

The end of the Big Tech Magnificent 7

A cynic would say such monikers are made up by professionals looking to hype markets — I think ‘The Mag 7’ is much more dangerous than that

[John Plender](#)

The Magnificent Seven tech stocks are no longer magnificent. The once all-conquering companies that dominated the US capital markets — Nvidia, Meta, Apple, Microsoft, Alphabet, Amazon and Tesla — have lost their lustre after [shedding more than \\$2tn](#) of market value in June.

Despite the recent astronomical returns delivered by this Big Tech collective, investors were spooked by fears that huge expenditure on AI infrastructure might fail to generate adequate profits, especially in the case of the so-called hyperscalers, such as Meta, Amazon, Microsoft and Alphabet. These companies are set to spend more than a trillion dollars on AI-related capital expenditure across 2025 and 2026, a commitment that outpaces their earnings and cash flow and leaves them increasingly dependent on spiralling debt. The market also worries that their margins are being squeezed by the rising cost of components such as memory chips.

This is quite a fall from grace. In 2024 and 2025 these stocks, whose moniker, I’m sure everyone knows, derives from the 1960s classic western, accounted for about a third of the S&P 500’s total market capitalisation and generated an outsize proportion of the gains on the index. And while Mag 7 stocks recouped some ground in July they no longer command headlines, which have latterly been hogged by chipmakers busy reaping profits from the Mag 7’s capital spending largesse — and then falling from grace themselves, with Micron, Sandisk, Samsung and others [down](#) in recent weeks.

There is nothing new about such nicknames. A dozen or so years ago it was all about Faangs, the same line-up with Netflix substituting for Nvidia and with Meta and Alphabet going by their old names of Facebook and Google. Back in the bull market of the 1960s we had the Nifty Fifty, an informal group of 50 large-cap, high-quality stocks — so-called “one-decision” stocks, where once you bought you could own them forever in the knowledge that they would grow and grow, and never go bust.

But therein lies a warning that today’s tech enthusiasts should heed. From the 1970s such Nifty Fifty companies as Avon, Polaroid, Eastman Kodak and Xerox ceased being nifty and went to the wall.

So what does this nicknaming fetish tell us about the workings of markets?

A cynic would say that nicknames tend to be devised by financial professionals keen to bring rhetorical hype to help ratchet up market euphoria. That is good for market turnover and thus for brokers’ and market makers’ revenues. Yet they are also symptomatic of more deep-seated features of bull markets and market bubbles.

There are two basic investment strategies: value, where investors assess shares on the basis of future corporate cash flows, and momentum, or trend-following, where they buy shares that are showing current strength and which appear to promise short-term capital gains. Bull markets and bubbles, as they pick up, invariably reflect a shift in investment style from value to momentum.

The Magnificent Seven phenomenon, along with its nicknamed predecessors, was in effect an inducement to momentum investing.

Far from being a homogenous tech collective, these companies were always a ragbag, ranging across such industries as software, telecommunications equipment, online retail, semiconductors and motor vehicles.

So investors who bought the Mag 7 story turned a blind eye to the strikingly different individual company fundamentals in this very disparate group.

They have now woken up. Since the fallout in June, the Mag 7 stocks no longer move as a pack. The verdict of analysts at Citigroup is that [Mag 7 is dead](#) as a construct for assessing growth dynamics of large-cap stocks.

Note, too, that momentum works in both directions. Many hedge funds and mutual funds have taken long positions in semiconductors while going short on the hyperscalers. And when a big trend changes direction, extreme volatility and financial instability can result.

Momentum is now structurally dominant in the US equity market partly because the flow of money into passive index-tracking funds, including exchange traded funds, is greater than the flow into value funds.

Passive investing amounts to institutionalised momentum trading, and this was an important factor in the growth of the Mag 7 stocks. Because index funds are market-cap weighted, larger stocks attract proportionally more capital. They are, in effect, forced buyers when stocks are surging. Index tracking has thus been an important contributor to stock market concentration.

So, too, has the practice of benchmarking fund managers' performance against indices subject to limits on annual divergence from those indices. Paul Woolley and Dimitri Vayanos of the London School of Economics have shown how benchmarking pressures distort prices, notably where fund managers have underweight positions in securities with large weights in the indices. They then have to make additional purchases of shares they regard as overpriced [to satisfy their tracking constraint](#) and avoid the risk of being fired by the pension fund asset owner.

Many funds have been caught in this bind with underweight positions in the Magnificent Seven. The resulting price distortions, Woolley and Vayanos argue, can have macroeconomic consequences because of capital misallocation arising from market prices parting company with economic fundamentals.

The big question that now echoes around the markets is: are we in a Mag 7-induced tech bubble?

There is no definition of a market bubble, but there are some basic components. The first is a compelling story, though one that does not lend itself to ready quantification of future value. Consider the South Sea Bubble.

The main business of the South Sea Company was pedestrian: owning the equivalent of annuities and taking over the management of government debt. Yet it was also granted a monopoly trading franchise with the Spanish Indies. Despite being of questionable value, this caught the public's increasingly febrile imagination.

Euphoria can then be compounded by psychology and more specifically by the fear of missing out (Fomo). A further vital ingredient is leverage, or debt.

With AI, it is important to recognise that the technology is likely to be hugely transformational and thus makes for an inspirational stock market narrative. In its annual economic report, the Bank for International Settlements points out that AI could [differ fundamentally](#) from earlier waves of technological progress.

Previous general-purpose technologies, such as the steam engine, electrification and information technology, raised workers' productivity by providing them with better tools.

