



CIO will continue to monitor big tech's earnings announcements for signals on value creation trends across the value chain. (UBS)

The potential success of DeepSeek does not derail the AI growth story

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US tech shares look set to open lower on Monday amid investor concerns that Chinese artificial intelligence startup DeepSeek may disrupt the AI growth story that has powered the US stock rally over the past two years.

Founded by hedge fund manager Liang Wenfeng, DeepSeek earlier last week released its latest open-source AI model together with a paper explaining how it was built at a fraction of the training and inferencing costs compared to leading models developed by better resourced US companies. Chinese AI companies do have a history of developing models with strong performance at low cost: Yi-34B was launched in November 2023 with just USD 3mn of training costs. However, the market reaction suggests rising investor concerns about potential AI price wars, the Big 4's AI capex intensity, and how to navigate investments across the various layers like enabling versus application layers.

There are currently limited details on DeepSeek's training methodology, but at this stage we would make the following observations:

The potential success of DeepSeek does not derail the AI growth story. If DeepSeek's model were to prove to be the way to go for the broader AI industry, it is not necessarily a zero-sum game. The overall market can grow, with potentially lower costs accelerating AI adoption across industries and further improving productivity gains. One possible outcome is that the currently established large language models (LLMs) target the estimated 10-20% premium market of knowledge workers and the open-source approach of DeepSeek is adopted by other segments. Experience from the

mobile phone industry shows that the introduction of more cost-effective smartphones has led to wider adoption globally, but industry leaders have remained dominant in the high-end segment.

Big tech's AI investments are not limited to developing large language models. On Friday, even after the release of DeepSeek's model, Meta said it plans to spend as much as USD 65bn this year to expand its AI infrastructure, almost USD 10bn above market expectations. While more details remain to be seen, we believe this suggests capex commitments from leading US tech companies are intact. In addition, big tech's AI spending includes development of other models that involve the generation of audio and video, which appears to be out of scope for DeepSeek's current application. We believe sufficient capex is required to continue to produce innovative AI models as the technology advances.

Where value accrues in the AI chain will shift over time. Developing technology and competition in different parts of the value chain will mean that investors may need to adjust their focus between the enabling, intelligence, and application layers over time. Analogous to the development of the internet, we have long thought that value would eventually shift from those developing the infrastructure (enabling layer) toward those using it (application layer and beneficiaries). Nevertheless, we caution against jumping to conclusions at this stage. Lower costs may also even increase demand for the enabling layer as lower compute intensity is more than offset by wider adoption. Further clarity on Deepseek's impact, big tech's capex plans, and AI monetization should emerge in the fourth-quarter earnings season in the coming weeks.

AI is here to stay, and if anything, DeepSeek reinforces that. However, developments also show that investment approaches that are too concentrated or overly passive are risky, as value can quickly shift within the AI ecosystem. An active and diversified approach is a better way to gain exposure to AI, in our view. We will continue to monitor big tech's earnings announcements for signals on value creation trends across the value chain. We also continue to believe that wider use of AI may also further reinforce trends toward higher electricity consumption, which is supportive of companies exposed to the power and resources field.

Original report: [Brace for tech volatility amid DeepSeek concerns, 27 January 2025.](#)

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