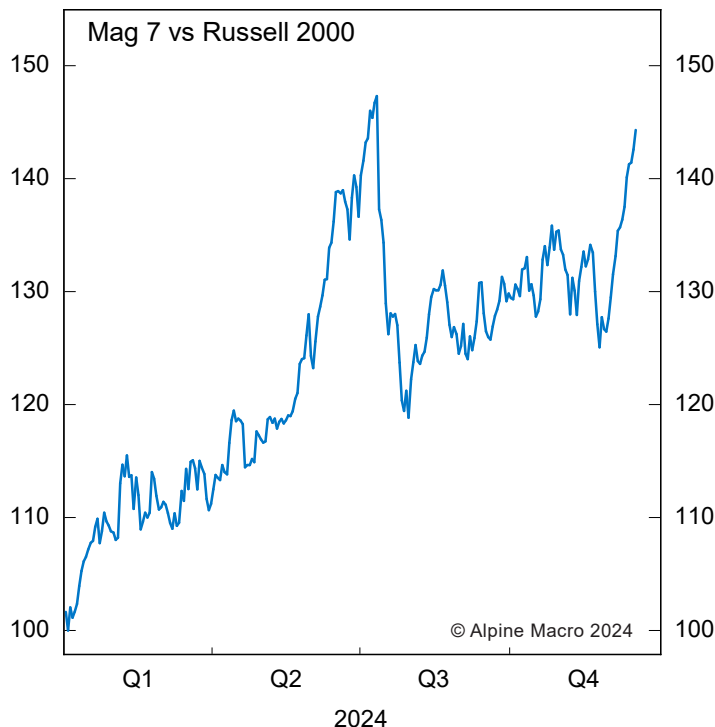


Mag 7 Bull: Just Overbought, Or Over?

This chartpack provides seven types of inputs to track the outlook for the Magnificent 7 (Mag 7) stocks, which now account for 35% of the S&P 500:

- (1) **Market Positioning and Sentiment:** Basic technical and capital allocation indicators that give a feel for whether price moves are overextended in the short term.
- (2) **Rotation:** The big runup in Mag 7 relative performance could play out in a number of ways: mania-like overshoot, rotation to new leaders or burst bubble. These charts will help to track the odds of each outcome.
- (3) **Stylized facts for price and performance:** These charts track the huge runup in market capitalization and stock prices themselves over the past decade.
- (4) **Earnings:** These charts simply track the evolution of profits and profits going forward.
- (5) **Fundamentals:** Sales, margins, income and cash flows all have diverged positively for the Mag 7 versus the rest of the market. These charts help to gauge the sustainability of these trends, as well as the potential for mean-reversion.
- (6) **Valuation:** While unlikely to help time the ultimate top in prices, these charts provide a measure of reward versus risk of the Mag 7 stocks, both in absolute and relative terms.

No Rotation Yet



They also help to determine whether these stocks are "merely expensive", or irrational.

- (7) **Concentration:** It is useful to compare previous periods when a handful of stocks dominated the U.S. equity market, even if the fundamentals driving those "bulletproof leaders" were very different.

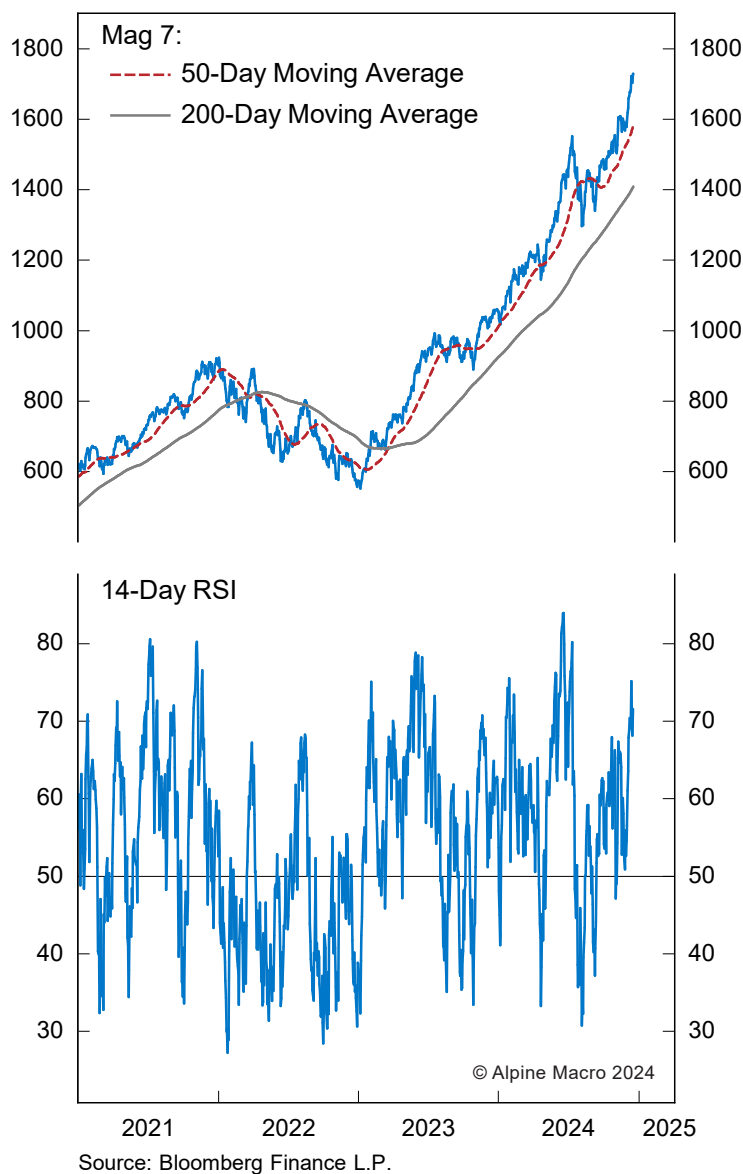
David Abramson

Chief U.S. Strategist & Director of Research

Rahul Gonuguntla

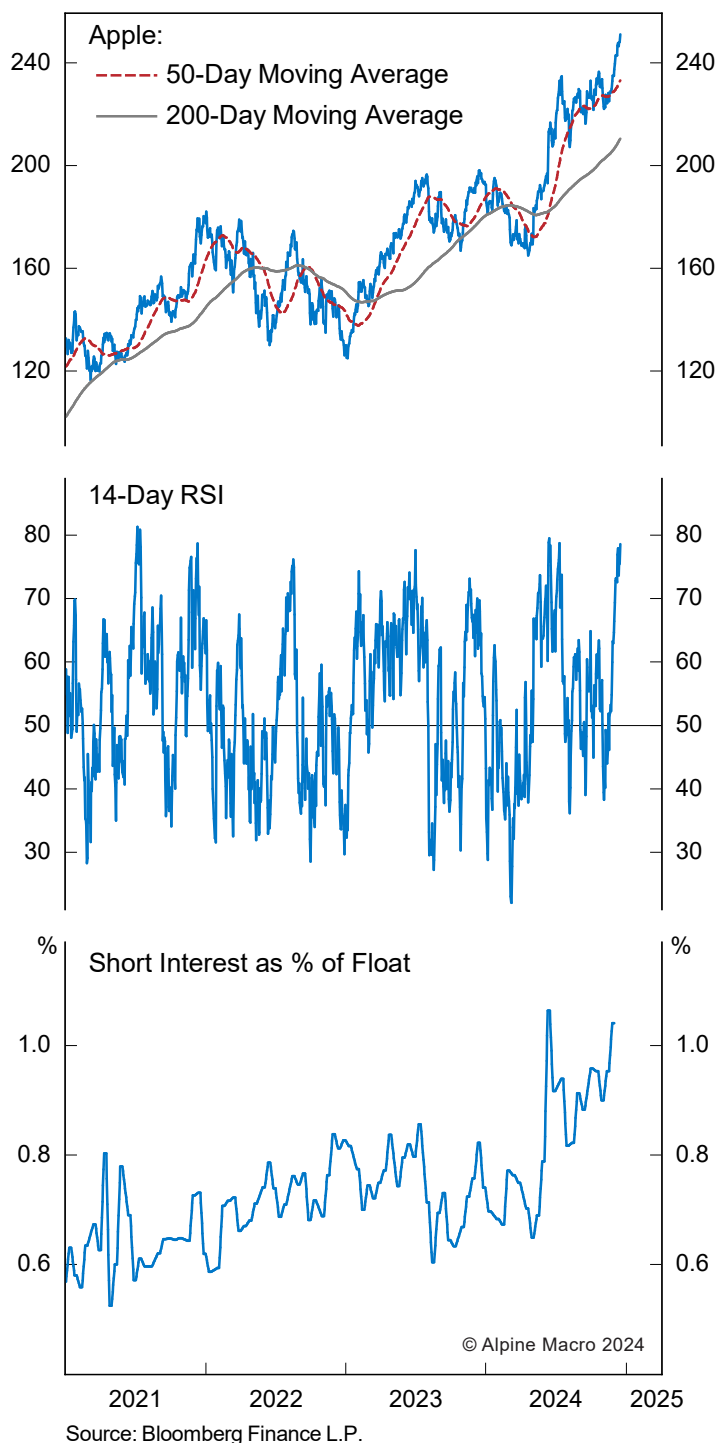
Research Analyst

Mag 7 Positioning



Overbought in aggregate.

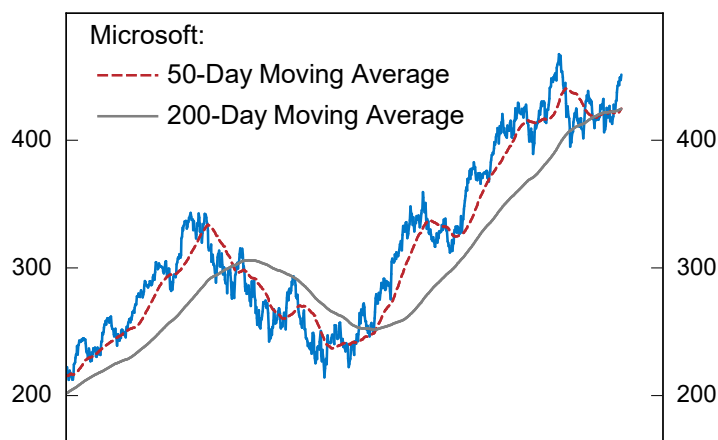
Apple Positioning



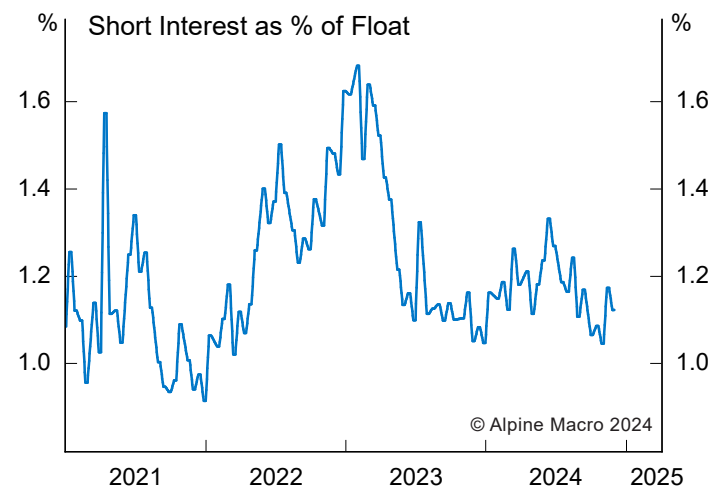
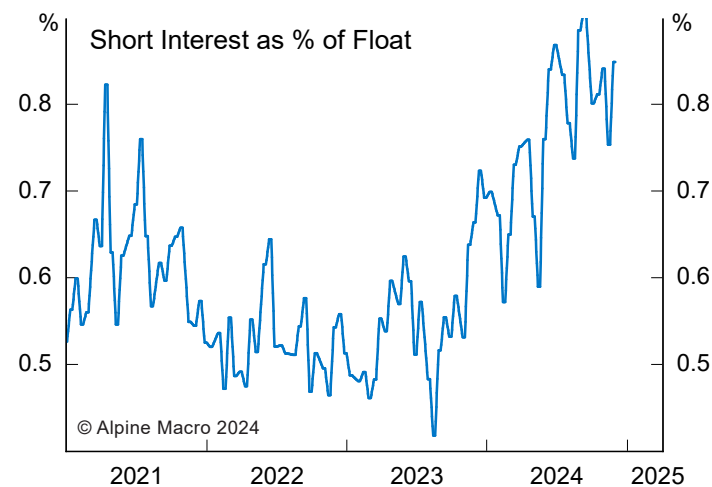
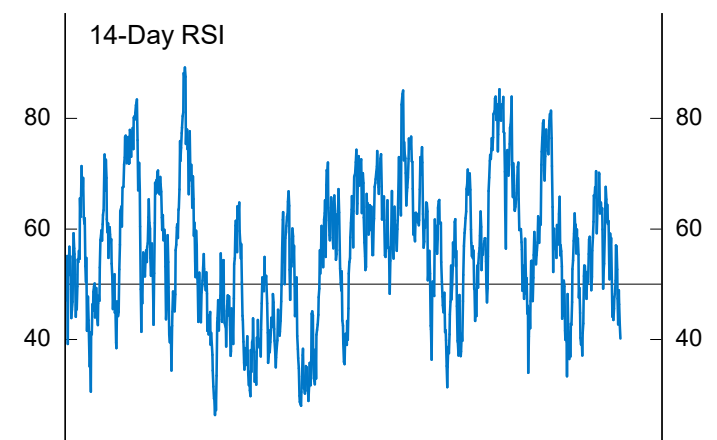
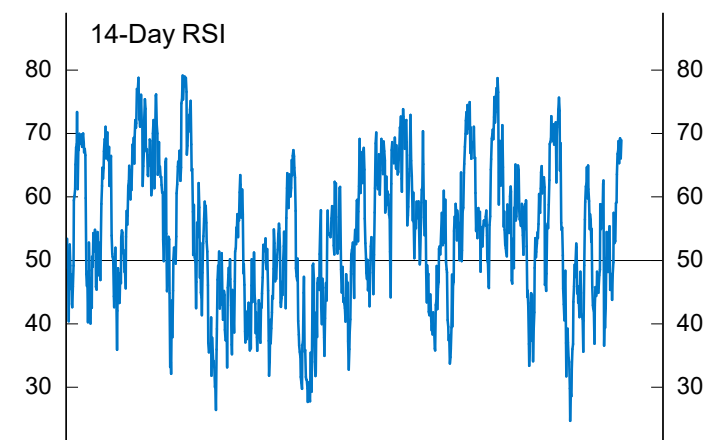
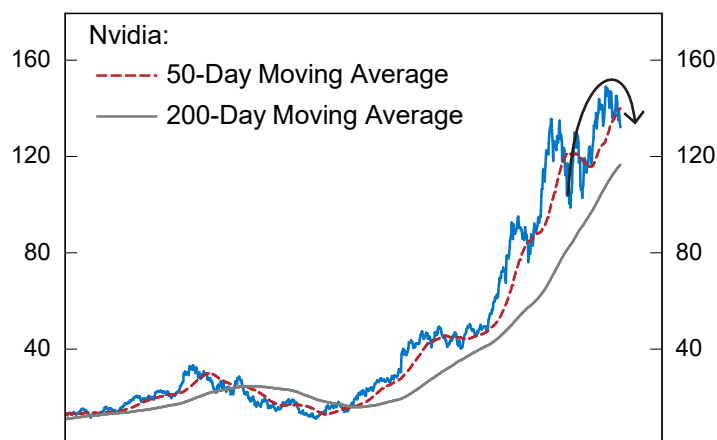
Overbought extreme.



Microsoft Positioning



Nvidia Positioning



Source: Bloomberg Finance L.P.

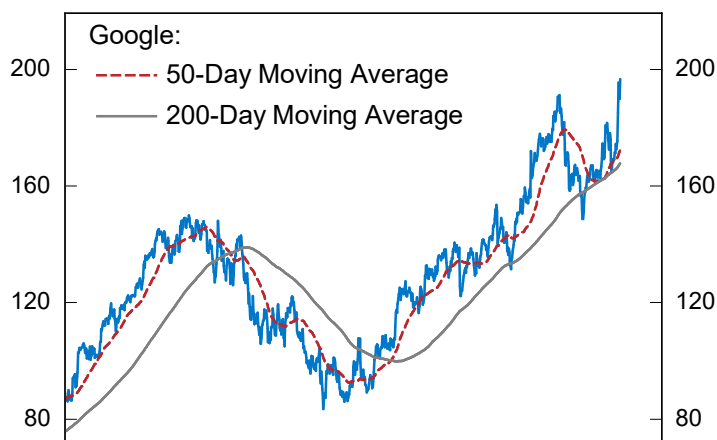
Source: Bloomberg Finance L.P.

