

They seek it here, they seek it there

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Volatility in the technology space picked up markedly this week driven by news flow related to a Chinese Artificial Intelligence (AI) product called DeepSeek. We thought some context would be important to our readers, as large falls in share prices can lead to anxiety and knee jerk reactions which are bad for longer term investment returns.

No technological innovation, be it the internet in the 1990s or AI today, evolves in a straight line. Technological advancement is unpredictable and sometimes scary.

Most readers will be familiar with a product called ChatGPT. ChatGPT is an AI language model developed by OpenAI, a US company, and is designed to emulate the human cognitive learning process and generate human-like outputs based on the inputs it receives. DeepSeek is a similar AI language model developed, it would seem, at a fraction of the cost.

In an era when most large US technology companies are spending billions of shareholders dollars to monetise AI as quickly as possible, the technological advancement of DeepSeek has made many question the implementation costs of the US ChatGPT software and indeed the processors which are required to drive it, manufactured by another US company, Nvidia. For the moment, investors are considering whether DeepSeek can provide similar AI technology at significantly lower cost.

At junctures such as this it is vital to remember that technological advancement is unpredictable, and its evolution can have ramifications well beyond the industries people expect. Nvidia, the leading semiconductor producer in the world, saw its share price fall by nearly 20% in one day this week. This was driven by investors reassessing how in this new world fewer high-end chips, which sit at the core of the ChatGPT AI development, may actually be needed in a world where AI language models can be developed more simply, requiring less computing power (and with alternative chips).

Interestingly, another sector which was affected by the news was the US energy sector. Remember AI data models are currently all highly energy intensive to run.

In an era when energy conservation is paramount, the emergence of DeepSeek as a potential rival to ChatGPT promises to revolutionise how we manage and utilise energy. The initial understanding of DeepSeek is that it is designed to optimise data processing and storage, thus significantly reducing the energy consumption associated with rival AI computing methods. In summary, DeepSeek has the potential to reduce energy consumption markedly over the coming decades from what was forecast only weeks ago.

The share price of Constellation Energy and Vistra Corp, two US companies that had been bid up on their unique position in supplying power to companies such as Microsoft, off grid, both fell by over 30%. This highlights to us the risks associated with individual equities which do not have diversified income streams and are reliant on a narrow source of demand.

The commoditisation of AI will lead to increased investment as the technology is applied across industries and through that, greater efficiency and higher productivity is expected. Think of DeepSeek as the equivalent of a Chinese goods manufacturer exporting to the UK at a fraction of the cost of the current locally produced product.

President Trump will not want to hear this, but for the wider world a cheaper, effective and less energy-hungry AI capability should enable other economies to increase their productivity, reduce inflationary pressures and curtail energy usage over time. All three of these will, we believe, rebalance US economic dominance relative to the rest of the world over the coming decade.

History shows that when one country, sector or company become too dominant, market forces ultimately provide a counterbalance when you least expect them. The US will continue to lead but this week is a reminder to all investors that the US is not the only game in town, and we may just be at the beginning of a re-evaluation of the cheaper companies listed outside of the US.

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