

## Final Answer

The recent advancements by Chinese AI company DeepSeek have caused significant disruption in the equity markets, resulting in substantial financial losses for US technology companies, such as Nvidia, which suffered the largest single-day loss in history, equivalent to nearly \$600 billion in market capitalization. This development is attributed to the potential of training large language models (LLMs) more efficiently, utilizing fewer GPUs and at a lower cost. This innovation may enable a broader range of market participants to access these chips, thereby increasing model creation and potentially leading to the commoditization of LLMs, especially if open-source models, like DeepSeek, can deliver comparable performance without being confined by a closed-source paywall.

Sectors that include IT, Industrials, Utilities, and Energy, which encompass numerous AI enablers, were among the most negatively impacted as investors contemplated the implications of reduced training costs on companies involved in data center build-out. DeepSeek's full impact is yet to be mirrored in US stock prices, as stated by Don Townswick at Conning.

The emergence of DeepSeek's AI model has been identified as a "wake-up call" for the US tech industry by US President Joe Biden. Marina Zhang, an associate professor at the University of Technology Sydney, who specializes in China's high-tech industries, highlighted that DeepSeek's capacity to rival US models, despite limited access to advanced hardware, demonstrates the potential for software ingenuity and data efficiency to compensate for hardware constraints.

The AI hype has driven massive capital inflows into equities in the past 18 months, inflating valuations and propelling stock markets to new heights. This phenomenon culminated in a stock-market selloff, whose effects reverberated from Wall Street to Silicon Valley. A stock-market selloff refers to a significant decline in stock prices over a short period.

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The chart provided, sourced from J.P. Morgan Wealth Management, a business of JPMorgan Chase & Co., illustrates the price returns of different phases of AI-related sectors over time, specifically focusing on Broad AI (hyperscalers), Data Center and Electrical, Power, and AI Productivity Beneficiaries from January 2023 to January 2025. J.P. Morgan Securities LLC (JPMS), a registered broker-dealer and investment adviser, member FINRA and SIPC, offers investment products and services. Insurance products are made available through Chase Insurance Agency, Inc. It is essential to note that DeepSeek is not an application but a company that has developed an AI model, and its impact extends beyond merely spooking the markets, as it has also caused considerable financial losses for US technology companies.

## Citations

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