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Weekend Alpha

# Stock Declines Accelerate After Chinese Startup Releases New AI Model

Thomas Lee, CFA AC

HEAD OF RESEARCH

- On Thursday, the S&P 500 is down slightly for the week (-0.32%) and up modestly month to date (+0.5%). But as we highlighted earlier this week, this masks far greater dislocations taking place in AI, bottleneck groups, Korea and thematic areas of the market.
- The best place to start is the Korean stock market and stocks like SK Hynix. The Kospi is down 20% month to date. And this decline has triggered a substantial number of margin calls. According to Goldman Sachs, this is 1.2 million brokerage accounts. But this is a staggering share.
- This is the risk of leverage and something to be mindful of is that U.S. margin debt gained +54% YoY. And since 1960, any rise over 50% YoY has been followed by a period of consolidation in the broader market as firepower needs to be replenished.

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Mark L. Newton, CMT [AC]

HEAD OF TECHNICAL STRATEGY

- The equal-weighted S&P 500 closed at a brand-new all-time high Thursday despite another down day for Technology, a clear sign the market is absorbing Tech's weakness through rotation.
- Technology's decline has broadened beyond Semiconductors and Memory on Thursday, and its relative downtrend versus the equal-weighted market has grown more pronounced, so it's arguably right to hold off on being too aggressive in Tech until it can stabilize.
- $QQQ and South Korea's $EWY are both nearing meaningful support after their recent declines, and $QQQ looks to be within a few trading days of an important low. This very well could potentially prove to be a bigger buy signal for "Mag-7" and parts of Biotechnology than the Memory space, though that looks to be getting close to support.

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Sean Farrell AC

HEAD OF DIGITAL ASSET STRATEGY

- While the broader rotation out of AI CapEx receivers has been underway for several weeks, Thursday’s move was likely catalyzed by Chinese AI startup Moonshot releasing its new open-weight model, Kimi K3. The market’s concern is not simply that another capable model has emerged, but rather that it appears to have achieved those results with meaningfully greater efficiency.
- Moonshot claims K3 delivers roughly a 2.5x improvement in scaling efficiency versus its prior generation.
- If models require less compute to achieve comparable intelligence, investors naturally begin questioning how much incremental spending hyperscalers ultimately need to make on GPUs, networking, power infrastructure, and data centers. That concern was reflected across the entire AI CapEx receiver complex on Thursday.

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L. Thomas Block

WASHINGTON POLICY STRATEGIST

- The president spoke to the nation last night about his concerns surrounding election security, but on Capitol Hill, the focus has been on the need to pass a federal budget before the Oct. 1 deadline.
- While the war in Iran continued this week with tensions growing over the Strait of Hormuz, the House was focused on budget issues and the spending deadline.
- The center of the administration's budget requests is to deal with the urgent needs of the Defense Department. The House is working on a strategy to ensure that there is not a government shutdown weeks before the election.

Read the Latest US Policy

# STOCK DECLINES ACCELERATE AFTER CHINESE STARTUP RELEASES NEW AI MODEL

**Hardika Singh**

ECONOMIC STRATEGIST, MARKET INTELLIGENCE

## Key Takeaways

- The S&P 500 tumbled 1.6% to 7,457.69 points this week, while the Nasdaq Composite slipped to 25,520.24, down 2.9%. Bitcoin was at USD 63,984.16 on Friday afternoon.
- Fundstrat Head of Research Tom Lee said that the long-term fundamentals for AI still remain intact, despite the recent sharp declines.
- Head of Technical Strategy Mark Newton recommends waiting before adding to tech stocks until some calm reappears.

*“You miss 100 percent of the shots you never take.” — Wayne Gretzky*

Good evening,

The bloodbath in tech stocks showed no signs of letting up any time soon.

The S&P 500 lost 1.6% to 7,457.69 points, with seven out of the 11 sectors finishing in the red this week. Energy stocks were the best performers, up nearly 5%, benefiting from a renewal in fighting, while technology stocks were the worst performers, down 3.8%.

Shares of chipmakers have been hurt in recent weeks because of concerns about overbuilding of AI infrastructure. Micron $MU, Sandisk $SNDK, and Intel $INTC stocks have all declined about 30% since the $DRAM exchange-traded fund peaked on June 22.

