DeepSeek – What Does it Mean?

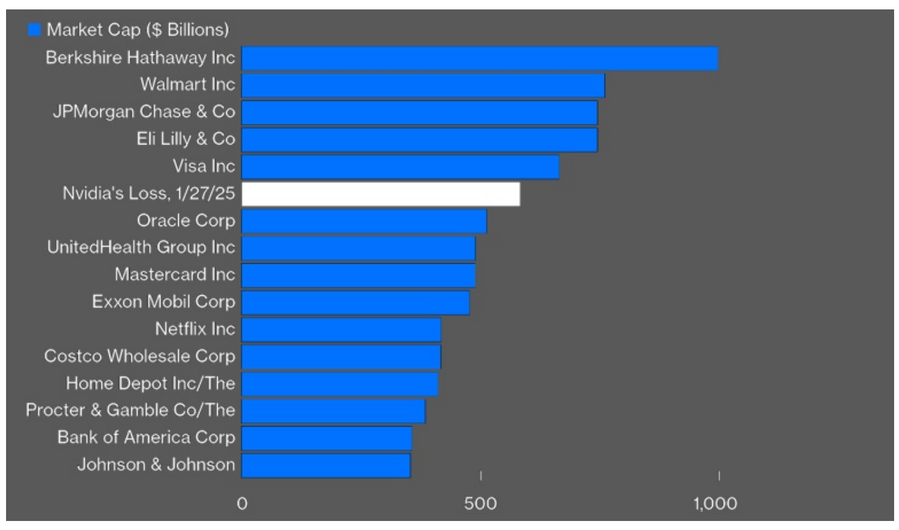
This week, global markets experienced a fairly significant shake-up with the release of DeepSeek, a Chinese-developed AI model. Not only did it send certain stock prices into a tailspin for a day, but it also put global technology management teams into "**crisis mode**" as they scrambled to recalibrate some of their models.

Chip developer Nvidia bore the brunt of the market reaction, losing $593 billion from it's $3 trillion-plus market valuation in a single day. **Chart 1** (below) gives sense of the sheer scale of this loss relative to the size of other US listed companies.

Nvidia has been a major winner in recent years, with incredible demand for its high end chips from tech giants such as Apple, Meta, Microsoft and OpenAI etc. The assumption has been that Nvidia's lead in AI chip design, combined with their enormous demand for AI development, would sustain the company's dominance, strong sales and incredibly high margins.

Chart 1: Wealth Destruction

In one day, Nvidia's value dropped by more than Oracle's entire market cap.



Source/s: Bloomberg (2025)

DeepSeek AI, which reportedly developed its model for around $6 million, is a stark contrast to the hundreds of millions typically spent on US AI models. This has sparked intense debate not only about Nvidia's competitive moat but also about the future of the AI industry. Key questions include:

1) Cost Efficiency - If AI models become more cost-efficient, will application providers benefit from reduced capital expenditure?

2) Commoditisation of AI - Is there a risk that Large Language Models (LLMs) could become commodities, reducing the value of proprietary AI development?

3) Value in the AI Ecosystem - Where will the greatest value accrue to within the AI ecosystem in the coming years? Hardware or various software applications on top of AI models?

Some Conclusions

DeepSeek's entry into the market not only escalates the technological arms race between the US and China but also forces a evaluation of where true innovation and value lie in AI.

I think it also highlights once again China's growing prowess in cutting-edge industries such as drones, electronic vehicles and robotics etc. While competition is healthy, drives innovation and even expansion, it remains unlikely that the US tech giants will be fully disrupted – at least for now.

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If you have any questions, Ian and our team would love to hear from you on global@seedinvestments.co.za.

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