M1 CAPITAL
INVESTMENT MANAGEMENT

Mag 7 Dominance – Market Commentary

July was led by the US with the S&P 500 and the Nasdaq returning +2.2% and +2.4% respectively and Growth outperformed Value +2.1% to +0.4% led by the large US Tech shares.

The MSCI World ex-US (i.e. Developed Markets ex-US) was negative at -1.2%, bringing the MSCI World Index down to +1.3% for the month.

Emerging Markets mildly outperformed Developed Markets with the MSCI Emerging Markets Index returning +1.9%, while South Africa underperformed in USD terms at +0.5%, though still positive.

For the year-to-date, EMs continue to lead at +17.5% vs the MSCI World's +10.9%. Note however the US return is +8.3% (S&P 500), while the MSCI World ex-US is at +17.5%, in line with EMs. So it is primarily a case of the US lagging for the year-to-date with the rest of the world in line and relatively strongly positive in USD terms.

South Africa is strongly outperforming at +24.5% in USD terms led by its Gold and Platinum shares.

The various market returns are summarised in Table below.

Table 1. South African and global equity returns (USD) for July 2025*

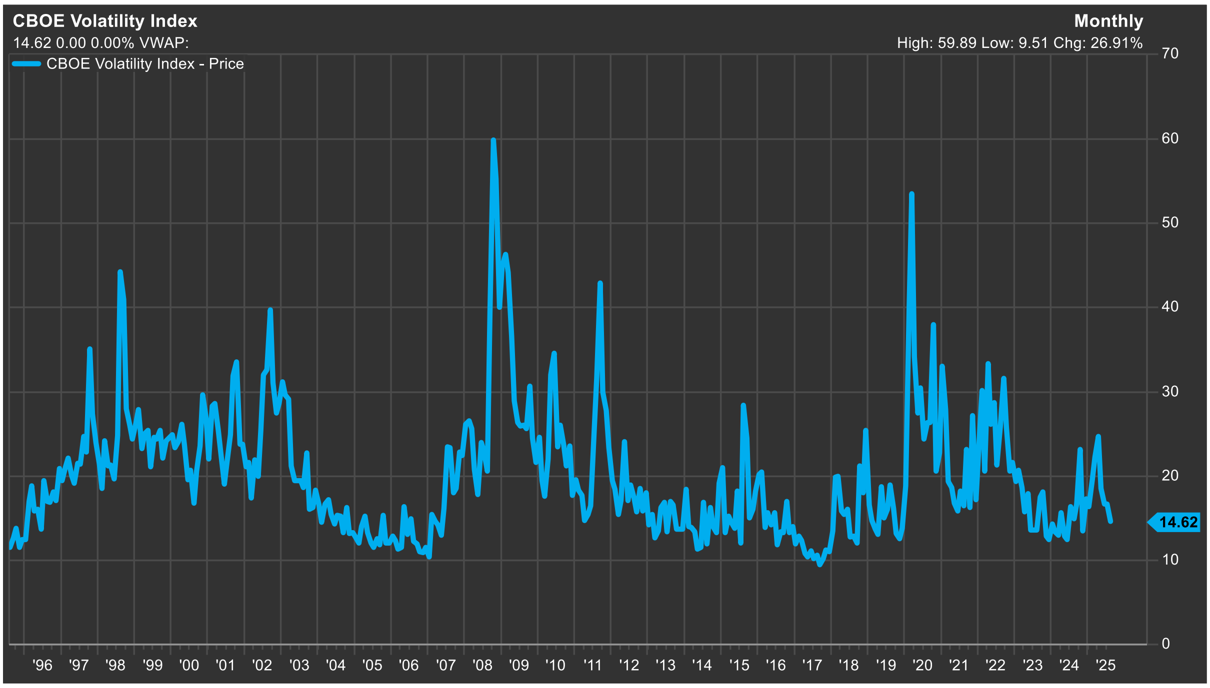
	Jul-25	YTD 2025
FTSE/JSE ALSI (ZAR)	2.3%	19.3%
FTSE/JSE ALSI (USD)	0.5%	24.5%
MSCI World	1.3%	10.9%
MSCI World ex-US	-1.2%	17.6%
MSCI EM	1.9%	17.5%
MSCI Value	0.4%	10.9%
MSCI Growth	2.1%	10.8%
S&P 500	2.2%	8.3%
Nasdaq 100	2.4%	11.0%

*Total return indices, Source: Factset

A financial media headline stated today that market strategists at major global banks are suggesting that the Northern Hemisphere's summer market calm is almost over. So we are wondering how the rest of the year is about to unfold. Examination of the US VIX index in Chart 1 below suggests volatility is not near all-time lows but declining since April.

