Global Matters Weekly

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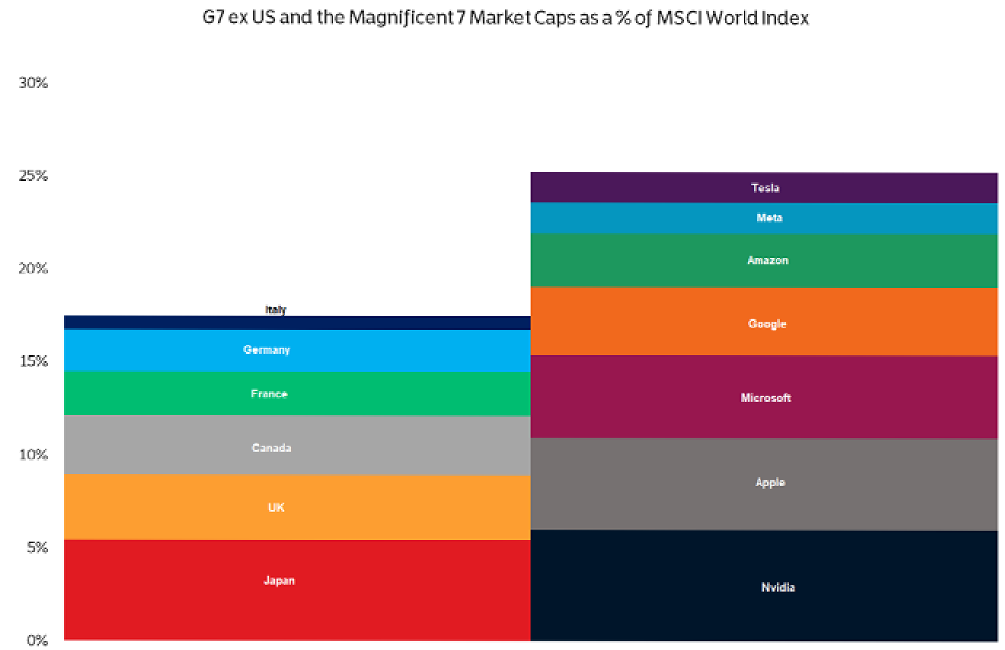
MAG7 Madness?

Isaac Savage



Source: Momentum Global Investment Management, MSCI World Index data to 31 October 2025.

What this chart shows

This week's chart compares the weightings of the 'Magnificent 7' stocks and the G7 ex US countries in the MSCI World Index. The Magnificent 7 has surged in recent years, reaching regular new highs. Nvidia has recently been crowned the first $5 trillion company (larger than Japan's entire GDP), having only crossed the $1trillion mark in June 2023. The graph reflects the resulting stark increase in concentration risk of the Magnificent 7 and its domination of world stock markets. Concerns are rising: is this an AI bubble, or is the hype warranted?

Why this is important

History suggests that the good times don't always last. Investors should be cautious of record highs and endless growth. Concentration risk has heightened in the MSCI World index, even more so in the S&P 500, meaning additional sources of diversification are increasingly warranted.

Since the April lows after 'Liberation Day', the Magnificent 7 returned 62% in seven months – further cementing their leadership status. Strong earnings reports and a $500 billion order for Nvidia chips, have bolstered markets and beaten even the more bullish analyst estimates. Recent Fed rate cuts only push them further, and the hype surrounding AI is unwavering. Microsoft Copilot, Google Gemini and Meta AI are used widely, driving enterprise adoption while Amazon has integrated generative AI into its cloud-based web services. Tangible AI revenue streams have reduced some scepticism, but many are unsure that AI will deliver the global shift that is promised.

Stretched valuations are a major cause for concern with the Magnificent 7. With most trailing price to earnings multiples hovering around 30-40x (with Tesla reaching almost 290x), very high levels of growth are already being discounted, leaving little room for disappointment. Meanwhile, US GDP growth is slowing, the labour market is softening, the consumer is weakening, and delinquency rates are rising. Many strategists believe we're late in the business cycle, and the economy could slow materially from here. Nvidia's massive revenues hinge on their competitive dominance, which is unlikely to continue indefinitely, providing reason for caution.

At MGIM, we believe that times like this 'FOMO' risk - fear of missing out – is an increasingly important factor to consider in the short term and sizing exposure and blending styles is of absolute importance. The phenomenal returns generated by cap-weighted indices are largely reliant on the continued success of the Magnificent 7, and by proxy, the success of AI. True diversification has rarely looked so important.

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