Have you ever heard of the Magnificent 7?

No, we’re not referring to the classic western starting Yul Brynner and Steve McQueen. We’re referring to the seven companies most responsible for the stock market’s rise over the past year. In fact, they have played such an oversized role that it’s time to start thinking about what might happen if they were to…stop.

Many of our clients have been asking us about the Magnificent 7 lately. (The term is not an official one, of course. An investment analyst coined it last year and it quickly caught on.) So, in this message, we’re going to answer:

**Six Important Questions About the Magnificent 7**

Let’s start with:

1. **What exactly are the Magnificent 7 and why do they matter?**

While we rarely mention specific companies when discussing the markets, we’re going to name them here. The Magnificent 7 are: Amazon, Alphabet (aka Google), Apple, Meta (aka Facebook), Microsoft, NVIDIA, and Tesla. Collectively, these companies have a greater market capitalization than all the combined companies in nearly every country in the world.¹ In fact:

- In 2023, their market capitalization represented a staggering 29% of the entire S&P 500.²
- The stock prices of these companies rose by an average of 111% last year.²
- In January 2024 alone, just five of these seven stocks were responsible for 98% of the S&P 500’s gains for the month.³

When we zoom out and look at the stock market, we tend to see it as a single squiggly line. Sometime the line goes up. Sometimes it goes down. Sometimes, it zig-zags. But this isn’t really an accurate way to think of stocks. At any given time, some stocks will be moving up, and some will be moving down. If more stocks are moving in one direction than another – especially if they are weighted more heavily, which we’ll get into in a moment – then that’s what drives the overall direction of the market.

It’s uncommon, however, for such a small handful of stocks to affect the squiggly line so thoroughly. And that’s why the Magnificent 7 matters.

2. **Why are the Magnificent 7 having such an oversized impact?**

Okay, bear with us here, because we’re about to get a little technical.

The S&P 500 is what’s known as a *capitalization-weighted index*. That means each of the 500 companies are weighted according to their market capitalization. This is a company’s share price multiplied by the number of shares available to buy or sell. As you know, some companies are simply bigger or do more business than others. Typically, this means they have more outstanding shares. A high number of shares *plus* a high share price leads to a higher market capitalization. This in turn means they have more weight within the S&P 500. The result? The price movement of these companies has a greater impact than that of smaller companies.

In an unweighted index, every company has the same impact, no matter its price or how many shares are available. The price of the index is determined by simply adding up every company’s stock price, then dividing by the total number of companies in the index. But in a weighted index, when some companies perform at a *much* higher or lower level than the average, they can push the entire index *way* up…or drag it way down.
Here's another way to think of it. In 2023, the S&P 500 rose by 24%. If you gave each company in the index an equal weight, that number would drop to 12%.\(^2\) And if you took the Magnificent 7 out of the index entirely, that number would be only 8%.\(^2\)

That’s how much weighting can matter.

3. **Okay, so why have the Magnificent 7 risen so much?**

It helps that six of the seven are household names that just about everyone has heard of. They provide products and services that many people use every single day. (Cell phones, computers, the chips needed to power both, cars, delivery, etc.)

But the main reason for their current rise can be summed up in two words: **artificial intelligence.**

The last two years have brought some stunning advances to the field of AI. There are now a multitude of AI-driven products available. Many are designed to help companies boost productivity and increase efficiency. These advances have many investors salivating at the possibility that AI will help companies produce more than ever before…and in doing so, return more value to their shareholders. Many experts believe that AI could change the world similar to how the internet did.

Each of the Magnificent 7 are either heavily leveraging AI or are actually helping to advance it. Each is an already-successful company. Each has stellar brand recognition. And each is at the forefront of a potentially revolutionary new field.

4. **Does this mean we should put everything into these 7 stocks?**

In a word? No. In two words? Absolutely not.

Let’s review some recent history. Before the Magnificent 7, the hot buzzword on Wall Street was “FAANG” stocks. (This was an acronym for Facebook, Amazon, Apple, Netflix, and Google.) In the late 2010s, these companies also represented a huge portion of the S&P 500. But over time, things changed. Facebook became Meta. Google became Alphabet. And companies like Tesla and NVIDIA grew to have a far greater market capitalization than Netflix.

Then, too, even these tech giants haven’t always been winners. For example, remember 2022? The S&P 500 lost 19.4% that year.\(^4\) The culprit? Tech. Many of the same tech companies that drove the markets in ’23 are what dragged the markets in ’22. (This includes the Magnificent 7.) Nobody, no matter how intelligent or experienced, has a crystal ball. Nobody knows how long the Magnificent 7 will stay magnificent…or which companies will eventually, inevitably, replace them.

This is why we are such believers in the concept of **diversification.** Because we don’t know, we don’t try to guess. Instead, we make sure we are positioned to take advantage of any sector, at any time, instead of taking the proverbial “eggs in one basket” approach.

5. **What does this all mean for the future?**

Again, there’s no way to know for certain…but there are a few possibilities. One is that the market rally continues because the breadth of the rally increases. Rather than relying on just a few companies to propel it forward, the market instead enjoys a broader front, where more companies are rising in value at the same time. This indicates a healthier market. Earlier in the year, market breadth was narrowing – a bad sign. In recent weeks, however, that trend has started to reverse.\(^5\) More shares have been rising compared to those falling.

Another scenario is that things continue as they have. That’s probably not sustainable, however. Either more companies will catch up, or at least some of the Magnificent 7 will come back to earth.

There’s a third scenario we must always be on the lookout for: That the hype around AI represents a bubble. Remember the dot-com bust around the turn of the century? The rise of the internet created so much excitement that many net-based companies exploded in value…only to implode when it became
clear their value was based more on hype than anything real. Right now, AI is an exciting new frontier. Only time will tell, however, whether that frontier is a real horizon or just a mirage.

**6. So why is it important to know about all this?**

For two reasons. First, it reminds us that the “squiggly line” we see representing the stock market *doesn’t* always tell the full story. In this case, the line for 2023 and into 2024 looks impressive. But when you zoom in, you see the *breadth* of that line is remarkably skinny. While the stock market has undoubtedly done well, the *majority* of the market isn’t quite as impressive as it seems on the surface.

Second, it reminds us not to get caught up in the hype…or in headlines. The Magnificent 7 represent a group of exciting companies propelling the markets. That’s the story today. A story we definitely want to participate in. But what will the story be tomorrow? That is something we must never forget to consider…and always be prepared to face.

In *The Magnificent 7* film, a group of gunfighters are hired to protect a small town from bandits. By the end of the movie, some of the group survived; others didn’t. As the survivors prepare to leave, the town leader tells them: “You’re like the wind…blowing over the land and passing on.”

In our experience, individual stocks are also like the wind. They blow over the land…and then they pass on. Our job is to be the land itself. Our job is to remain. And that is what we will always strive to help you do.

Please let us know if you have any questions – or if there is ever anything we can do for you!

Sincerely,

Barbara B. Hudock, CIMA®, CPM®
Chief Executive Officer
Founding Partner

Michael J. Hudock, Jr., CPM®
President and Founding Partner
Wealth Consultant

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1 “Magnificent 7 profits now exceed almost every country in the world,” *CNBC*, [www.cnbc.com/2024/02/19/magnificent-7-profits-now-exceed-almost-every-country-in-the-world-should-we-be-worried.html](http://www.cnbc.com/2024/02/19/magnificent-7-profits-now-exceed-almost-every-country-in-the-world-should-we-be-worried.html)