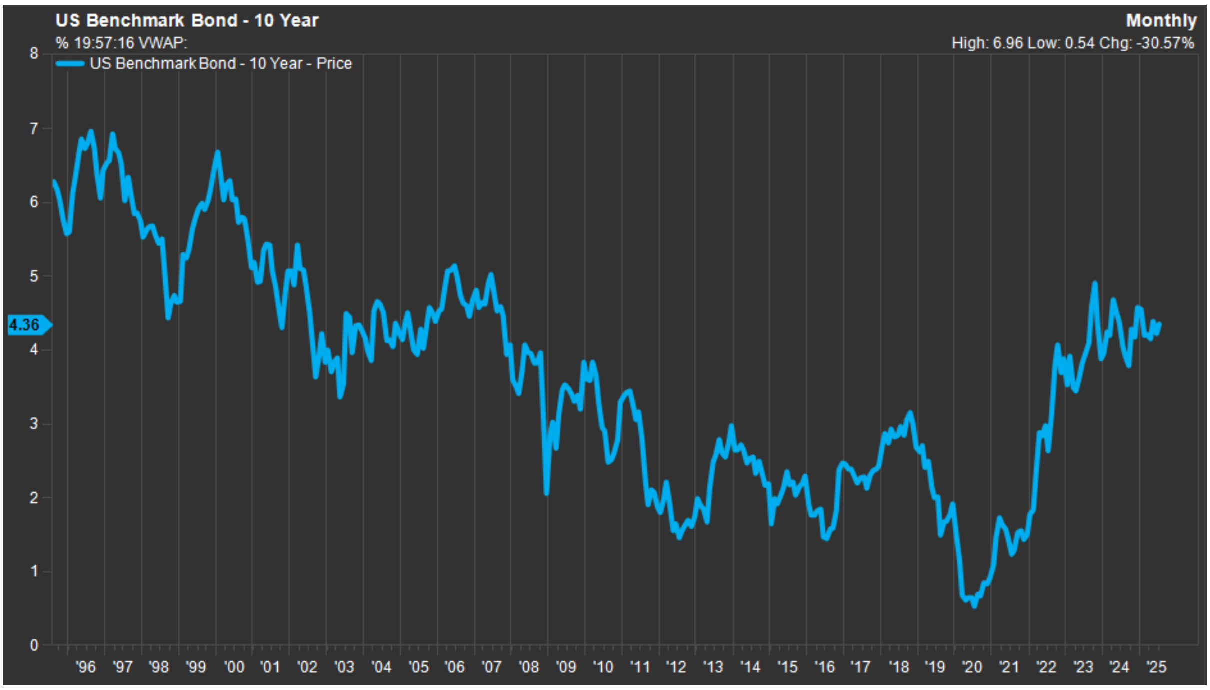
The 10-year Treasury yield (Chart 2) has also effectively been in a range since the end of 2023, despite what seems to be persistent coverage predicting inflation and rising yields. Another recent headline has suggested market manipulation (by the Fed, implied) as a cause of the relative stability of the 10-year yield. This an unusual suggestion and we are unable to comment on how likely it might be to be true.

Chart 1. CBOE Volatility Index (VIX)



