Cycles of power: Geopolitical strAIn

as the yeAr of the fIre horse unfolds, and us markets trAIl...

globAl Investors must ask: have we been bAckIng the wrong fire horse?

A New AI-ge is dawning

GLOBAL INVESTORS ARE WITNESSING...

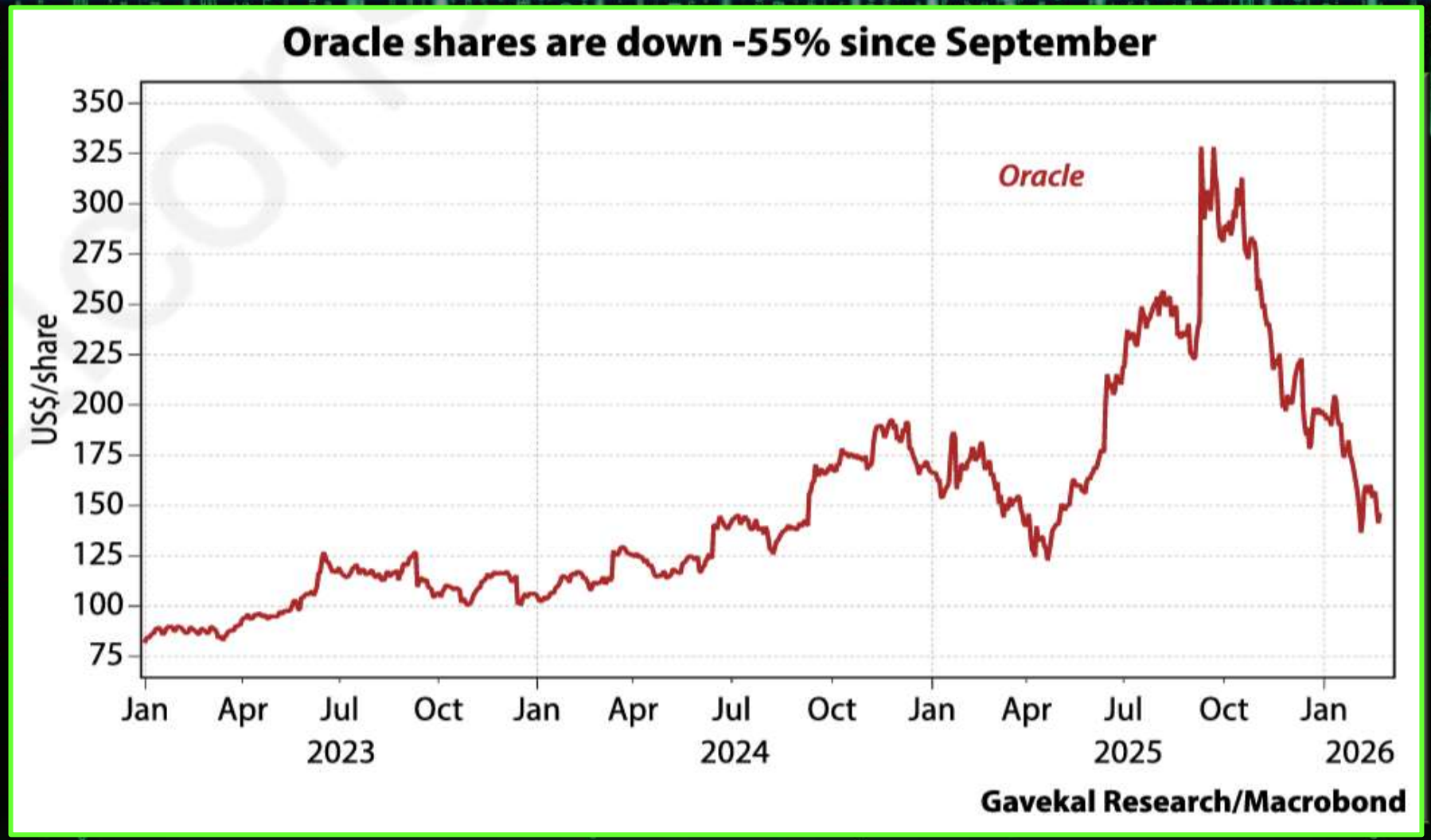
...an arm-wrestle (***not*** just in AI) between China and the US...

...heightening risks in debt, equity and currency markets...

...as well as the need to be promote new investment priorities...

All this is hAppenIng as the US is getting economically weaker

A quick recap: Where do US markets stand?



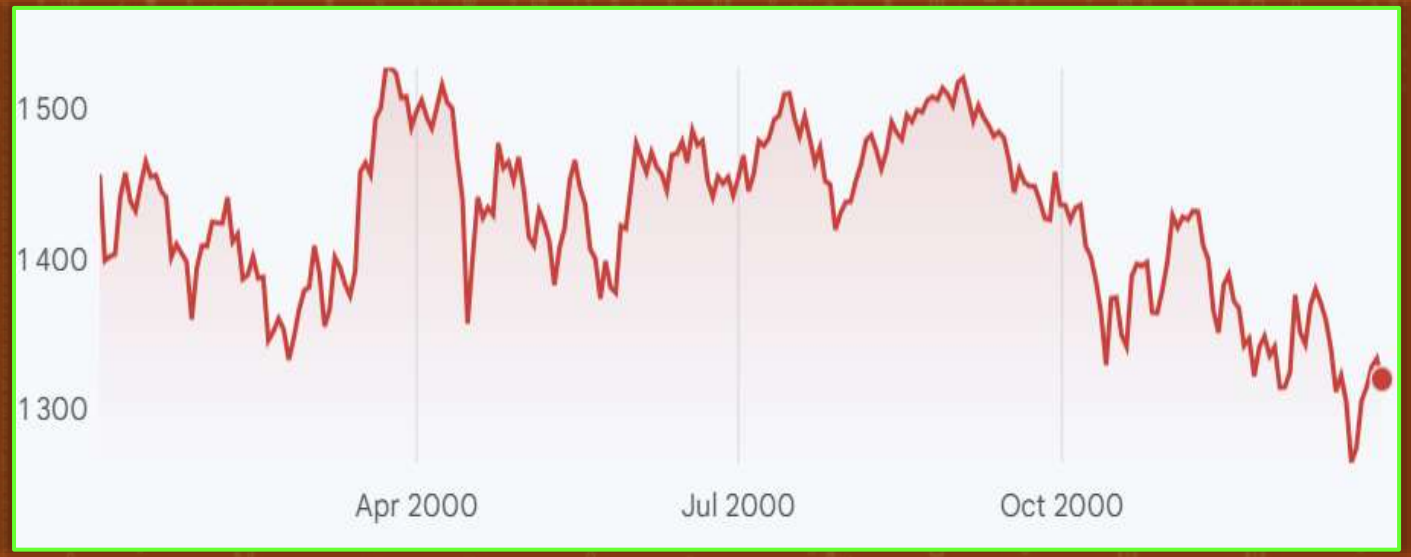
By the pricking of my thumbs, something wicked this way comes

Source: Gavekal

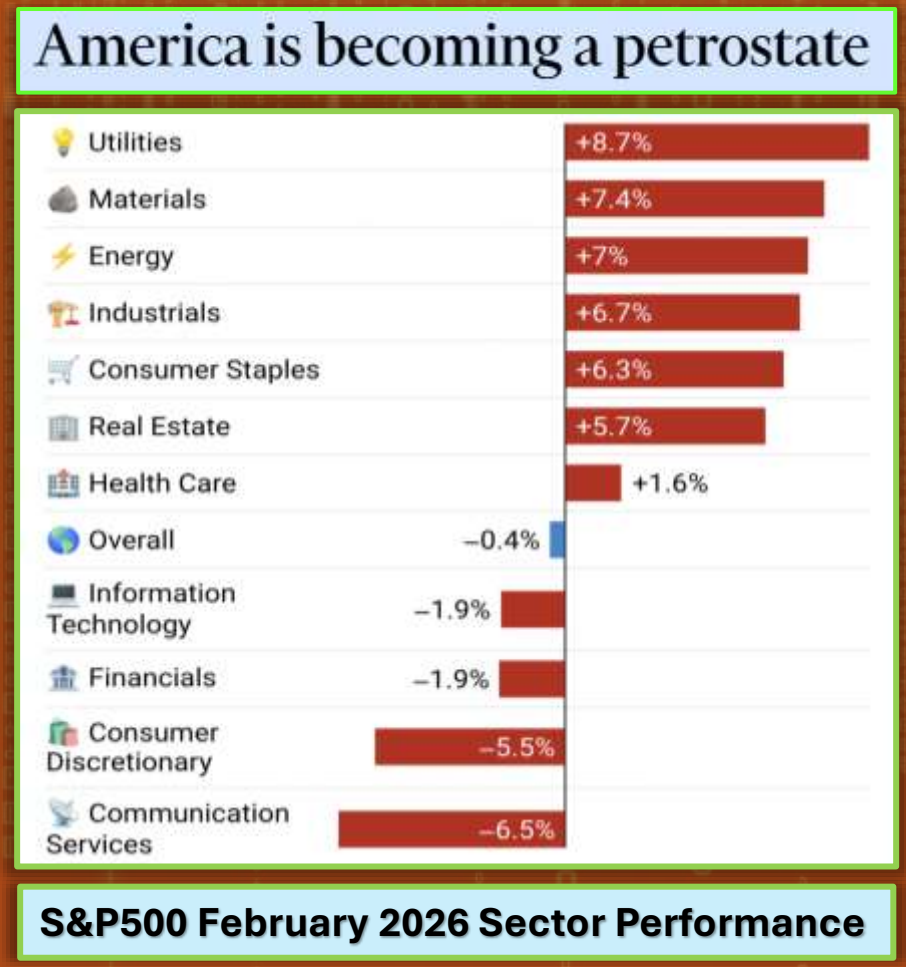
S&P 500: What is going on? Shades of 2000?

The 2000 dot.com bubble burst in **TWO STAGES**.

1. **STAGE 1:** 10.03.2000; Index = 1395
2. Rotation to Old Economy; Index ATH 20.03.2000: 1528



3. **STAGE 2:** 01.09.2000: Index = 1521, 0.5% below ATH 1528
4. Year End Index = 1320, down 13% from 01.09.2000
5. Subsequent low point: 10.10. 2002: Index = 769, down 50% from ATH

