



Unpacking the Puzzle of the ‘Magnificent 7’

Why investing in monikers like the ‘Magnificent 7’ for AI exposure will only end in tears

Is every stock that makes up the ‘Magnificent 7’ equally magnificent, or are some more equally magnificent than others? The latter looks increasingly true. For while our obsession with the so-called ‘Mag 7’ creates the illusion of a Big Tech collective, our analysis of consensus earnings expectations reveals a growing performance disparity that puts into question whether ‘magnificent’ is – at least for some of the group – a bit of an overreach.

Before we debate it, let’s step back. Why are the ‘Mag 7’ so magnificent in the first place? Excluding these stocks from the S&P 500 charts an answer. 2025

consensus earnings expectations in the 'remainder' have declined 2.4% in the last three months; at the same time, the Mag 7 has seen a 5.4% rise. With such significant earnings outperformance, it's little wonder that the seven are responsible for around a third of global market returns last year.

Only – not everyone in this pack is cycling at the same speed. Nvidia fronts the peloton with consensus earnings expectations indicating a 320% year-on-year surge to 2025, reflecting its dominance over the AI-driven semiconductor industry. Still within view is Amazon's 49% rise in 2025 earnings forecast. Microsoft and Alphabet fall short with their respective 8.1% and 8.3% upticks, while Apple (experiencing a 6.2% decline), and Tesla (plummeting 38.5%) are pedalling backwards.

Perhaps the 'Magnificent 2-to-3' isn't quite as catchy. But the disproportionate influence of Nvidia's earnings performance and the recent decoupling of Apple and Tesla from the pace-setters, does challenge the idea of the Mag 7 as a collective force.

And crucially – not least for those that see the Mag 7 as a proxy for exposure to the AI theme – this divergence raises the red alarm that investing in the moniker (without respect for their differentiated business models, end markets and varying degrees of interfacing with AI) is misleading and potentially dangerous.

Generalisation, and its intrinsic biases, is our pivotal concern. It is humanity's condition to draw parallels, in an effort to simplify complex and highly dispersed outcomes. There is a proverbial graveyard of private capital lost in long-forgotten themes and endless obituaries of

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companies that bandwagon on 'hype'; that have not delivered sustainable, profitable growth. You don't need to look further than the Dot.com bubble to find examples of this kind of adrenaline-fuelled reductivism – and the poor stock selection it produces.

Investors looking to exploit important trends like AI must therefore be discerning in their stockpicking strategies.

Rather than lulled into the false sense of security granted by collective exposure, it is for portfolio managers to look past the moniker and target companies benefitting from AI where new sources of demand generate long-term, high-margin growth opportunities that are indicative of a profitable and enduring market shift.

Similarly, investment portfolios should not bet the house on just one market trend or source of demand – investors must diversify risk and seek out multiple sources of structural demand growth. This means seeking out exposure to different end markets, different customer types, and sources of demand that are uncorrelated to one another, to reduce portfolio risk.

For example, we observe a growing need for more robust cybersecurity in the face of growing malicious activity from state-sponsored and criminal actors. Enterprises must safeguard consumer data and protect against ransomware attacks, while also managing increased remote working and the effective 'fractionalisation' of their networks.



Governments need to secure systems to prevent matters of national security ending up in the wrong hands. Fortinet is well placed to benefit, selling cybersecurity solutions that offer incredible value and strong performance to businesses and governments.

We typically avoid the pharma sector due to the unpredictable nature of drug discovery and expiring patents. However, tapping into the structurally growing R&D spend in global pharmaceuticals is possible through software that manages increasing data volumes in clinical trials and streamlines mission-critical aspects like regulatory reporting, quality, and safety. Many customers are upgrading from outdated, in-house legacy processes. Veeva, a specialist in pharmaceutical software, is well positioned to capitalise on strong long-term growth and without the risks associated with betting on individual drugs.

And in software development, engineers are utilising co-pilot programs that assist in writing, correcting, and enhancing code, which could lead to significant efficiency gains and increased output, though it may also reduce the demand for computer programmers.

Be it chatbots replacing customer service agents, in sectors like banking, utilities, communications, and online retail, or AI's role in writing tasks and its effects on journalism, marketing, advertising and



law, there exists a potentially infinite cosmos of applications for AI. We can't yet determine with certainty where its role as a productivity tool begins and its potential replacement for labour ends. But we can already see glimmers where AI can unlock capacity for higher-value activities – particularly in replacing repetitive manual tasks.

To that end, AI is undoubtedly reshaping various industries by boosting efficiency and productivity. Not unlike what we've witnessed throughout history, technological advancements are again changing the face of productivity.

While impact will vary across sectors, opportunities to tap into this shift extend well beyond the veneer of the Mag 7.

Identifying the long-term, profitable beneficiaries of AI, as well as those that may stand to lose, will be the key to active management once again outcompeting passive strategies. While there will be many winners in the broad adoption of AI, investors should maintain a balanced approach. Emphasising diversification, rigorous research and stock selection remain essential components of leveraging emerging trends for sustainable long-term gains.



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