



Will the Magnificent 7 continue to set the pace in the market?

USD 13.2 trillion

Market capitalisation of the Magnificent 7. Equivalent to the nominal GDP of the six largest Eurozone economies¹

30%

Market capitalisation of these seven companies with respect to the capitalisation of the S&P 500 (18% of the MSCI World)¹

5x

The market expects Nvidia's revenues to increase 5-fold (and earnings 7-fold) in 2022-2026²



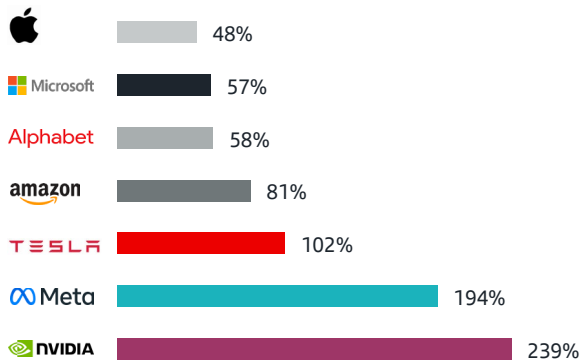
The Magnificent 7 are companies with a **world-leading position in technology** that has enabled them to outstrip market growth, and they are leading the **artificial intelligence boom**. They are Microsoft, Apple, Nvidia, Amazon, Alphabet, Meta and Tesla.

In 2023, the Magnificent 7 shaped stock market performance

Equities performed exceptionally well in 2023, but much of this appreciation was due to the performance of the **Magnificent 7** — three tech companies (Apple, Microsoft, Nvidia), two communications companies (Meta and Alphabet) and two in the consumer discretionary sector (Amazon and Tesla). This appreciation was supported by their dominant position in high-margin segments of the economy, and by their outstanding lead in artificial intelligence.

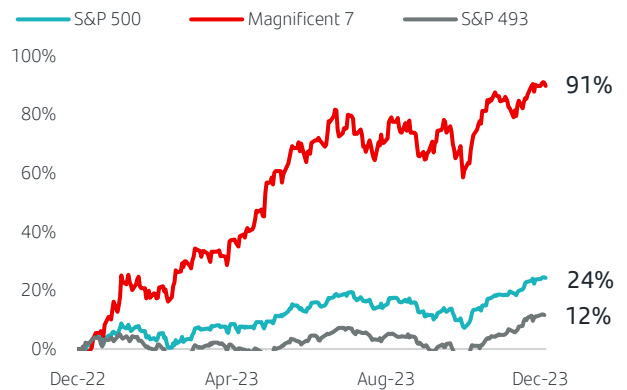
Appreciation by the Magnificent 7 in 2023

Source: Bloomberg and Santander. Data as of 31/12/2023



Two market realities in 2023

Source: Bloomberg and Santander. Data as of 31/12/2023



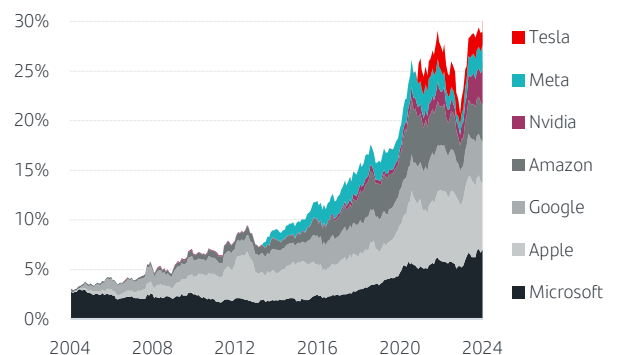
The Magnificent 7 appreciated by 91% in aggregate (weighted by market capitalisation) compared with 24% by the S&P 500 index and 12% by the other 493 components of the index. Nevertheless, as shown in the chart on the left, there was significant dispersion within that appreciation (Nvidia appreciated by 5 times more than Apple).

Global companies that are as big as European economies and are gaining in weight in the indexes.

The unstoppable process of digitalisation on a global scale thanks to the development of the internet and the penetration of smartphones — and, now, artificial intelligence — has changed the scale of technology companies. The market capitalisation of Microsoft (USD 3 trillion) or Apple (USD 2.8 trillion) is similar in size to the economy of France (USD 3.1 trillion) or the United Kingdom (USD 3.3 trillion)*. The Magnificent 7 currently represent 18% of the MSCI World index, 30% of the S&P 500 and 40% of the Nasdaq 100. As can be seen in the graph, this concentration has doubled in the last five years, particularly since the pandemic. According to Goldman Sachs**, such a high level of concentration in the seven largest companies in the index is unprecedented.

S&P 500 concentration at a peak

Source: Bloomberg and Santander. Data as of 31/12/2023



* IMF World Economic Outlook Database, October 2023.

** 2024 US Equity Outlook: "All You Had To Do Was Stay". Goldman Sachs, 15 Nov 2023.

What's behind these companies' growth?

They share certain **strengths** that constitute a **barrier to entry into their respective markets** — what is called an “economic moat”. This term was coined by Warren Buffet to refer to the competitive advantage that a company has been able to establish in its industry. This is what has enabled these companies to generate above-average growth, margins and earnings and is the key to their extraordinary performance.

Strong brands
Recognised for their quality, reliability and ease of use.

Digital ecosystems
Wide range of products and services that are easily integrated, enhancing the user experience and increasing customer retention.

Sound financial position
Ample capacity to invest in new technologies, make acquisitions and expand into new markets.

Data & Analysis
They improve customer experience and earnings them to make more informed strategic decisions.

