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DeepSeek, an AI Winter, and the Magnificent 7...Oh My!

Over the course of the last few weeks the AI narrative has taken several twists and turns. The most recent wrinkle came when a Chinese AI company debuted its DeepSeek offering. By itself the program sits alongside ChatGPT and others in its AI performance. What shook the markets (specifically semiconductor chip members and 2024 darlings NVIDIA, Broadcom, and Taiwan Semiconductor) was the claim that the DeepSeek program was developed at a small fraction of the cost of competing US models and in only two months. Furthermore, the Chinese asserted that they were able to accomplish this using far less sophisticated chips than Nvidia's Blackwell chip. This is Chinese data so stay tuned for what comes next...

Is the AI craze over? Is NVIDIA doomed to go the way of many prominent Internet names of the Tech Bubble era? We would offer a resounding no to the first and very unlikely on the second....

A highly respected long-short portfolio manager named Michael Grant introduced the concept of an AI Winter in late 2024. What's that? Michael presents the challenges he sees ahead for current "AI winners" and draws parallels to the early phases of the Internet as we move from the "picks and shovels" phase to the growing pains of practical and profitable uses. AI faces a similar hill to climb as it starts to move from a race to build data centers to how companies like Meta, Google, and Microsoft make money from the hundreds of billions of dollars invested in the infrastructure buildout. Furthermore, the early AI winners almost certainly won't be the only winners and likely won't be its biggest. After all Meta, Google, and NVIDIA weren't even public companies in 1999.

So what's our message regarding AI and the magnificent 7?

Many of you are probably familiar with what comes next. Patience. Discipline. Diversification. We will resist the temptation to chase "hot" stocks and trends. For 2+ years as the equity markets have soared, we have largely refused to chase as the markets have pushed higher. As seven names have ascended to well over 35% of the S&P 500's market capitalization and over 50% of the growth benchmark, we have resisted an all-in bet. We have these names in our portfolios, but in proportions far more representative of the upside we see for them at current valuations.

As the AI narrative evolves and broader markets chops across the balance of 2025, we believe our discipline will be shown valuable. Rather than being solely tethered to a handful of (admittedly great) tech companies, we believe our portfolios are home to many other great market leading and future market leading companies globally. If our outlook holds, an AI winter and DeepSeek should have a much less outsized impact on our portfolios.



The Magnificent 7



Finding anyone who is bullish on non-us equities is nearly impossible! Small Caps face headwinds ranging from high interest rates and regulation to the lack of M&A activity. Not all, however, are created equally. Health care stocks have struggled for a couple of years. While there are ways one could make the case for owning nothing but AI and technology companies, we believe there are many “what could go right” parts of the market that are attractively priced and underappreciated. These represent a prominent role in our portfolios. When others race to reposition or right-size into such areas, we stand to greatly benefit.

If patience were easy, everyone would have more of it! If discipline was instinctive it wouldn't need to be taught and refined through years of hard lessons. While headwinds around AI, the Magnificent 7, and DeepSeek will continue in the coming weeks, we think the markets reshaping beneath the surface may prove to be a far more interesting and investible opportunity.



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