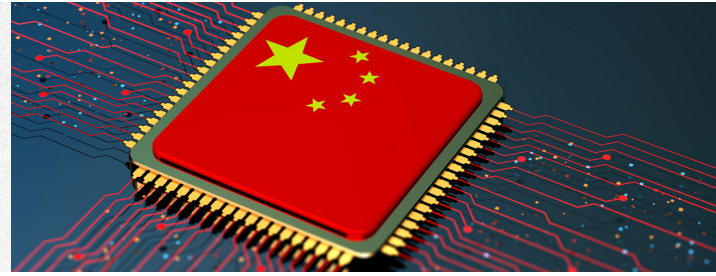


DeepSeek and Market Implications



At Oppenheimer, we are focused on gaining a deep understanding and creating actionable insights for you. This past week has been pivotal in the AI landscape, with the introduction of DeepSeek raising significant questions about the future of AI dominance, cost structures, and global competitiveness. As markets reacted sharply to the news, we've seen discussions around the sustainability of proprietary AI models, the acceleration of open-source innovation, and the shifting economics of AI infrastructure. Given the potential implications, we have assembled some of our best thinkers to provide their perspectives on what this means for AI adoption, technology leadership, and market positioning moving forward.

Key Takeaways

Disruptive Cost Advantage	DeepSeek, an open-source Chinese Large Language Model, is reportedly outperforming OpenAI's models at a fraction of the cost, running on lower-cost compute. This is expected to drive down AI inferencing costs, enabling broader adoption and new use cases.
Shift Toward Open-Source AI	Amazon's strategy of leveraging commoditized AI models and infrastructure appears validated, while Microsoft's proprietary approach (via OpenAI) may need to adjust. The rise of open-source AI could reshape the competitive landscape.
AI Expansion to New Markets	If DeepSeek delivers on its promise of higher efficiency and lower costs, AI adoption could accelerate beyond traditional tech giants. Niche and underserved sectors, as well as AI at the Edge (e.g., smartphones, autonomous systems), stand to benefit.
Market Overreaction & Investment Opportunity	The initial sell-off in major US tech firms may be overstated, presenting opportunities for selective investment. US firms with deep consumer and enterprise integrations may leverage DeepSeek's open architecture for innovation.
Geopolitical & Security Concerns	DeepSeek's open-source nature raises potential security risks, particularly regarding data privacy and surveillance. However, US technology's history of innovation and proven resilience suggests continued leadership despite new competition.
Stock Market Resilience & Sector Rotation	While the DeepSeek news occurred near technical resistance at S&P 6,100, broader market trends remain intact. While the Magnificent-7 has been in the crosshairs of recent selling, the index is upholding its Q4 breakout on both an absolute and relative basis, and the rotational aspect of how these large stocks have performed is a key positive, in our view. Within Technology, we see emerging opportunities in Software.

As always, please contact your Oppenheimer Financial Professional should you have any questions.

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What Our Thought Leaders Are Saying



Bill Bird, Head of Equity Research & Head of Thematic Research

We have talked about the impact of AI unfolding in three waves: infrastructure, software applications, and business gains. Assuming that DeepSeek can deliver as advertised (i.e., faster, more efficient, fewer chips) we believe falling costs will increase demand for AI tools, propelling AI into more applications and end markets. The less money that companies need to spend on AI “picks and shovels” the more profitable companies will be that buy and deploy them, including major cloud companies. Niche, smaller-scale, underserved sectors have the potential to generate positive ROI where previously they didn’t. We also see high potential for acceleration of AI at the Edge (think smartphones, autonomous systems, including mobility). Finally, expect funds to flow from the big and obvious (e.g. Nvidia) to those previously thought to be behind but potentially advantaged by AI at the Edge (e.g. Apple) and to smaller innovative competitors. There remain many unknowns, including how many chips DeepSeek actually trained on.



Tim Horan, Head of Cloud & Communications Equity Research

DeepSeek, an open-source Chinese Large Language Model is reportedly outperforming OpenAI’s industry-leading models at a fraction of the training and inferencing cost. It is also an open source and can run on lower-cost compute. We think this is very positive for the overall AI foodchain/ecosystem as DeepSeek is charging less than a 1/20th of what OpenAI is, which should drive down inferencing costs—much needed for new AI applications. Amazon has anticipated the AI is moving to commoditized models and hardware and has designed its whole cloud/AI platform around this. Microsoft has bet on more proprietary models (OpenAI) and higher-cost hardware, though it has been downshifting to Amazon’s strategy. We will likely see elasticity driven new use cases and more rapid adoption of AI.



Rick Schafer, Head of Semiconductors Equity Research

DeepSeek demonstrated significant cost improvements in AI inferencing. Major cloud companies could benefit from DeepSeek’s innovative approach to cost reductions. This could pave a quicker path to artificial general intelligence (AGI)—the end state of AI—thereby driving greater need for AI hardware. Time is more valuable than money to the major cloud companies developing AI. We are inclined to think the improvements showcased by DeepSeek will accelerate the AI roadmap and require continued spend on the fastest hardware, provided by companies like Nvidia, Broadcom, Marvell, and Monolithic Power Systems.



John Stoltzfus, Chief Investment Strategist - Oppenheimer Asset Management Inc.

The initial market reaction to DeepSeek is likely over stated, presenting an opportunity to “seek out babies thrown out with the bathwater” in a sector segment downdraft. The negative projection in terms of its impact on US tech firms in our view is likely to be offset by the open architecture design of DeepSeek. Such a structure likely offers a potential for well-funded and established US tech firms that are trusted and already deeply embedded in the lives of business and the consumer to enter the space with their own interpretation and spin. This also presents the potential for AI to grow faster as a result of lower implementation cost. The risk that the People’s Republic of China could use DeepSeek as a vehicle to track the whereabouts and interests of its stateside and other country users could be of even greater concern for its users than it is with TikTok as a result of the many applications AI can be applied to. We see the risk to US “exceptionalism” unlikely based on long proven US strengths of innovation and design in technology. Elevated valuations while a genuine concern have been repeatedly offset by the earnings growth of US technology’s leading companies which have exceeded expectations.



Ari Wald, Head of Technical Analysis

The S&P 500 was rebuffed at 6,100 resistance on the DeepSeek news. From a markets perspective, little has changed in our work: we continue to balance what we see as below-average market-top risk with longer-term performance studies that indicate the S&P 500 is likely to moderate this year. While the Magnificent-7 has been in the crosshairs of recent selling, the index is upholding its Q4 breakout on both an absolute and relative basis. The rotational aspect of how these large stocks have performed is a key positive, in our view. Looking ahead, bottom-up selection should prove increasingly important in year-3 of a maturing bull cycle, and from a portfolio perspective, we’re finding the most opportunities within Capital Goods (Industrials), Capital Markets (Financials), and Software (Technology).