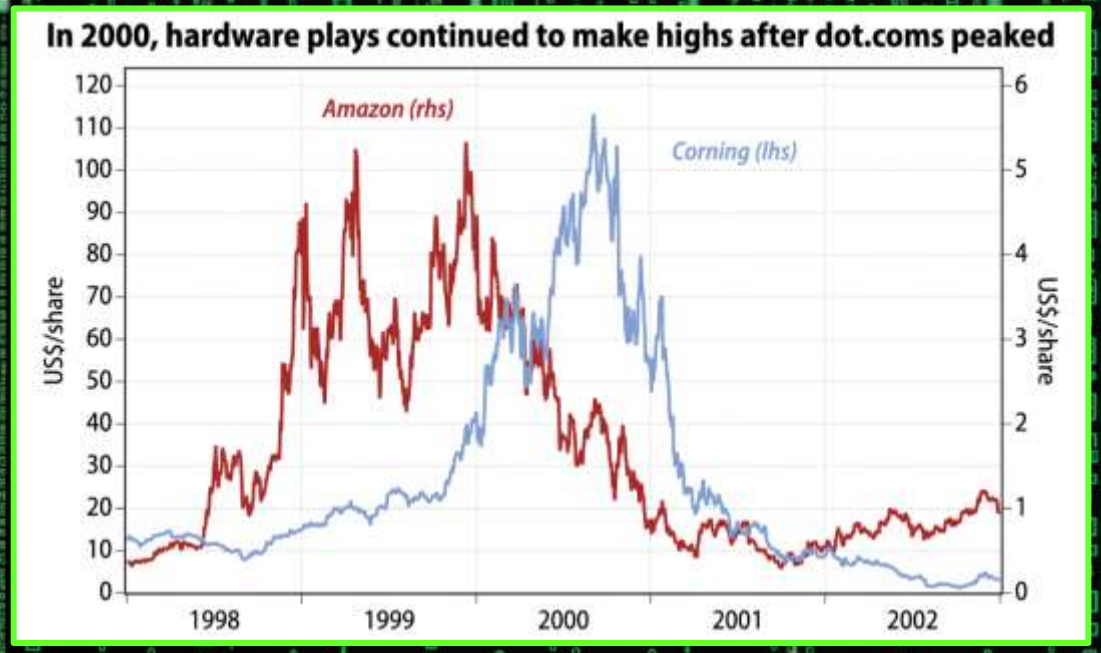


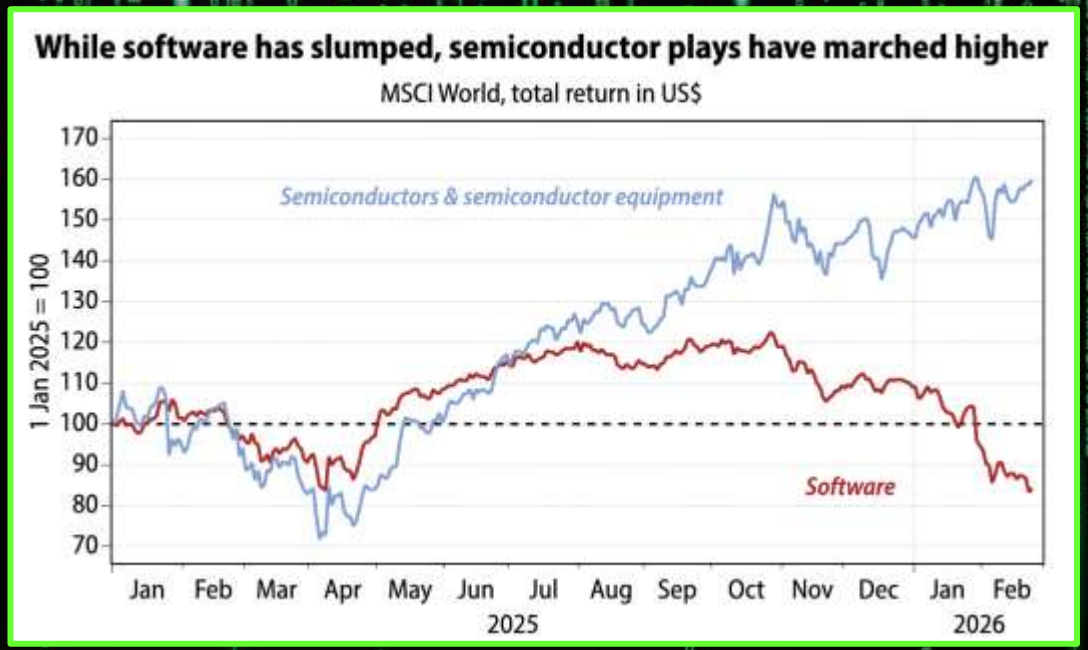
S&P500 February 2026 Sector Performance

Mag 7 Index peaked 29 October 2025; S&P peaked 28 January 2026

Sources: FT, Spectator

Proceed with extreme caution…





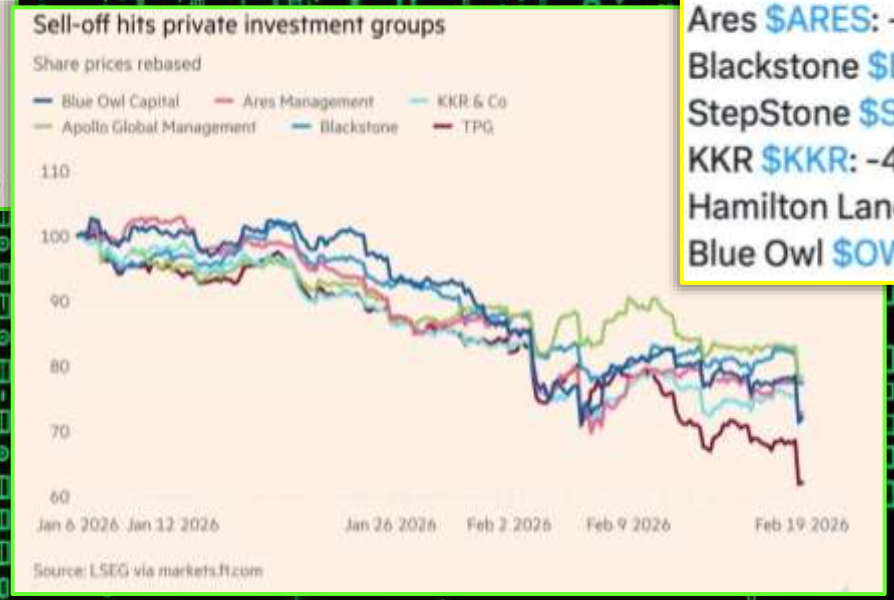
Watch for slow-witted stocks doing a Wile. E. Coyote

Source: Gavekal

The tech ‘periphery’ is crumbling…

Software stocks crash

CrowdStrike	-20.3%	Adobe	-49.9%
Palo Alto Networks	-27.1%	Salesforce	-50.0%
ADP	-30.3%	workday	-51.6%
FICO	-34.8%	servicenow	-53.9%
S&P Global	-35.4%	DocuSign	-56.7%
SAP	-39.5%	Wolters Kluwer	-65.9%
intuit	-40.2%	Atlassian	-76.3%
accenture	-40.2%	monday.com	-79.5%



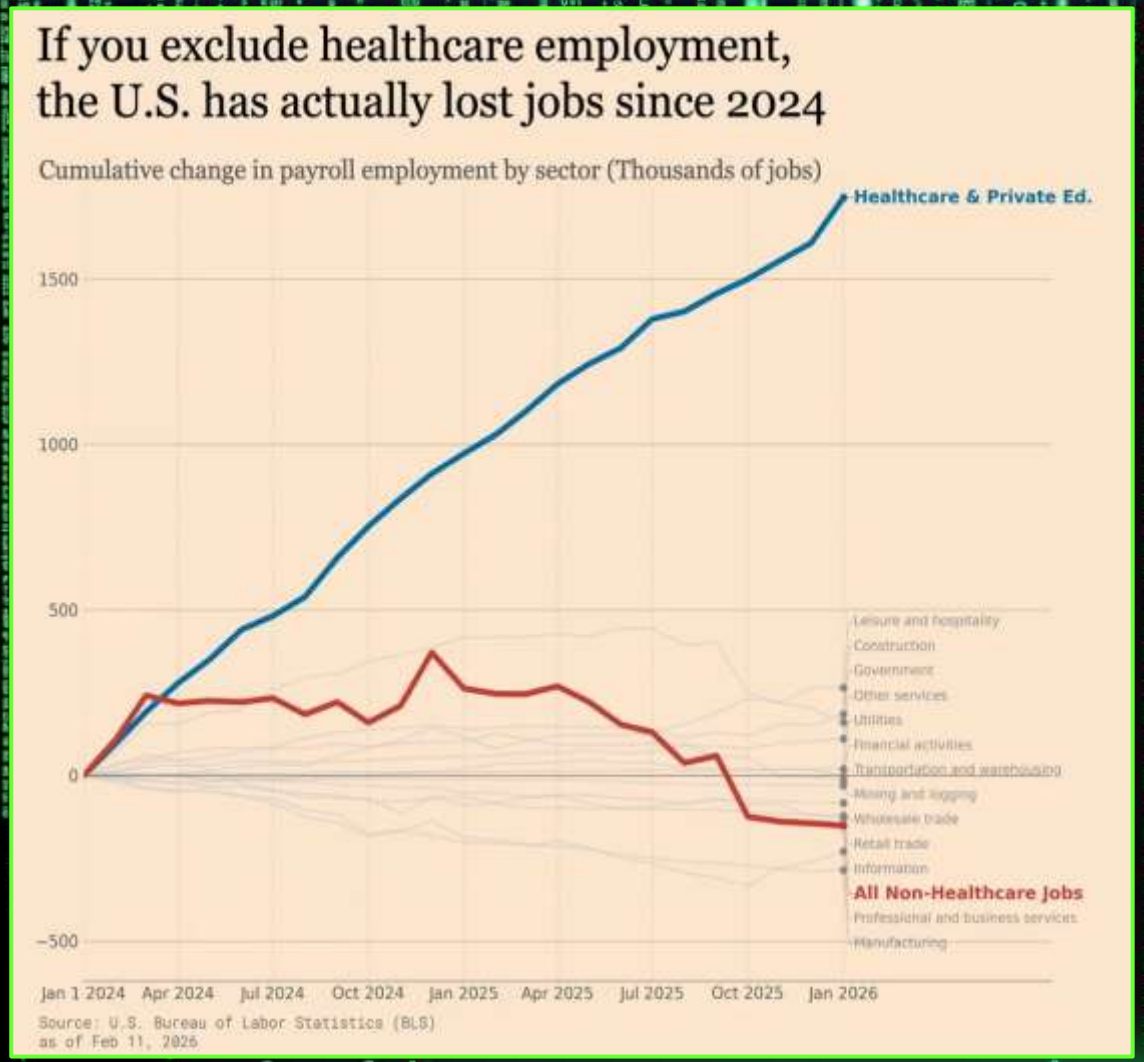
Credit stocks crash

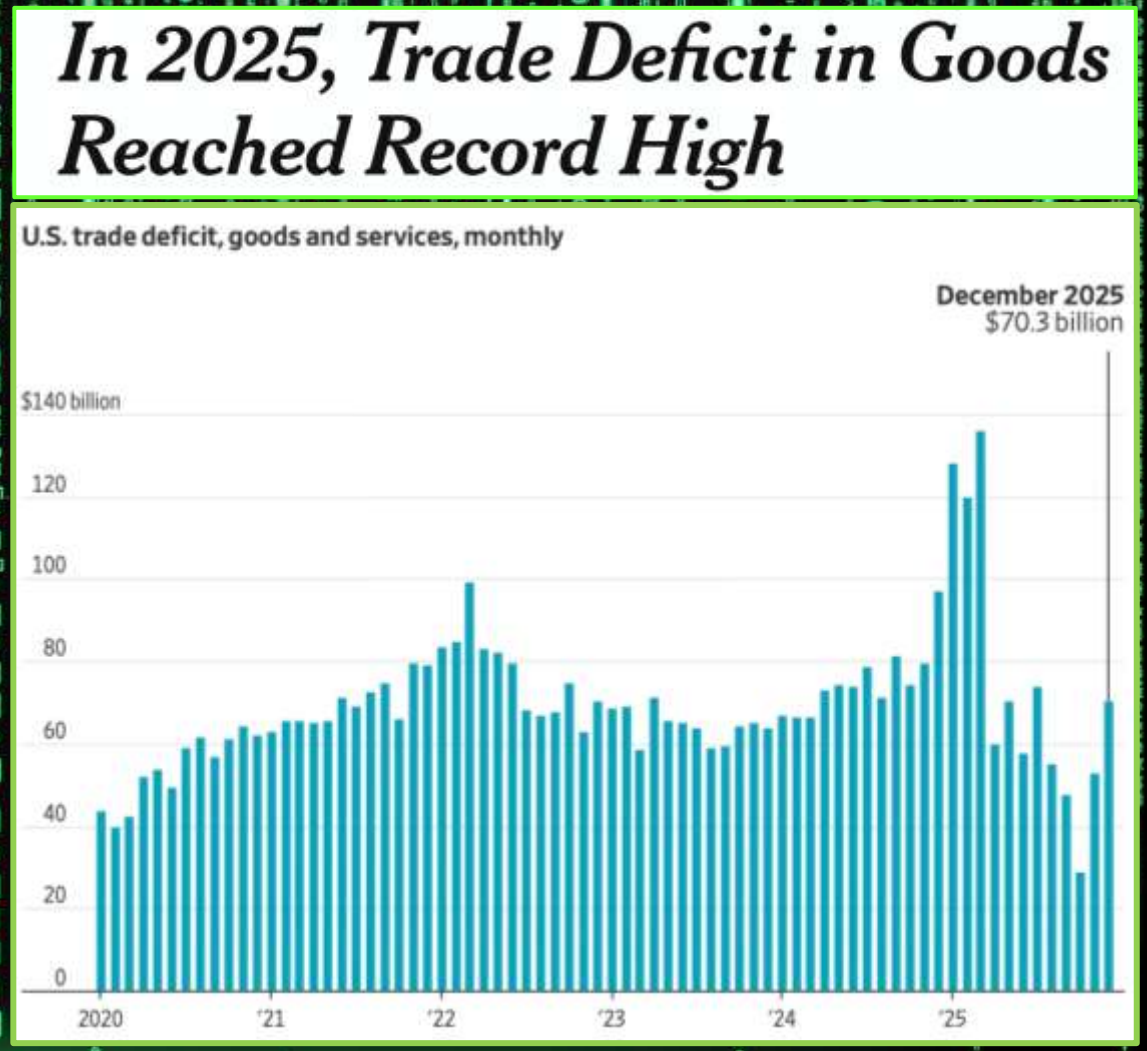
% Below All-Time High
S&P 500 $SPY: -2%
Brookfield $BAM: -24%
Carlyle $CG: -29%
Apollo $APO: -40%
TPG $TPG: -40%
Ares $ARES: -42%
Blackstone $BX: -42%
StepStone $STEP: -42%
KKR $KKR: -45%
Hamilton Lane $HLNE: -50%
Blue Owl $OWL: -59%

Casualties of the AI war raging INSIDE the US are everywhere

Sources: FT, Cervknowledge, Charlie Bilello

I don't buy the '*Roaring US Economy*!' narrative...



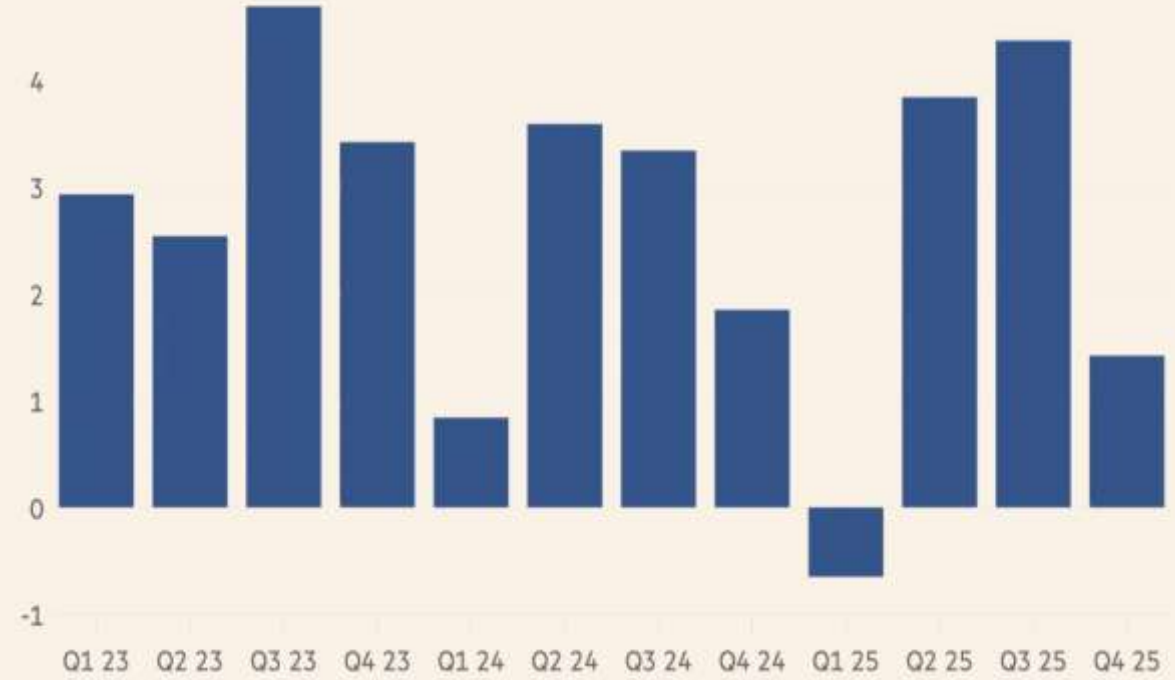


The data does not support this rosy assessment

Sources: BLS, New York Times. Census Bureau

Beneath the glossy narrative...