Innovation
Strong investment in R&D. Pioneers in emerging technologies such as artificial intelligence, machine learning and cloud computing.

Talent
Corporate culture that fosters innovation, creativity and collaboration. Ability to attract talent and acquire startups in areas of high potential.

Scalability
Highly scalable business models, which enable them to grow rapidly worldwide.

Magnificent 7 and their moat
Source: Morningstar. Company profiles

Apple

Microsoft

TESLA

Alphabet

Meta

amazon

nVIDIA

● Wide ● Narrow

The Morningstar Economic Moat Rating reflects a company's durable competitive advantage. Moats arise from at least five sources of competitive advantage: (i) **cost advantages**, (ii) **intangible assets** (brand, etc.), (iii) **switching costs**, (iv) **durable scale economies**, and (v) **network effects**, i.e. that the more users, the greater the network's value and the harder it is to leave.

Differences are evident in the 2023 fourth quarter results

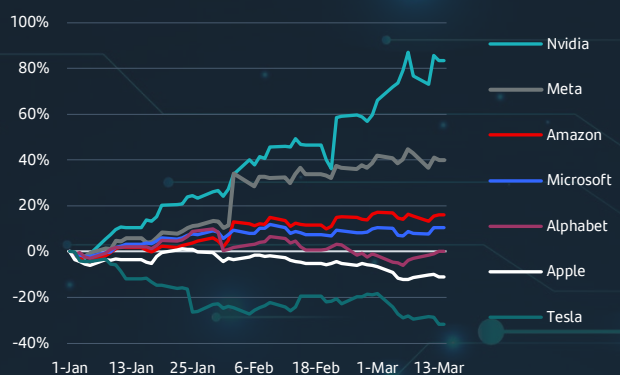
Source: Bloomberg. Data as of 27/2/2024
* Weighted by market capitalisation

Q4 23	Revenues		Earnings	
	YoY growth	vs. Expectations	YoY growth	vs. Expectations
Nvidia	265%	8%	486%	12%
Meta	25%	3%	202%	8%
Amazon	14%	2%	300%	25%
Alphabet	15%	2%	56%	3%
Microsoft	18%	1%	26%	6%
Apple	2%	1%	16%	4%
Tesla	3%	-3%	-40%	-3%
7M *	15%	2%	56%	7%
S&P 500	4%	1%	7%	7%

As can be seen in the table, Nvidia, Meta and Amazon have exceeded market expectations. Alphabet, Microsoft and Apple are performing in line with expectations, while Tesla has failed to meet expectations in terms of both revenues and earnings.

Share performance in 2024

Source: Bloomberg. Data as of 13/3/2024



This dispersion in earnings is also reflected in their share performance in 2024.

Can the Magnificent 7 continue to grow sustainably in the long term?

To attempt an answer to this question, we analyse two variables: valuation and expected long-term growth, as well as their positioning in the artificial intelligence race.

1. Valuation. For a company's valuation to be sustainable over time, price growth must be supported by above-average earnings growth. The PEG (Price/Earnings-to-Growth) ratio compares the share price, relative to the company's earnings (price/earnings or P/E), with its expected future growth. A low PEG ratio suggests that the company is undervalued relative to its earnings potential. Conversely, a high level suggests it is overvalued.

Source: Factset analysts' estimates. Data as of 27/2/2024.

	Price	EPS (Earnings per share)	P/E ratio (1)	Long-term growth (2)	PEG (1)/(2)
Nvidia	787.01	24.79	35.1	31%	1.14
Meta	487.05	20.88	23.8	25%	0.94
Amazon	173.54	5.17	33.1	29%	1.14
Alphabet	138.88	7.32	18.7	16%	1.19
S&P500			21	14%	1.53
Microsoft	407.48	12.8	31.6	14%	2.27
Apple	182.63	6.83	24.8	12%	2.07
Tesla	199.73	3.23	54.3	4%	13.58

Are valuations supported by growth?

As can be seen in the table, Nvidia has a high P/E multiple (35x) and also elevated growth expectations (31%). The PEG ratio is not demanding if growth expectations are met.

Tesla's situation is different: it has the highest P/E (54x) and also the lowest growth (4%) among the seven, resulting in a PEG of 13.6, which suggests it may be overvalued.

Apple has a similar P/E to Meta (25x vs. 24x) but is projected to attain only half the latter's growth rate (12% vs. 25%), so Apple's PEG ratio is 2.3 times that of Meta.

In conclusion, the seven companies differ in terms of both valuation and growth profile and it is therefore advisable to discriminate when investing in them.

2. Positioning in the artificial intelligence race. Artificial intelligence (AI) is a disruptive technology that is expected to be the main driver this decade. It is vital to form part of the AI value chain.

The key to positioning in AI lies in a combination of strengths in data, infrastructure (GPUs and cloud) and models.

Components of the artificial intelligence value chain and the leading companies in each field

Data	Hardware (GPUs)	Cloud	Models (Algorithms)
Access to huge databases is a key factor in the AI race.	Fundamental components for parallel and accelerated processing of AI data training models.	The cloud provides on-demand computing resources, such as virtual servers and storage. It enables scalability, flexibility and global access to data and services.	Trained on massive data sets, foundational models are deep learning neural networks that have given a massive boost to the development of AI.
Microsoft Amazon Alphabet Meta Tesla Apple	Nvidia	Microsoft Amazon Alphabet	Microsoft Amazon Meta Alphabet

These seven companies in aggregate (viewed together and not individually) will not outperform in 2024 in the same way as they did in 2023. Their high valuations set a high bar in terms of maintaining the earnings growth differential, preserving the moat in key segments and convincing the market of their superior position in AI.

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