Overbought extreme.

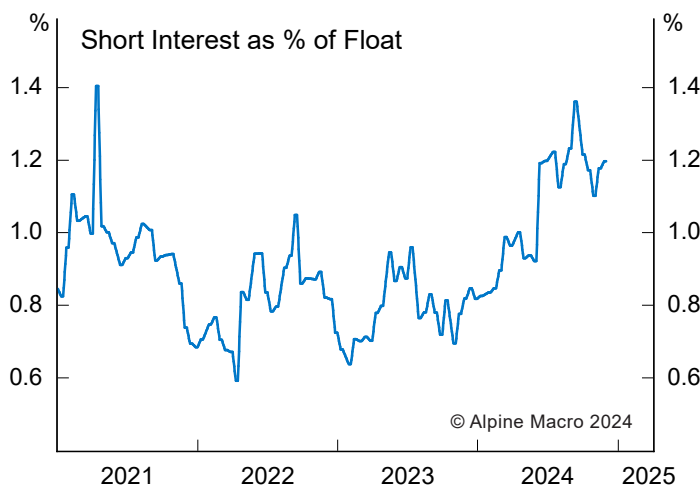
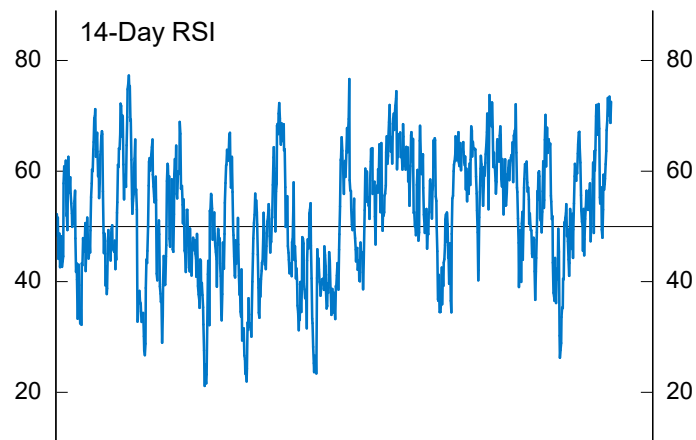
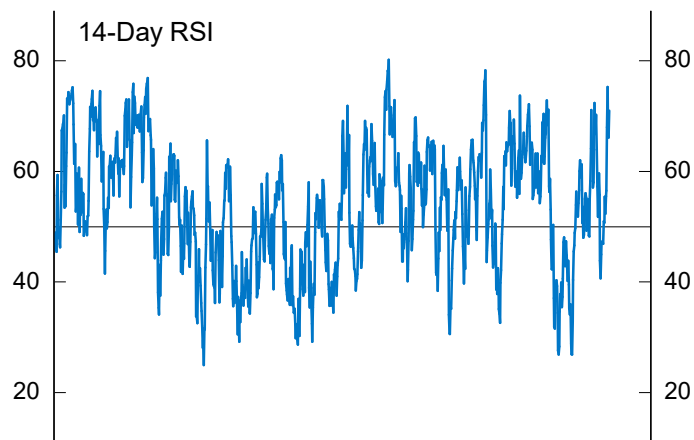
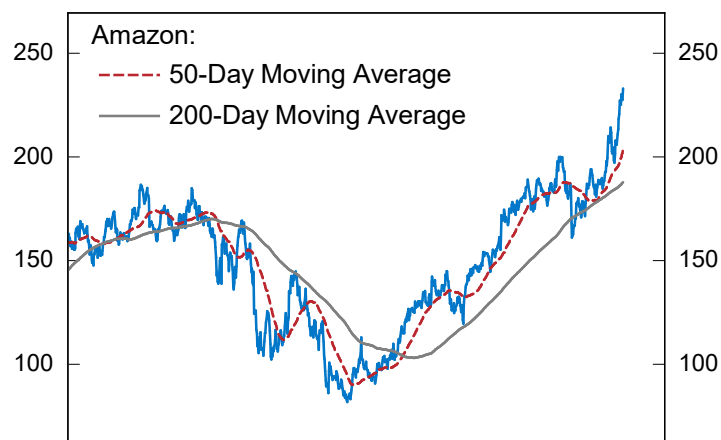
Negative divergence.



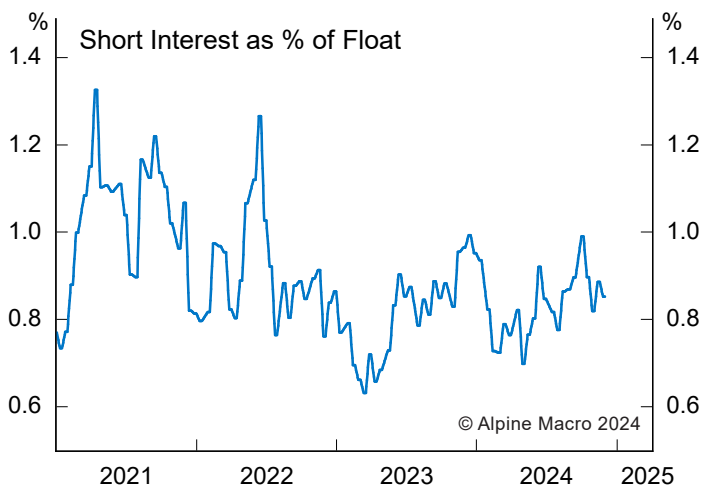
Google Positioning



Amazon Positioning



Source: Bloomberg Finance L.P.



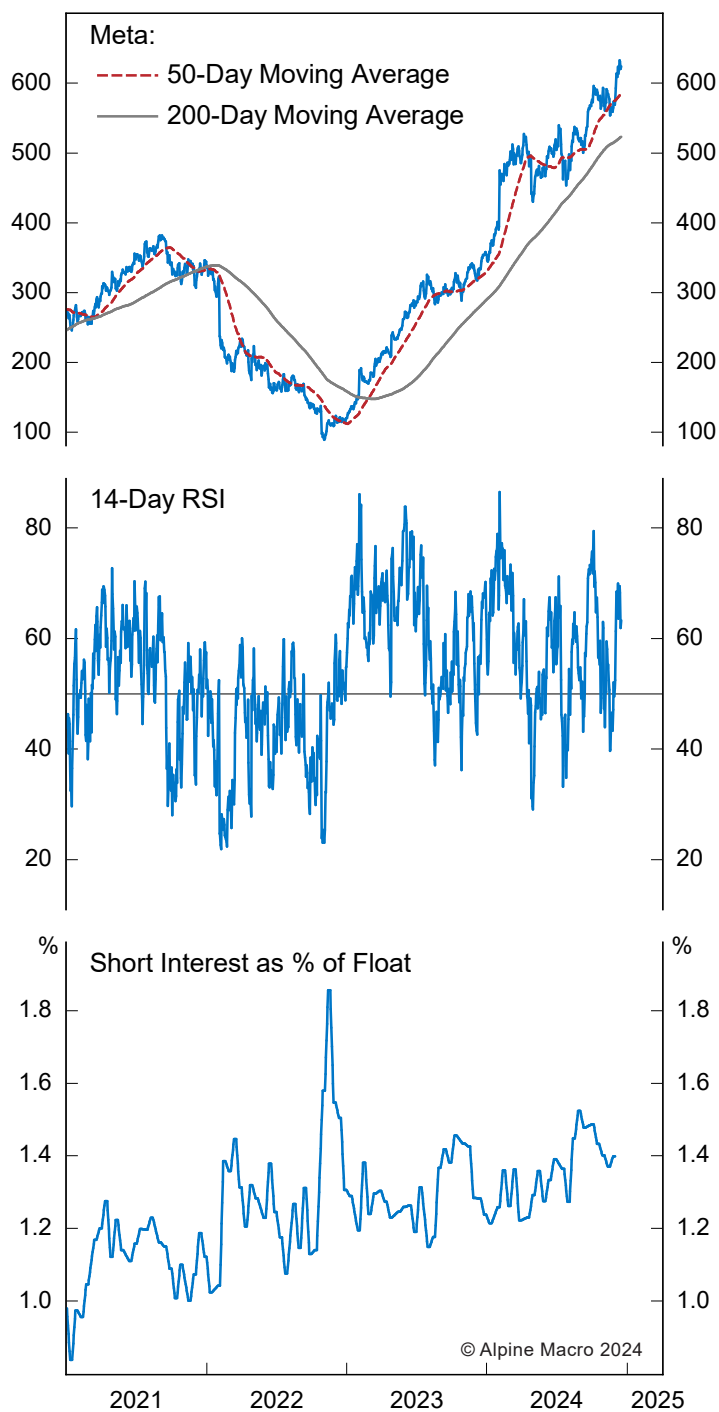
Source: Bloomberg Finance L.P.

Strong recent price action.

\$200 resistance becomes support.



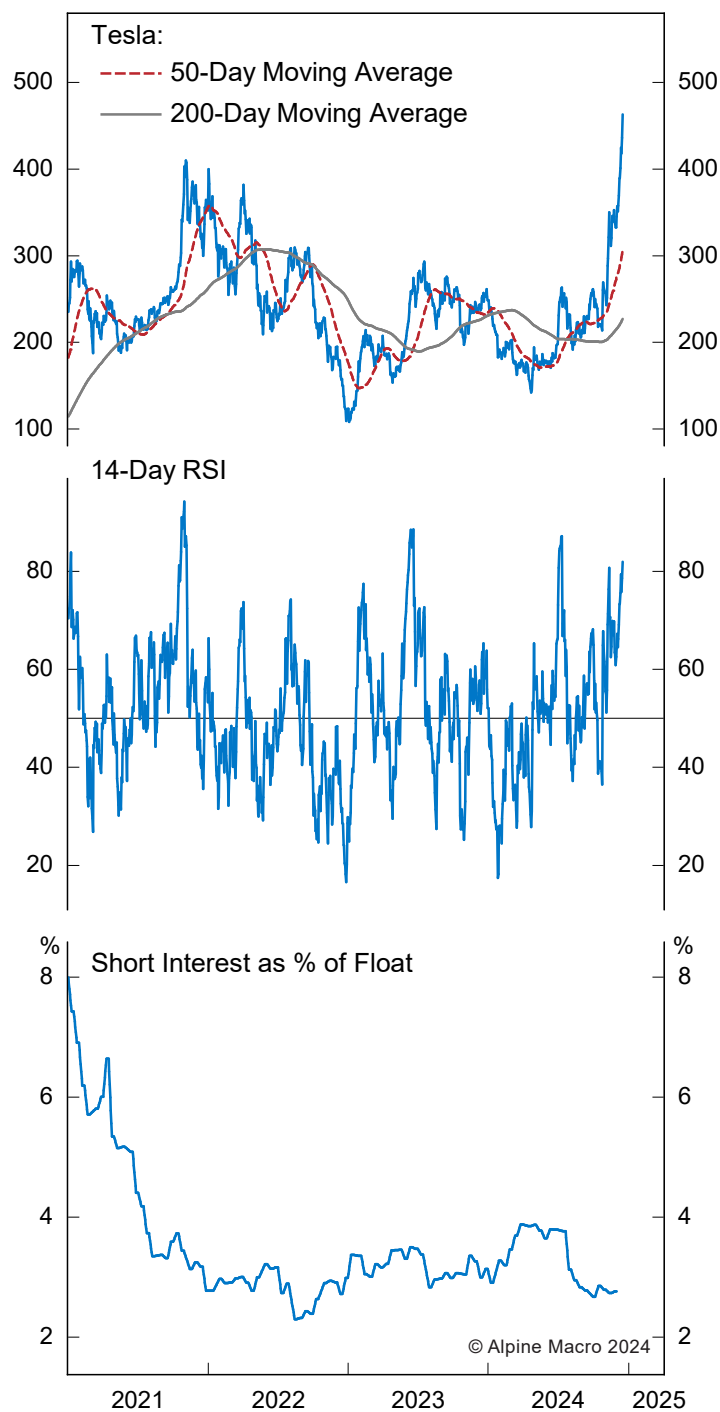
Meta Positioning



Source: Bloomberg Finance L.P.

Overbought extreme.

Tesla Positioning

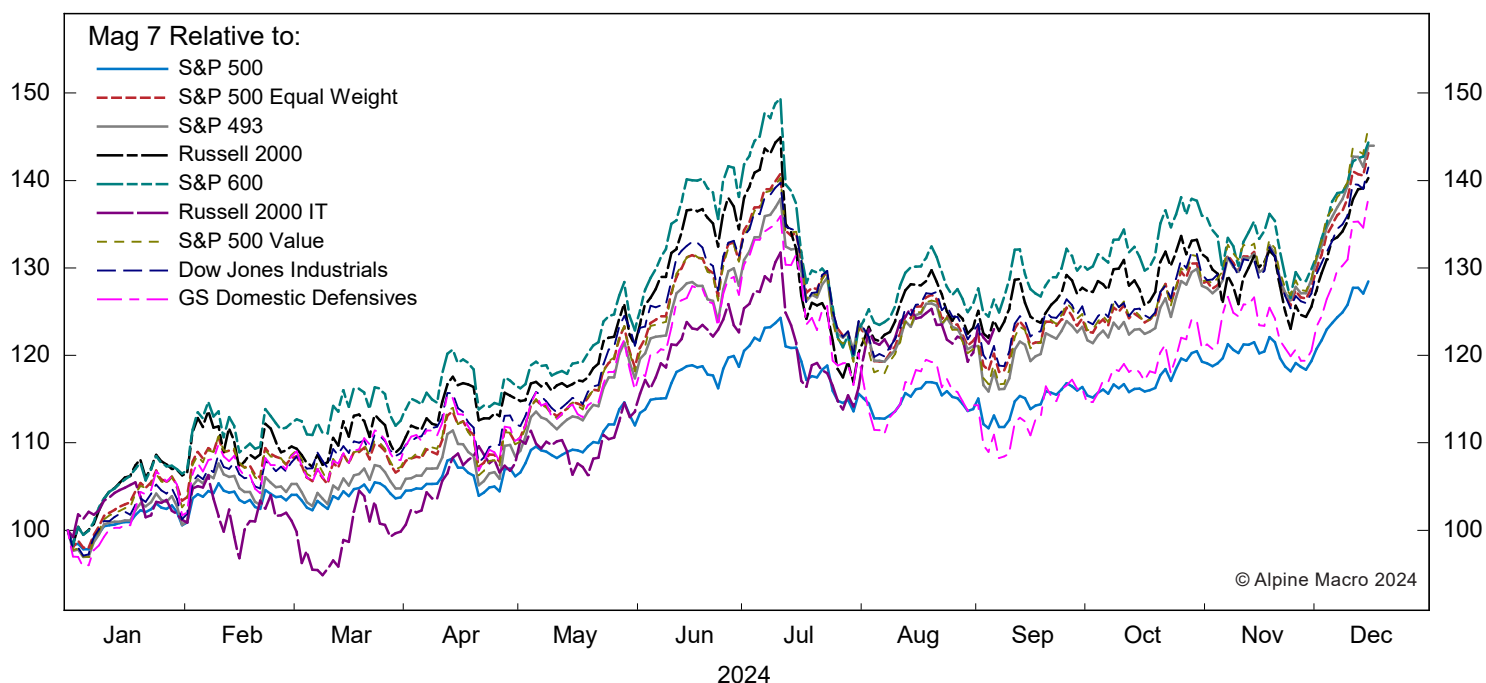


Source: Bloomberg Finance L.P.

The Trump trade.

