Market Reactions to the DeepSeek Market Sell-Off

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Key Takeaways

- The release of DeepSeek's open-source AI chatbot caused a sharp sell-off in Nvidia (-17%) and Broadcom (-17.4%), shifting market sentiment in favor of AI-users like Apple (+3%) and Salesforce (+4%) over companies investing more heavily in AI infrastructure
- WisdomTree's DGRW, which has under-weight exposure to Nvidia and Broadcom, outperformed the S&P 500 year-to-date after Monday's market volatility, highlighting the benefits of diversification in quality and growth screens.
- We believe Value-focused strategies are gaining favor over growth in 2025, with forward price-to-earnings (P/E) analysis showcasing resilience in funds like WTV amid significant tech sector adjustments.

Let's review the market's reaction to the release of a high-performing large language model chatbot from the Chinese AI start-up DeepSeek. Its entry has suddenly readjusted growth expectations for Nvidia and the presumed dominance of the mega-cap Western tech companies leading in the AI arms race.

Figure 1 sorts WisdomTree strategies by Magnificent 7 exposure. Much of this market move was semiconductor-specific; growth indexes and mandates caught a sea of red, while many value concepts finished the day up.

But even among growth mandates there were notable winners. Our cloud computing Fund (WCLD) caught a bid, which you wouldn't expect in a session where so many big names were sold hard.

The market reacted positively to businesses that have chosen to build on top of others' AI models instead of bursting their own capital expenditure budgets. DeepSeek's chatbot (currently free and open-source) has possibly shown a cheaper path to incorporating AI. Apple (+3.18% on the day) and Salesforce (+3.96%) are two notable early winners.

Figure 1: Monday Session Performance, by Mag 7 Exposure

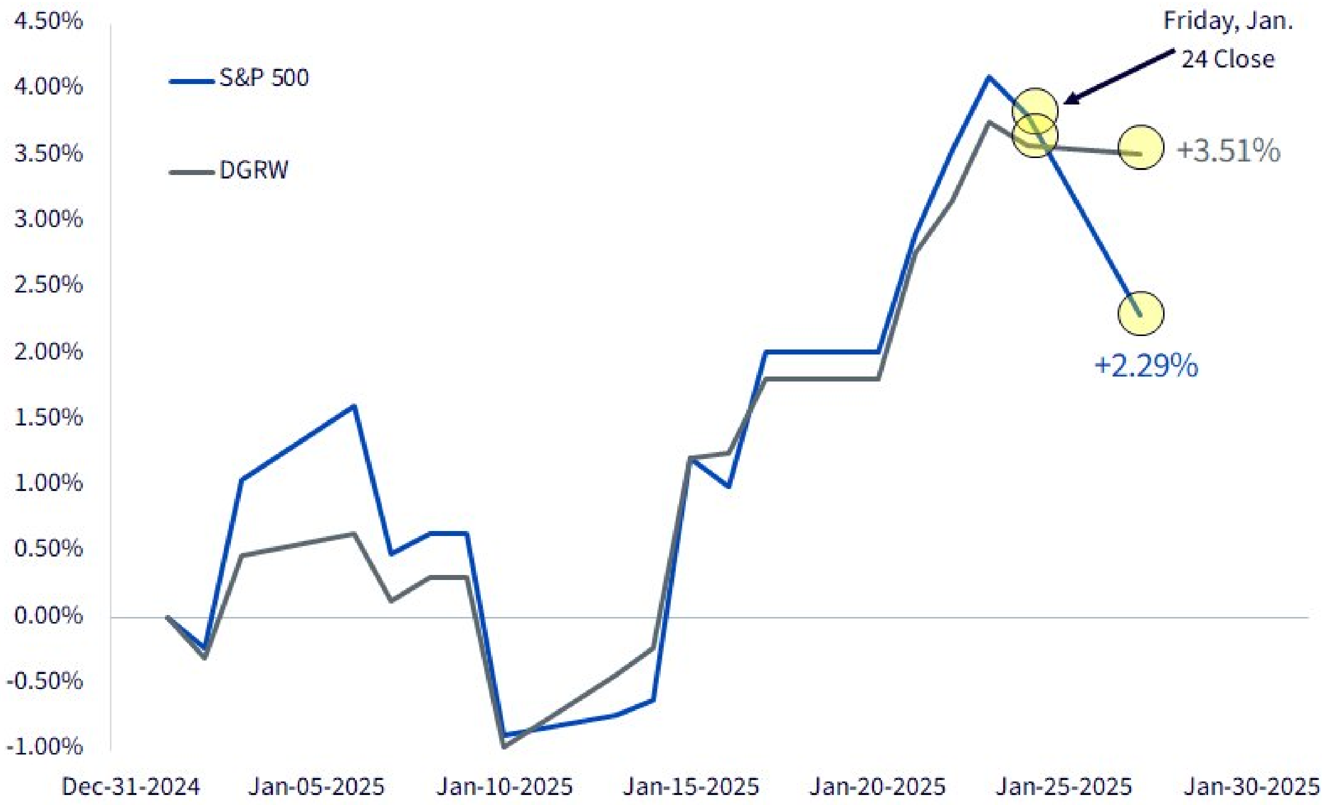
		Weights in Indexes/Funds														
Name	**1/27/25 Price Return**	**Russell 1000 Growth Index**	**QGRW**	**S&P 500 Growth Index**	**Nasdaq 100 Index**	**S&P 500 Index**	**EPS**	**DGRW**	**S&P 500 Value Index**	**DLN**	**WTV**	**USMF**	**DHS**	**AIVL**	**WCLD**	**Russell 1000 Value Index**
NVIDIA	-17.0%	11.0%	11.0%	12.9%	8.7%	6.8%	5.1%	3.8%	-	2.8%	-	-	-	-	-	-
Microsoft	-2.1%	10.9%	9.5%	6.3%	8.2%	6.4%	4.9%	8.3%	6.4%	4.0%	-	-	-	-	-	-
Apple	3.2%	10.5%	9.7%	5.7%	8.4%	6.5%	5.1%	4.6%	7.4%	3.4%	0.4%	-	-	-	-	-
Amazon com	0.2%	7.2%	5.8%	4.7%	6.2%	4.3%	6.0%	-	3.8%	-	-	-	-	-	-	-
Alphabet	-4.2%	7.1%	6.3%	7.9%	5.7%	4.1%	6.3%	3.5%	-	1.9%	-	-	-	-	-	-
Meta Platforms	1.9%	4.7%	4.5%	5.2%	3.5%	2.7%	3.9%	1.5%	-	1.1%	-	-	-	-	-	-
Tesla	-2.3%	3.7%	3.7%	4.2%	3.7%	2.2%	0.8%	-	-	-	-	-	-	-	-	-
Weight Total – Magnificent 7		**55.0%**	**50.5%**	**47.0%**	**44.3%**	**33.0%**	**32.1%**	**21.7%**	**17.6%**	**13.2%**	**0.4%**	**-**	**-**	**-**	**-**	**-**
Weight Total– Semiconductors		**17.2%**	**18.8%**	**18.0%**	**22.3%**	**11.8%**	**7.0%**	**6.8%**	**4.9%**	**4.8%**	**2.3%**	**0.5%**	**0.3%**	**2.1%**	**-**	**3.1%**
Price Return - 1/27/25		**-2.9%**	**-3.6%**	**-3.6%**	**-2.9%**	**-1.5%**	**-0.5%**	**-0.1%**	**1.0%**	**0.4%**	**0.3%**	**0.8%**	**1.9%**	**0.7%**	**0.6%**	**0.3%**

