Mag7 and beyond: A quality growth blueprint for the long term

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Key Takeaways

- The Mag7 remain the core drivers: With double-digit sales growth, superior margins, and dominance in megatrends like cloud, semiconductors, and EVs, the Mag7 continue to anchor US equity leadership.
- AI is the structural growth engine: From Nvidia's hardware to Microsoft and Google's cloud, Amazon's AWS, and Tesla's autonomy, AI already delivers tangible revenue growth, margin gains, and competitive advantages.
- WisdomTree's disciplined quality growth approach: By selecting companies based on profitability and growth fundamentals, not market cap, the strategy ensures exposure to the Mag7 while systematically diversifying into the next generation of quality growth leaders.

'Magnificent 7' leadership reaffirmed in Q2 2025 results

The Q2 2025 earnings season reaffirmed the market dominance of the Magnificent 7 (Mag7)[1]. Collectively, the group delivered blended sales growth of +15.13% year-on-year, outpacing the rest of the S&P 500 (493 companies) by more than 10% as of 15 Aug 2025. From the April market lows, an index tracking these seven stocks advanced +44.46% as of 19 August 2025, a stark reflection of their continued leadership.

Post-April Crash Recovery and Market Breadth Expansion

The 2-4 April 2025 sell-off, triggered by new White House tariffs, caused the S&P 500 and Nasdaq to drop -10% to -12%, erasing USD 6.6 trillion in market cap within three days. A partial rollback of tariffs quickly stabilised markets, and by the end of April, the Zweig Breadth Thrust signalled recovery.

By May–June, the rally broadened significantly:

- By end-June, 88% of US stocks were in an uptrend (vs. <10% in early May).
- The rally was tech-led, propelling the S&P 500 and Nasdaq to new all-time highs.
- Big Tech's continued commitment to AI investment, even amid volatility, reinforced investor confidence.

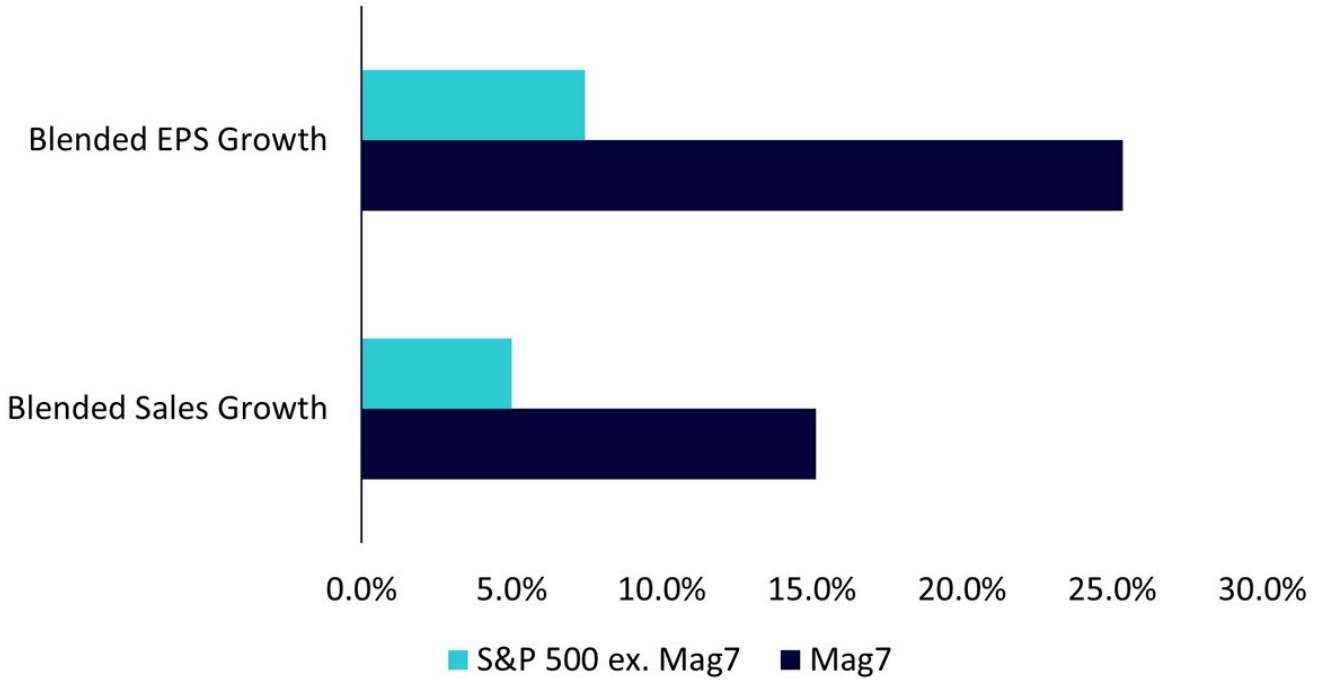
Valuations and Earnings Strength

While the Mag7's valuations have soared, they remain supported by:

- Above-average earnings growth: The Q2 2025 results showed the blended EPS growth for the Mag7 stocks at 25.3% versus the S&P 500 ex Mag7 at a much lower 7.5% according to WisdomTree as of 15 Aug 2025.
- Superior profitability: Average EBIT margins of 20% in 2024, compared to the S&P 500's 13.5%.
- Leadership in megatrends: The Mag7 dominated key themes such as Cloud computing, AI, e-commerce, digital advertising, Semiconductors, and EVs.

