

Market Update - DeepSeek

January 2025

For Financial Advisers only

Overview of the market

On the 24th of January 2025, the NASDAQ fell ~3%, driven by a sell off within Technology stocks, following the news that Chinese artificial intelligence (AI) startup, DeepSeek, delivered large advances in its AI model with far less computing power than US rivals. This caused the shares of Nvidia, one of the biggest beneficiaries of spending on AI chips, to fall by an estimated 17% and lose an estimated \$600bn in market cap on that day. The impact also spilled over into other mega cap companies that have been considered the main beneficiaries of the AI fuelled rally of 2023 and 2024. The worst impacted mega cap stocks (Nvidia, Broadcom, Alphabet, Tesla and Microsoft) were down an average of -7.9% across all on the day, which have since recovered slightly.

Further information on DeepSeek

The sell-off was driven by Chinese artificial intelligence (AI) start up, DeepSeek, and the release of its latest AI models which are reported to have notably narrowed the performance gap with other leading U.S. AI models.

Key highlights from this release includes:

1. DeepSeek's AI Assistant is reported to perform on par with or better than industry-leading U.S. models.
2. The training cost for the model was reported to be under US\$6 million, a fraction of the hundreds of millions typically required for existing models.
3. DeepSeek's model does not rely on the highest-spec chips, allowing it to achieve these results despite restrictions on advanced U.S. semiconductor technology.
4. Operating costs for DeepSeek's AI model, DeepSeek-R1, are estimated to be 20 to 50 times lower than those of OpenAI's models, depending on the task.

This caused a repricing in shares of companies perceived to be the most direct beneficiaries of the coming wave of artificial intelligence. It also increased the uncertainty on the trajectory for the US AI leaders and whether the apparent advance in efficiency that DeepSeek has achieved might ultimately be a positive or a negative for the US mega cap stocks.

Implications on your portfolios

The Advance Diversified Funds are well diversified on a total portfolio level and the impact of this

market event has been broadly positive for the relative performance of these funds against the benchmark.

For the Advance Diversified Series, the International Equity allocations is implemented via the Advance International Shares Multi-Blend Fund. The fund is currently underweight US mega cap stocks relative to its benchmark, positively contributing to relative performance.

Mercer will continue to monitor the impact and implications of this market event within the Advanced Diversified Funds, noting that the portfolios are well diversified and we believe appropriately positioned to navigate this evolving landscape and seize emerging opportunities. The portfolios are invested with highly rated managers who are closely monitoring market developments, positioning their portfolios strategically with the aim of capturing excess returns over the medium to long term.

From a strategic asset allocation perspective, Mercer continues to maintain a long-term focus view on the portfolio. While the volatility in markets from the past week was significant, such fluctuations are not uncommon. Over the next decade, we can expect more periods of volatility. Mercer maintains the view that a robust long-term strategy and sufficient diversification in your portfolio will position the portfolio to withstand such market fluctuations over the long term.

What do you need to do?

You do not need to do anything.

We are here to help

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