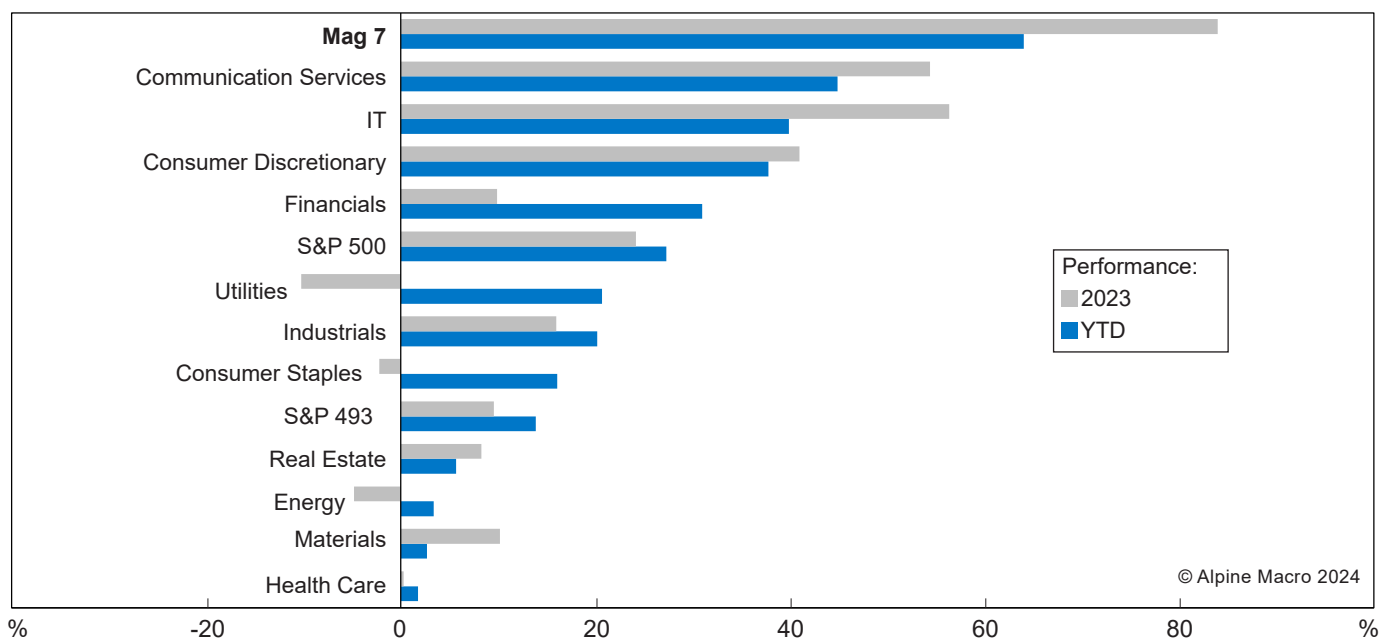


Mag 7 Relative Uptrend Resumes Against "Almost Everything"



The dips keep getting bought as often the case in a mania.

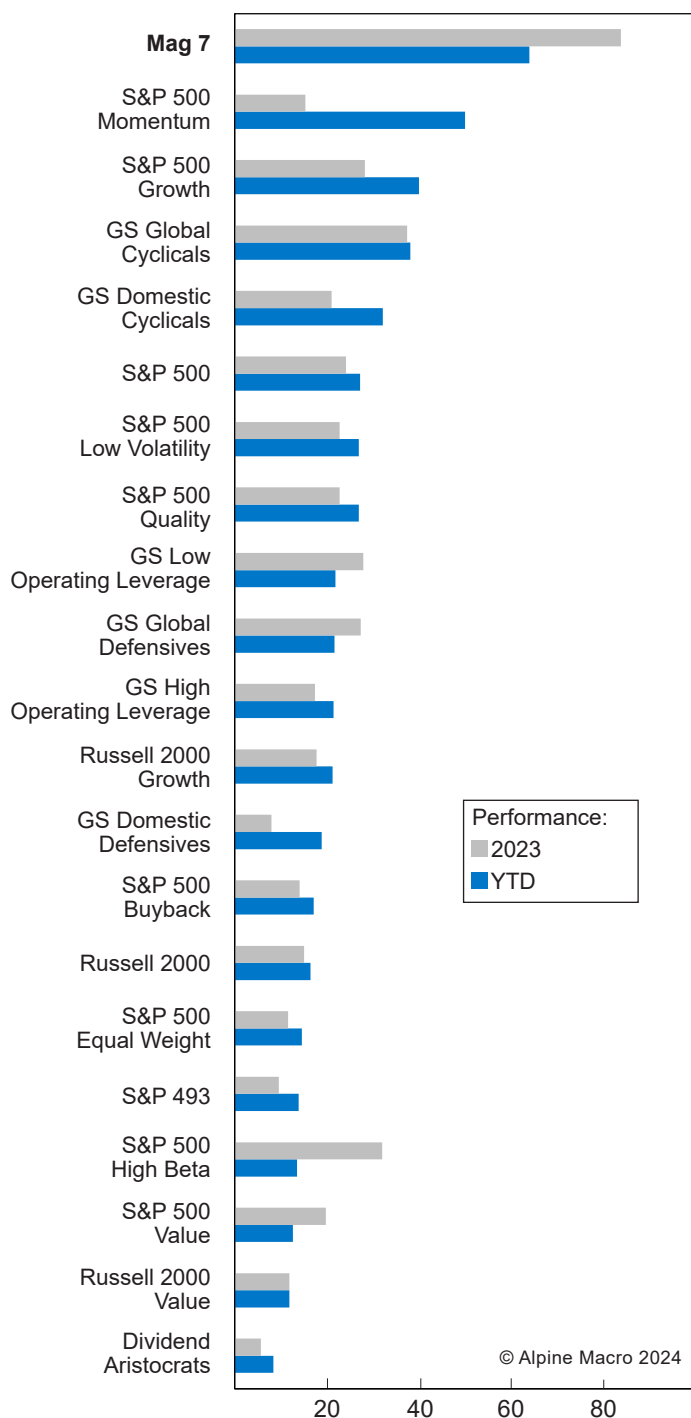
S&P 500 Sector Year-To-Date Performance



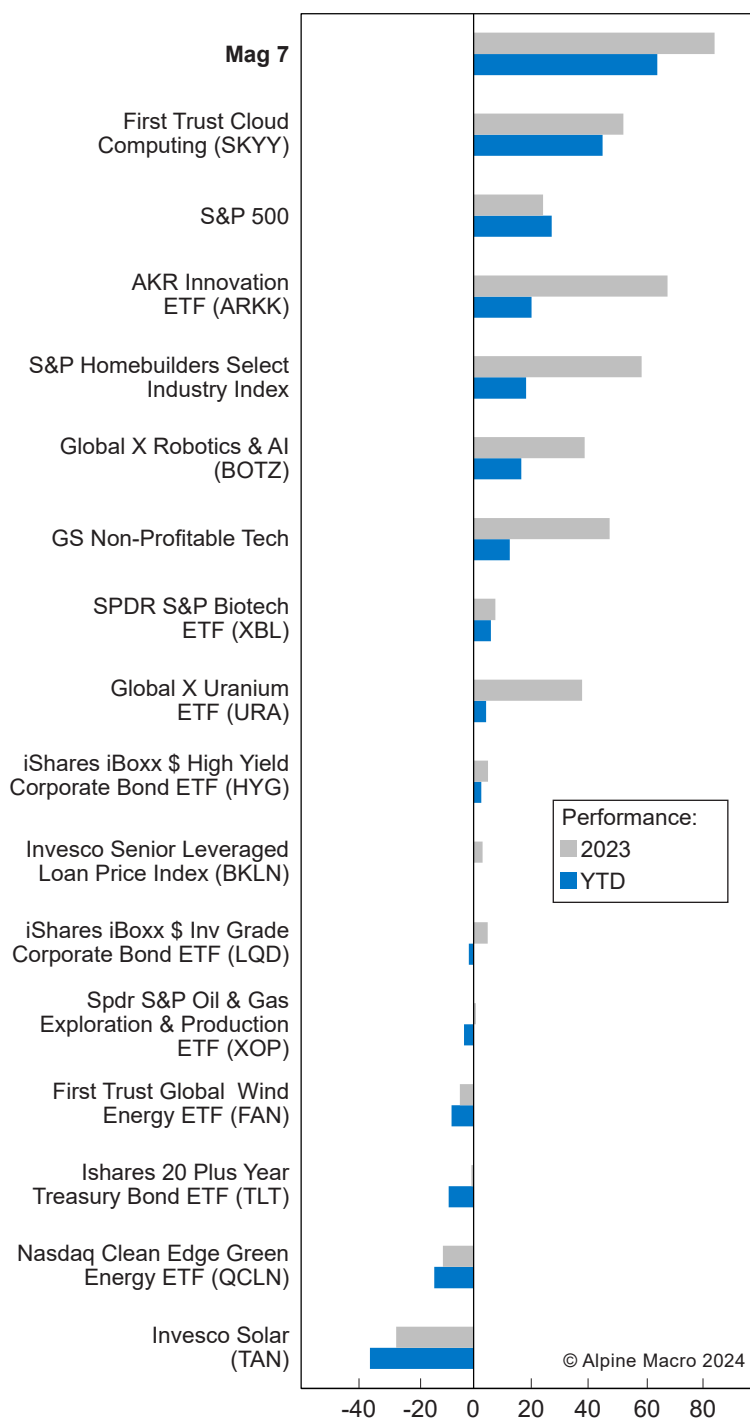
Another year of outperformance.



Snapshot Of Factor Performance



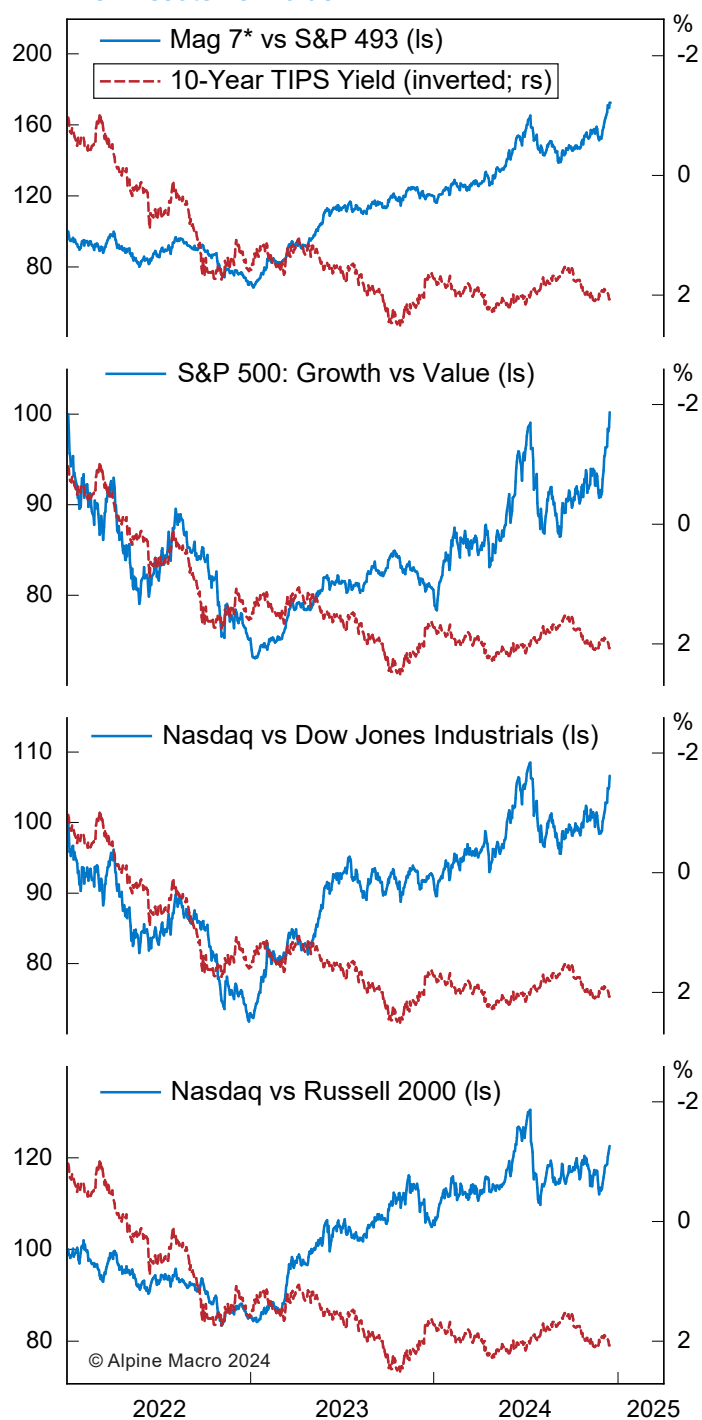
Snapshot Of Thematic Performance



Mag 7 outperforms riskier, less profitable growth plays.



Risk Assets Vs Yields

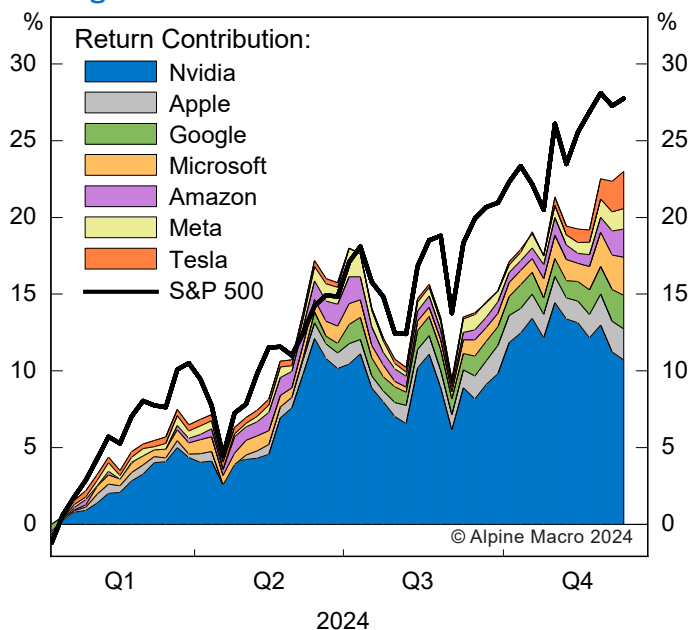


Note: Blue lines have been rebased to Jan 2022 = 100

Risk assets are getting less sensitive to real yields.

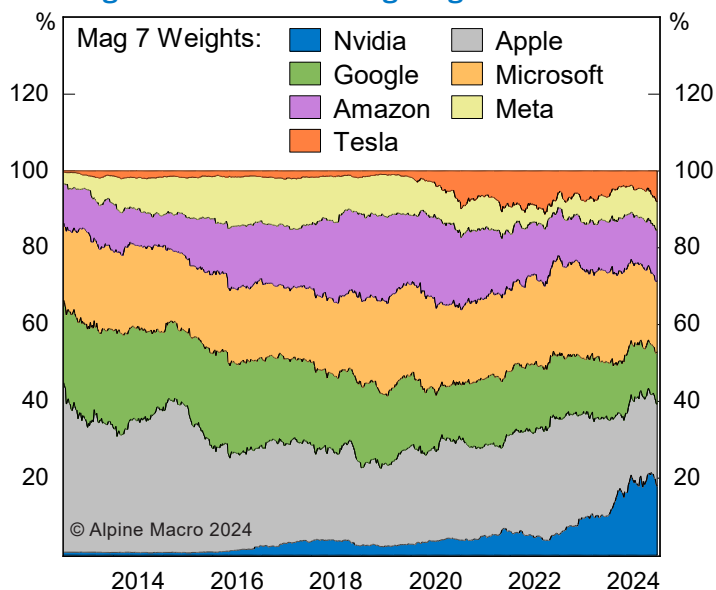


Mag 7 Contribution To S&P 500 Returns



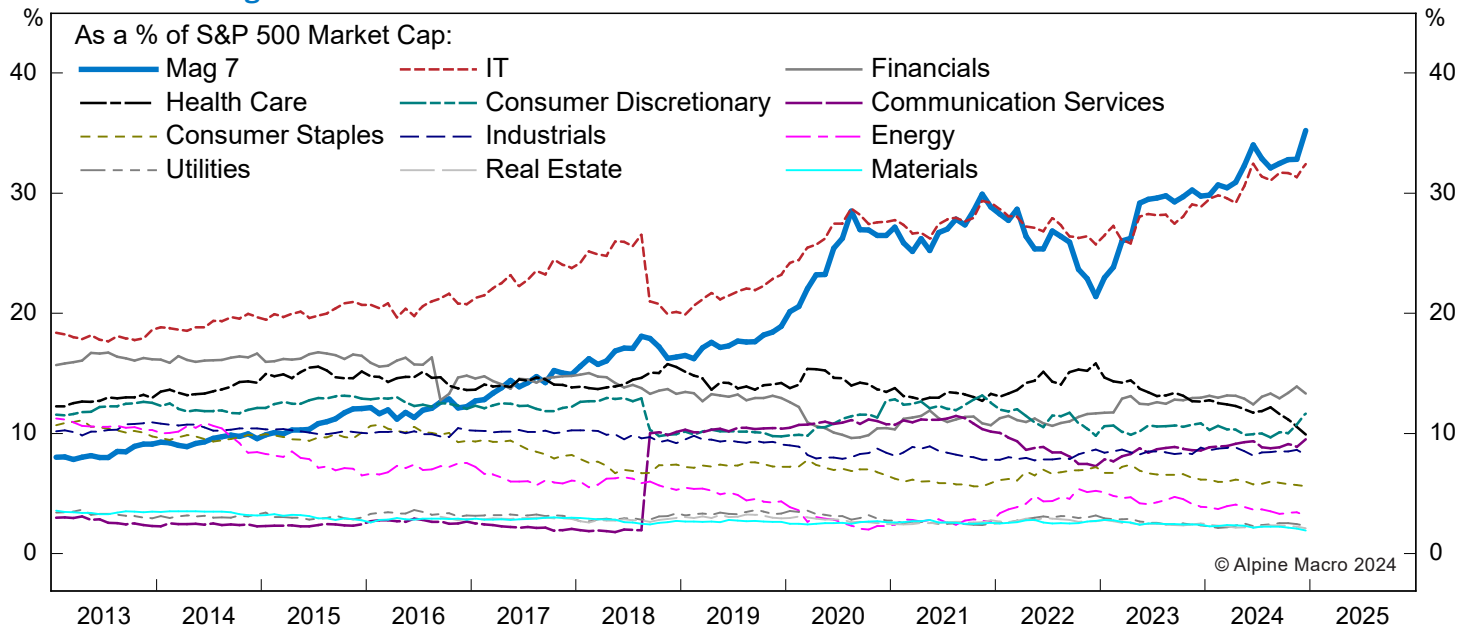
Tesla sustains Mag 7 dominance.