On Thursday, sentiment took a further hit when Chinese AI startup Moonshot released AI model Kimi K3. According to early reports, Kimi K3 outperforms Anthropic's Opus 4.8 and OpenAI's GPT 5.5, meaning that the U.S.'s edge in AI is under threat.

Korean ETFs, in particular, could continue to come under pressure from this news because the market is so concentrated in two memory and storage names: SK Hynix and Samsung Electronics. Explosive levels of leverage in the Korean market have already started unraveling the bullishness.

"Margin calls happen, and it leads to trapped longs," Fundstrat Head of Research Tom Lee said in his Macro Minute video. "According to Goldman Sachs, 1.2 million leveraged retail accounts got a margin call — that's one in 30 adults. That's a huge number. By comparison, in the 2008 crisis, only 1 to 5% of U.S. retail accounts actually had a margin call, so this is equal to the GFC for Korea."

Lee is worried about a similar situation playing out in the U.S., especially because margin debt is up 54% from a year ago.

But at the end of the day, fundamentals remain intact, which is the most important takeaway. Lee pointed out a quote from ThirdPoint hedge fund founder Dan Loeb, where he said he made some of the best days riding out these technicals and adding to dislocation. Lee is in that same camp.

"The AI trade's intact, so I'd stay on target," he said.

Head of Technical Strategy Mark Newton likes that the equal-weight S&P 500 closed at a fresh all-time high on Thursday, which confirms the market is absorbing technology's weakness.

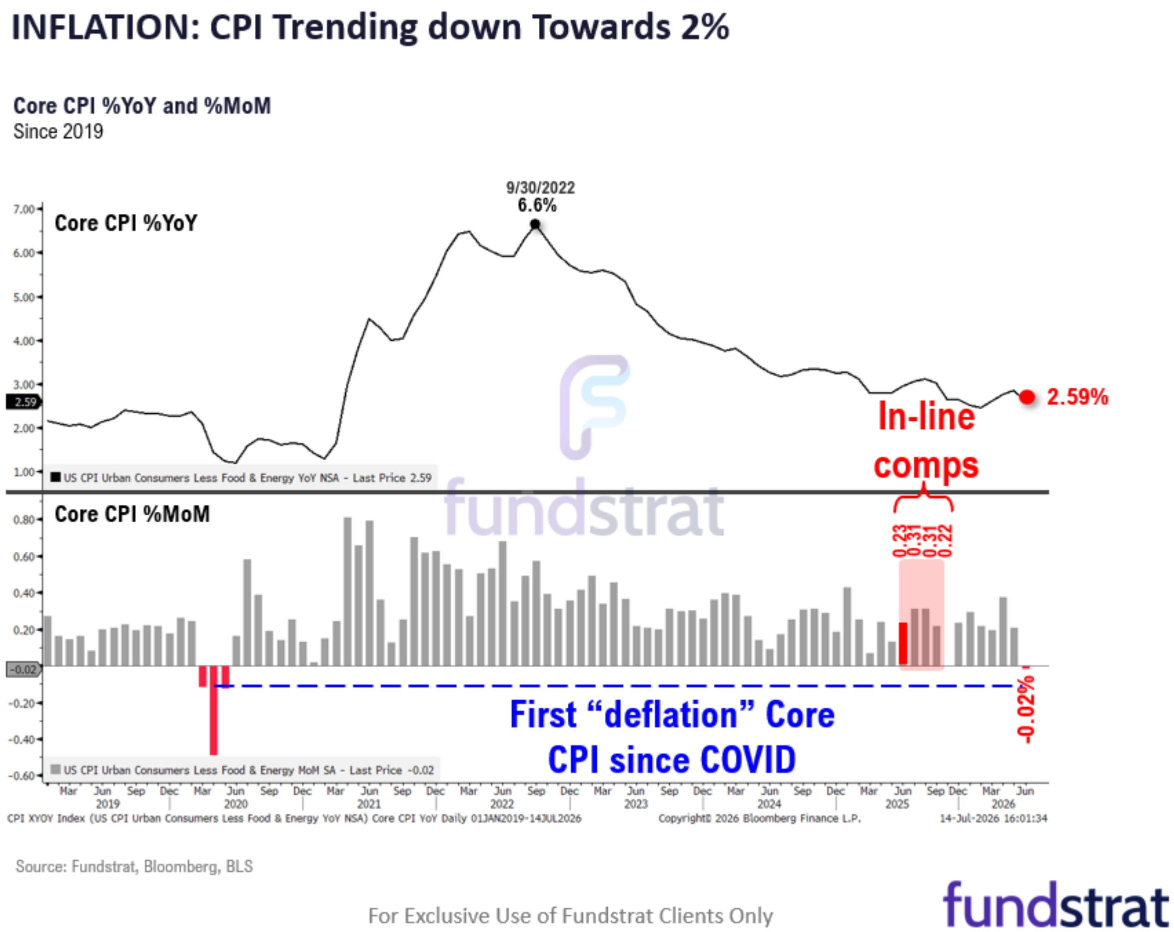
“That degree of participation despite the carnage in parts of technology means this remains a rotation, and dips toward the April trendline should continue to be buyable,” Newton said.