Source: Factset

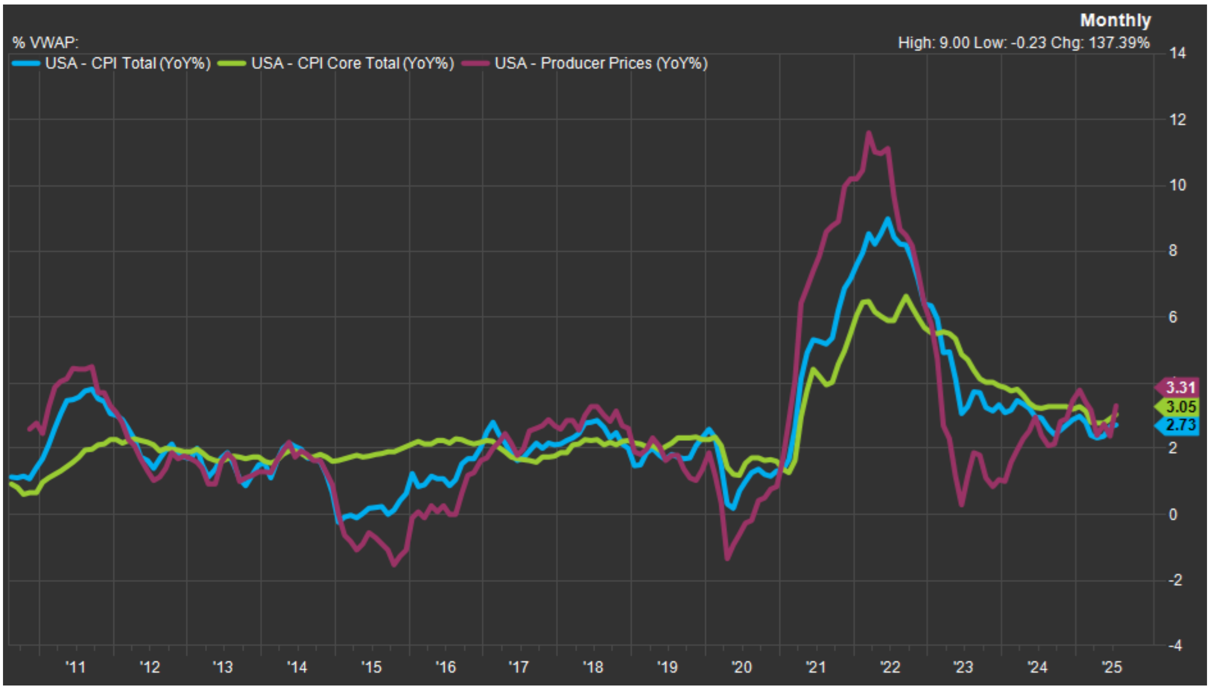
Chart 2. US 10-year Treasury Yield



Source: Factset

The US inflation numbers, in Chart 3 below, are slightly higher, tariffs, of course, being blamed.

Chart 3. US CPI, Core CPI and PPI



Source: Factset

Per Chart 3 above we also note

1. the latest data points are, effectively, a blip and could be statistical noise therefore no firm conclusion can be made about a trend, which is also likely why the 10-year Treasury has not moved substantially

2. breakeven inflation remains at +2.4% (the expected inflation by the market inclusive of a risk premium) i.e. little-changed

3. note the PPI has been in an uptrend since the first half of 2023, long before the US election

4. the concurrent decline in CPI and Core CPI suggests disinflation for services over the same period

What of the Mag 7?

Perhaps consistent with the US market lagging the rest of the world in 2025 we seem to be told regularly, by financial media (and Value managers), that the Mag 7

1. is underperforming, and
2. the current dominance of the S&P 500 will end

As a first stab we use an ETF as a proxy for a Mag 7 index and compare to the S&P 500 in Chart 4 below (of which the Mag 7 is itself a prominent part). The period of comparison is relatively short but sufficient for our purposes.

Chart 4. Mag 7 proxy ETF vs S&P 500

Source: Factset

Over the period presented in Chart 4 the Mag 7 significantly outperforms. As importantly, in each case of a market downturn the Mag 7 sharply underperforms the index. This is as expected – in downturns Tech underperforms sharply. Suppose the downturn is driven by recession concerns – IT budgets are cut so the likes of Microsoft decline, ad spending is cut so Meta and Alphabet underperform, consumer spending declines so Amazon and Apple decline etc. If instead the decline is due to rising interest rates, the superior Tech growth rate and its in-built longer duration of cash flows ensures a steeper fall on valuation grounds.

Will Mag 7 dominance persist?

Table 1 below sets out the Top 10 in the S&P 500 over 30 years. Some observations include

1. IBM, Pfizer, J&J are examples of companies falling out of the Top 10
2. Walmart and Berkshire relatively consistent, though Walmart is missing in the last period
3. Microsoft present throughout the examined 30-year period

The Nifty Fifty of the 1970s and the Dotcom shares are often given as examples of loss of market leadership (the latter were never leaders in market cap terms but did have spectacular performance on positive market sentiment prior to the 2000 crash). In both cases valuations were high.

We also know that the Dotcom companies were profitless but what about the Nifty Fifty?

Polaroid is perhaps the poster child with a PE rising to 94.8x at the peak, while the average PE for the group reached 42x, not unlike the current Mag 7 PE.

It is true the Nifty Fifty crashed, but what is often not mentioned in this context is that the S&P 500 experienced a severe bear market and Treasury yields (and the Fed Funds rate) were rising steeply over the period in an environment of sharply rising inflation. In other words conditions not unlike 2022 when, as we pointed out already, the Mag 7 underperformed (Nvidia fell close to -70% then, now long forgotten).

