

# 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 Mercer CoreSeries portfolios are well diversified on a total portfolio level and the relative global equities performance against the benchmark over the month (1 January 2025 - 29 January

2025) has been broadly positively.

For the Mercer CoreSeries portfolios, the global equities portfolio 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 CoreSeries portfolios, 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. 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**

Please contact your Mercer State Manager if you have any questions:

**Leah White**

National Sales Leader

**0473 637 840**

**Travis Grant**

QLD and WA

**0411 107 391**

**Eric Vassiliadis**

VIC, SA and TAS

**0434 428 055**

Alternatively, you can email [MercerAdviserSolutions@mercerc.com](mailto:MercerAdviserSolutions@mercerc.com)

### **Important notices**

This document is prepared and distributed by Mercer Investments (Australia) Limited ABN 66 008 612 397 AFSL 244385 ('MIAL'). MIAL is a wholly owned subsidiary of Mercer (Australia) Pty Ltd ABN 32 005 315 917 ('Mercer Australia'). MIAL and Mercer Australia collectively referred to here as 'Mercer'. References to Mercer shall be construed to include Mercer Australia and/or its associated companies. 'MERCER' is a registered trademark of Mercer Australia.

Mercer CoreSeries Portfolios are available through selected IDPS platforms. Please contact your adviser to find out what platforms this is available on. This document contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the product, asset classes or capital markets discussed.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

Investors should be aware that the value of an investment may rise and fall from time to time and that neither MIAL nor Mercer guarantees the investment performance, earnings or return of capital invested in any product. Past performance does not guarantee future results.

The information contained in this document is general in nature only and does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of the product issuer, their affiliates, products or strategies that Mercer may evaluate or recommend. It does not take into account your personal needs and circumstances. For Mercer's conflict of interest disclosures see [mercer.com/conflictsofinterest](https://mercer.com/conflictsofinterest).

Before deciding whether to make an additional investment, continue to hold or withdraw from an investment, you should refer to the Product Disclosure Statement and Target Market Determination provided by the product issuer. Consider seeking independent advice from a professional financial adviser. The Financial Services Guide for MIAL can be obtained via [mercer.com.au/mercerfunds](https://mercer.com.au/mercerfunds).

©Mercer 2025. All rights reserved

