

DeepSeek shock wave hits Wall Street

Nick Beams
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US tech companies, Wall Street and the political and military establishment have been delivered a major blow with the announcement by a small Chinese startup company, DeepSeek, that it is able to develop an advanced AI system without the most advanced chips produced in the US and at much less cost.

On January 20, DeepSeek introduced R1, a model for solving complex problems. It explained that it had developed a so-called large language model (LLM) which could learn and improve itself without human supervision using lower-level technology and at lower cost. The model was open source, meaning that the process by which it was developed can be followed.

According to the *Wall Street Journal*: “Specialists said DeepSeek’s technology still trails that of OpenAI and Google. But it is a close rival using fewer and less-advanced chips, and in some cases skipping steps that US developers consider essential.”

Marc Andreessen, a Silicon Valley venture capitalist who has been advising Trump, said on X on Friday: “DeepSeek R1 is one of the most amazing and impressive breakthroughs I’ve ever seen.”

He called its development “AI’s Sputnik moment,” likening it to the Soviet Union’s launch of the first satellite to circle the earth in 1957, an event which shocked the US.

A week after its model was released and assessed, a shock wave hit Wall Street in trading on Monday.

Shares in Nvidia, the leading US manufacturer of advanced AI chips, which has been at the centre of Wall Street’s high-tech boom, plunged by almost 17 percent. The company lost around \$600 billion in market value, more than double the previous record it held for a single-day fall and the biggest for any company in history.

Broadcom, another AI-based stock dropped by 17 percent. The S&P 500 closed 1.5 percent lower and the tech-heavy NASDAQ dropped 3 percent.

Other companies, not directly involved in AI but connected to its development, were also hit. Siemens Energy, which supplies electrical hardware for AI infrastructure, dropped 20 percent and Schneider Electrical which supplies power products used in data centres fell 9.5 percent.

The DeepSeek breakthrough, if it is sustained and some are calling it into question, threatens to upend the major investment plans of the leading US AI firms. Nvidia has said that it expects what the *Financial Times* (FT) calls the “data centre building frenzy” to continue to at least the end of the decade.

Luca Paolini, chief strategist at Picet Asset Management, told the FT the DeepSeek development showed “how vulnerable the AI trade still is, like every trade that is consensus and based on the assumption of an unassailable lead.”

The AI boom on the stock market began after the release of ChatGPT at the end of 2022. From the start of 2023 the NASDAQ index has risen by 92 percent, an increase in market capitalisation of \$14 trillion which has shovelled tens, if not hundreds, of billions into the portfolios of tech company founders and chief executives. In Monday’s trading the index lost market capitalisation of \$1 trillion. The arrival of DeepSeek has raised major concerns.

As an article on Bloomberg noted: “Suddenly, a rally predicated on US AI dominance turned into a question of whether the hundreds of billions in AI investments would ever lead to profits large enough to justify the rich valuations afforded to Megacap stocks. The group makes up 30 percent of the S&P 500 by weighting, more than at any time in history.”

Comments from a number of analysts and executives cited by Bloomberg, pointed to the development of a sea change in AI and the market boom it has promoted.

Max Gokhman, senior vice president at Franklin Templeton Investment Solutions, said: “Today’s

moves show just how precarious this market set up is. When valuations stretch to the sky it's easier for small trembles to make the entire market rumble.”

Vey-Sern Ling, managing director at the wealth management firm Union Bancaire Privee, said: “DeepSeek shows that it is possible to develop powerful AI models that cost less. It can potentially derail the investment case for the entire AI supply chain, which is driven by high spending from a small handful of hyperscalers.”

Paul Nolte, a senior market strategist at a wealth management firm, said he did not know whether this was a “Sputnik Moment” for stocks but it was a wake-up call that the US was “not the only game in town.”

“That requires a lot of investors to look at the AI companies in a different way: To put these very high valuations in stocks thinking they have cornered the market is a huge mistake and that is being re-rated.”

The DeepSeek development, has major political implications. Trump has declared that the US is the global leader in AI and its development and monopolisation is central to his Make America Great Again project aimed at ensuring American dominance over the global economy, and above all the suppression of China.

The attack on the technological development of China, which began in the first Trump administration and was considerably intensified under Biden, has centred on imposing export bans on high-end computer chips on the grounds of “national security.”

But even before the DeepSeek announcement there have been clear indications that not only has this policy been failing but it may have even pushed forward Chinese high-tech development.

Last year the Chinese phone and telecommunications company, Huawei, which was nearly put out of business by bans imposed under the first Trump administration, released a phone which more than adequately rivalled those of its competitors. It involved the development of a new chip which had been considered very difficult.

China is already the global leader in photovoltaics, crucial for solar panels, and is fast becoming the world leader in electric vehicles if it is not already.

Now the question will arise in the US political and military establishment as to whether this might occur in AI.

As Mitul Kotecha, head of emerging markets macro and foreign exchange strategy at Barclays told the FT: “It seems as if there is a bit of reality dawning that China has not been sitting idle, even as these tariffs and investment restrictions on tech companies have been put in place.”

Notwithstanding the impact of the tech bans, and they have been significant, Chinese companies have been able to draw on the capacities and ingenuity of the tens of thousands of graduates who come out of colleges and universities every year.

There is, as yet, no public response from the Pentagon or other sections of the military and intelligence establishment to the DeepSeek development. But no doubt it will be subject to careful study because AI is regarded as an existential issue for the maintenance of US dominance. And the conclusion will be drawn that if the measures imposed so far have not been effective, then others must be developed, including outright military methods.



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