US GDP growth falls sharply to 1.4% rate in fourth quarter

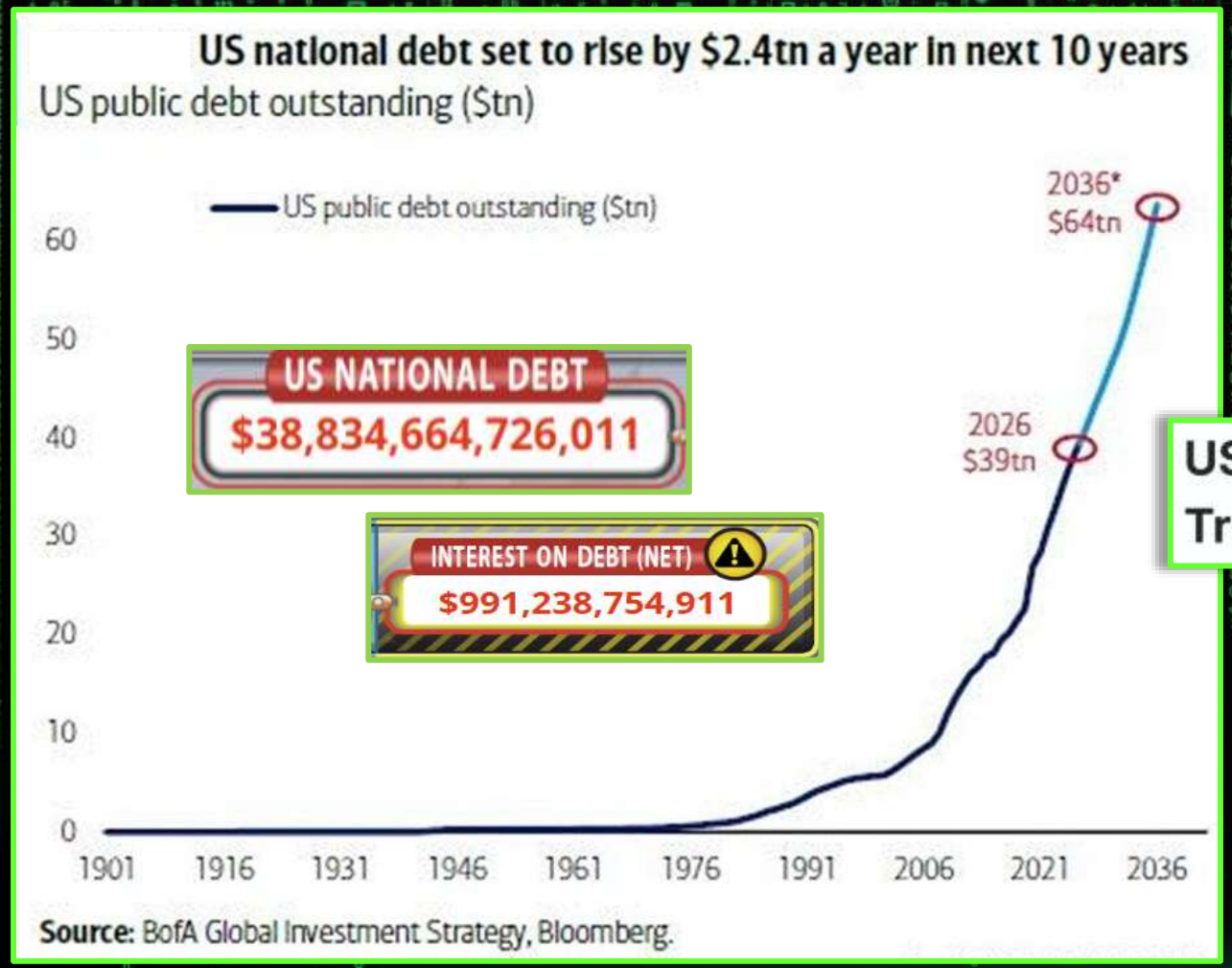


Why American Housing Markets Have Stalled

...GDP growth is slowing, housing market has plateaued

Sources: FT, Redfin

...if anything, national debt growth is accelerating...



America borrowed $43.5 billion a week in the first four months of the fiscal year, with debt interest on track to be over $1 trillion for 2026

US budget deficit to keep growing amid Trump tax cuts, tariffs, CBO forecasts show

Days before the national debt is due to hit $39 trillion, President Trump didn't mention it once during the longest State of the Union ever

Debt risen by $2.5 trillion in 13 months: forecast FY 2026 $1.9 trillion deficit

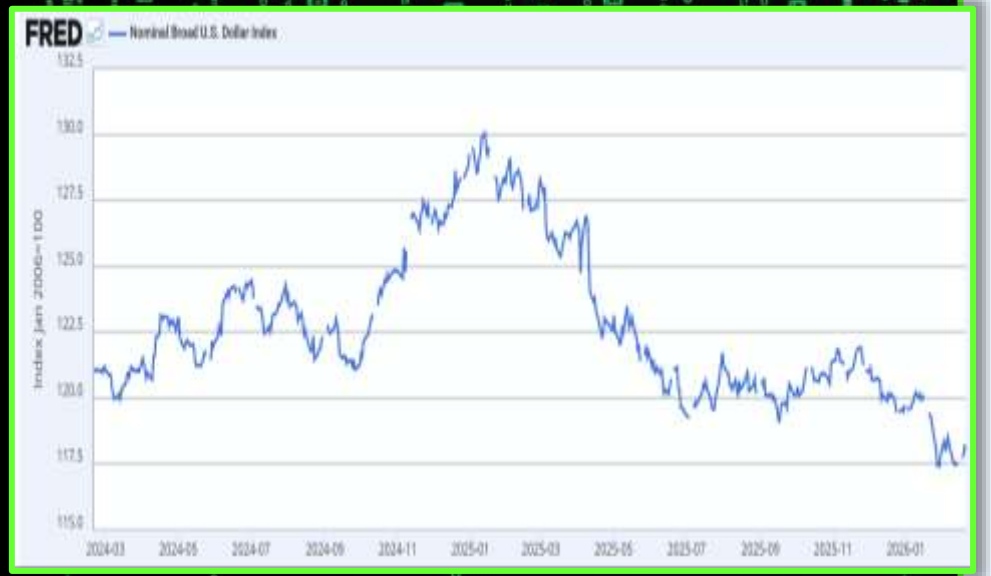
Sources: BoA. Reuters, Fortune

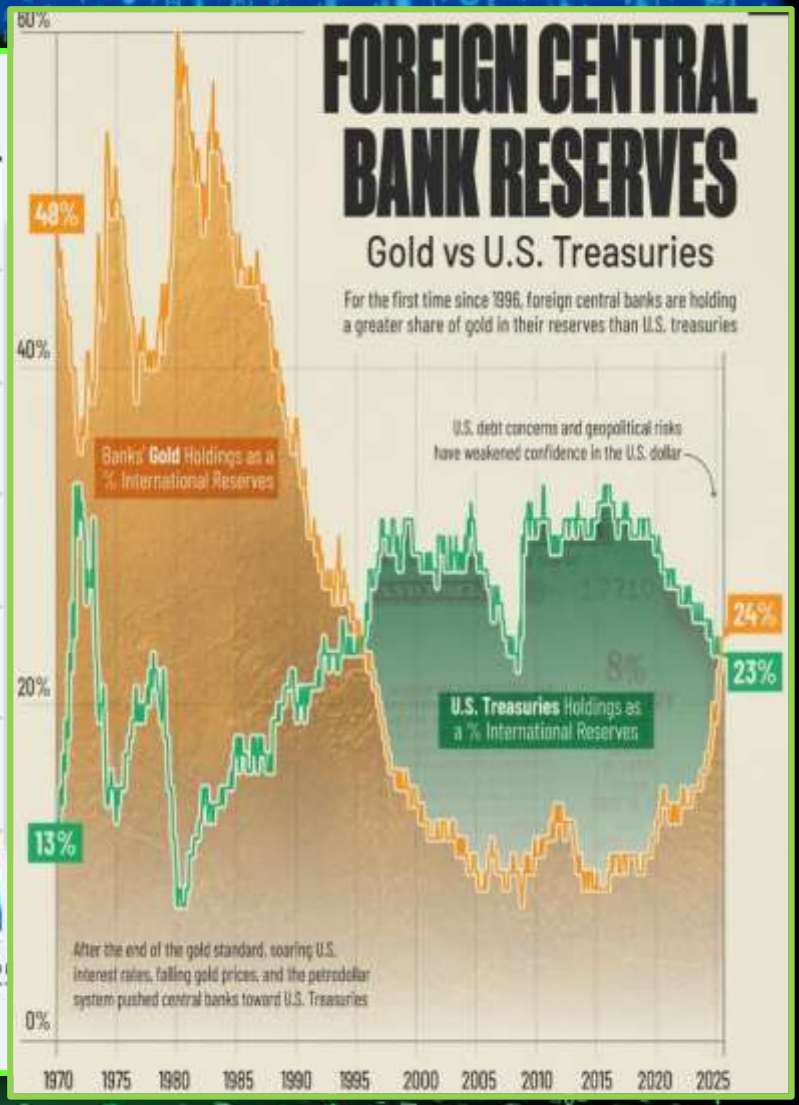
...US Global Indebtedness rises as the US Dollar falls

Opinion **US equities**

The death of the Trump trade

Investor backlash against US markets appears to be real





Foreigners are having second thoughts about investing in the US

Sources:
FT, FRED
Visual Capitalist

Something profound is moving out there in the Deep…

The world's best surfers pride themselves on swimming with sharks…

…but WHALES?

Lennox Head
New South W(h)ales

Yes, plenty of domestic reasons for market unease…

…but is there something DEEPer unsettling markets?

The market: Steeling itself against DeepSeek shock 2?

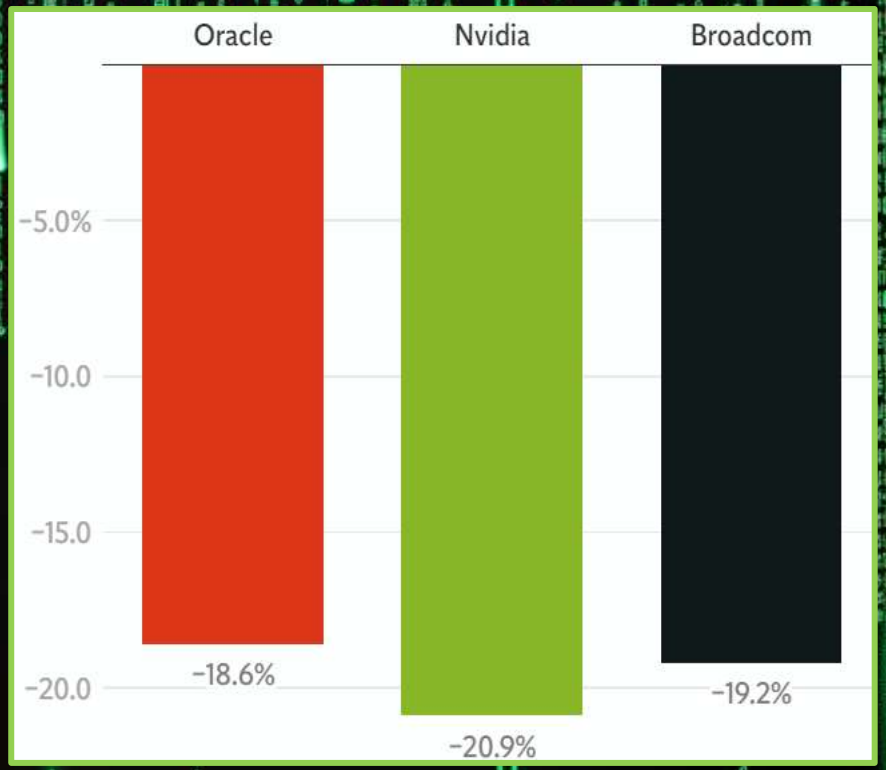
DeepSeek sparks AI stock selloff; Nvidia posts record market-cap loss

Exclusive: China's DeepSeek trained AI model on Nvidia's best chip despite US ban, official says

Anthropic Furious at DeepSeek for Copying Its AI Without Permission, Which Is Pretty Ironic When You Consider How It Built Claude in the First Place

"They robbed the robbers."