Mag 7 Breakdown Of Weightings



Nvidia up to 20% of Mag 7 weighting.

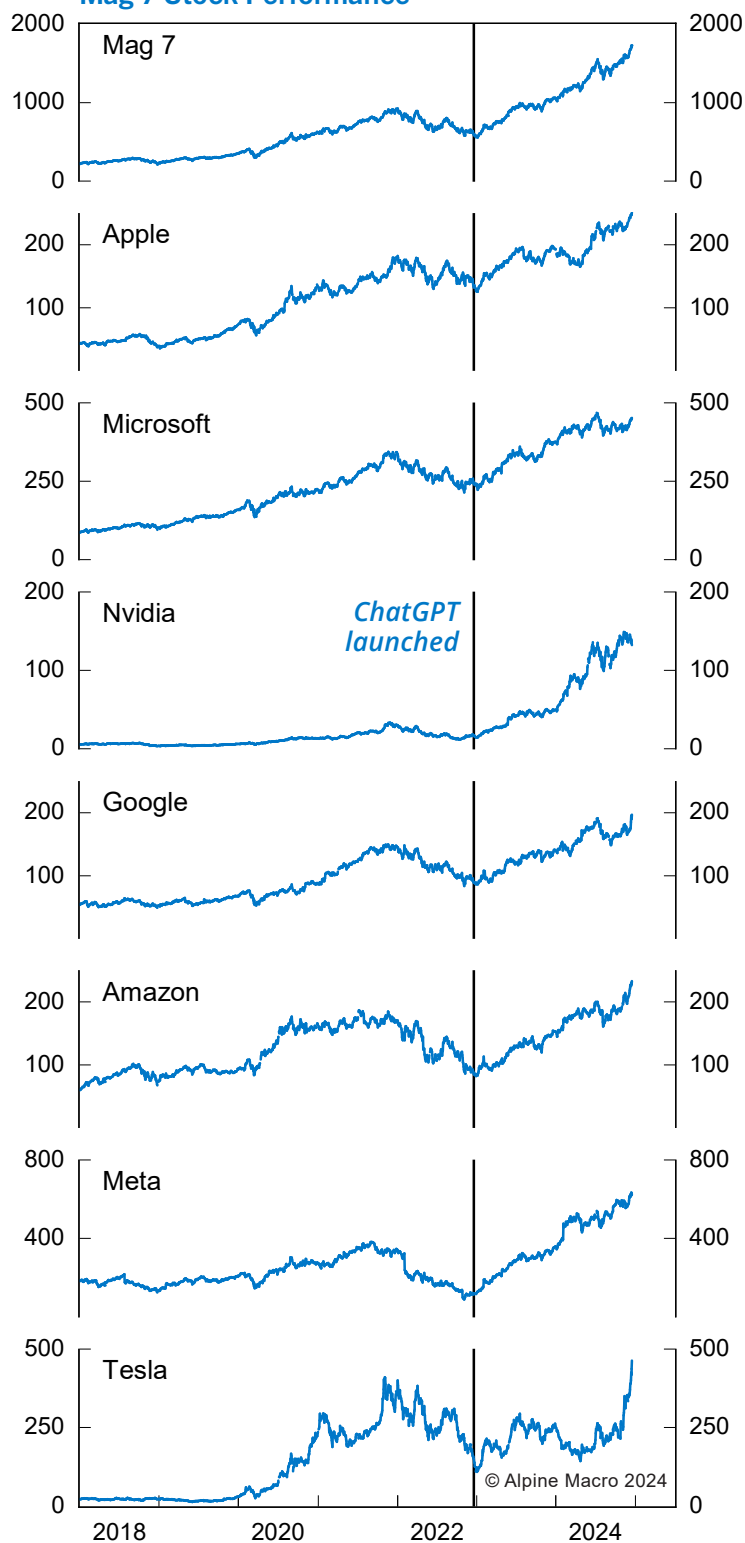
The Rise Of Mag 7 In S&P 500



Mag 7 weighting still rising.

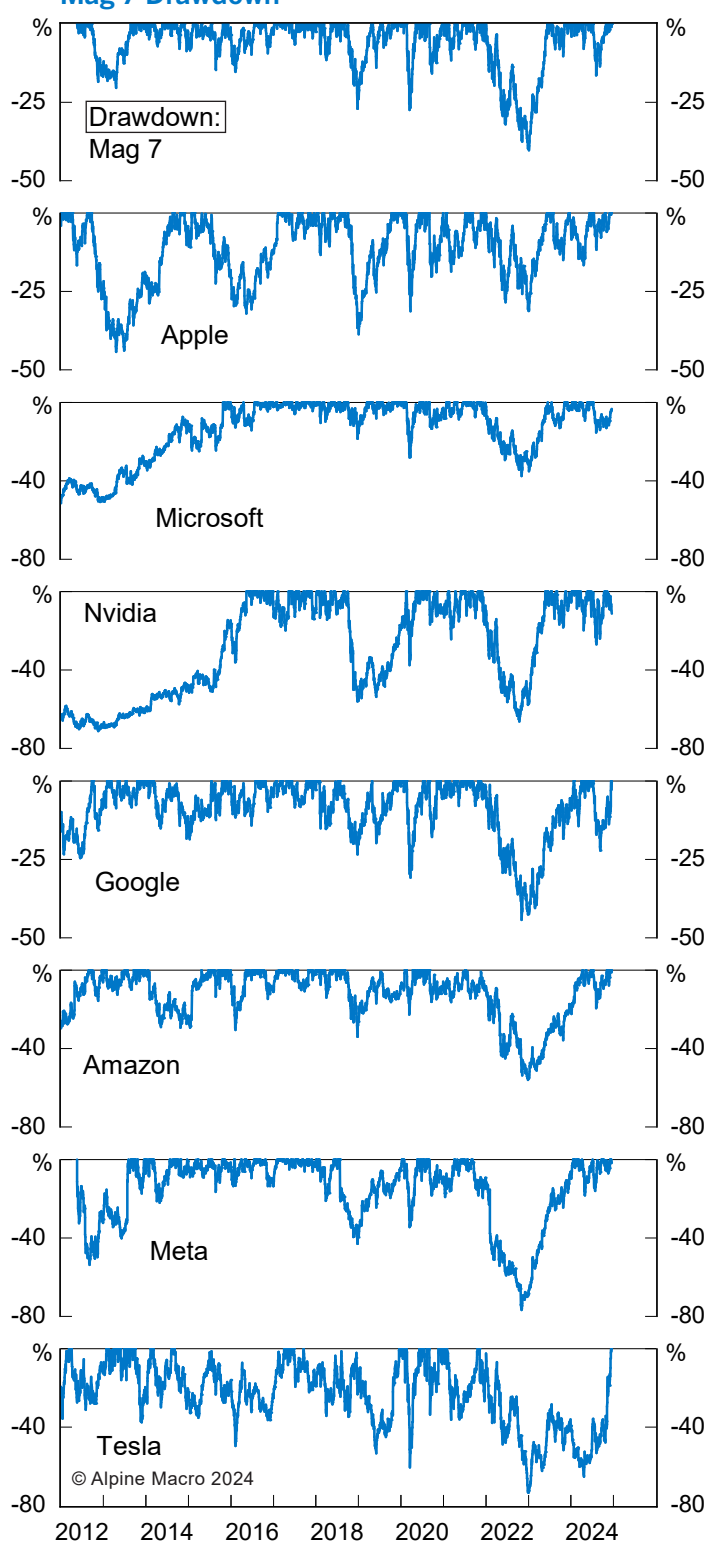


Mag 7 Stock Performance



The launch of ChatGPT marked the end of the bear market.

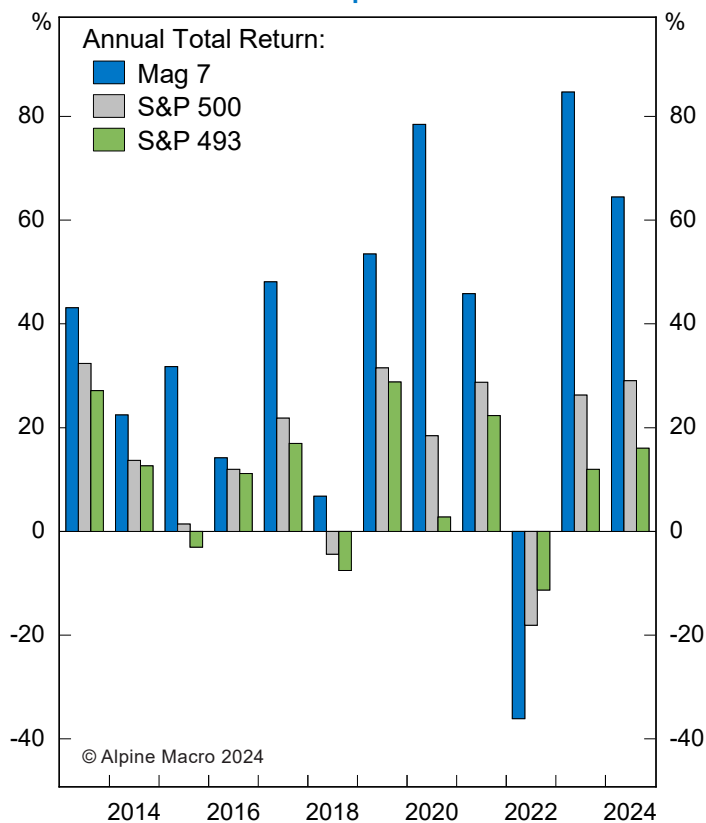
Mag 7 Drawdown



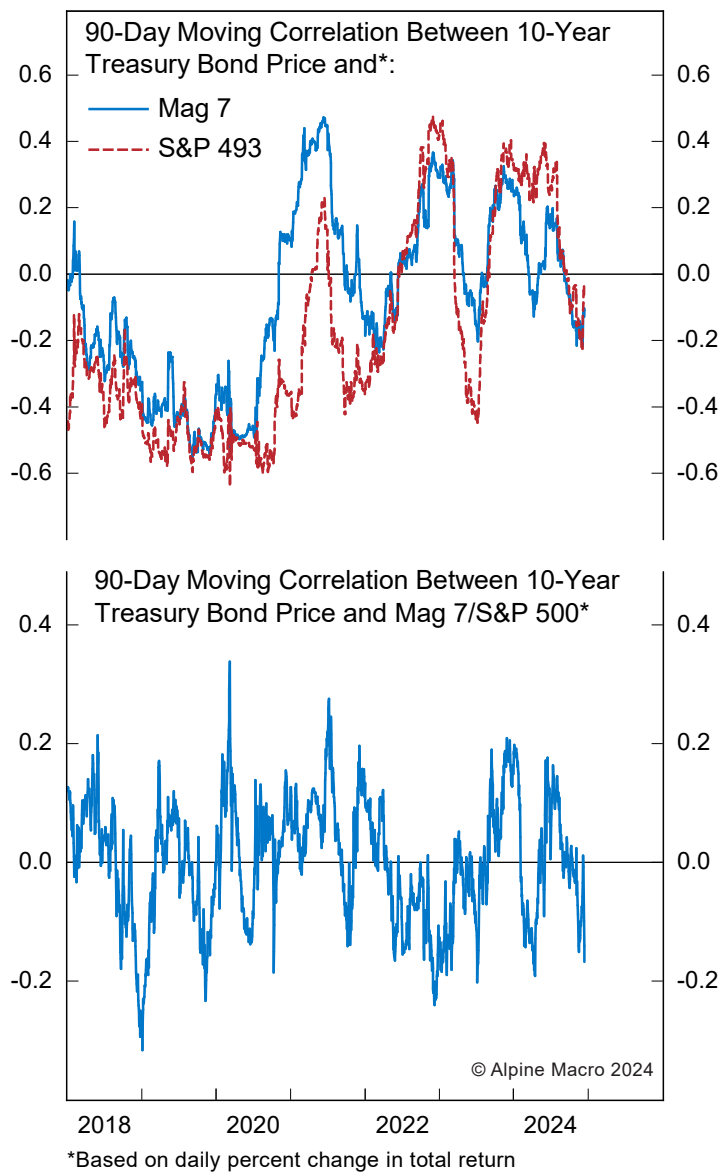
Mag 7 stocks at all-time high.



Annual Returns In Perspective



Mag 7 Correlation With Yields

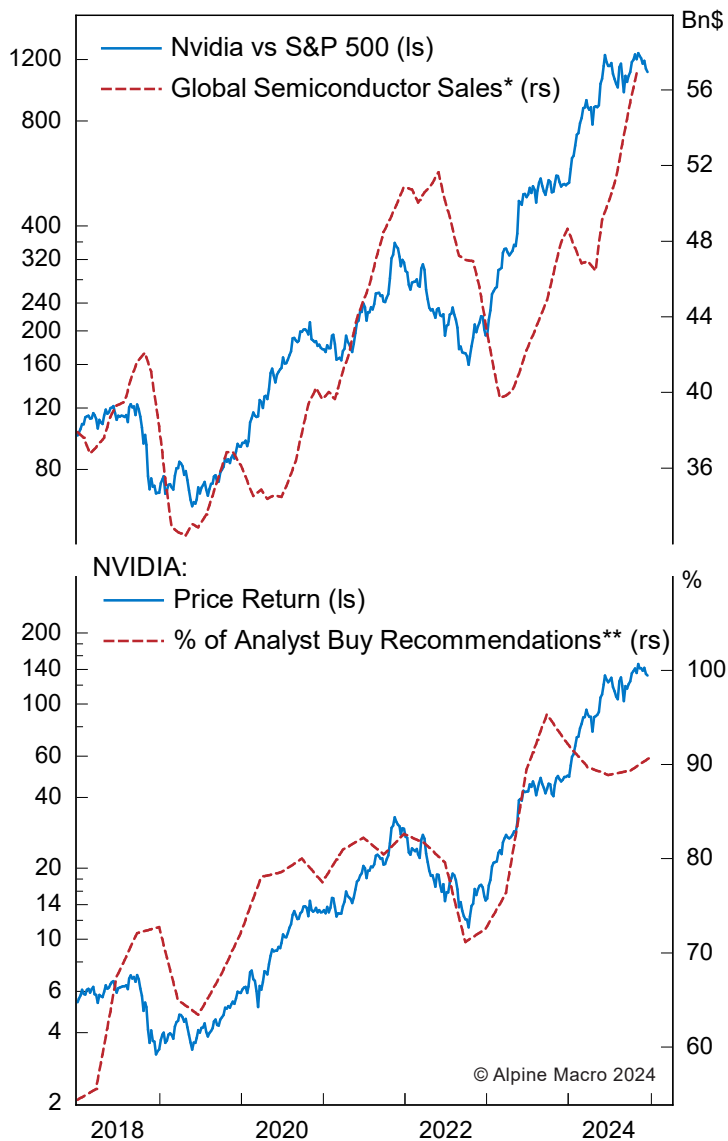


Mag 7 far outperforming the market every year, except 2022.

