

JANUARY 2025

DeepSeek R1 – what just happened?

A private Chinese company, DeepSeek, recently launched a new “large language model” (LLM) – DeepSeek R1 – that resulted in a significant negative reaction to stocks that have previously been seen as artificial intelligence (AI) winners. The reaction can largely be attributed to the view that DeepSeek R1 is able to deliver best of breed results, but at a much lower price point thanks to using fewer and cheaper semiconductors in the training process.

The huge attention that DeepSeek has garnered over recent days is of no surprise, given the current fever pitch level of interest in AI; however, in terms of identifying the ultimate winners of these recent developments, we are mindful of extrapolating from limited data points and claims. Generative AI remains in its infancy, both in terms of its development and deployment,

and it is quite normal for nascent technologies that are benefiting from huge investments to show continuous and impressive improvements.

Indeed, this ties in with a key part of our investment philosophy: at the early stages of new technology development, it is normal to see standards changing or performance improving persistently – we must thus be very selective about seeking exposure to a new technology during a period when it is more challenging to identify the long-term winners.

While we are certainly going to continue seeing many claims of having “the best” AI or LLM model currently available for the foreseeable future, the developments around DeepSeek R1 are notable in that they are directly relevant to questions surrounding the level of capital expenditure required in



Jeremy Gleeson
CIO Global Tech
Equity



Sunil George
Senior Portfolio
Manager



Brad Reynolds
Portfolio Manager



**Embracing
Disruption**

DEEPSEEK R1 – WHAT JUST HAPPENED?

the coming years. While these issues have led to the recent short-term volatility seen in some share prices, our view remains that AI is a long-term structural megatrend. It is also worth noting that this news flow has come at a time when many Asian markets are already closed or about to close for their Lunar New Year celebrations, and many Western companies are in their quiet period ahead of Q4 reports. These firms have thus been unable to provide their immediate opinion on the latest developments in the AI market.

Overall, the arrival of DeepSeek R1 reinforces our view that, when looking at the technology sector, we want to focus on companies where we can take a long-term view. It also emphasises the point that multiple tech ecosystems are emerging, and investors should thus maintain a portfolio of well-diversified opportunities.



The document is for use by qualified Institutional Investors (or Professional/Sophisticated/Qualified Investors as such term may apply in local jurisdictions).

This document or information contained or incorporated in this document have been prepared for informational purposes only without regard to the investment objectives, financial situation, or means of any particular person or entity. The details are not to be construed as a recommendation or an offer or invitation to trade any securities or collective investment schemes nor should any details form the basis of, or be relied upon in connection with, any contract or commitment on the part of any person to proceed with any transaction.

Any form of publication, duplication, extraction, transmission and passing on of the contents of this document is impermissible and unauthorised. No account has been taken of any person's investment objectives, financial situation or particular needs when preparing this content of this document. The content of this document does not constitute an offer to buy or sell, or a solicitation or incitement of offer to buy or sell, any particular security, strategy, investment product or services nor does this constitute investment advice or recommendation.

The views and opinions expressed in this document or information contained or incorporated in this document, which are subject to change without notice, are those of Allianz Global Investors at the time of publication. While we believe that the information is correct at the date of this material, no warranty of representation is given to this effect and no responsibility can be accepted by us to any intermediaries or end users for any action taken on the basis of this information. Some of the information contained herein including any expression of opinion or forecast has been obtained from or is based on sources believed by us to be reliable as at the date it is made, but is not guaranteed and we do not warrant nor do we accept liability as to adequacy, accuracy, reliability or completeness of such information. The information is given on the understanding that any person who acts upon it or otherwise changes his or her position in reliance thereon does so entirely at his or her own risk without liability on our part. There is no guarantee that any investment strategies and processes discussed herein will be effective under all market conditions and investors should evaluate their ability to invest for a long-term based on their individual risk profile especially during periods of downturn in the market.

Investment involves risks, in particular, risks associated with investment in emerging and less developed markets. Any past performance, prediction, projection or forecast is not indicative of future performance. Investors should not make any assumptions on the future on the basis of performance information in this document. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

Investing in fixed income instruments (if applicable) may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including short positions with respect to fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions.

January 2025