



China's Xi Jinping endorsed open-source AI models in a speech in Shanghai shortly after the release of the Moonshot AI model. GREG BAKER/ AFP/ GETTY IMAGES

U.S. Tech Shares Sink on China AI Advances

Investors fret over the sustainability of heavy spending, China's Moonshot

BY VICKY GE HUANG AND TINA LI

The surprise release of a breakthrough artificial-intelligence model from China intensified a selloff in chip stocks Friday, fueling concerns about competition in AI and corporate spending that underpins its build-out.

The anxiety pushed the PHLX Semiconductor index, packed with industry heavyweights such as Nvidia, Broadcom and Micron Technology, into bear-market territory. The index sank 10% this week, its steepest weekly drop since April 2025. A bear market is defined by a drop of 20% or more from a recent peak.

Tech stocks led a Friday selloff that by late afternoon had broadened to envelop 10 of 11 sectors in the S&P 500 index. The benchmark fell 1%, with only energy stocks up on the day, while the tech-heavy Nasdaq composite slid 1.4%.

The latest trigger was China's Moonshot AI, which unveiled its Kimi K3 large language model Friday. The Beijing-based startup said the model outperforms some U.S. systems, stoking what some analysts called "DeepSeek 2.0 concerns"—a nod to the rival Chinese AI startup that upended global markets last year.

"This is concerning," David Sacks, co-chair of the President's Council of Advisors on Science & Technology, wrote on social media about Moonshot.

Kimi K3 made its debut as the world's largest open-source model, according to the company, and topped some wellknown U.S. counterparts, in-

cluding Anthropic's Opus 4.8 and OpenAI's GPT 5.5, at certain coding benchmarks.

Shortly after the Kimi K3 release, Chinese leader Xi Jinping endorsed the building of open-source artificial-intelligence models, touting an approach that has helped the country catch up with the U.S.

Speaking Friday at an AI conference in Shanghai, Xi cast China as a champion of openness and equality, implicitly criticizing U.S. moves to protect its lead in AI semiconductors and models.

“We should oppose overstressing the concept of national security in the field of AI or placing one country’s security over that of others,” Xi said, without naming the U.S.

Coding capabilities are regarded as a benchmark for model performance because they enable many AI systems to take over computer use or autonomously complete longrunning tasks. So-called openweight models like Kimi K3 are free to download for users, who can customize them using company-specific data and reduce their costs significantly.

The rise of cheaper, customizable models threatens frontier model-makers like Anthropic and OpenAI, whose demand for computing resources underpins a sizable amount of capital spending that has helped power the U.S. economy.

As open models begin to rival those of top AI startups producing proprietary systems, many U.S. companies are turning to cheaper options to rein in AI costs. Nvidia, France’s Mistral AI and other U.S. and European companies have also started developing open-weight models.

Investors have been dumping chip stocks in recent weeks as skepticism grew over whether AI business growth can justify the sector’s lofty valuations. Friday’s news from China effectively forced a rapid unwinding of crowded tech positions beyond just chip stocks, said Mark Hackett, chief market strategist for Nationwide.

“Whether it’s retail investors or institutions, we’ve gotten extended pretty significantly in the momentum-oriented technology space,” Hackett said. “This somewhat unhealthy combination of record leverage ETFs, record margin usage, and record call option buying from retail investors. That was all concentrated in that momentum tech space, and we are just seeing that group moving on.”

On Friday, shares in Netflix fell 7.3% after the streaming company forecast its weakest revenue growth in years. Meanwhile, SpaceX, Elon Musk’s rocket company, dropped 5.4% after it aborted a test launch of its Starship rocket on Thursday, capping off a stretch where tech investors have erased more than \$1 trillion of its market value in about a month.

The Dow Jones Industrial Average shed 0.8% on Friday, or 407 points.

For the week, the Nasdaq led the losses with a 2.9% decline. The S&P 500 slid 1.6%, while the Dow was 0.9% lower.

Some investors attribute the recent volatility in chip stocks to traders locking in profits ahead of coming earnings from major chip makers and the Magnificent Seven group of companies. The tech sector is expected to report robust earnings growth, but the real focus for investors is whether megacap tech companies are plowing ever-greater sums into AI investments.

“It’s natural for investors to want to pull back a little bit in advance of earnings releases,” said Carol Schleif, chief market strategist at BMO Wealth Management. “And it’s not unusual for investors to be fearful after the kind of run that AI stocks have had over the last 12 months.”

Chip stocks are also facing pressure from a broader rotation trade. Investors have been shifting capital out of AI-linked tech stocks and into sectors like energy, financials, industrials and healthcare.

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