Volatile Mag 7 correlation with bonds.



The Rise Of Nvidia



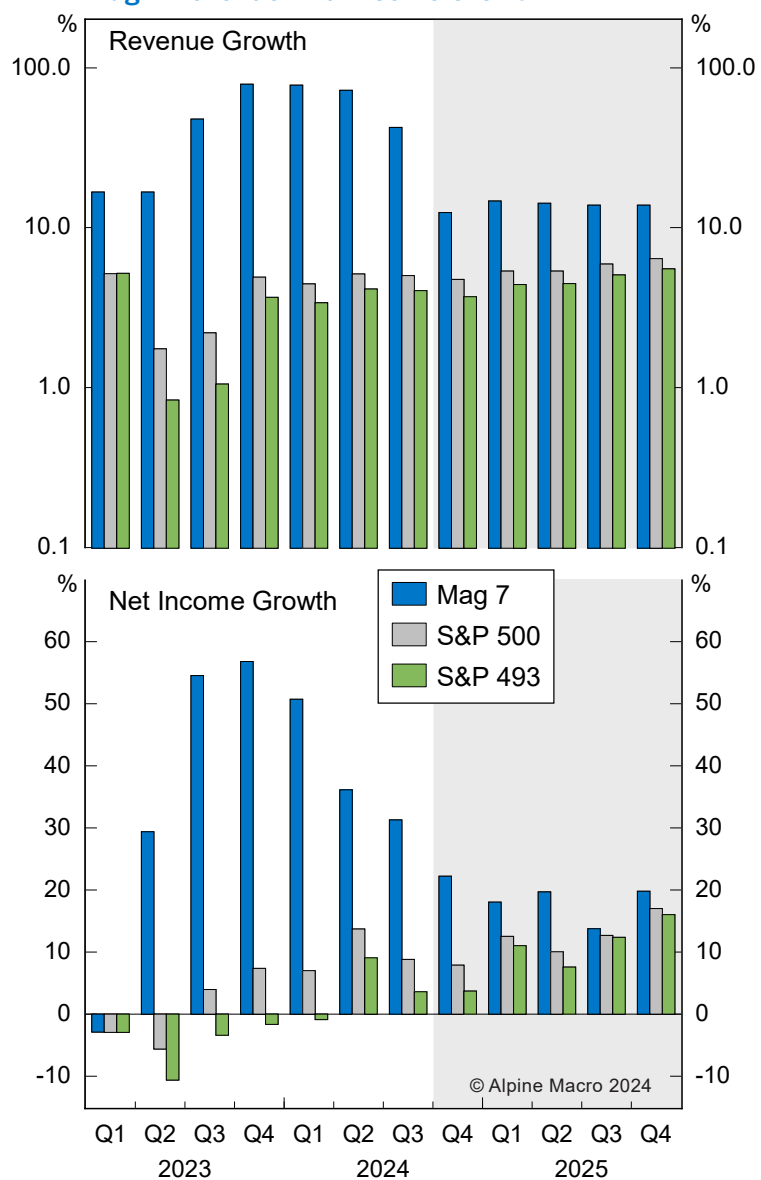
*Shown as 3-month moving average;

source: Semiconductor Industry Association

**Source: Bloomberg Finance L.P.

Bullish Nvidia consensus entrenched, but right so far.

Mag 7 Revenue And Income Growth



Source: Bloomberg Finance L.P.

Earnings Growth In Perspective

	2023	2024E	2025E
Magnificent 7	34	27	20
S&P 500	-1	9	13
S&P 493	-5	4	15
S&P 500 Equal Weight	3	2	12
Nasdaq 100	5	20	19
Russell 2000	-5	-21	41
MSCI All Country World	1	8	10
MSCI Emerging Markets	-13	11	16

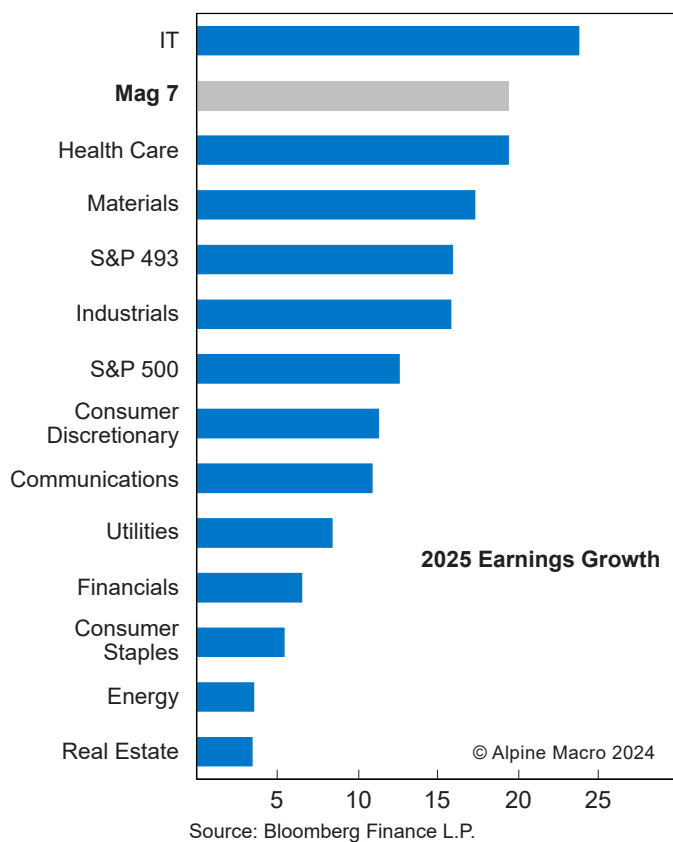
Source: Bloomberg Finance L.P.

Mag 7 revenue growth may be converging to the mean and income growth gap closing with rest of market.

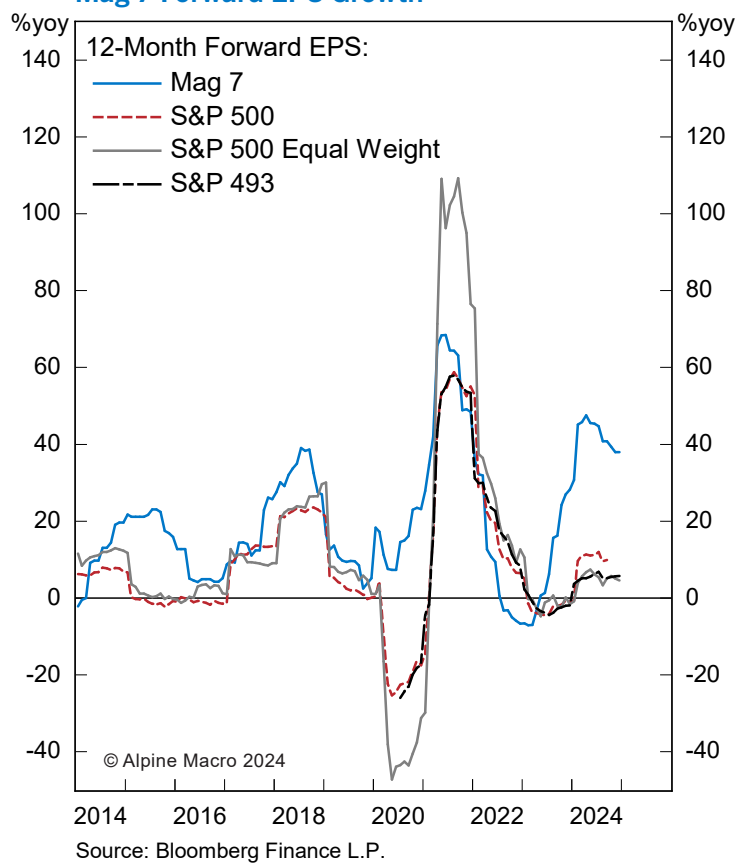
Gentle Mag 7 earnings growth decline is expected.



Forward 2025 Earning Growth



Mag 7 Forward EPS Growth

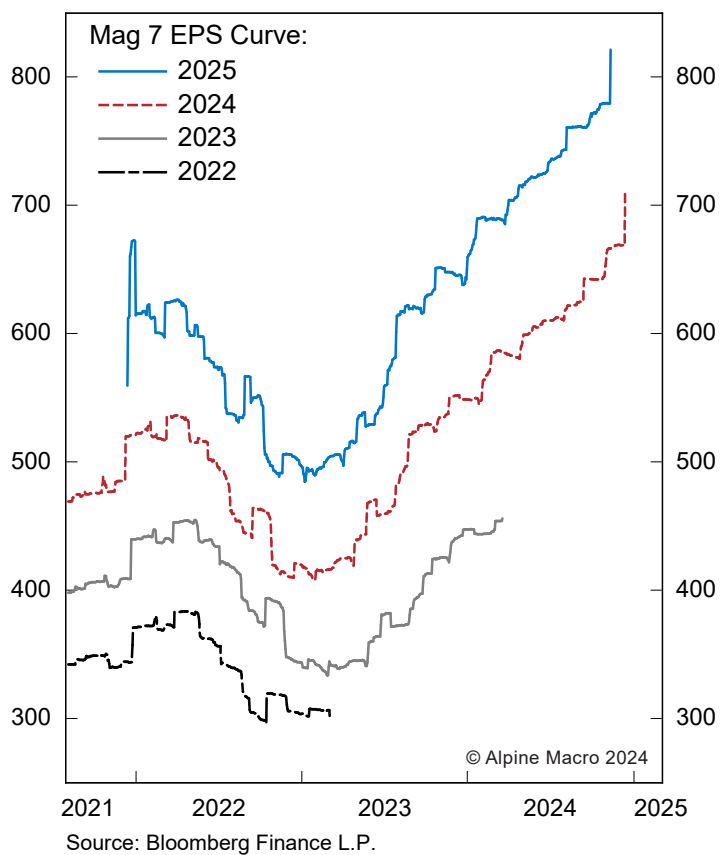


Robust Mag 7 earnings growth expected next year.

Will this bullish expected Mag 7 divergence pan out?

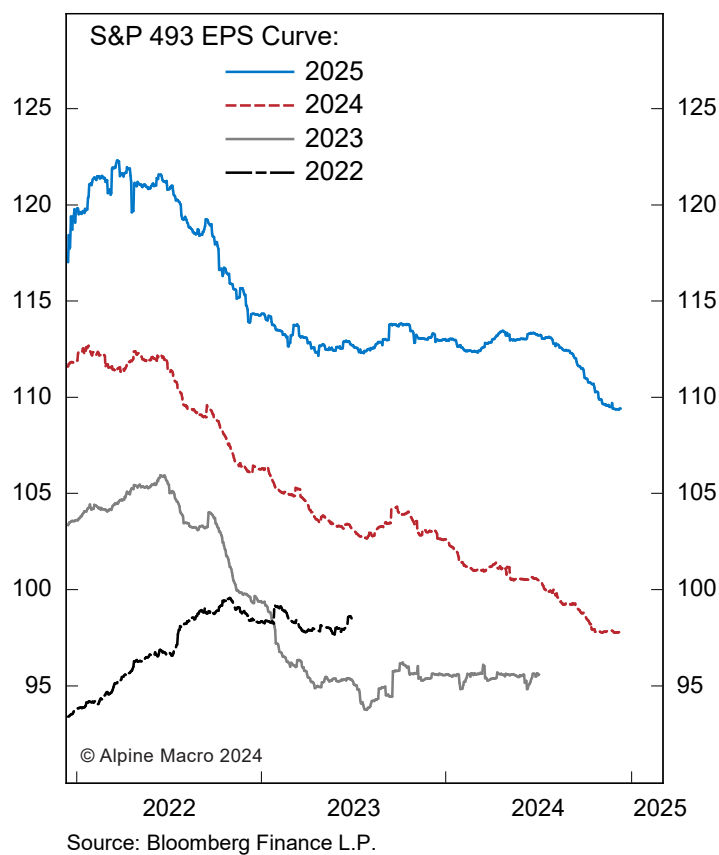


Mag 7 Earnings Expectations Are Rising...



EPS still getting revised up this year and next.

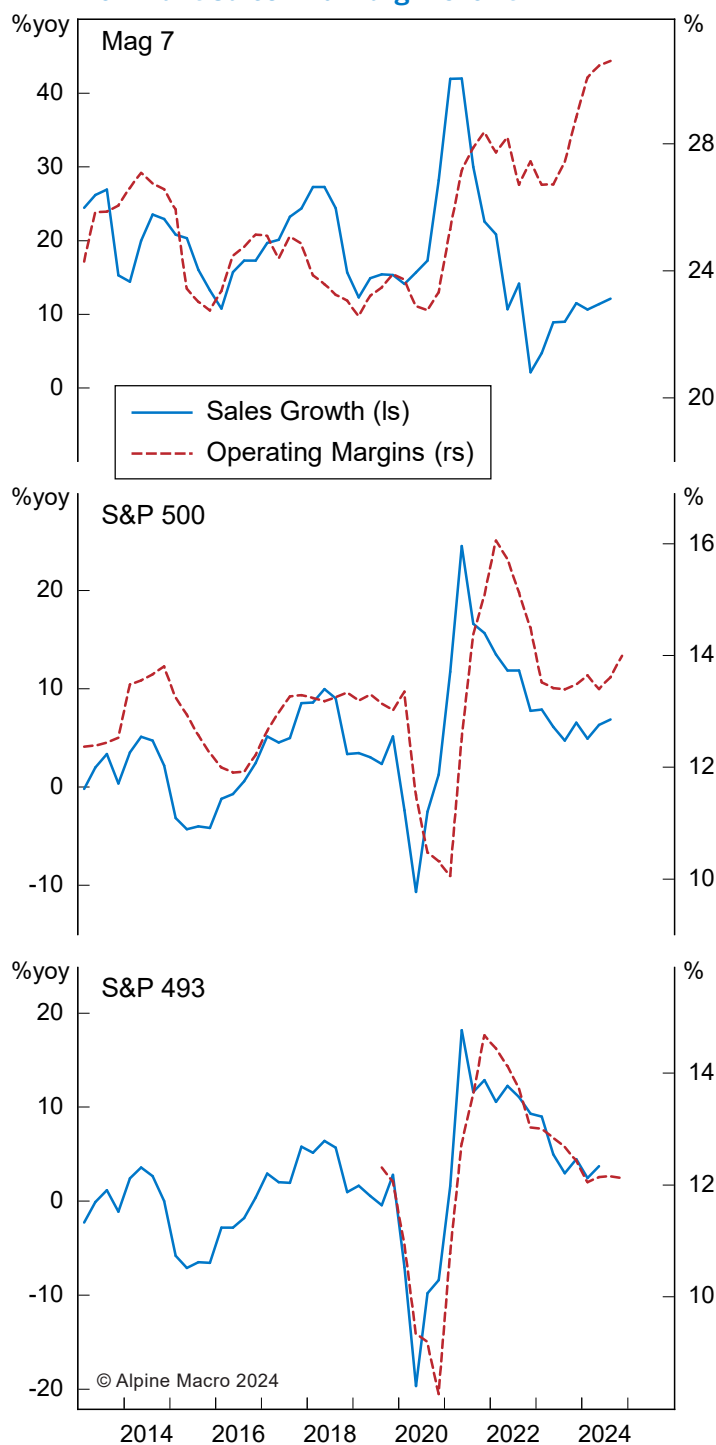
...While The Rest Of The Index Is Lagging



Rest of market forward EPS revised down this year and next.

