



THE WHALE HAS ARRIVED: THE DEEPSEEK EFFECT

DeepSeek is the new keyword you need to know today if you invest or stand in the forefront of technology!

The Hangzhou, China-based AI start-up company, open sourced its V3 and R1 models trained on a merely \$5.6m budget, whose benchmark is competitive enough to challenge OpenAI's most advanced closed-source model o1, which is trained on hundreds of millions of dollars budget according to estimation¹. Apart from its openness, the affordability of the model also shocked the financial world: OpenAI o1 costs \$15 per million input tokens and \$60 per million output tokens, DeepSeek Reasoner, which is based on the R1 model, costs \$0.55 per million input and \$2.19 per million output tokens. Literally, it is the TEMU of LLMs for the western world!

A broad-based excitement and quick adoptions from developers and end consumers made DeepSeek the No.1 downloaded app in Apple's AppStore during the weekend, surpassing ChatGPT. The crowded trades from both active and passive flows to benefit from the AI arms race thanks to the US exceptionalism since 36 months² start to see some fissures: the AI semiconductor supply chain names across the world saw aggressive profit taking since this morning.

Panic effect aside, the existential and rational questions are now being asked in the pursuit of AGI (Artificial General Intelligence) or ASI (Artificial Super Intelligence), which is long overdue: Are we building too much overcapacity, especially with the latest Stargate initiatives? Even monetization is not an urgent matter for cash-rich players within Mag7, is model optimization as important as mindless scaling?

The new geopolitical reality also made DeepSeek's breakthrough not as simple as it looks. If the Chinese can release such a competitive model with a handful of local-breed inexperienced researchers, limited financial resources and huge constraints of GPUs, is American's AI supremacy still a guarantee? Will the US government impose more tech embargos, sanctions and tariffs?

Ironically, DeepSeek is the poster child of Chinese authorities' crack down on stock market speculation. HighFlyer, one of the largest hedge funds in China focused on developing and using AI trading algorithms since 2019, had to roll down its quant strategy in 2023 and 2024, due to derivative instruments crackdown. Sitting on idle computing power of Nvidia AI GPUs (equivalent to Alibaba, Baidu, Tencent and TikTok back in 2023³), the company had a renaissance to DeepSeek, offered strong LLM performance for a low price while remained profitable versus most loss-making internet giants in China. It probably means the innovative private sector in China is not only very investable but also vibrant and value creative.

For long, we think that in order to deliver the promising potential of generative AI, all three ingredients deserve equal attention: Computing power, Algorithm and Data. With the trillion dollar club now essentially an AI club with 10trn USD market cap being allocated to the AI arms race in the previous 12 months. Computing power is still a differentiation factor, but not as important as before, especially with the DeepSeek effect. The open source community needs a model like DeepSeek to remind the developers that algorithm and Data matter as much. A rational

¹ WSJ. <https://www.wsj.com/tech/ai/openai-gpt5-orion-delays-639e7693>

² ChatGPT is 3 years old now

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investment community also needs, an “aha moment”, just like the reasoning process from DeepSeek R1, to remind us what common sense is and why FOMO⁴ is dangerous.

Our EDR Big Data strategy should benefit from the crumbling consensus around the GenAI (crowded) trades, as we have been vocal for the past two years on the risks and rosy assumptions surrounding many stocks including Nvidia, which we have kept underweight. We believe that this cautious stance should enable the strategy to be resilient in a downturn as it has been the case in many occasions in the past.

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⁴ Fear Of Missing Out