Table 1. S&P 500 Top 10 constituents

	2025	2020	2015	2010	2005	2000	1995	
1	Nvidia	Apple	Apple	Exxon	Exxon	General Electric	General Electric	1
2	Microsoft	Amazon	Alphabet	Apple	General Electric	Intel	Exxon	2
3	Apple	Microsoft	Microsoft	Microsoft	Microsoft	Cisco	Coca-Cola	3
4	Amazon	Alphabet	Berkshire Hathaway	Berkshire Hathaway	Citigroup	Microsoft	IBM	4
5	Alphabet	Meta	Exxon	Walmart	Walmart	Exxon	Merck	5
6	Meta	Berkshire Hathaway	Wells Fargo	Procter & Gamble	Pfizer	Pfizer	Altria	6
7	Broadcom	Visa	J&J	General Electric	J&J	Citigroup	Microsoft	7
8	Tesla	J&J	Meta	IBM	Bank of America	Walmart	Walmart	8
9	Berkshire Hathaway	Walmart	General Electric	J&J	Intel	Oracle	Intel	9
10	JPMorgan Chase	Tesla	JPMorgan Chase	AT&T	AIG	IBM	Procter & Gamble	10

Source: S&P Capital IQ

Another scenario is loss of growth. Recession, mentioned above, would be temporary, so a more structural impact e.g. AI proves to be a failure, or, more likely, a new technological wave emerges in which the current crop of leaders fails to participate (IBM is perhaps an example of failing to adapt).

How likely?

We do not see tariffs as providing a sustained long term inflation impulse. Far more than tariffs, we fear that the current obvious risk to inflation is curtailment of the Fed's independence – it remains to be seen how this develops. Also, as far as monetary policy is concerned, the Trump administration might more easily be able to control the short term rate but perhaps less so the long term rate.

A structural, as opposed to cyclical, loss of growth is also not immediately apparent however and, should it materialise, is unlikely to be a rapid process. Nokia's loss of dominance did not take long but also was not an overnight event.

What about valuation?

A high PE in itself is not a sign of overvaluation. As discussed in previous commentaries, a PE ratio, for all its simplicity, hides a technical discounting factor. If the PE is higher than justified then there is a case of overvaluation. In broad terms this once again depends on interest and growth rates. As long as the growth rates are maintained and interest rates do not rise materially, there should not be a significant decline in values. A recession would be a scenario for short term declines in this context.

Should we be invested?

Being invested away from the benchmark is always instinctively appealing and preferred. Our practical experience however is, perhaps counterintuitively, somewhat different, and our answer to the above question sometimes is "it depends" and "when it makes sense".

What do we mean? In our experience there are typically very good reasons for market leaders to be leading – the Mag 7 outperformance chart is a good case in point.

But we observe this closer to home as well in the form of Naspers and Richemont. A prominent local financial adviser has publicly stated he is not interested in any fund investing in Naspers, yet Naspers, as a wrapper for Tencent, rose to 20% of the index in years past. It is currently not very far from that following various attempts to reduce its index weight. Richemont also reached close to 20% not too long ago followed by a successful intervention to reduce its index weight. As with the Mag 7 this happens because of strong outperformance – these companies did not start out being dominant in the S&P 500 or the ALSI but got there by outperforming other constituents.

A side note to the above is that a US Emerging Markets manager dismissively remarked to us in 2017 that worrying about investing in Naspers because others are invested in it is "nonsense, that's like saying everybody's invested in Google". Both Naspers and Google / Alphabet have outperformed since then.

Such market leaders therefore require careful consideration.

Our view is that in the same way we focus on the underlying asset and ignore the benchmark that leads us to be significantly different to the index, so we think, when merited, we should equally ignore the index and focus on the underlying asset even though it might be a large weight in the same index, at least for stock selection if not for portfolio construction purposes. It is always preferable to be different but not for the sake of being different but because it makes sense, and the focus remains on the underlying asset alone. The fact that a good asset might make up a large percentage of the benchmark is a challenge for the fund manager to manage / solve.

Finally, for the record, we have never invested in Apple, for an extended period the largest company in the S&P 500 and the MSCI World Index. For what it is worth, our view for a long time has been that if there is one company in danger of losing Mag 7 status (now that the Tesla CEO appears to have returned to what he does best), it is Apple.