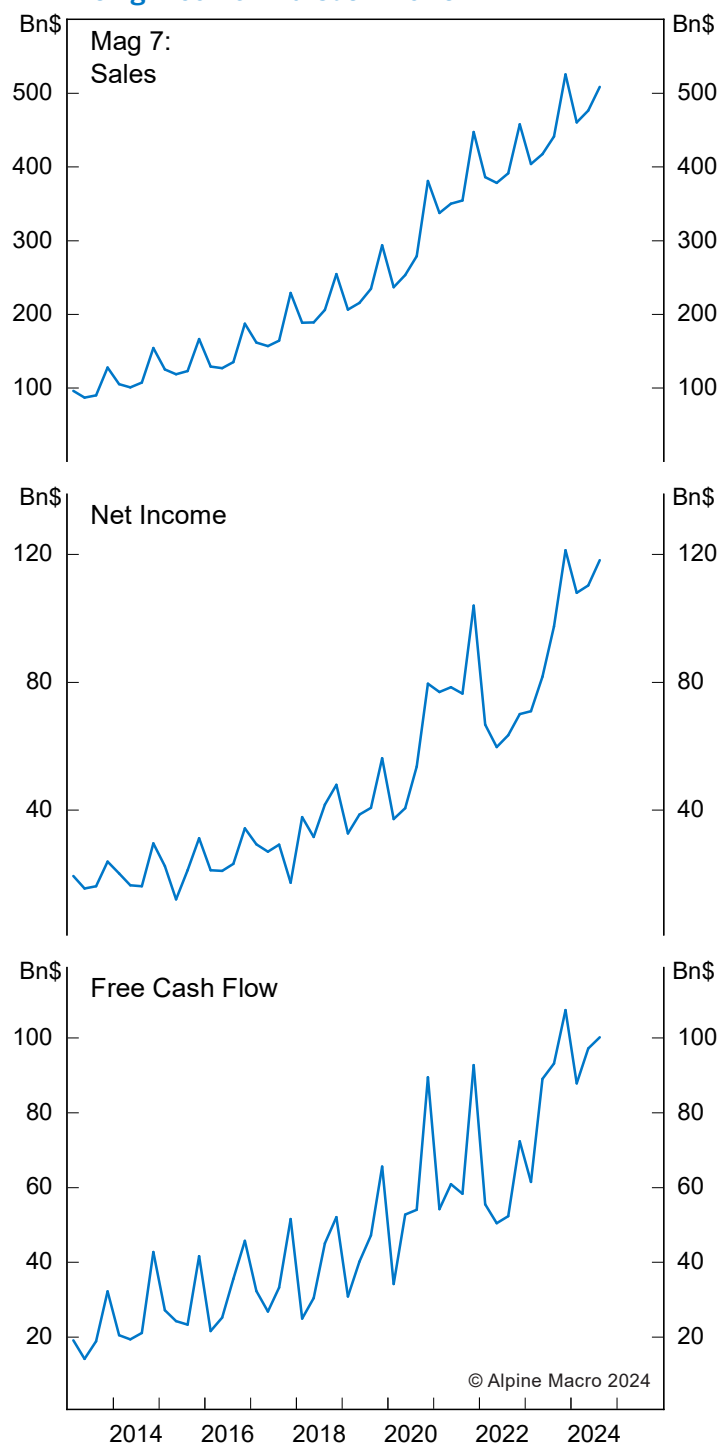


Dominant Sales And Margin Growth



Excellent Mag 7 fundamentals versus rest of market.

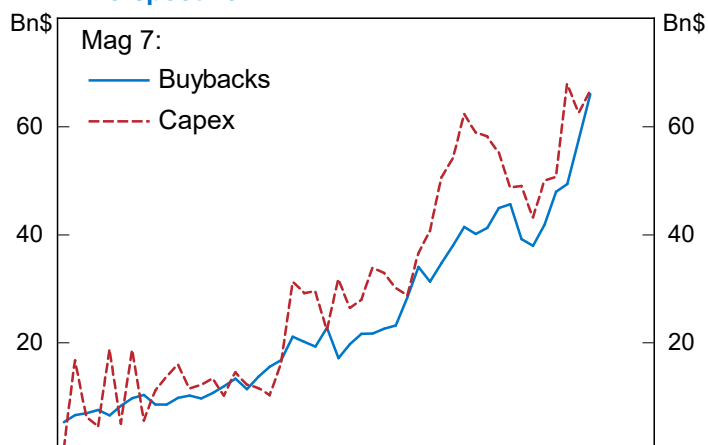
Rising Income And Cash Flows



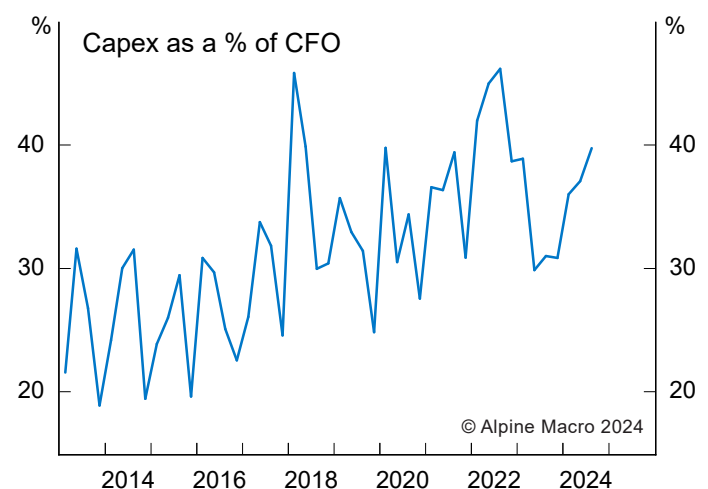
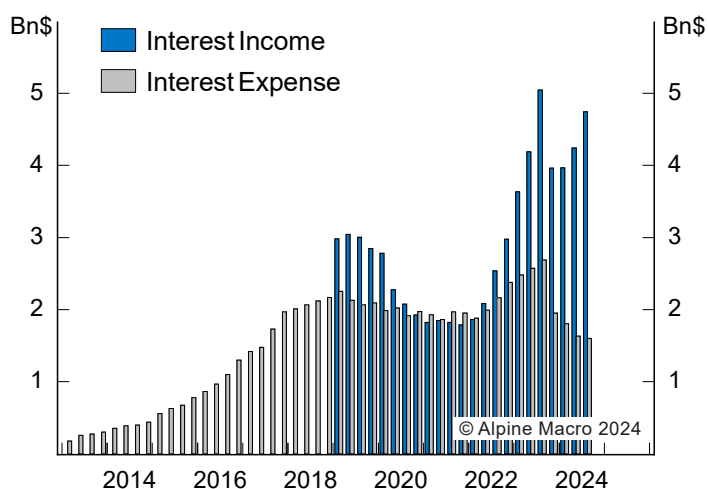
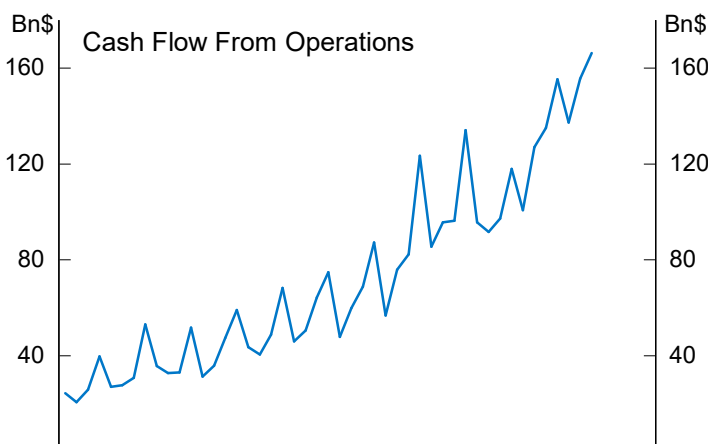
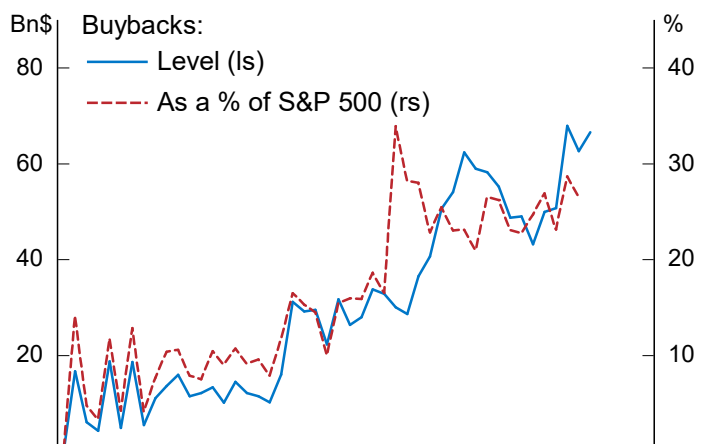
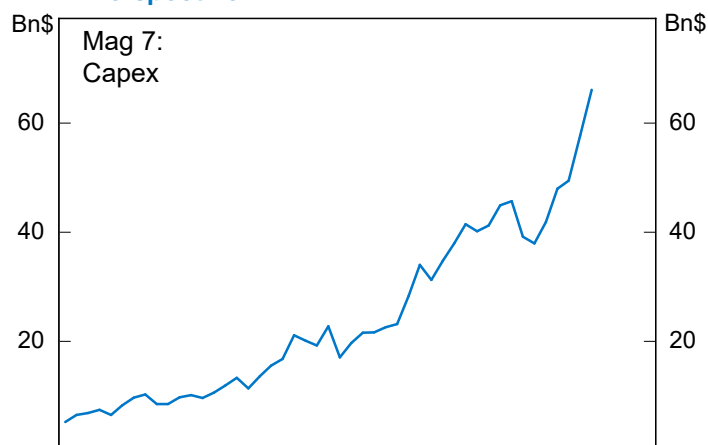
Uptrends intact.



Buybacks And Net Interest Income In Perspective



Capex In Perspective



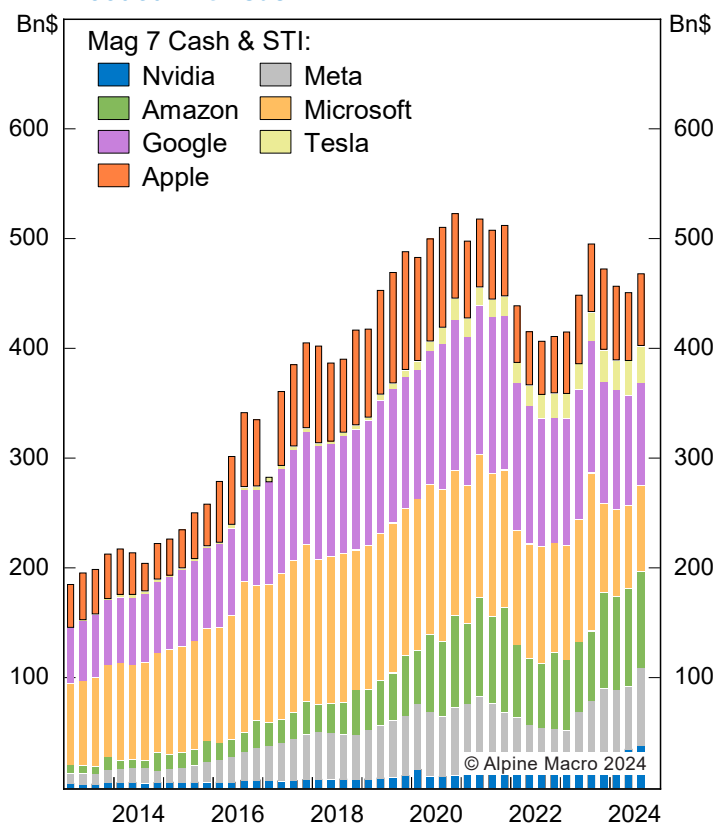
Note: The bottom panel excludes data for Apple

Buybacks and interest income rising.

Both Mag 7 capex and cash flows are surging.

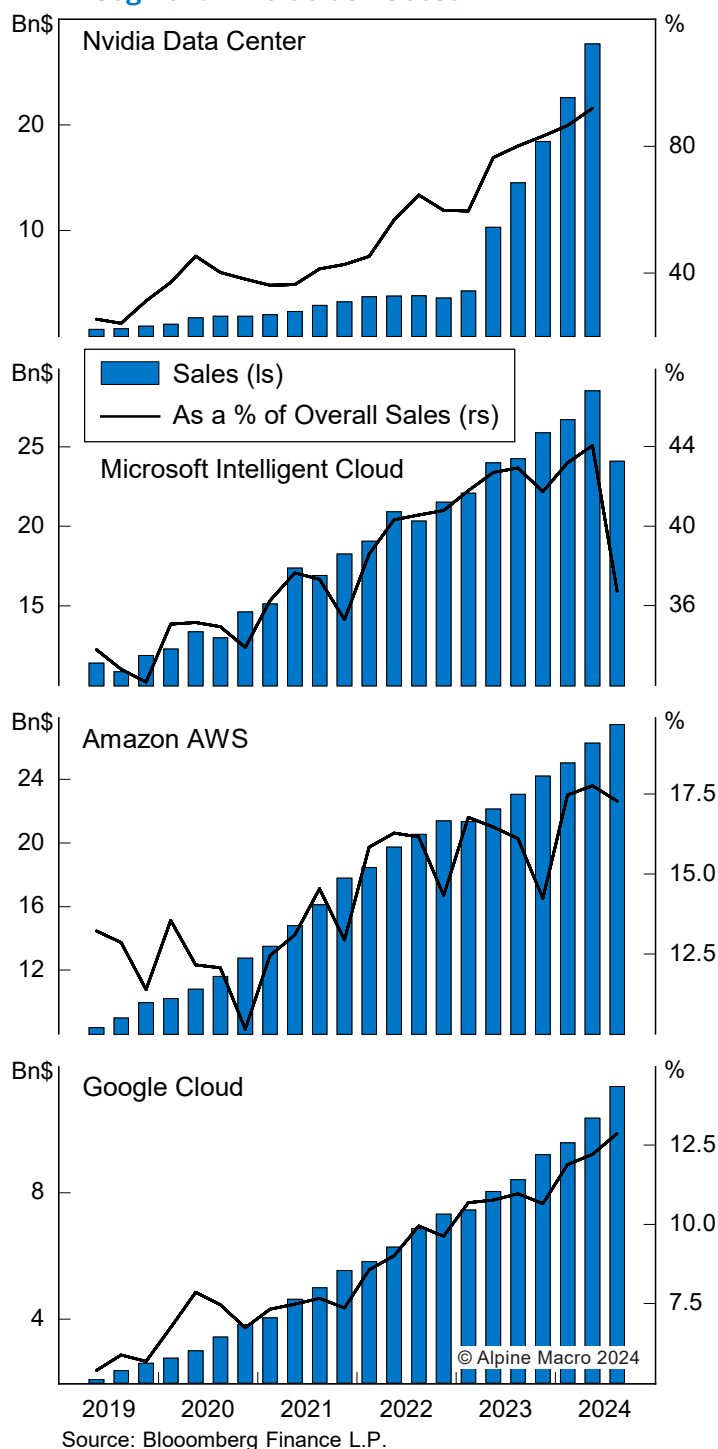


Flooded With Cash



Cash levels high but past their peak.

AI Segment - The Golden Goose



AI-related revenues are robust.



Snapshot Of Mag 7 Fundamentals

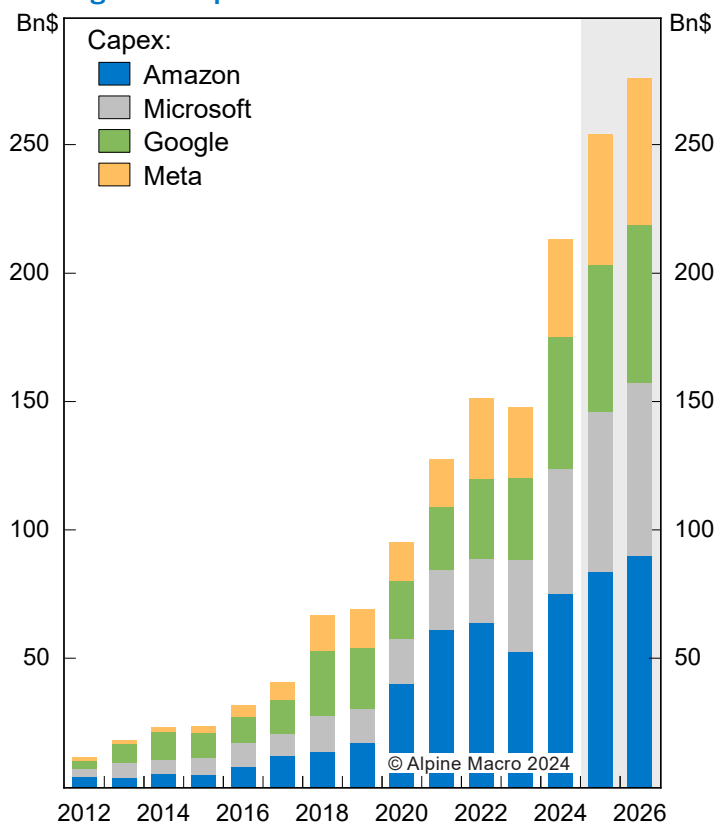
Company	Forward P/E	Market Cap (Bn\$)	Revenue (%yoy)	Earnings Growth	Stock Price (%yoy)	Profit Margin (%)	ROE	PEG Ratio	Forward Price to Cash Flow	Forward Price to Sales	EV to EBITDA
Meta	24	1,567	19	31	86	39	36	1.2	16	9	13
Amazon	32	2,392	11	67	54	10	23	1.0	16	3	17
Apple	34	3,751	6	12	25	25	157	2.4	30	9	25
Google	22	2,333	15	40	44	30	32	1.4	16	7	17
Microsoft	34	3,325	16	12	22	38	36	2.2	25	12	25
Nvidia	34	3,288	94	108	178	55	127	0.9	37	19	42
Tesla	137	1,400	8	19	74	9	21	-	43	13	53
S&P 500	22	53,240	6	11	28	13	18	-	19	3	-

© Alpine Macro 2024

Significant differences among Mag 7, but they continue to show the characteristics of growth stocks.



