Balanced

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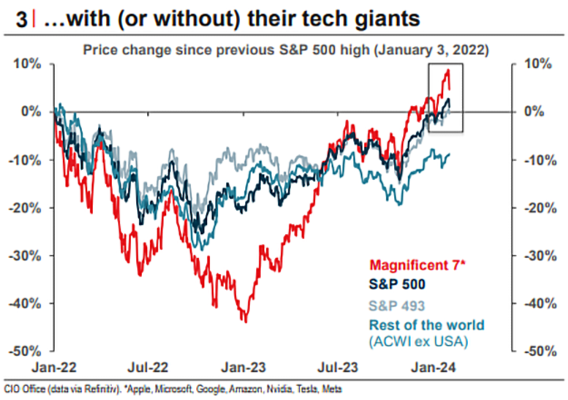
Magnificent Seven ~ Laurel Hickey & Garth Bluekens

What's Magnificent Seven Got To Do With It?

When reading a year in review for 2023, you usually can't read any information on the performance of US equity without hearing about the Magnificent 7. If you are not familiar with the term, it refers to 7 companies in the S&P 500– Apple, Microsoft, Google, Amazon, Nvidia, Tesla and Meta. What is making these companies magnificent is their market capitalization growth and performance in 2023. The group doubled in value, outperforming the rest of the S&P 500 and broader US market. To put the size of these companies in perspective, Microsoft is worth $3 trillion, roughly the market value of the top 10 European companies together. A lot of this growth is said to draw from the artificial intelligence frenzy that took off last year.[1] Though the Magnificent 7 did attribute to a large part of the growth, the S&P500 would have still reached new historic highs even if these companies weren't included. The chart below from the NBI CIO Office Asset Allocation for February shows this difference through the performance of the S&P493 versus the S&P500 as a whole.[2]



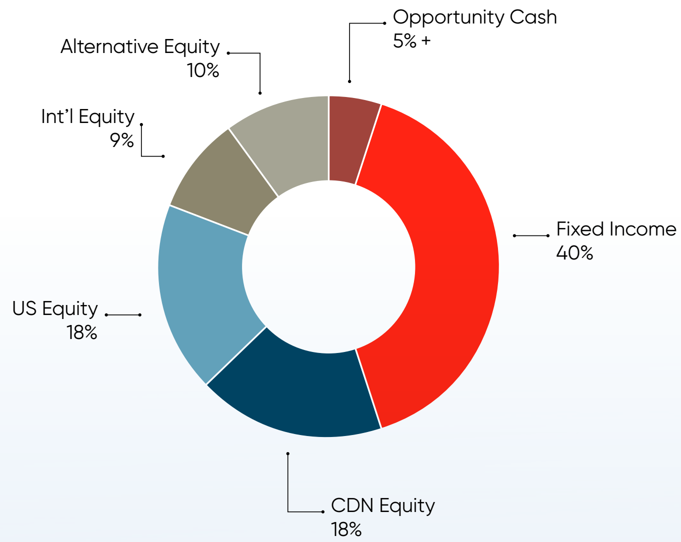
he growth of these companies is impressive, but it makes you wonder if it is sustainable. When a company is continuously beating earnings and having higher growth estimates, investors start to expect more and more. When your expectations are high, even a slight deviation from this upward trajectory can cause volatility in the stock price. This can be seen with Tesla, after announcing earnings in early 2024, lower expectations for growth have already caused the stock to drop around 24% at the time of writing this update. It isn't all bad news for the group, as on the other side Meta announced strong earnings and a dividend payment which led to the biggest session market value gain in history and the company being up about 34% at the time of writing this update.[3]

When we are talking about consecutively beating earnings, we are referring to earnings momentum. Analysts from multiple banks and investment firms that cover particular companies estimate a value that they expect a company's earnings to be each quarter and how this will translate into the stock price. When a company beats these targets by a large margin, it is usually reflected by an increase in the stock price. When this continuously happens quarter to quarter, the momentum can be a good screener for companies on an upward trajectory. Earnings momentum doesn't necessarily translate to sustainable earnings quality, so this factor cannot be viewed in isolation. We aren't saying that the Magnificent 7 are of poor quality, but you need to consider the price that you are paying for the company and if this makes sense relative to their earnings over the long run. When screening companies for our models we look at earnings momentum, but we pair this with other fundamentals factors like debt levels, cash flow and returns adjusted for volatility to name a few. It can be easy to get caught up in the headlines and have this influence your stock selection, but sticking to a wholistic approach can help to find quality companies that will hopefully have sustainable performance over the long term.

1 Novo Nordisk's (NVO) Stock Price Run Is Dwarfed by Wall Street Megacaps's Growth - Bloomberg
2 asset-allocation-strategy.pdf (nbinvestments.ca)
3 Big Tech Stocks Like Amazon, Apple Have High Bar for Gains in 2024 - Bloomberg

Balanced Investment Model Sleeve Goal Allocation

Your Investment Policy **BALANCED PROFILE:** You give equal importance to achieving growth in your investments and receiving income. You can tolerate moderate changes in market value to ensure growth, but you prefer having a mix of fixed income investments and equities for reasons of stability. If you feel that your risk tolerance is shifting, please let us know!



Source: This information is for illustration purposes and subject to change. Your portfolio may not hold all of these positions. We enhance the composition of your portfolio with additional equity solutions that are not illustrated. The weightings change with market fluctuations and model rebalancing.

Laurel Marie Hickey, CFP®, CIM®, FCSI®
Wealth Advisor & Portfolio Manager
239 8th Avenue SW, Calgary, Alberta T2P 1B9

Garth Bluekens, CPA, CA, PFP®, CIM®
Senior Wealth Advisor & Portfolio Manager
404 6th Street S, Lethbridge, Alberta T1J 2C9

Tel.: 403-531-8429 | **Toll Free:** 1-877-506-7900 | **Email:** laurel.hickey@nbc.ca

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