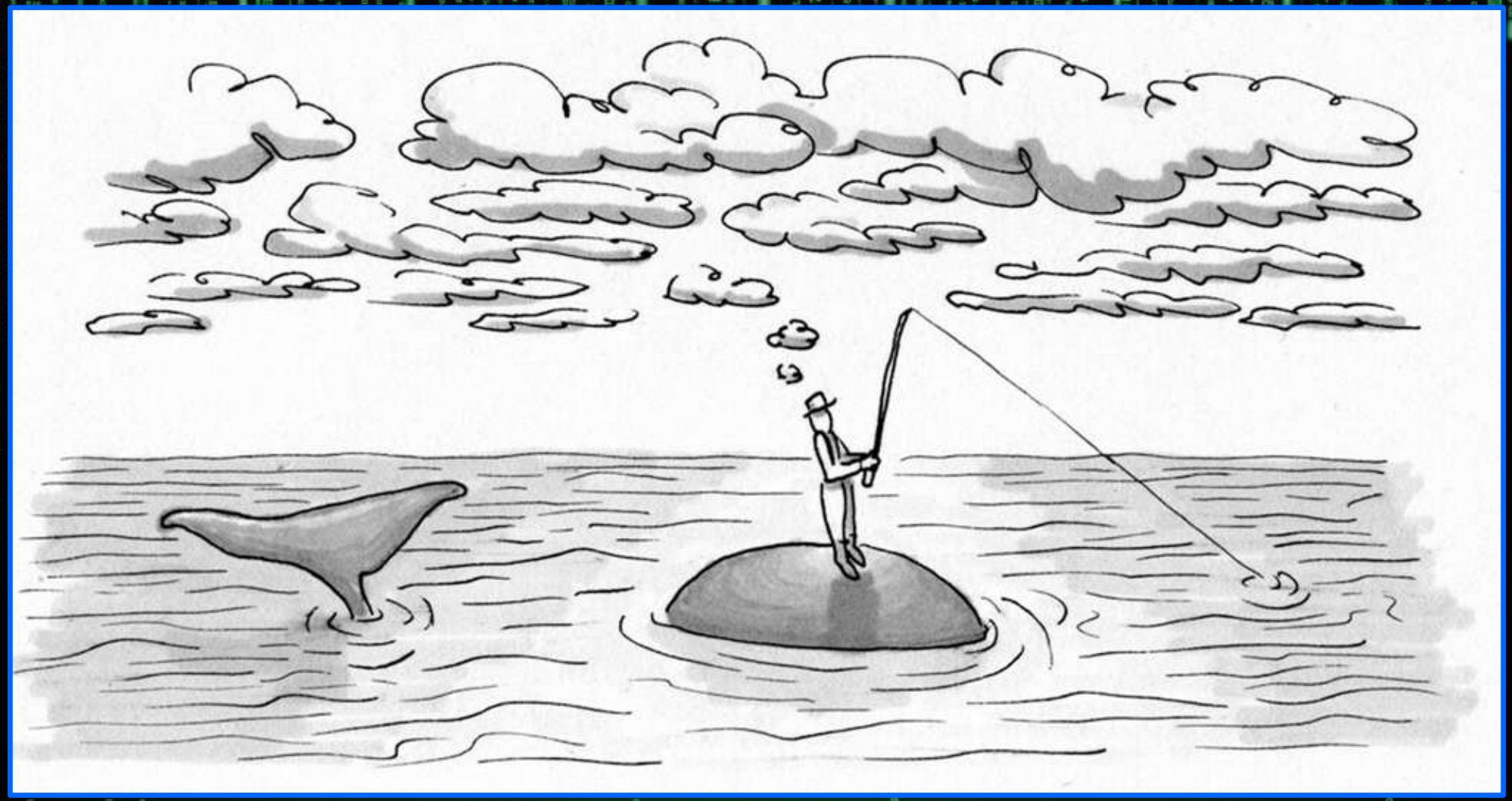
Price performance on 27.01.25



The Flak is flying!

Sources:
Reuters, Nasdaq
Futurism

US AI in 2025...



Sometimes what looks like solid ground is something else entirely...

To start, a few techie-calities…

What is an AI brAIn?

What makes an AI brAIn?

Building Artificial Intelligence

From Training Chaos…

The Challenge:
AI must find signal in noise at unimaginable scale.

The Old Way… Brute Force:
Overwhelming compute, like refining ore with dynamite.

The unstable **Inverted Pyramid**

…to Inference Clarity

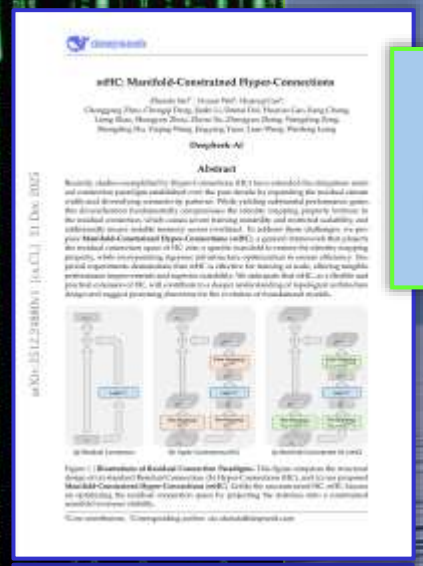
The Foundation:
Optimizing the entire transformation process.

The New Way… Elegance:
Design a brain that efficiently absorbs, intelligently structures.

The stable **Pyramid**

China's new stack nnHC – a quartet of MLA, mHC, Engram, DualPath – achieves comparable intelligence at ~1/20th the inference cost.

As 2026 began, the DeepSeek whale surfaced 3 times...



mHC: Manifold-Constrained Hyper-Connections

31.12.25
MHC:
reinvents
training

DeepSeek-R1: Incentivizing Reasoning Capability in LLMs via Reinforcement Learning

04.01.26
R1.5
Integrates
all advances

Conditional Memory via Scalable Lookup: A New Axis of Sparsity for Large Language Models

13.10.26
Engram
reinvents
memory

deepseek

The silent species was changing the deep current of AI

And just when you thought it was safe to go back in the water...

deepseek

DeepSeek-OCR 2: Visual Causal Flow

Haoran Wei, Yaofeng Sun, Yukun Li

DeepSeek-AI

Abstract

We present DeepSeek-OCR 2 to investigate the feasibility of a novel encoder—DeepEncoder V2—capable of dynamically reordering visual tokens upon image semantics. Conventional vision-language models (VLMs) invariably process visual tokens in a rigid raster-scan order (top-left to bottom-right) with fixed positional encoding when fed into LLMs. However, this contradicts human visual perception, which follows flexible yet semantically coherent scanning patterns driven by inherent logical structures. Particularly for images with complex layouts, human vision exhibits causally-informed sequential processing. Inspired by this cognitive mechanism, DeepEncoder V2 is designed to endow the encoder with causal reasoning capabilities, enabling it to intelligently reorder visual tokens prior to LLM-based content interpretation. This work explores a novel paradigm: whether 2D image understanding can be effectively achieved through two-cascaded 1D causal reasoning structures, thereby offering a new architectural approach with the potential to achieve genuine 2D reasoning. Codes and model weights are publicly accessible at http://github.com/deepseek-ai/DeepSeek-OCR-2.

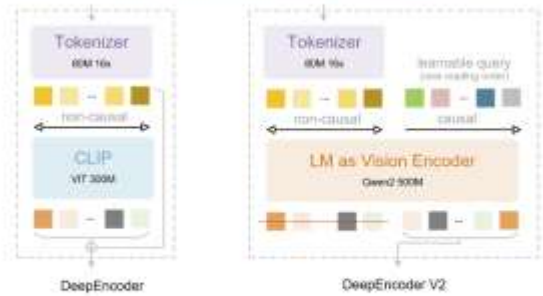


Figure 1 | We substitute the CLIP component in DeepEncoder with an LLM-style architecture. By customizing the attention mask, visual tokens utilize bidirectional attention while learnable queries adopt causal attention. Each query token can thus attend to all visual tokens and preceding queries, allowing progressive causal reordering over visual information.

deepseek

On 20.01.26, DeepSeek taught its LLM to *SEE* documents.
To *SEE* as humans *SEE*: not scan but understand.

As the Fire Horse rode, Qwen 3.5 ran ahead of DeepSeek

Alibaba launches Qwen 3.5, Claims AI model outperforms US Rivals

Qwen: The Swiss Army Knife of LLMs
Jack of All Trades, Master of Quite a Few.

Alibaba's Qwen family hits 700 million downloads to lead global open-source AI adoption — South China Morning Post

DUALPATH, THE KEYSTONE TO VIA V IV

DualPath: Breaking the Storage Bandwidth Bottleneck in Agentic LLM Inference

Yongtong Wu[1,3] Shaoyuan Chen[2,3] Yinmin Zhong[1,3] Rilin Huang[1] Yixuan Tan[3] Wentao Zhang[3] Liyue Zhang[3] Shangyan Zhou[3] Yuxuan Liu[3] Shunfeng Zhou[3] Mingxing Zhang[2] Xin Jin[1] Panpan Huang[3]

[1]School of Computer Science, Peking University [2]Tsinghua University [3]DeepSeek-AI

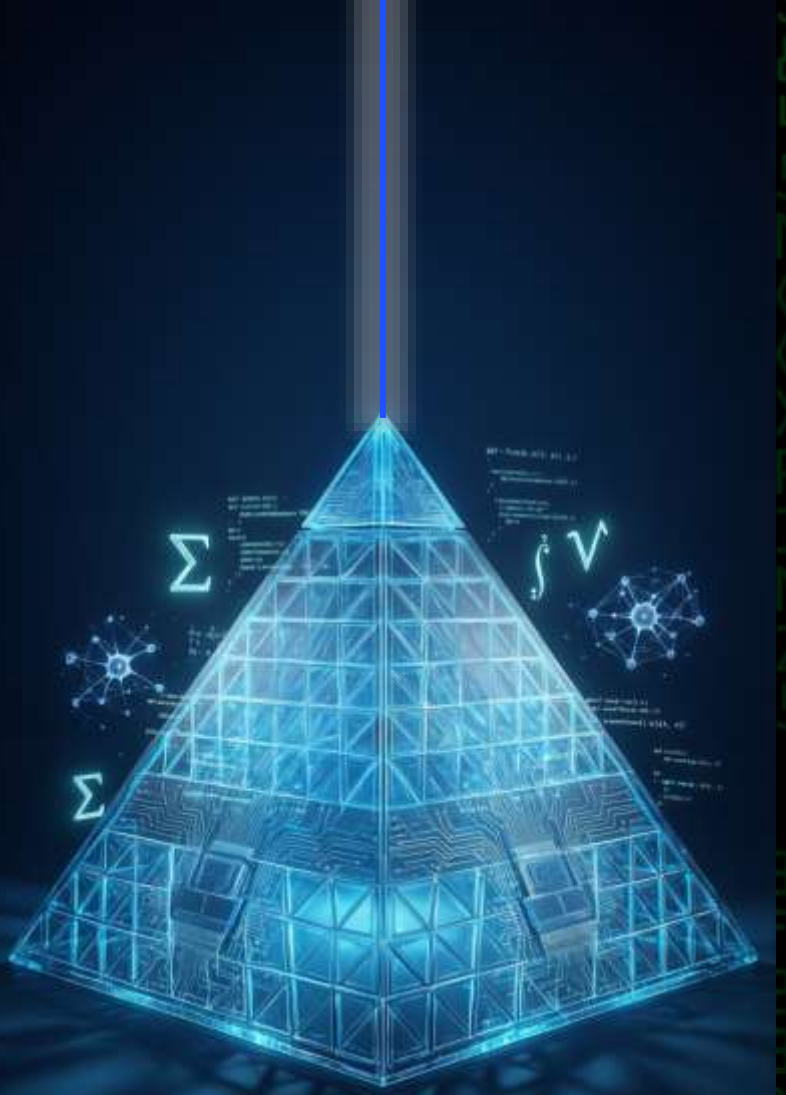
ABSTRACT

1 INTRODUCTION

Figure 1: Existing bottleneck (left) and DualPath (right).

26.02.26
DualPath:
Supercharges
Inference

Eight innovations. One keystone. The path forward: To V4, R2 and beyond.



The nnHC Revolution:
MLA + MHC + Engram
+ OCR2 + DualPath

revolutionized Inference AND Training!

▲ Non-Normal Hyper-Connection Stable Pyramid

U.S. AI: an inverted pyramid, propped up by financial engineering

Chinese AI: a stable pyramid grounded in architectural efficiency

MLA + mHC + Engram + OCR2 = nnHC

🏛️ **Foundation:** **MLA**'s inference efficiency…
🎯 … is applied to make training efficient. Result? **mHC…**
🧠 … **Add:** **Engram**'s conditional memory
👁️ … **Add:** **OCR2**'s humanlike vision
🔗 … **Finally:** **DualPath**, tying everything tother

🔥 In the **Year of the Fire Horse**, a new type of AI brain is created

AI’s Eureka Moment: DeepSeek redefines Intelligence

BRINGING IT ALTOGETHER: V4 and R2

The Age of Brawn is replaced by the Age of Brawn

💪 The Age of Brawn (c. 2018–2025)

- 💥 Brute force: Scale *über alles*
- 🖥️ Big chip = better LLM
- 🏋️ Training first; inference after
- 🔄 New model? Retrain 100%
- 🔒 Progress proprietary
- 💰 Users paid! DEARLY!
- 🎯 LLMs gamed lab benchmarks
- 🧗 Solo mountaineers to the summit

🧠 The Age of Brain (2026 onward)

- 🌀 Architectural elegance creates efficiency
- ⚖️ Chips less critical. Nvidia's hold broken
- 🚀 Inference supersedes training
- 📦 Easy database updates
- 🤝 Open-weight consilience. 1 + 1 = 3
- 🆓 Users often pay NOTHING!
- 🌍 Practical benchmarks rule
- 🧗 Mountaineering team climbs Mt. Intelligence

Brawn asks: *"How big can I build? How many GPUs are needed?"*
Brain asks: *"How wisely can we climb – together? How well do we use our GPUs?"*


You cannot train a hippo to dance like Nureyev
With profuse apologies
to Amilcare Ponchielli