Big Tech Capex Outlook



Ability To Pay For Capex Boom

(In Billion \$)	Revenue	Net Income	Free Cash Flow	Capex
2025 Estimates				
Amazon	707	76	65	84
Apple	447	119	113	11
Google	346	116	92	57
Microsoft	278	98	69	62
Nvidia	196	109	97	3
Meta	187	66	51	51
Tesla	116	11	6	11

Source: Bloomberg Finance L.P.

The Hyperscalers expect to ramp up capex at least to 2026.

Mag 7 has strong free cash flow to plow into AI-driven capex.



Expansion Of Profit Margins

	Market Cap Weighting		Profit Margins			
	Current (%)	2014-2019 Average (%)	Current (%)	2014-2019 Average (%)	March 2020 (%)	Change From March 2020 To Current (% Pts)
Meta	2.6	1.4	38.7	30.7	27.6	11.1
Amazon	4.7	1.3	9.6	2	3.4	6.2
Apple	7.3	2	25	21.7	19.3	5.7
Microsoft	6.5	2.7	37.6	22.6	30.7	6.9
Google	4.6	2.5	29.8	20.2	16.6	13.2
Nvidia	6.4	0.5	55	23	29.8	25.2
Tesla	2.7	0.7	8.6	-12	0.3	8.3
Mag 7	35	17.8	24.2	19.1	18.8	5.4
S&P 500 ex. Mag 7	65	82.2	8.8	7.6	7.7	1.1
S&P 500			12.8	11	12	0.8

Margins continue to expand since pandemic.

Importance Of Revenue Abroad

Company	Foreign Revenue Share
Apple*	56
Microsoft	48
Google	51
Amazon**	40
Nvidia	58
Meta***	57
Tesla	50
Average	51
S&P 500	41

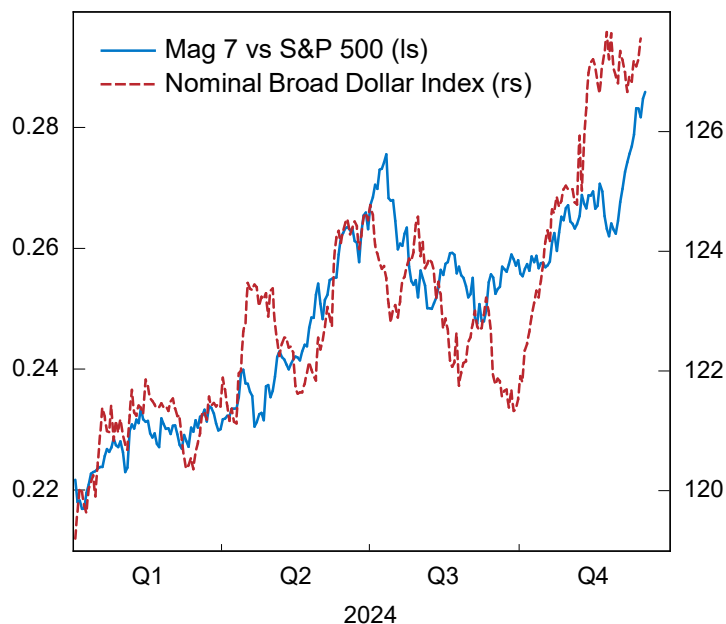
*Non-Americas

**Non-North America

***Non-U.S. & Canada

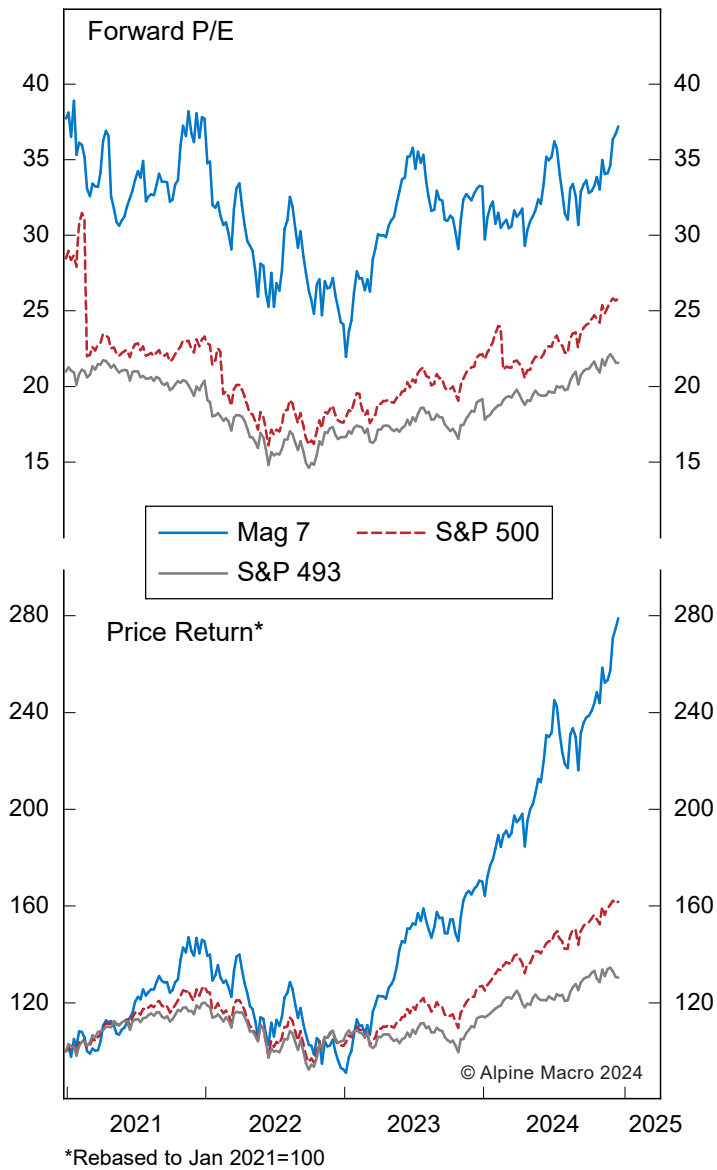
About half of Mag 7 revenues come from abroad.

Dollar Vs Mag 7

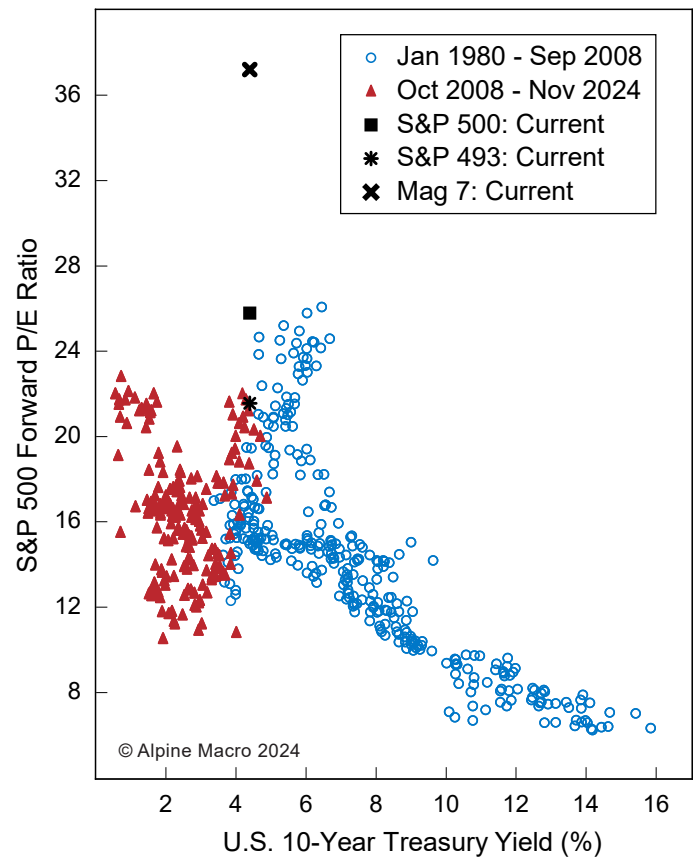


Mag 7 correlate positively with the dollar.

Valuations In Perspective



Multiples Vs Yields

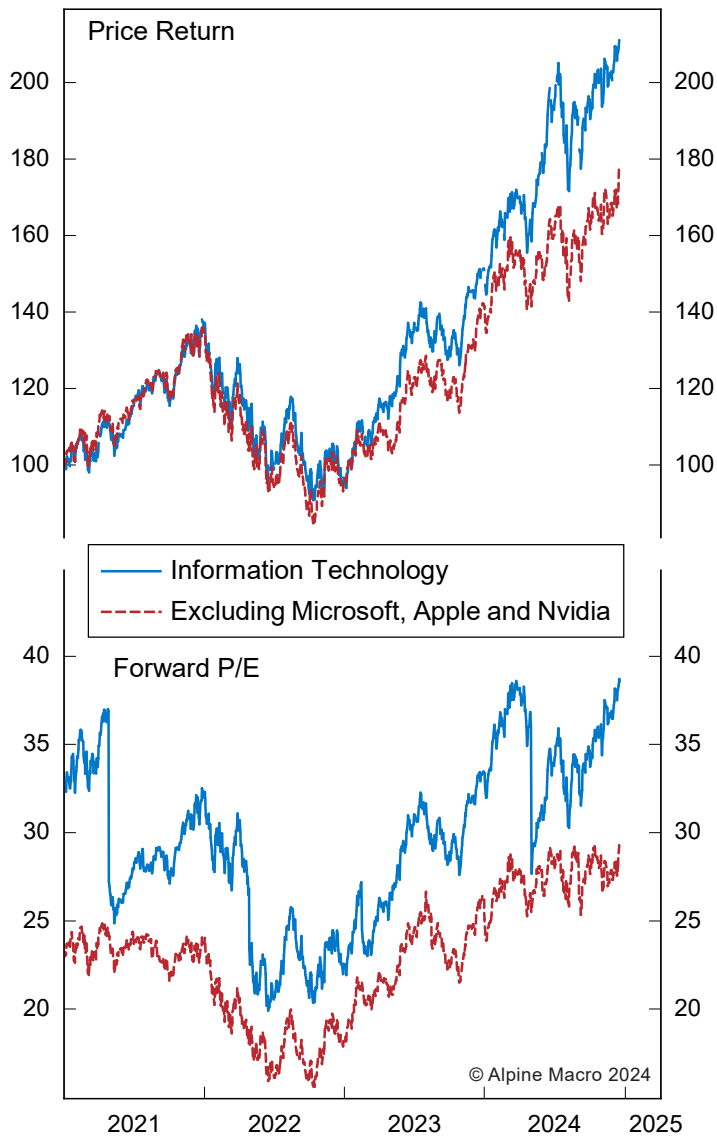


Mag 7 valuation gap continues to widen.

Mag 7 would have big problems at this level of interest rates if fundamentals ever deteriorate.

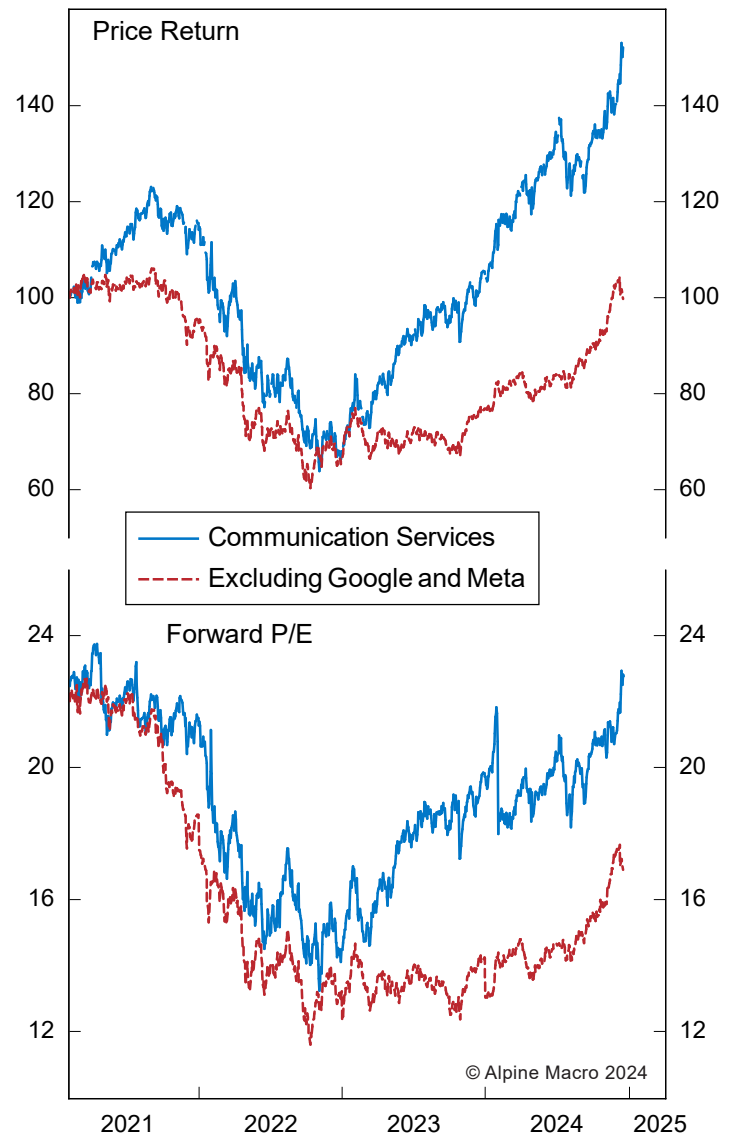


IT Ex-Mag 7



Bigger remains better, and more expensive.

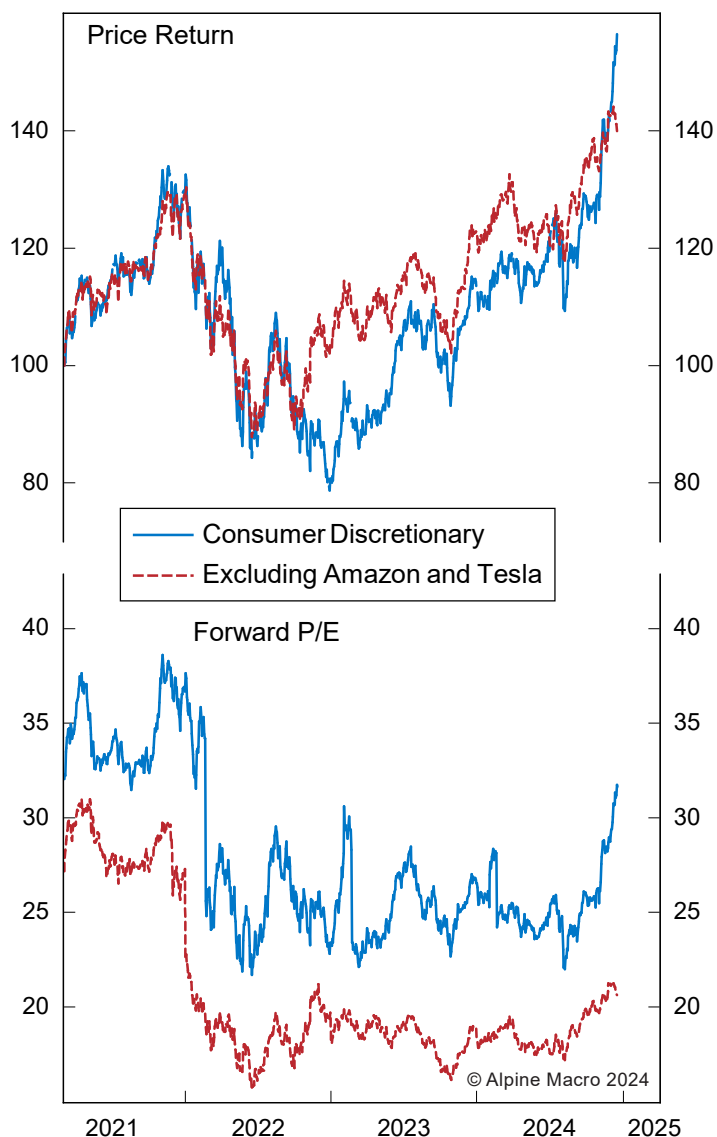
Communication Services Ex-Mag 7



Bigger remains better, and more expensive.



