



CIO OFFICE MORNING MARKET WRAP

28 January 2025

Global equities were down a percent yesterday, but the global tech sector -4.7% saw a rout with China's DeepSeek rattling assumptions on AI development costs. DeepSeek shook up the US tech sector as capex spend on data centres and high-end GPU's by US corporates on the path to developing advanced large language models for use in generative AI comes into question, along with the higher valuations the mega cap tech stocks have been trading on, post (+246% for the MAG7) gains over the last two years. Earnings for Q4 start tomorrow for most of the MAG7 and will be closely watched with high expectations built in and guidance key. MAG7 earnings growth for 2025, estimated at 3X that of broader US markets.

The semi SOXX Index fell -7.5% yesterday with Nvidia's (-17%) market cap loss the most in history in one day for a single stock at \$590 bn. Other semis fell similarly i.e. Broadcom -17% and Micron -12%. US equities saw the Russell 2000 outperform, losing a percent compared to the S&P500 down -1.5% and the Nasdaq down -3%. Big tech was mixed with Apple and Amazon gaining and Alphabet and Microsoft down for the day but not on the scale of the semis. European equities ended the day flat, whilst China equities gained almost a percent led by tech stocks. India hasn't had a great start to the year with returns not helped by the weaker INR and equity markets lost a percent yesterday.

US Treasuries rallied with the 10-year yield at 4.55% and the 2 year at 4.2%. Gold up at \$2740, a risk off rally, but too early to comment on a trend. Brent at \$77.2/barrel retaining the level, though oil production set to rise with Pres Trump pushing for lower oil prices.

DeepSeek, a China AI startup has released an open source model R1 in mid-January that can mimic the way humans reason, similar to ChatGPT4 and built for \$5.6 mn, is ranked 3rd on AI apps, using fewer GPU's and energy, and quicker (in 2 years), bringing into question the revenue growth forecast for Nvidia, Broadcom and other high end semi manufacturers. It also puts into doubt the c.\$250 bn capex spend planned by the big tech companies in 2025 and the \$100bn StarGate US investment plan into AI infrastructure. It's too early to say how effective DeepSeek will be in gaining users (the most downloaded app on the Apple store in January, was unavailable to download except for China users yesterday). It is however a game changer for the darlings of the tech race and brings back shades of the dot.com era and some vulnerability. New technologies are going to emerge, there is value in the US tech behemoths but will be repriced, volatility ahead but that brings opportunities and diversification matters. We still need Nvidia high end GPU's and Microsoft, Anthropic, Google will be relooking at AI development timelines and costs. Will AI become a commodity? Too early to say.

The UAE has small gains YTD with banks the standout sector in performance. ADCB reported yesterday 4Q net income of AED2.57bn, +5% y/y and AED 9.4 bn for FY 2024 +15% y/y. A cash dividend of AED0.59 per share for FY24 (vs AED0.56 in FY23) proposed, a payout ratio of 46%, i.e. dividend yield 5.5%. Positioning in US and UAE banks have been one of our initial calls this year.

Markets this morning:

This morning China's markets are closed for the Lunar New Year holiday. Happy Chinese New Year in the Year of the Snake. Microsoft is in talks on acquiring the US arm of ByteDance Ltd.'s TikTok, President Trump said Monday night, without elaborating. The Hang Seng Index slight gains and Japan equities mixed with the Nikkei down half a percent and the Topix gaining half a percent. The JPY at 155.6 to the USD stronger post the rate hike from the BOJ. The USD continues to gain against major currencies with the US looking at universal tariffs of at least 2.5%.

Upcoming Key events/data:

Today we get ECB speakers and US Dec. Durable Goods Orders and US Jan. Conference Board Consumer Confidence. Earnings include LVMH, SAP, Christian Dior, Atlas, Copco.

Heavy week for US earnings 41% of S&P mkt cap reports with 4 Mag7 names reporting (Tesla, Microsoft, Meta, Apple) and Central Banks tomorrow we get Bank of Canada decision, a 25bp rate cut is expected, FOMC decision Wed afternoon, no rate change is expected, ECB decision Thurs morning, 25bp cut expected. US GDP for Q4, US PCE for Dec, & US Employment Cost Index for Q4 on Friday morning.

Have a great week ahead!

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