Sources: WisdomTree, FactSet, S&P, Russell. 1/27/25 session returns. Index and Fund weights as of 1/24/25. You cannot invest directly in an index. Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted.

Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For most recent month-end and standardized performance, click the respective ticker. Performance of less than one year is not annualized. WTV, DHS, AIVL, USMF, DLN, EPS, DGRW, QGRW.

For definitions of indexes in the chart, please visit our glossary.

Figure 2: Year-to-Date, DGRW vs. S&P 500



Sources: WisdomTree, FactSet, S&P, 12/31/24–1/27/25. You cannot invest directly in an index. Current performance may be lower or higher than quoted. **Performance is historical and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For most recent month-end and standardized performance, click the respective ticker. Performance of less than one year is not annualized. DGRW**

In Figure 3, we heat-mapped our broad U.S. equity Funds, sorting from the lowest forward price-to-earnings ratio, WisdomTree U.S. Value Fund (WTV), to the highest, WisdomTree U.S. Quality Growth (QGRW). Also sorted by color are the year-to-date returns, which are skewing toward value over growth.

Figure 3: Year-to-Date, Investing Style Returns

Fund/Index Name	WisdomTree US Value Fund	WisdomTree US High Dividend Fund	WisdomTree US AI Enhanced Value Fund	WisdomTree US Multifactor Fund	Russell 1000 Value Index	WisdomTree US LargeCap Dividend Fund	S&P 500 Value Index
Fund Ticker	WTV	DHS	AIVL	USMF	N/A	DLN	N/A
YTD Thru Friday, 1/24/2025 (%)	4.5%	2.0%	4.2%	2.8%	4.8%	3.4%	2.8%
Return, Monday Session	0.3%	1.9%	0.7%	0.7%	0.3%	0.4%	1.0%
YTD Thru 1/27/2025	4.8%	3.9%	4.9%	3.7%	5.1%	3.8%	3.8%
Investing Style	Value	Value	Value	Value	Value	Value	Value
Est. P/E Ratio (12/31/2024)	13.1	13.4	16.3	17.1	17.2	18.1	18.5

Deep Value → "Regular Value"

Fund/Index Name	WisdomTree US LargeCap Fund	WisdomTree US Quality Dividend Growth Fund	S&P 500	Nasdaq 100 Index	S&P 500 Growth Index	Russell 1000 Growth Index	WisdomTree US Quality Growth Fund
Fund Ticker	EPS	DGRW	N/A	N/A	N/A	N/A	QGRW
YTD Thru Friday, 1/24/2025 (%)	4.0%	3.6%	3.8%	3.7%	4.7%	3.5%	3.8%
Return, Monday Session	-0.5%	-0.1%	-1.5%	-3.0%	-3.7%	-2.9%	-3.6%
YTD Thru 1/27/2025	3.5%	3.5%	2.3%	0.6%	0.9%	0.5%	0.0%
Investing Style	Blend	Blend	Blend	Growth	Growth	Growth	Growth
Est. P/E Ratio (12/31/2024)	19.6	20.5	22.7	28.0	28.9	30.7	32.5

Blend → Growth

Sources: WisdomTree, FactSet, S&P, as of 1/27/25. You cannot invest directly in an index. Current performance may be lower or higher than quoted. **Performance is historical and does not guarantee future results.**

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