a hit with the public too, having topped app stores in the US, UK and Canada.¹It's open source and free for personal use, and also cheap for businesses.² Silicon Valley soothsayer Marc Andreessen has called it "AI's Sputnik moment."

Does this mean that all the billions poured into chips, talent and energy infrastructure in the US have been for nothing? Not exactly, but that investment is no longer enough on its own. DeepSeek has shown that the future winners of AI will need both raw computing power and the efficiency innovations that Chinese firms have been forced to develop given US chip curbs.

Monday's grim market also points to major blind spots that both Wall Street and tech firms have had on AI. First, DeepSeek's growing capabilities have been public for months; my Bloomberg Opinion colleague Catherine Thorbecke wrote about the company in June. But it's also been clear for more than a year that companies like OpenAI, Anthropic and Google had no moats around their foundation model businesses. Enterprises and consumers could swap one for the other with ease. That was already a risky state of play, one that a Google engineer warned about in an infamous memo almost two years ago. Even so, OpenAI has continued burning money with no obvious path to profit in sight.

Part of the problem was that Silicon Valley brologarchs focused far too much on making AI that topped the benchmark rankings in an ego-driven, my-model-is-bigger-than-yours-contest, and spent far less on turning those innovations into well-designed products that businesses and consumers could use. DeepSeek's success should serve as a wake-up call for firms like OpenAI to differentiate by focusing on what their customers need. And that still leaves plenty of room for them to stay ahead of competitors in China, where talent and hunger for AI supremacy abounds.

There's another reason for Silicon Valley to remain optimistic. Just a few months ago, the tech industry was worrying about a looming plateau for AI's capabilities, as so-called scaling laws hit a brick wall. But DeepSeek has shown that doesn't have to be the case, and that there are workarounds to those limits.

Most important is the shift that DeepSeek has sparked in the competitive landscape. In the two years since ChatGPT was launched, large tech firms have been the biggest financial beneficiaries of the generative AI boom. But making AI cheaper – and not just bigger or better – is far more impactful to the rest of the world, something that tech leaders in their cloistered bubbles have failed to appreciate. When small organizations can do big things with AI, that promises a healthier and more dynamic market.

The great irony is that OpenAI's Sam Altman and other AI leaders can finally relate to the workers their AI systems are displacing. Now they must try and do more with less, or see themselves displaced too.