

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**

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.**



**Investing involves risk.** The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted. This material has not been reviewed by any regulatory authorities. In mainland China, it is for Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations and is for information purpose only. This document does not constitute a public offer by virtue of Act Number 26.831 of the Argentine Republic and General Resolution No. 622/2013 of the NSC. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of this document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances does not arise from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced, except for the case of explicit permission by Allianz Global Investors. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Brazil, Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional /professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; Allianz Global Investors UK Limited, authorized and regulated by the Financial Conduct Authority; in HK, by Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; in Singapore, by Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; in Japan, by Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424], Member of Japan Investment Advisers Association, the Investment Trust Association, Japan and Type II Financial Instruments Firms Association; in Taiwan, by Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan; and in Indonesia, by PT. Allianz Global Investors Asset Management Indonesia licensed by Indonesia Financial Services Authority (OJK).