For the near term, Newton recommends holding off on being too aggressive in tech until it stabilizes. He estimates that once tech’s pullback runs its course, a broad-based push back to new highs should get underway.

Lee pointed to the good news coming on the inflation front. On Tuesday, the June consumer-price index showed that prices rose 3.5% from a year ago, but came in lower than expectations of a 3.8% increase. On a month-over-month basis, core CPI showed deflation for the first time since 2020. Shelter inflation, which is 45% of the basket and a major source of inflation recently, fell back to a four-year average.

“Inflation is falling like a rock, and I think the inflation story is getting weaker,” Lee said.

Our Chart of the Week has more details:




Still, Lee pointed out that Newton's technical research indicates that yields could rise. According to Lee, there are four other non-technical reasons behind it: (1) Large U.S. deficit = debt issuance (2) AI infrastructure build financed via bond markets (3) Inflation could resurface (4) Global yields are rising.

But the number to watch out for is 5%, Lee said, because that's when price-to-earnings multiples start to get pressured.

### Elsewhere

**Uber agreed to acquire German food-delivery giant** Delivery Hero in a $14.8 billion deal that will nearly double its global delivery footprint. The acquisition, priced at €41.50 per share in cash, expands Uber's reach into 99 markets across Europe, the Middle East, Asia, Latin America, and Africa, incorporating major regional brands like Talabat and Foodpanda. To navigate potential regulatory hurdles, Delivery Hero will pre-emptively divest 14 overlapping markets to SSW Partners for approximately $1.6 billion.

**SpaceX wasn’t able to launch its Starship rocket** on a test flight Thursday, after some of the engines failed to ignite as planned. The automatic scrub, which halted the rocket right as the ignition sequence began, represents a minor setback for the program's debut flight since SpaceX recently became a publicly traded company on the Nasdaq. Its shares have dipped slightly below the initial $135 initial public offering in recent days. Elon Musk, SpaceX’s chief executive, said on X that “next launch attempt hopefully in a few days.”

**The Oxford Vaccine Group launched the** world's first Phase I clinical trial for a vaccine targeting the Bundibugyo ebolavirus strain in response to a major outbreak in the Democratic Republic of the Congo and Uganda. The ChAdOx1 BDBV vaccine candidate uses the same viral vector technology as the Oxford-AstraZeneca Covid-19 shot. The first-in-human study will assess safety and immune response in 50 healthy adults. Backed by an $8.6 million program from the Coalition for Epidemic Preparedness Innovations (CEPI), the Serum Institute of India has already manufactured and stockpiled roughly 620,000 doses for potential deployment.

**New York Gov. Kathy Hochul signed an executive order** imposing the nation's first statewide moratorium on data centers. The action pauses permitting for new large hyperscaler data centers for up to one year while the state establishes environmental and regulatory rules to mitigate their intense energy and environmental impacts.

**And finally:** Prediction market platform Kalshi launched a professional-grade trading terminal called Kalshi Pro, aimed toward those who treat world events like Wall Street treats equities. The new desktop workstation lets users track roughly 2,000 markets simultaneously, allowing users to efficiently risk real capital on everything from central bank interest rates to the price of a Taco Bell Crunchwrap Supreme.

## Important Events

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| **U.S. Leading Index**<br>Est.: -0.1% Prev.: 0.1% | Mon, Jul 20 10:00 AM ET |
| **Initial jobless claims**<br>Est.: 214k Prev.: 208k | Thu, Jul 23 8:30 AM ET |
| **New home Sales**<br>Est.: 615k Prev.: 580k | Fri, Jul 24 10:00 AM ET |

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