Leaving the Racetrack. Going out onto the Open Road

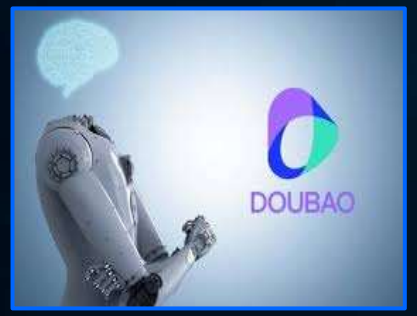
Going Global

A new species surfaces

MINIMAX

有道 youdao

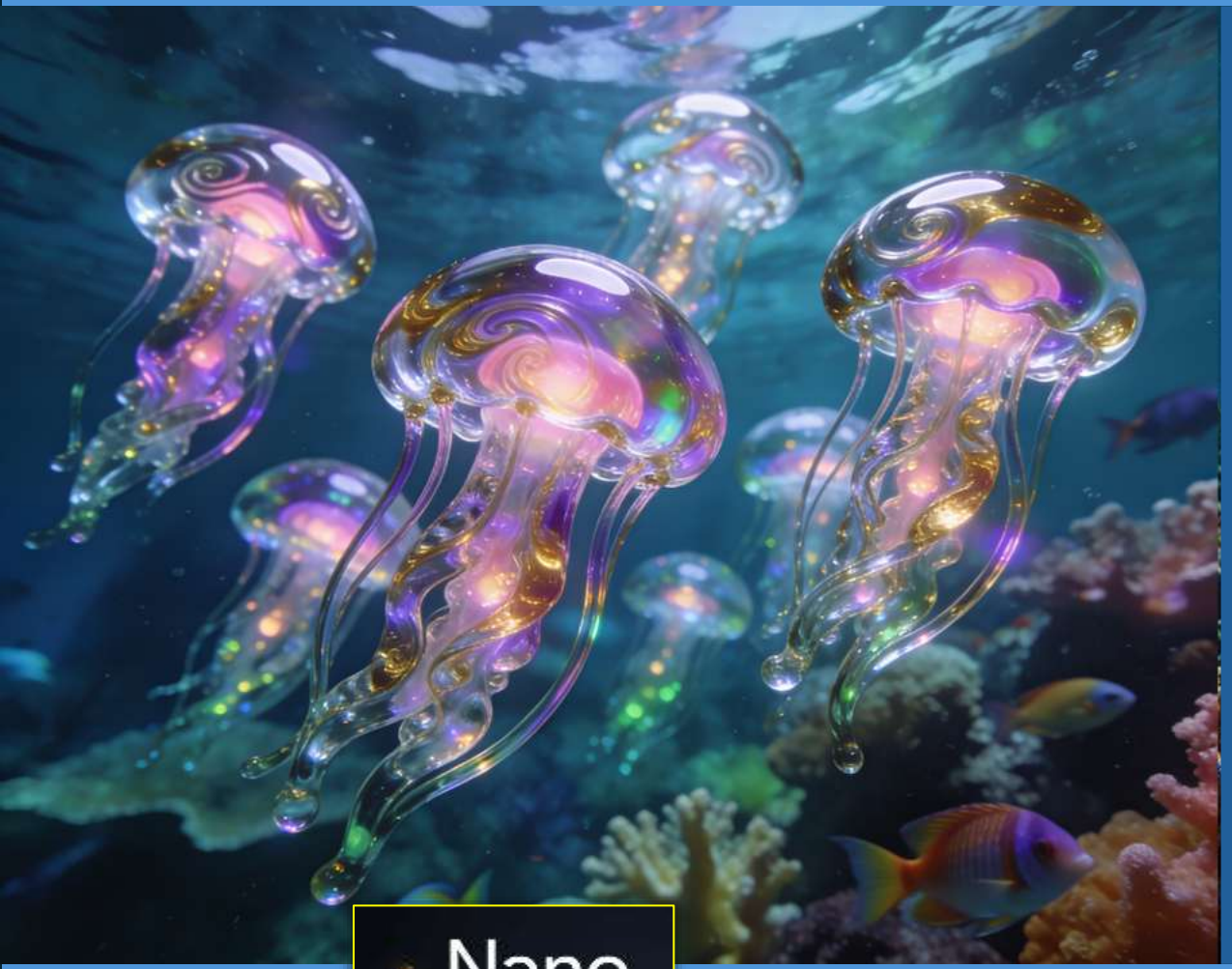
DEXMAL



科大讯飞 iFLYTEK

InternLM

Is ByteDance Hollywood's Nemesis?



Seedance 2

Why an A.I. Video of Tom Cruise Battling Brad Pitt Spooked Hollywood

The DragonSwarm: An Ensemble of Open Weight Specialists
Computing, comprehending and orchestrating... TOGETHER!

- **DeepSeek:** *Architect Dragon*
- **Kimi:** *Memory Dragon*
- **Qwen:** *Universal Dragon*
- **ERNIE:** *Ubiquity Dragon*
- **MiniMax:** *Creative & Sonic Dragon*
- **Zhipu:** *Vision Dragon*
- **Intern:** *Science Dragon*
- **Ubiquant:** *Quant Dragon*
- **Hunyuan:** *Ecosystem & Social Dragon*
- **SenseTime:** *Urban & Industrial Dragon*

Leveraging Consilience – *where 1 + 1 = 3* – to achieve Collective Wisdom


Float like butterflies, sting like a...Swarm of Dragons
KlingAI

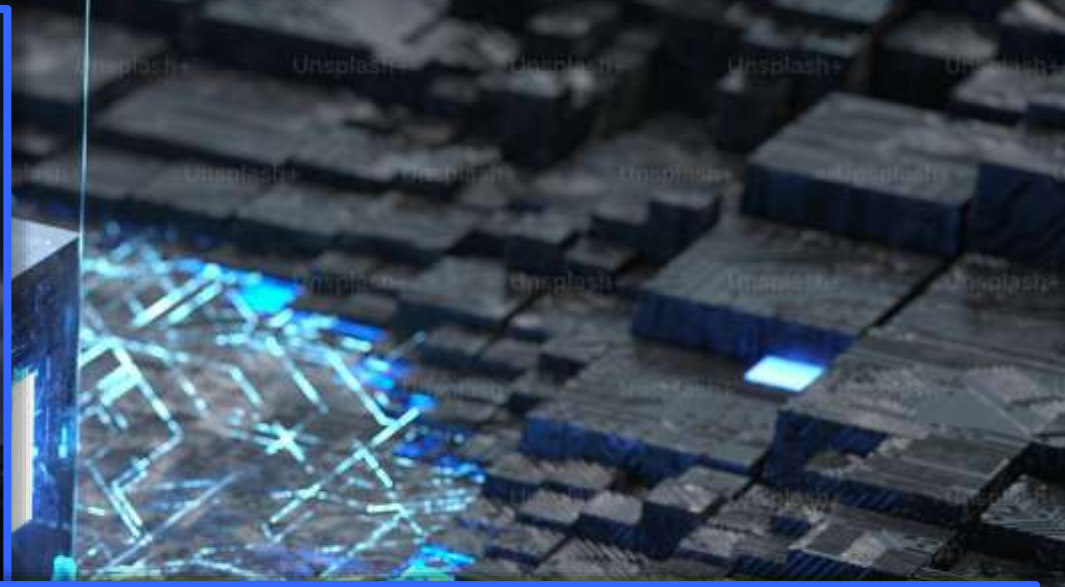

Castles in the Air…
…Inverted Pyramids on the Ground

Why build Inverted Pyramids on Texan Sand?

The Pharaohs' Stargates most likely did not work.
Will markets decide that today's AI pyramids cannot work either?

When Software becomes free, what holds up the Pyramid?

The cost of API tokens globally has fallen by 90% to 99% in recent years



David Shapiro (L/O) @DaveShapi · 22h

You guys realize that all software is about to be free, right?

And software is presently the most valuable capital asset, right?

Guys?

928 493 7.8K

Elon Musk
@elonmusk

Pretty much

The Spending Chasm – Building Pyramids on Quicksand

Big Tech's 'breathtaking' $660bn spending spree reignites AI bubble fears

FINANCIAL TIMES

Capex forecasts for data centre building ($)

2026: 600bn-800bn

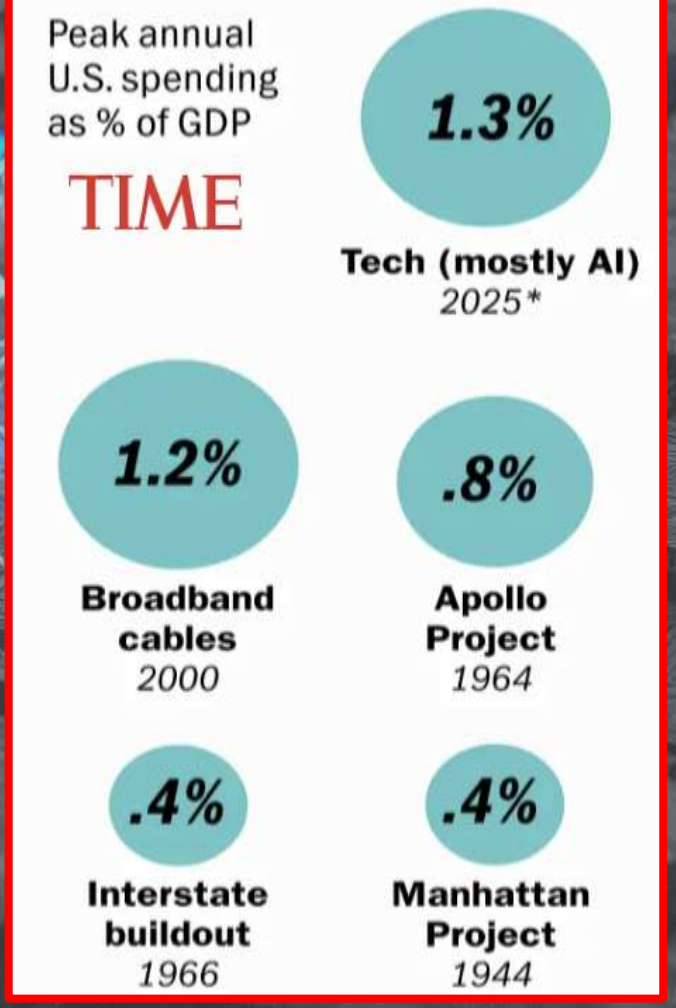
2027: 1100bn-1400bn

2028: 1000bn-2000bn

Cumulative Capex to 2030 $3000bn-$7000bn

Peak annual U.S. spending as % of GDP

TIME



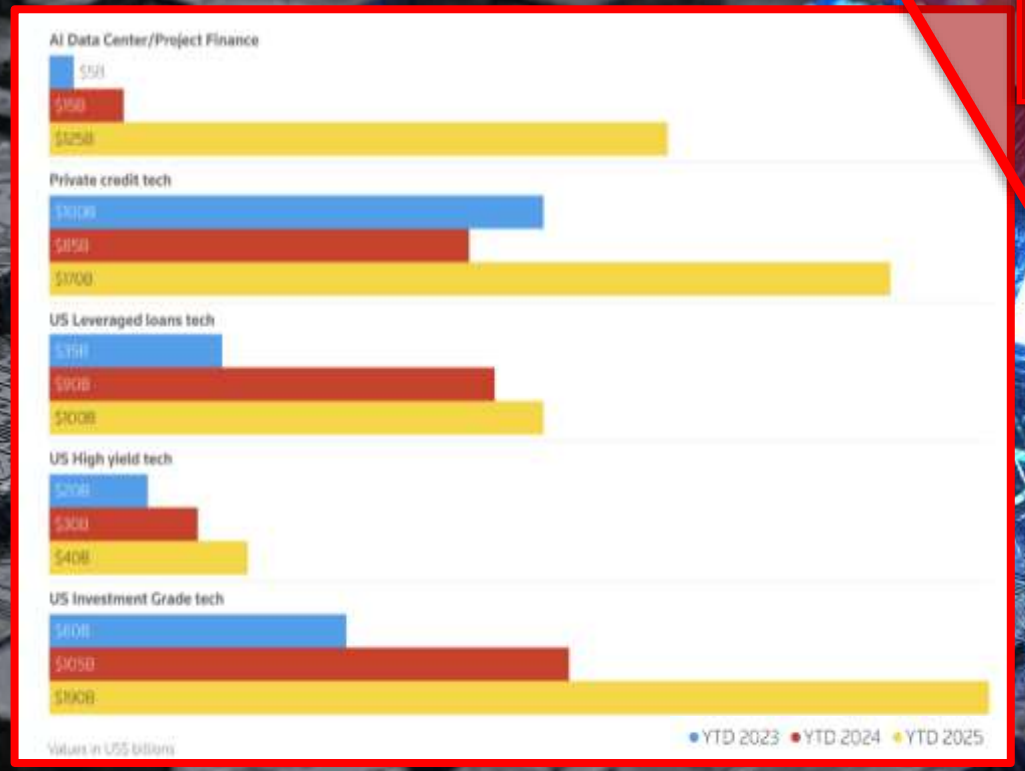
2026's Inverted Pyramid Scheme I: Debt

2024: $92bn

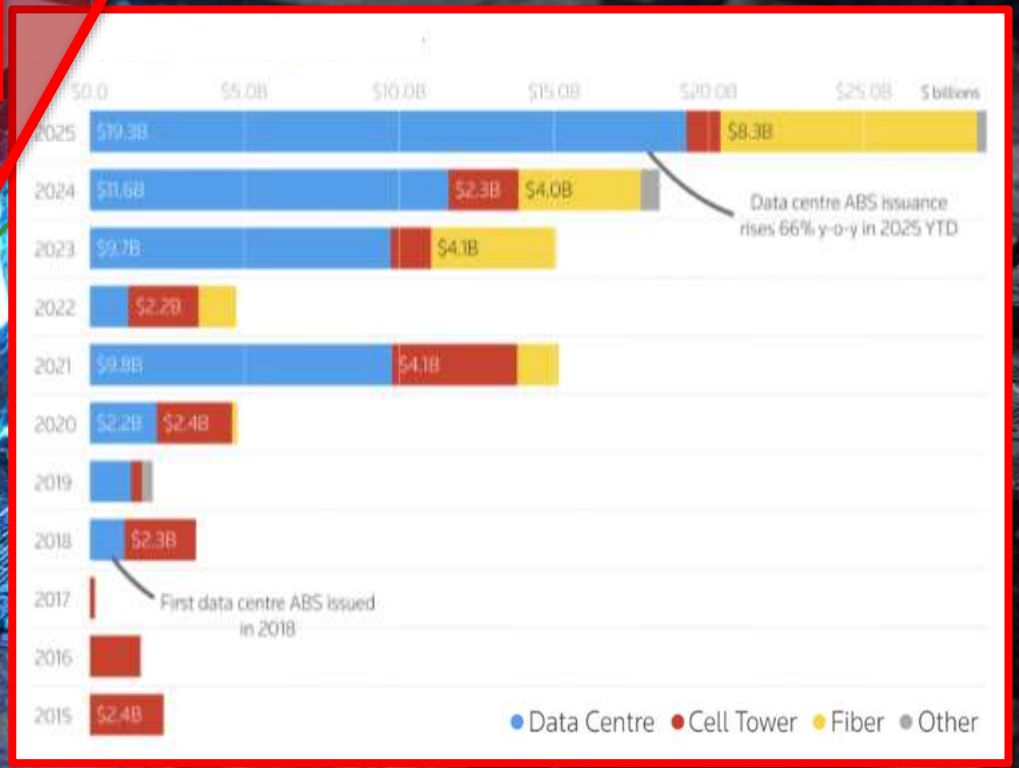
2025: $182bn

f2026: $900bn

Total debt raised for data centres



Corporate Bonds Fuelling AI Capex (UBS)

