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Hymans Robertson Investment Services (HRIS)

AI Tech Volatility

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There's been a bit of a wobble in US markets today led by AI-linked tech stocks. The S&P 500 opened around 2% lower while the tech-focused Nasdaq opened 3.5% down. The trigger was the release of a new AI model by Chinese firm DeepSeek which casts doubts over the US' tech supremacy over China.

For background, the AI theme has been one of the key drivers of markets over the last couple of years. This has been led by chipmaker Nvidia, which is up over 120% in the last year alone. However several large US tech firms building AI models such as Microsoft, Alphabet (Google) and Meta (Facebook) have also seen large returns. Nvidia opened down 13% at Monday's open.

The big tech firms have been spending billions of dollars on capital expenditure on things like data centres and computer chips to develop AI tools. What spooked the markets on Monday was that DeepSeek claimed it was able to build an AI model just as well as OpenAI's Chat GPT but at a fraction of the cost. DeepSeek also claimed it has been able to do this without the most advanced Nvidia chips, due to a US export ban. If true, this would bring into question the huge amounts of cash the big US firms have been spending. Microsoft, Meta and Apple all have earnings releases this week. These will now be watched with even greater scrutiny.

Expensive valuations on the US tech stocks would have contributed to the sharp reaction on Monday. It's still not clear what this means for the AI industry, but the uncertainty has hurt sentiment. Some have compared it to a 'Sputnik moment' when the Soviet's launch of a space satellite in the 1950s accelerated the space race with the US. Perhaps a bit exaggerated at this stage, but the gap in AI technology between the US and China might be smaller than originally thought. Others have compared the moment to Cisco during the dotcom bubble, when the company was providing a lot of the infrastructure needed for the internet revolution. The share price grew exponentially before crashing.

Other equity markets have yet to be caught up in the selloff, the FTSE 100 was flat by mid-afternoon on Monday while government bonds were up slightly, providing some protection to portfolios.

We've felt for a while that the proportion of US equity market returns, and level of concentration, coming from the AI sector increased the risk to the market. Because of this, we've preferred to take a more balanced regional approach to our equity portfolios and focused on non-market cap investment strategies such as multi-factor funds. This should have partially limited any short-term losses.

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