Importantly, the Mag7's price/earnings-to-growth (PEG) ratio suggests valuations are justified. Bridgewater analysis shows that 14% annual earnings per share growth (EPS) growth over the next decade would be sufficient to sustain their equity premium relative to bonds, a level below their historic ~20% pace, but still robust enough to support current multiples.

Growth Rates for Magnificent 7 stocks and S&P 500 ex Magnificent 7 stocks



Source: WisdomTree, FactSet. As of 15 Aug 2025. Blended growth rates include estimates for companies where latest quarterly report isn't yet available.

AI as the structural growth engine for the Mag7

Artificial Intelligence is the defining growth driver for the Magnificent 7, with each company leveraging AI in ways that reinforce its market leadership and profitability:

- Microsoft & Alphabet: Monetising AI through cloud infrastructure and platforms (Azure, Google Cloud), embedding AI into productivity suites and enterprise workflows, positioning themselves as the backbone of corporate AI adoption.
- Nvidia: The undisputed leader in AI hardware, powering virtually all generative AI training and inference workloads. Its chips are now a critical enabler of the AI ecosystem, creating sustained demand visibility.
- Amazon: Scaling AI through AWS cloud services, improving logistics and e-commerce personalization, while simultaneously building new AI-driven revenue streams.
- Meta: Leveraging AI for advertising efficiency and engagement while advancing its AI-driven virtual environments. Its ad optimization models continue to translate directly into revenue gains.
- Apple: Integrating AI into the consumer hardware ecosystem, from on-device intelligence to services, positioning itself as the leader in personal AI adoption.
- Tesla: Embedding AI in autonomous driving systems and robotics, with the potential to reshape transportation and mobility economics.

Crucially, AI is not just an investment theme but already yielding measurable returns:

- Accelerated revenue from cloud and AI infrastructure services.
- Higher margins from process automation and advertising optimization.
- Faster innovation cycles, improving competitiveness and time-to-market.

In short, AI provides the Mag7 with a multi-dimensional growth engine, expanding revenues, protecting margins, and strengthening competitive moats. Their AI dominance cements them at the centre of long-term equity growth opportunities.

Mergers and acquisitions advantage through high valuations

With elevated equity market capitalisations, Big Tech wields powerful “equity currency” for acquisitions. This allows them to preserve cash for organic growth and R&D and use stock valuations strategically in deal-making. In practice, this means they can issue shares at high multiples to acquire complementary technologies, talent pools, or new platforms, often at a lower effective cost than if they relied on cash. It also provides flexibility: by structuring deals with stock rather than debt, they avoid increasing leverage, maintain balance sheet strength, and still expand strategically. Importantly, equity-financed deals can align incentives with acquired management teams, as they participate in the long-term value creation of the combined entity.

WisdomTree’s US Quality Growth strategy

The WisdomTree US Quality Growth UCITS Index currently holds all seven Mag7 stocks, not due to size, but because they meet stringent quality and growth fundamentals. The strategy selects stocks with robust profitability and strong growth metrics, and applies semi-annual rebalancing to ensure continued discipline:

- If a Mag7 company fails to meet criteria, it will be excluded.
- Conversely, other strong quality-growth names are included, ensuring diversification beyond the Mag7.

This systematic, rules-based approach ensures that investors gain exposure to the quality and growth risk premia that have historically been rewarded in equity markets.

Top 10 stocks by weight in WisdomTree US Quality Growth UCITS Index

Name	Weight
NVIDIA Corporation	15.4%
Microsoft Corporation	14.2%
Apple Inc.	11.1%
Amazon.com, Inc.	8.9%
Alphabet Inc. Class A	8.1%
Meta Platforms Inc Class A	5.7%
Broadcom Inc.	4.6%
Tesla, Inc.	3.9%
Eli Lilly and Company	2.4%
Visa Inc. Class A	2.1%

Source: WisdomTree, FactSet. As of 31 Jul 2025.

Conclusion

The Mag7 remains central to the US Quality Growth Strategy, backed by operational efficiency, leadership in megatrends, massive AI investments, and strategic M&A capacity. While valuations are elevated, they appear justified by strong fundamentals and sustained growth prospects.

For long-term investors, a rules-based, quality-focused framework of the WisdomTree US Quality Growth UCITS Index provides a disciplined way to capture Mag7 leadership while also systematically rotating into other high-quality growth opportunities, enhancing both resilience and diversification.

[1]Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla

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