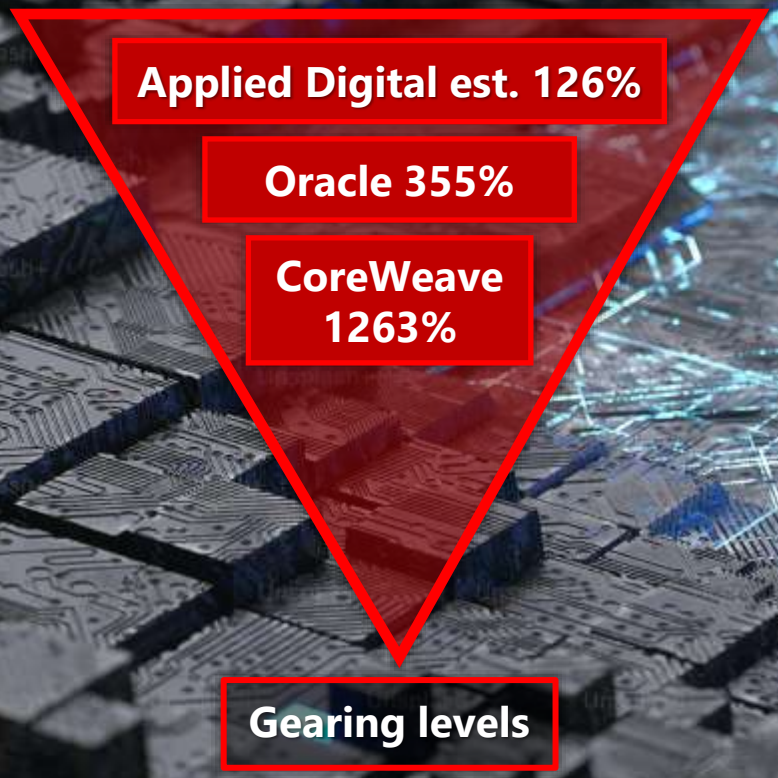


ABS debt underpins shift to data centres (BofA)

I owe, I owe... it's off to AI work we go...

FINANCIAL TIMES

2026's Inverted Pyramid Scheme II: Leasing



The Elephant in the Room: Oracle

The Lehman Brothers of AI?

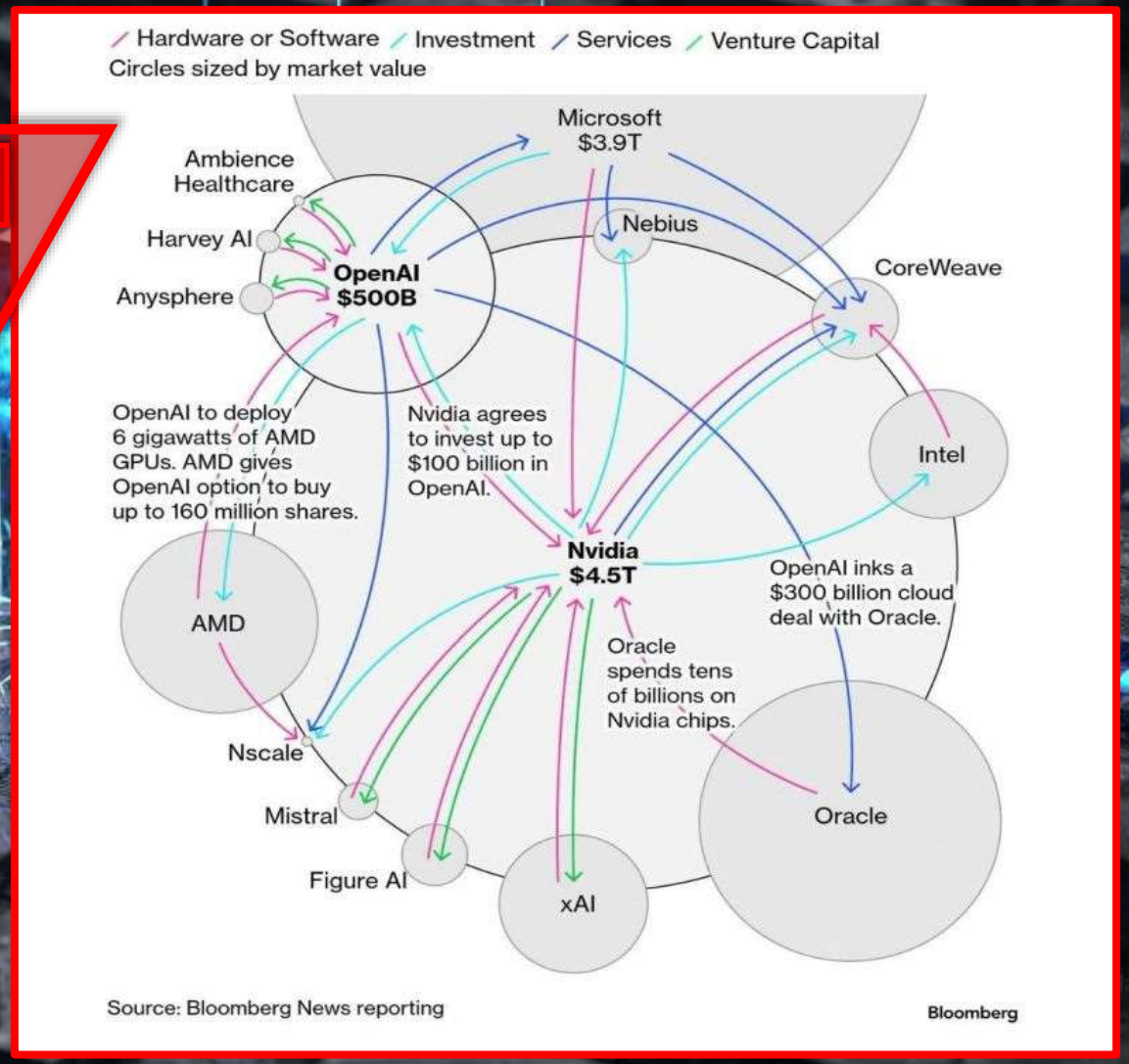
Medium

2026's Inverted Pyramid Scheme III: Circular Financing

Microsoft $3.9tr / 3.9:1

Nvidia $4.5tr / 7.5:1

OpenAI $500bn / 25:1



Nvidia is the spider at the centre of this web

Global Crossing RIP

Qwest RIP

MCI RIP

ENRON RIP

China's New Tao
Standing Up
Moving Forward

2025, leads in Open Weight. 2026, *ANY* Weights. 2030, even hardware?

Opinion | Rise of China's open source platforms will burst AI bubble — South China Morning Post

Alibaba's Qwen family hits 700 million downloads to lead global open-source AI adoption

China leapfrogs US in global market for 'open' AI models — FINANCIAL TIMES

Are Chinese stock markets already discounting this transformation?

Forgotten lessons from American History I: Numbers count

The German Tank Commander's Lament

"One of our Tigers is worth four of their Shermans…

…but the Americans always bring five."

"Quantity has a quality all its own." Joseph Stalin

The Admission: David Sacks, White House AI Lead, September 18, 2025

"China is not desperate for our chips… Huawei compensates for weaker individual chips by clustering more chips together."

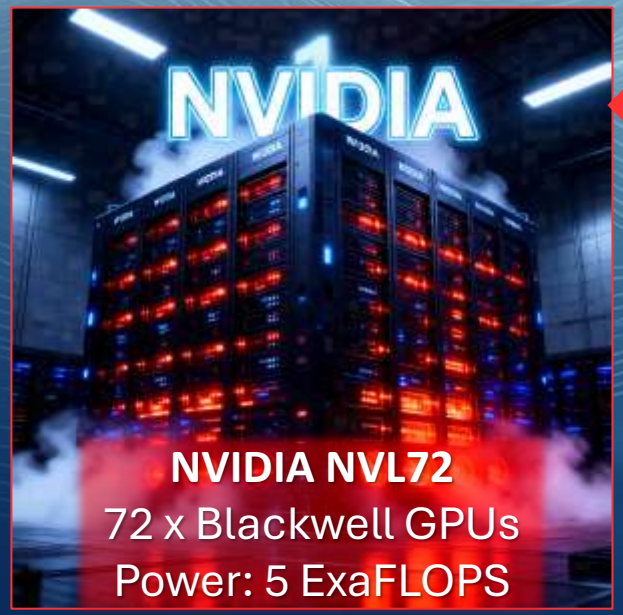
Enflame 燧原科技

China's GPU Insurgents: The "Four Little Dragons" Challenging NVIDIA's Dominance — Medium

壁仞科技 BIREN TECHNOLOGY

METAX 沐曦集成电路

摩尔线程 MOORE THREADS



NVIDIA NVL72
72 x Blackwell GPUs
Power: 5 ExaFLOPS

Nvidia's Tiger Stack:
Import-dependent, centralized, finite
– the peak of solitary power

Huawei's Sherman Swarm:
Domestic, modular, limitless
– architecture out-scales old-style muscle

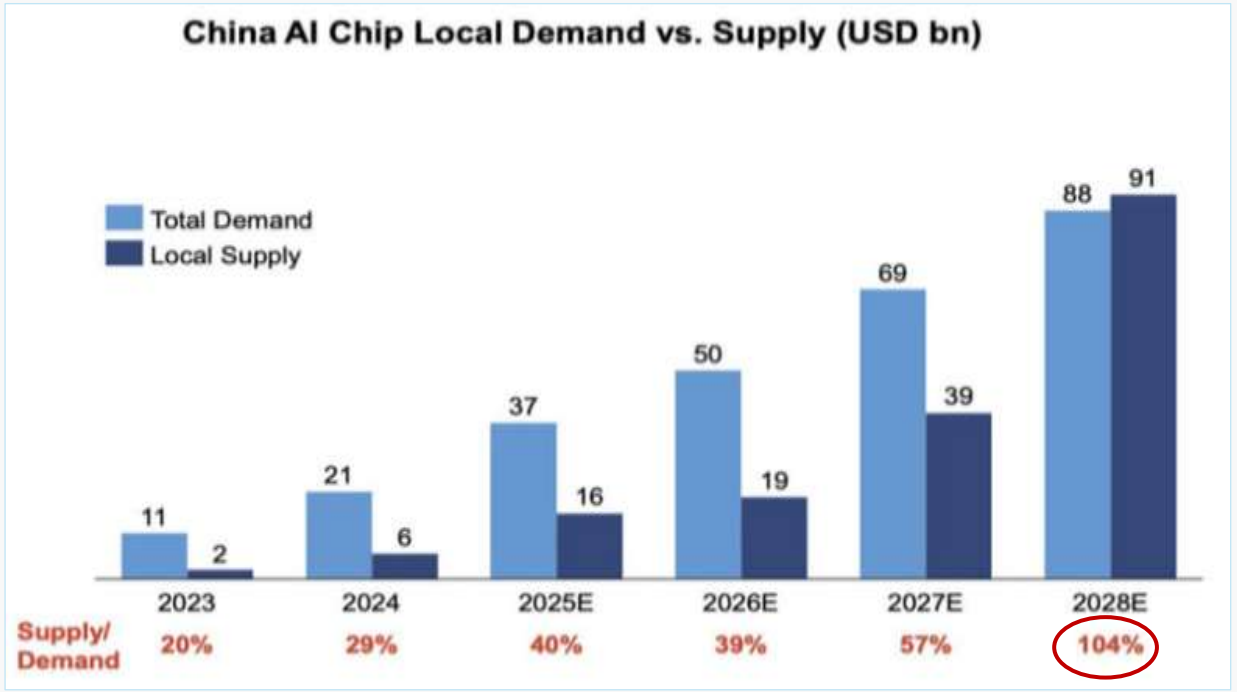
HUAWEI CloudMatrix 384
384 x Ascend 910C
Power: 6 ExaFLOPS

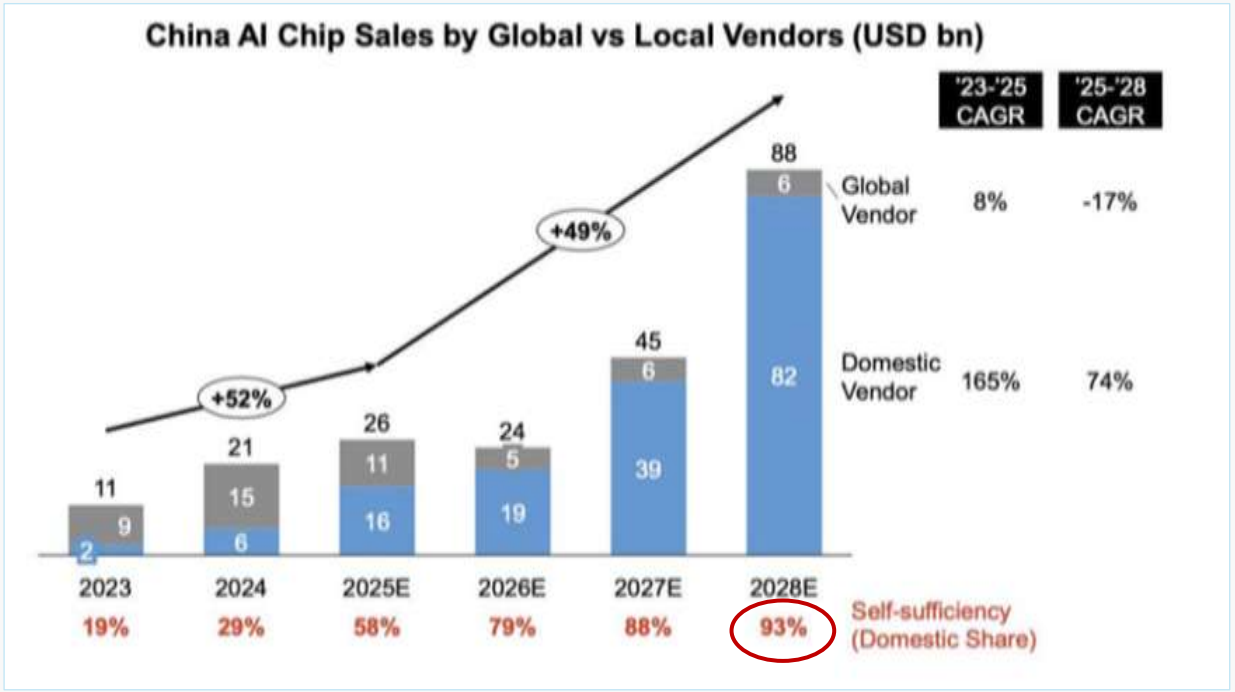
The future belongs not to the strongest single unit – but to the most adaptable system