Consumer Discretionary Ex-Mag 7



Amazon and Tesla, accounting for two-thirds of Consumer Discretionary, lead the sector outperformance.

Valuations Comparison With Previous Manias

Magnificent 7	Forward P/E
Meta	24
Amazon	32
Apple	34
Google	22
Microsoft	34
Nvidia	34
Tesla	137
S&P 500	23
10-Year Treasury Yield	4.4%

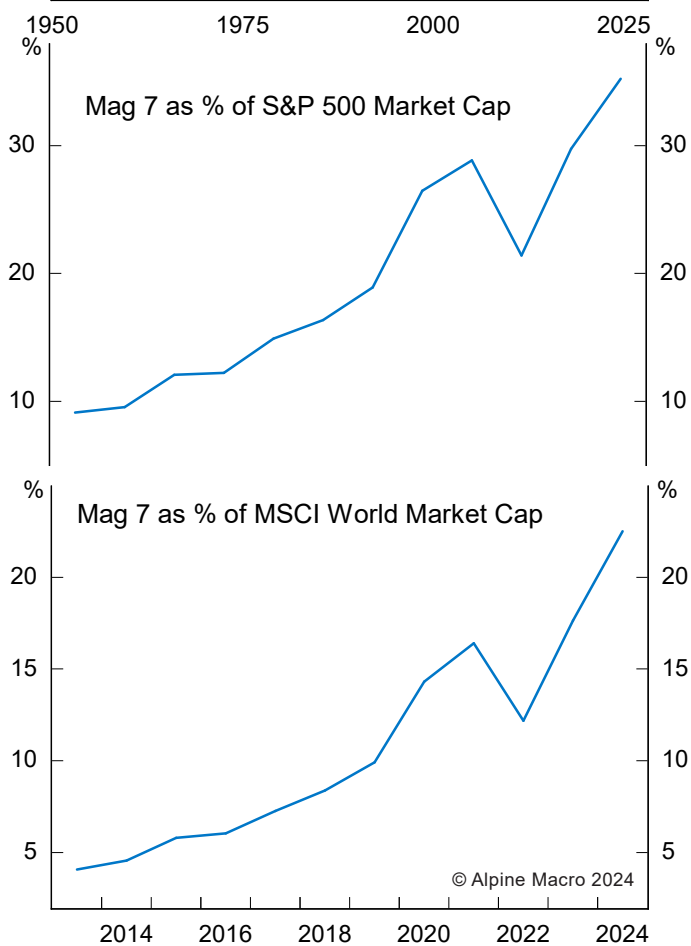
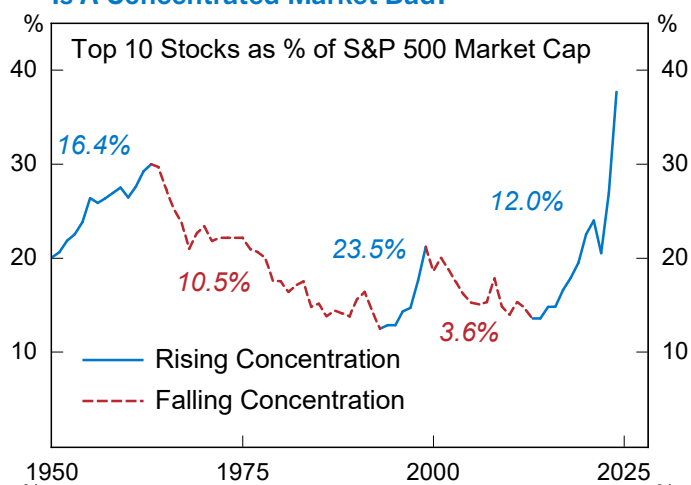
Tech's Four Horsemen	March 2000 P/E
Intel	41
Cisco	100
Dell	57
Microsoft	51
S&P 500	28
10-Year Treasury Yield	6.2%

Nifty Fifty	1972 P/E
Coca-Cola	46
McDonalds	71
Texas Instruments	40
IBM	36
Xerox	46
Polaroid	95
S&P 500	19
10-Year Treasury Yield	6.5%

Mag 7 forward P/E not alarming compared to previous mania peaks.



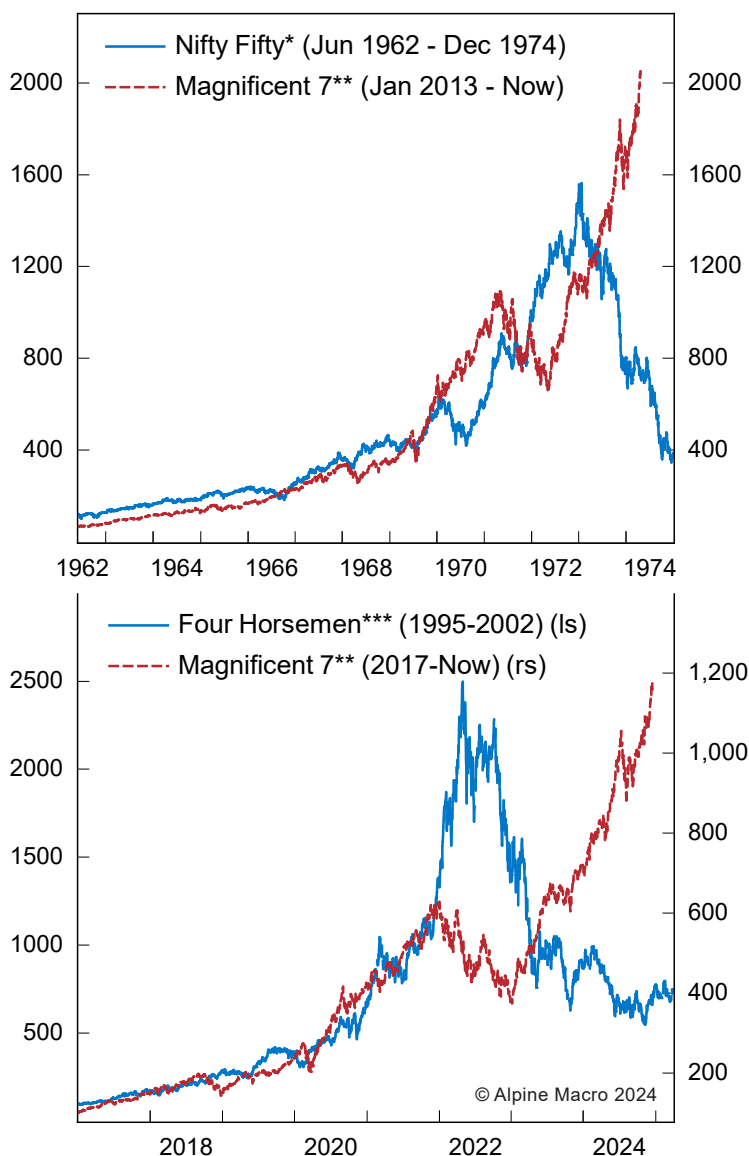
Is A Concentrated Market Bad?



Note: Annotated numbers represent S&P 500 CAGR during rising and falling concentration regimes; source: Counterpoint Global

Mag 7 account for more than 1/5 of world market cap.

Mag 7 Versus Previous Manias



*Coca-Cola, Disney, General Electric, IBM;
Rebased to June 1962=100

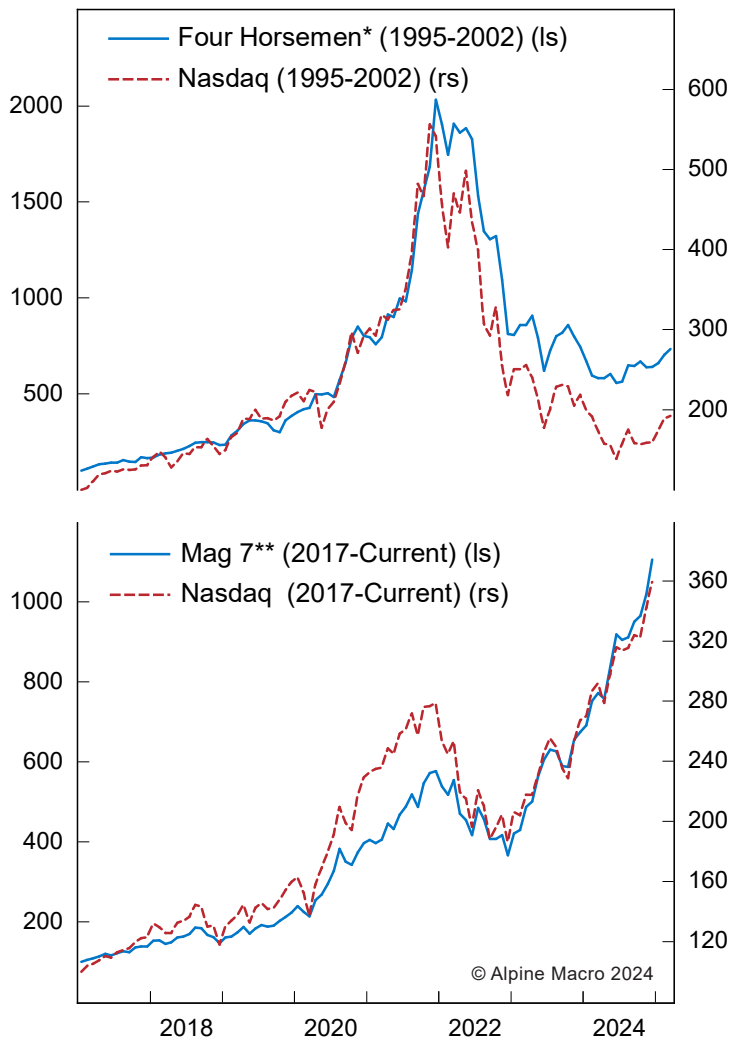
**Facebook, Amazon, Apple, Microsoft, Google, Nvidia and Tesla;
Rebased to May 2014=100

***Equal-weighted index of Microsoft, Cisco, Dell and Oracle
Note: Series in bottom panel are rebased to 100 at the beginning of the period

Mag 7 bull duration far exceeds Nifty Fifty and Tech Horsemen manias.



Like The 90s?



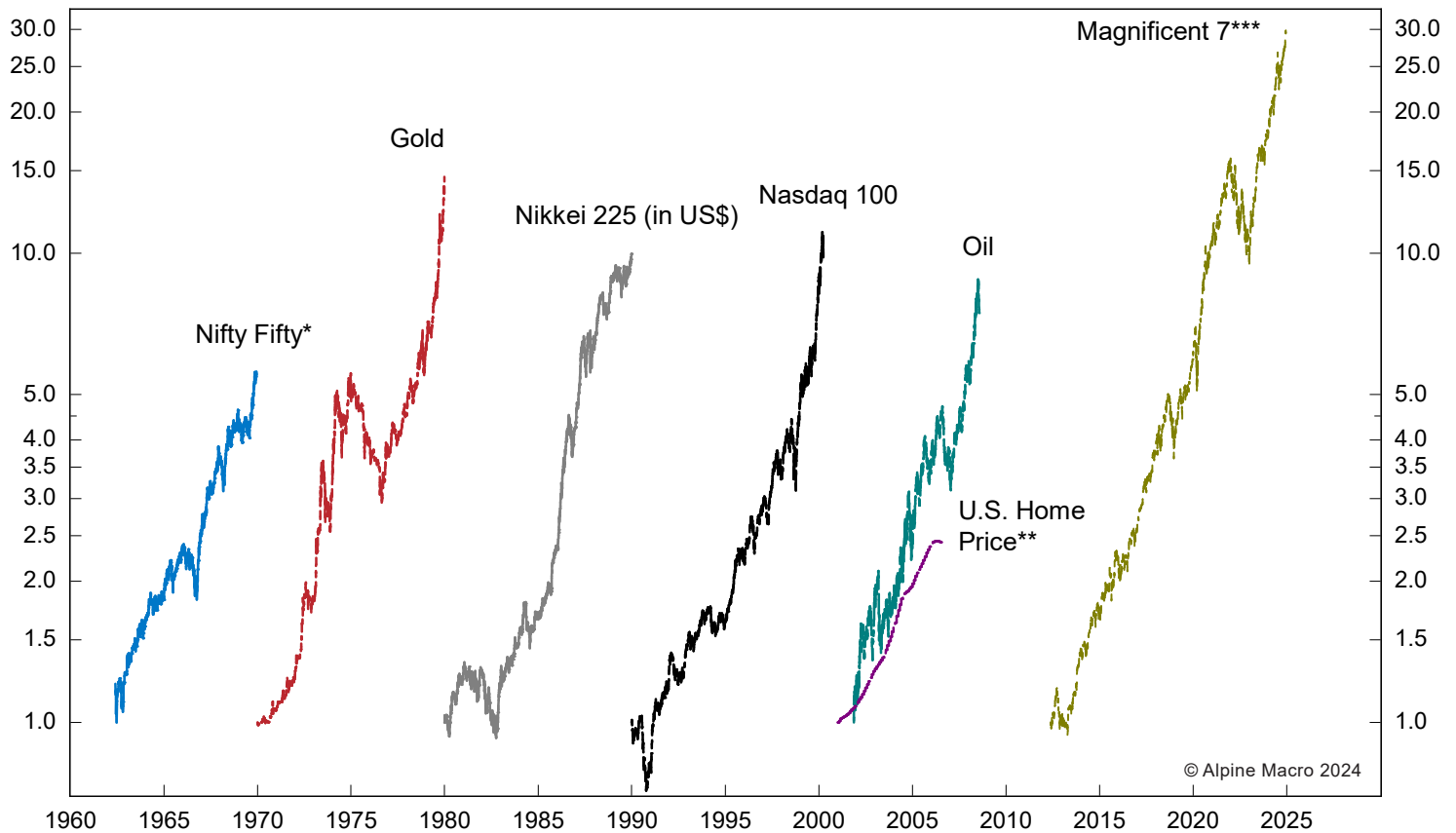
*Equal-weighted average of Microsoft, Cisco, Dell and Oracle

**Market cap weighted average of Meta, Amazon, Apple, Microsoft, Alphabet's Google, Nvidia and Tesla

Note: All series are rebased to 100 at the beginning of the period

Mag 7 have had a second upleg, unlike the late 1990s boom/bust.

Is Mag 7 A Mania?



Note: All series are rebased to 1 at the starting period

*Equal-weighted index of Coca-Cola, Disney, GE and IBM

**S&P/Case-Shiller Home Price Index for Los Angeles

***Market-cap weighted average of Facebook, Amazon, Apple, Microsoft, Google, Nvidia and Tesla

Mag 7's vertical trend is unlike any other, distinct from the winners of the previous decade.



Mag 7 Have Strong Fundamentals Compared To Four Horsemen Of The 90s

Company	Market Cap Weight (%)	Cash as % of Market Cap	Net Debt to EBITDA	ROE	Net Profit Margin
Microsoft	6.5	2.4	0.16	35	38
Apple	7.3	1.8	0.28	157	25
Nvidia	6.4	1.3	-0.39	127	55
Google	4.6	4.5	-0.53	32	30
Amazon	4.7	4.5	0.51	22	10
Meta	2.6	5.7	-0.28	35	39
Tesla	2.7	4.0	-1.6	20	9
Magnificent 7	35.0	3.0	-0.19	65	24
Microsoft	4.5	3	-0.63	35	39
Cisco	4.2	0.4	-0.17	22	17
Intel	3.6	2.5	-0.33	26	25
Oracle	1.9	1	-0.61	39	15
Four Horsemen	14.2	1.7	-0.4	28	16

Source: Bloomberg Finance L.P., Goldman Sachs

Mag 7 are expensive for a reason.

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