AI, says the BIS, could go further by augmenting the production of knowledge itself. If, at some point, AI systems can improve their own capabilities and "create" technologies and ideas, the macroeconomic consequences could be profoundly different from past innovations.

Indeed, some economists argue that if AI capital becomes a sufficiently close substitute for labour, the ability of machines to improve themselves autonomously will permit the economy to acquire a self-reinforcing engine of super-exponential growth.

The snag is how we get from here to there.

History tells us that the benefits of such innovation tend to materialise only after long periods of disappointment during which the initial bubble bursts. Jeremy Grantham, a founder of fund manager GMO, says, in a new book co-authored with financial historian Edward Chancellor, that during Britain's railway bubble of the 1840s, six routes were planned between Leeds and Manchester, when only one or two were needed. Yet out of such financial wreckage, railways ended up changing the world.

In other words, while some bubbles — for example, the 17th-century Dutch tulip mania — are unproductive, others are catalysts for techno-scientific progress. AI is clearly in the latter category.

[Howard Marks](#), founder of Oaktree Capital Management, argues that bubbles based on technological progress are good because they excite investors into pouring in money — a good bit of which is thrown away — to carpet-bomb a new area of opportunity and thus jump-start its exploitation. The hysteria of the bubble speeds up what would otherwise be a protracted, multiyear innovatory process.

Yet Marks highlights a string of currently unanswerable questions that investors confront.

What will be the useful life of AI assets? What will be the lifespan of AI chips? How many years of earnings growth should be counted on in assigning price/earnings ratios for AI-related stocks? Will artificial general intelligence (a machine capable of doing anything the human brain can do) be achieved? Will that be the end of progress or might there be further revolutions? If so, which firms will benefit? Will companies reach a position where technology is stable and they can extract economic value from it?

Is it prudent, Marks asks, to accept 30 years of technological uncertainty to make a fixed-income investment in the debt of hyperscalers that yields little more than riskless sovereign debt? And will the investments funded with debt in chips and data centres maintain their level of productivity long enough for these 30-year obligations to be repaid?

These are not the kind of questions that troubled investors in Elon Musk's SpaceX, which was [valued on flotation](#) at 95 times sales while generating negative cash flow and promising to monetise outer space — surely the very stuff of bubbles. From its \$135 IPO price on June 12 this year, at which it was valued at \$1.75tn, it quickly rose to a high of \$225, only to fall back in mid-July to below the IPO price.

The SpaceX phenomenon also serves as a reminder that bubbles often spawn new, high-risk investment vehicles. In the period before the 1929 Wall Street Crash, there was a proliferation of investment trusts. In his book *The Great Crash 1929*, John Kenneth Galbraith remarked: “The most notable piece of speculative architecture of the late twenties, and the one by which, more than any other device, the public demand for common stocks was satisfied, was the investment trust or company. The investment trust did not promote new enterprises or enlarge old ones. It merely arranged that people could own stock in old companies through the medium of new ones.”

Even in the US, in the twenties, Galbraith added, there were limits to the amount of real capital which existing enterprises could use or new ones could be created to employ. The virtue of the investment trust, he pointedly declared, was that it brought about an almost complete divorce of the volume of corporate securities outstanding from the volume of corporate assets in existence. The former could be twice, thrice or any multiple of the latter. The volume of underwriting business and of securities available for trading on the exchanges all expanded accordingly.

Today's equivalent is the single-stock exchange traded fund. Retail investors have poured money into these vehicles, whose attractions are usually spiced up with leverage provided by borrowing or by complex derivatives. They are extremely volatile. And, predictably enough, within days of SpaceX going public, competing fund management firms launched a raft of leveraged exchange traded funds tied to the stock.

This phenomenon has become contagious across the world — most spectacularly so in South Korea, where single-stock ETFs tied to memory chip giants Samsung Electronics and SK Hynix have proved wildly volatile. The impact on the Korean market has been exceptionally destabilising, because the two companies account for half the Kospi index. The South Korean government has moved to suspend new listings of single-stock leveraged ETFs and triple the minimum deposit for such products.

What can investors do to hedge against market concentration brought about by the Magnificent Seven and other tech companies? The traditional answer is diversification. But since correlations between risk assets tend to converge in a crisis, there also needs to be diversification across countries and asset classes, including real assets such as property and infrastructure — though investors should bear in mind that [gold](#), one of the oldest haven assets, is already at heady levels. With a relatively generous yield on cash, this is also a point in the market cycle where a larger than usual holding of cash makes sense.

Recommended

[Meta Platforms](#)

[Meta shares tumble as Mark Zuckerberg tries to sell his vision for AI ‘agents’](#)

Concentration risk is particularly acute for members of defined contribution pension plans, not least in the UK where more than 90 per cent of members take a default option that involves substantial exposure to passive equities. Most DC schemes track indices such as the MSCI World Index, which implies heavy exposure to the US, while such indices remain heavily concentrated due to the sheer size of the US tech giants’ market valuations. Pension fund trustees need to ask themselves whether their default options incorporate sufficient diversification.

As for where we are in the bubble, do not forget the famous remark of John Maynard Keynes that markets can remain irrational longer than you can remain solvent.

And the markets’ obsession with wordplay has not died with the downgrading of the Magnificent Seven. There is now talk of Mangos, a handy acronym for AI players Meta, Anthropic, Nvidia, Google, OpenAI and SpaceX — a further reformulation of the concentration risk investors have to contend with.