The Bridge to Self-Sufficiency: The Gathering Swarm of Silicon

China's EUV prototype forces a rethink of the AI chip order

DIGITIMES asia



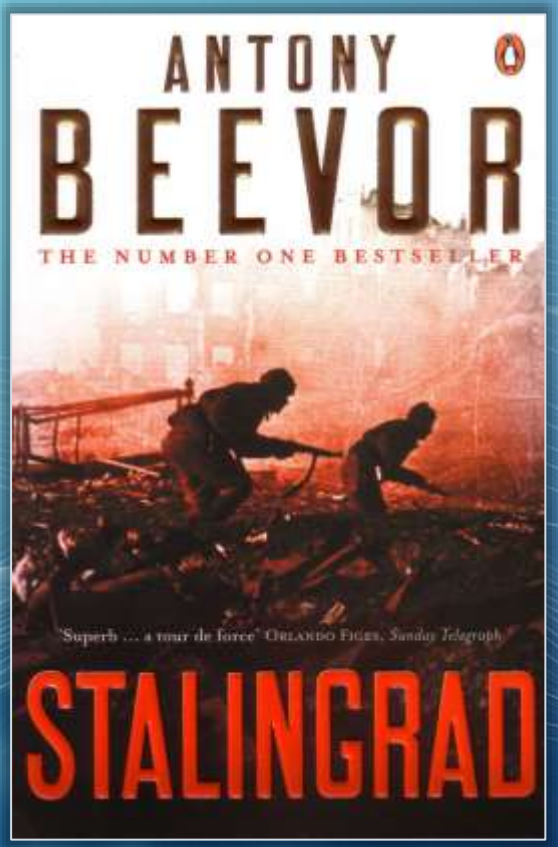


- Bernstein forecasts imports shrinking to <7% by 2028 – with "*no-breakthroughs*"
- Shenzhen's EUV prototype means 5nm+ production will start years ahead of schedule

China's chip strategy is to leapfrog the timeline that lies ahead

Forgotten lessons from American History II: Manufacturing counts

Lex Fridman talking to James Holland as to why the US-led Allies won WW2
Fridman: ***You could think of WW2 as a battle of factories?***
Holland: ***Yes.***



German historians ascribe the Axis WW2 loss to the Allies – and Beevor Germany's loss to Russia at Stalingrad – to *Materialschlacht*: the Battle of Matériel.

Share of Global Manufacturing f2030: US 11%; China 45% (UNIDO)

The Two Machines that define US AI are '*Not Made in The USA*'...

ASML EUV Lithography | Veldhoven, Netherlands

U.S. AI Critical Path

TSMC Advanced Fabrication | Hsinchu, Taiwan

'They stole our chip business': Trump lashes out at Taiwan's chip sector after Supreme Court hands him a humiliating tariff defeat

When your critical path goes via Veldhoven and Hsinchu, who manufactures your destiny?

...whilst China manufactures its OWN future

Energy Self-sufficiency: Solar and Wind
Manufacturing the grid that powers the AI network

Electricity generated by Renewables
Manufacturing the photons that train the models

"The US is far behind – it's humiliating where we've ended up."
Jim Farley, CEO of Ford, after visiting China

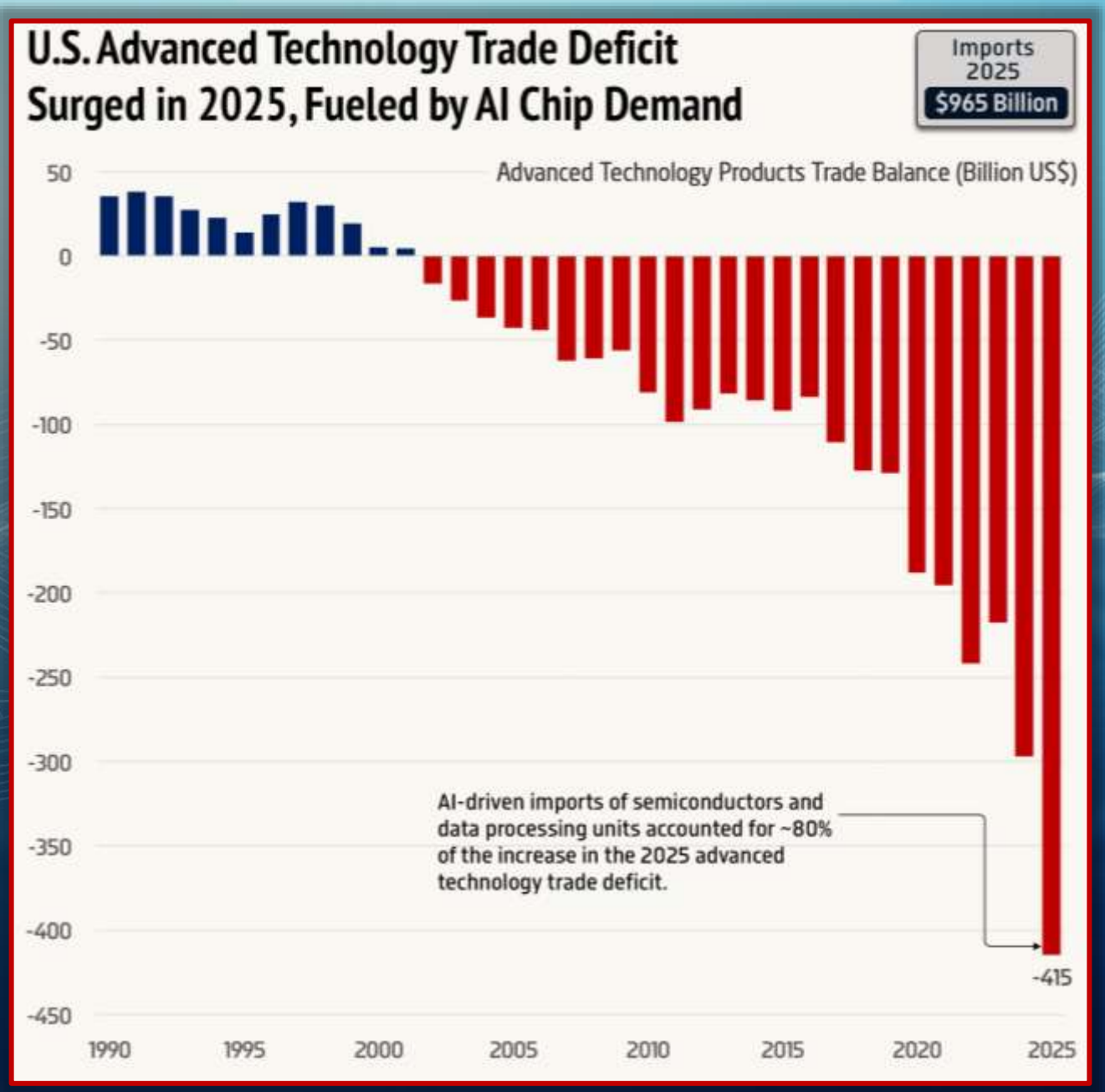
Ford held talks with China's Xiaomi over EV partnership FINANCIAL TIMES

Automation
Manufacturing the labour that makes everything else

Mobility
Manufacturing EVs – and exporting them

When you remotely control factories via AI – and those factories manufacture what defines tomorrow's world – do you control the future?

Making things counts

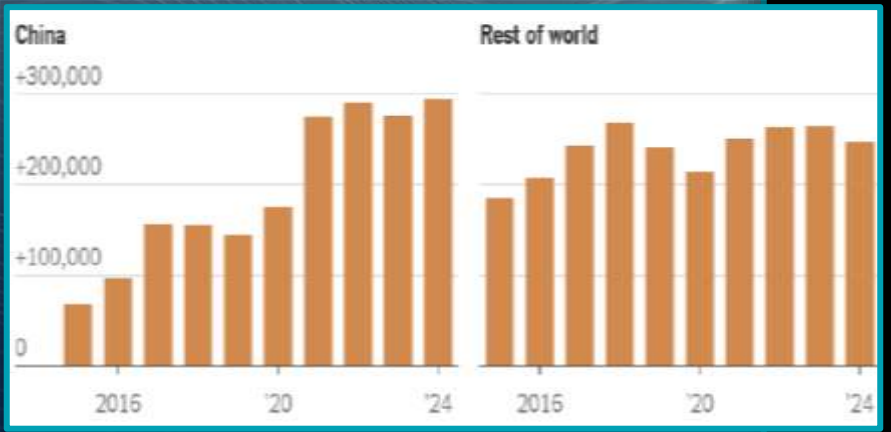


Source:
Census Bureau

The Proof: Xiaomi's Dark Factory powered by SenseTime Dragon

📍 **Location:** *Beijing, China*
Human Staff on Floor: *0*
🏭 **Products:** *Smartphones, IoT devices, robotics components*
📦 **Annual Output:** *12+ million units*
⏱️ **Uptime:** *165/168 hours per week*

Annual Installations of Industrial Robots



This is not just a factory. It is a blueprint for sovereign, scalable, AI-driven production.

And Musk wants to switch Tesla from making EVs to Robots?!

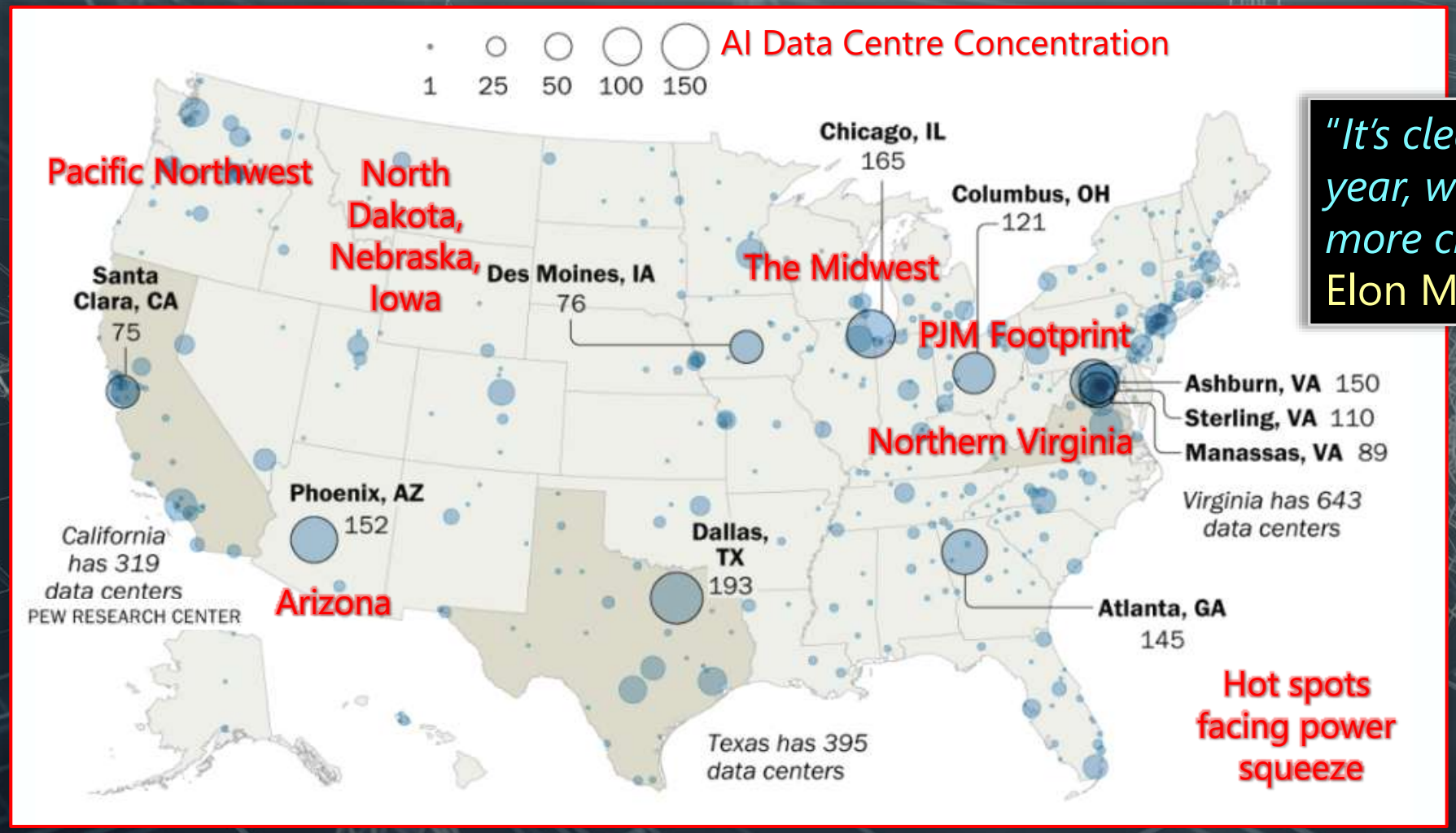
Less than two months later, at the Spring Festival Concert…

Shi po tian jing

Stone shattering the sky

AI's Energy Wall, when compute is held hostage by the Grid

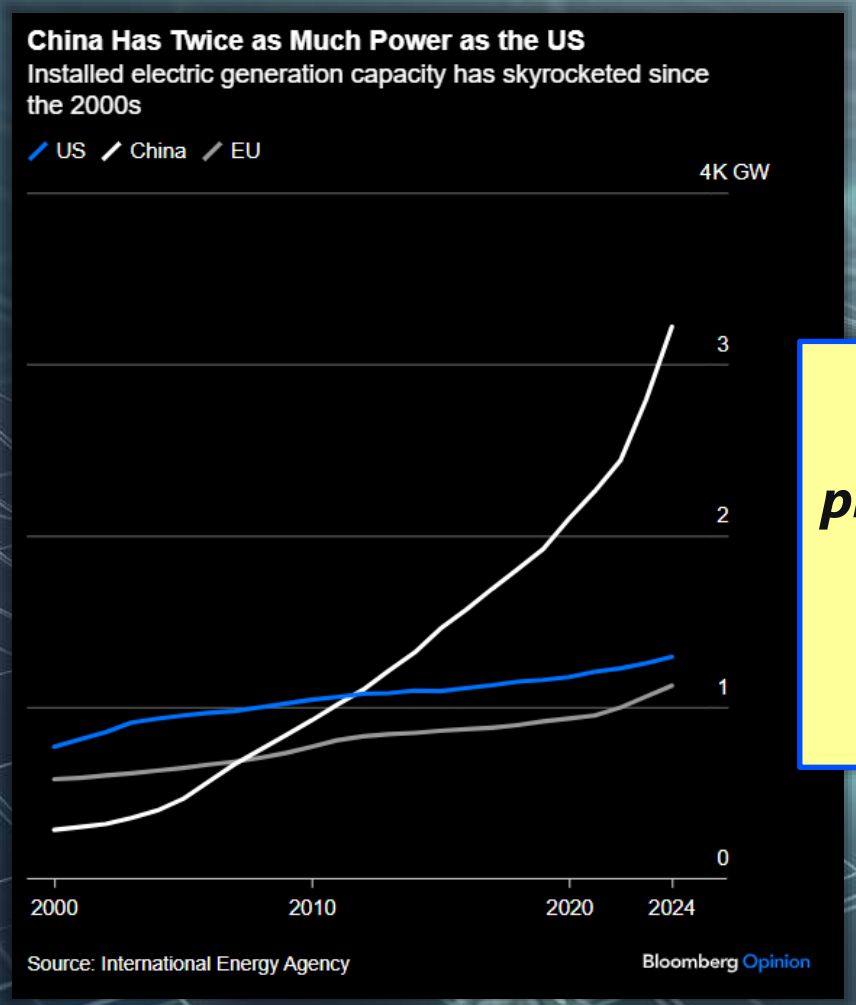
"AI's natural limit is electricity, not chips." Eric Schmidt, former Google CEO



"It's clear that, maybe later this year, we (the US) will be producing more chips than we can turn on."
Elon Musk at Davos

You cannot scale intelligence without energy. And the US is running out of power

The Contrast: As China powers ahead, the US crawls



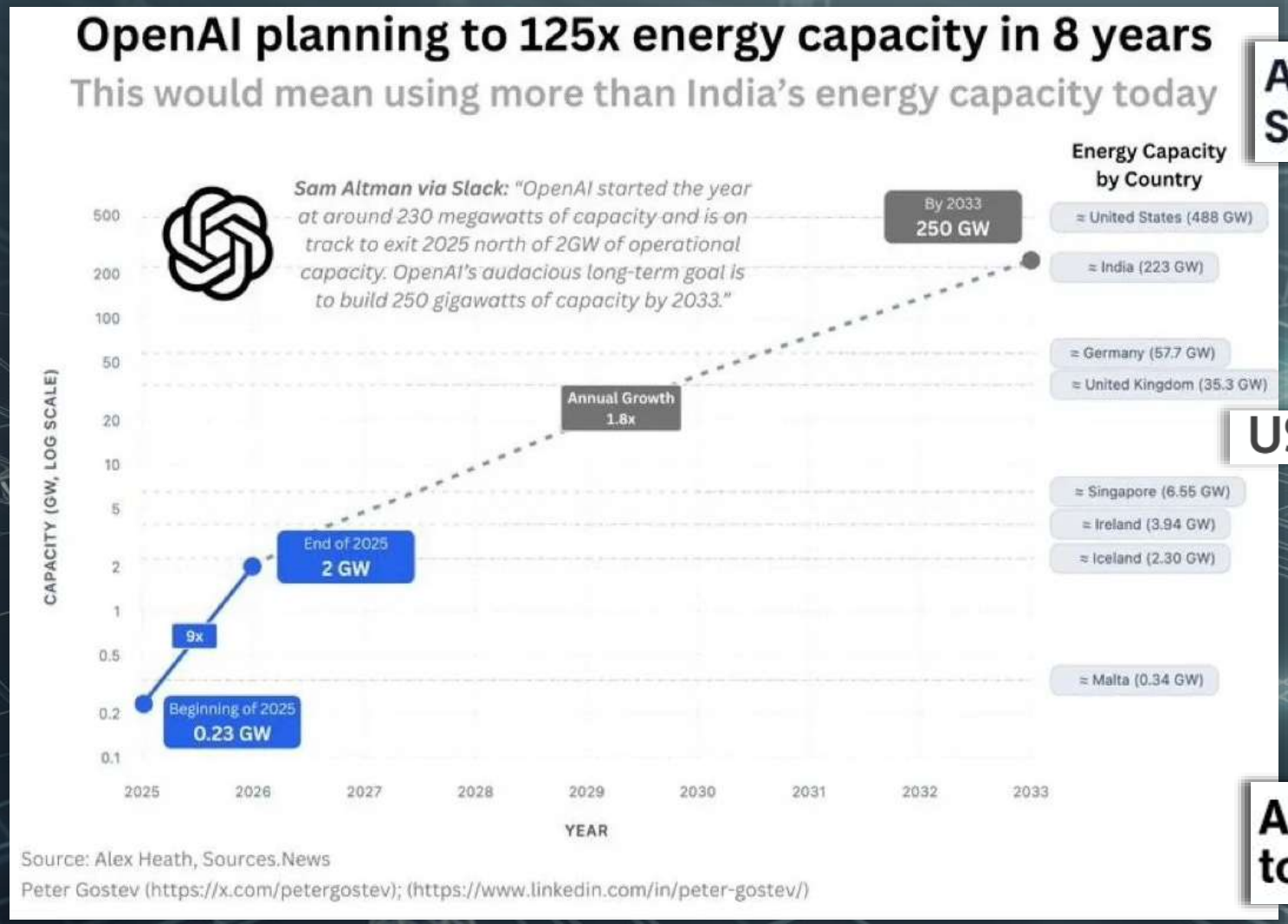
"China's going to have more power than anyone else and probably will have more chips... Based on current trends, China will far exceed the rest of the world in AI compute."
Elon Musk at Davos

In 2025, China added 470GW of power, 7 times the US's 64GW

Talatan Solar Park: 4x size of Manhattan; powering 1.5m homes; built in 3 years

China is building the grid. America is searching for the plug

US power supply is already "Grid-locked"...and getting worse...



AI Chip Inventory Problem: Power Shortages Leave Hardware Idle trax

US AI boom faces electric shock Reuters

Amazon Says Berkshire Utility Failing to Power Data Centers Bloomberg

From Moore's Law to the Jevons Paradox:
"The more efficient we get, the more energy we use."

Where elegance shapes immensity – even in space.

Where structure outlives extravagance – even in cyberspace.

Where intelligence sings – even in code.

Where simple genius, not brute force, balances the most profound equations:

$$I = \infty \times \frac{S}{C} \qquad \nabla \cdot E = \frac{\rho}{e_0} \qquad \sum_{\approx}^{\approx} (x_i \cdot w_i) + b$$

$$e=mc^2$$

"Pure mathematics is, in its way, the poetry of logical ideas." Albert Einstein

"Whom the gods would destroy, they first put on the cover of TIME"

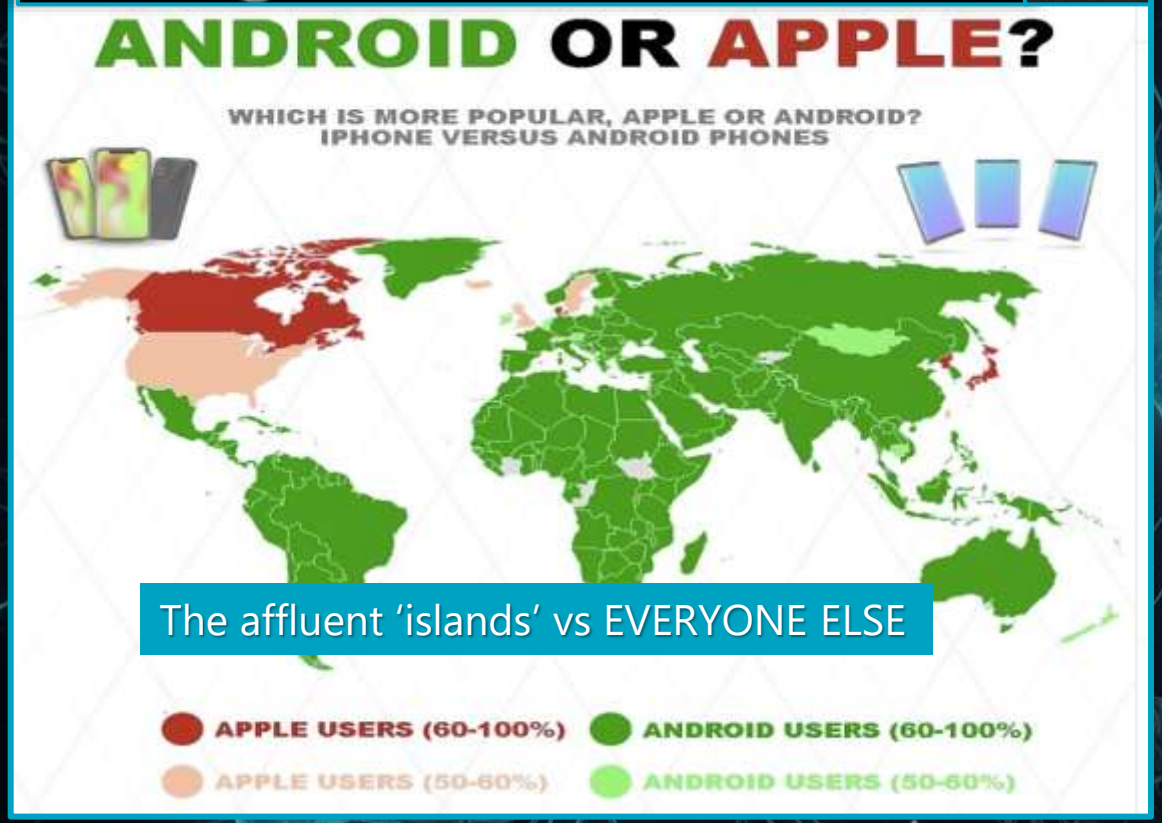
TODAY'S POET LAUREATES?

1. Jensen Huang (Nvidia)
2. Sam Altman (OpenAI)
3. Mark Zuckerberg (Meta)
4. Elon Musk (xAI)
5. Lisa Su (AMD)
6. Demis Hassabis (Google)
7. Dario Amodei (Anthropic)
8. Fei-Fei Li (Stanford)

Will Chinese LLMs Become the World's Open Weight Lingua Franca?

Microsoft warns that China is winning AI race outside the west

FT FINANCIAL TIMES



The affluent 'islands' vs EVERYONE ELSE

LLM Leaderboard

Compare the most popular models on OpenRouter

1.	MiniMax M2.5 by minimax	2.09T tokens ↓15%
2.	Gemini 3 Flash Preview by google	912B tokens ↑14%
3.	Kimi K2.5 by moonshotai	878B tokens ↓27%
4.	GLM 5 by z-ai	789B tokens ↓10%
5.	DeepSeek V3.2 by deepseek	774B tokens ↑4%

80% of US AI startups rely on Chinese open-source models for survival. Investors from Andreessen Horowitz are shocked. The top 16 on the global open-source list are all occupied by Chinese entries. 36Kr

Open source won mobile. Open Weight will win AI.
And China now owns Open Weight AI.

What's in DeepSeek V4...

THE SPECS

Scale & Architecture:

- 1.4 trillion parameters
- Sparse MoE
- Engram-enabled
- 1 M+ token context

Openness & Efficiency:

- Open Weight
- 95–99% cheaper training cost:
- 98% cheaper token inference cost

R1 was a quake...

...and what will it mean?

THE IMPACT

Market Shockwaves:

- Chips commoditize
- Models Radically Cheaper
- Ecosystem DragonSwarm ascends
- Closed weight models fall

Structural Shifts:

- Market bubble pressures intensify
- Chinese self-sufficiency by 2028
- AI Centre of Gravity moves to China

...V4, R2 are tsunamis!


In short, DeepSeek is a porcupine at a balloon party!
Google/Gemini
ANTHROPIC
DeepSeek
Endless Scaling
Microsoft


OpenAI expects another ‘seismic shock’ from China amid speculation of new DeepSeek release
South China Morning Post
Qwen
27.01.26 & 16.02.26
deepseek
xx.02.26
The first tremors? Warnings.
The rupture? Now.
The aftershocks? You're living in them.

Thank you

"Panics do not destroy capital; they merely reveal the extent to which it has been previously destroyed by its betrayal into hopelessly unproductive works."

JOHN STUART MILL