Mag7 and Beyond: A Quality Growth Blueprint for the Long Term

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Key Takeaways

- Following a sharp market rebound after April's tariff-induced sell-off, the Magnificent 7 (Mag7) surged, with 44.46% returns and Q2 earnings growth of 25.3%, reaffirming their dominant position in the S&P 500 landscape.
- AI remains the structural growth engine for the Mag7, driving measurable gains in revenue, margins and innovation, while also cementing their leadership across megatrends like cloud computing, semiconductors and autonomous tech.
- The WisdomTree U.S. Quality Growth Index tactically holds all Mag7 names, not for size, but for their fundamentals. It also rotates into other high-quality growth stocks, offering investors both concentration and diversification in one disciplined strategy.

Magnificent 7 Leadership Reaffirmed in Q2 2025 Results

The Q2 2025 earnings season reaffirmed the market dominance of the Mag7. 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 August 15, 2025. From the April market lows, an index tracking these seven stocks advanced **44.46% as of August 19**, a stark reflection of their continued leadership.

Post-April Crash Recovery and Market Breadth Expansion

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

By May–June, the rally broadened significantly:

- By end-June, 88% of U.S. stocks were in an uptrend (vs. less than 10% in early May).
- The rally was tech-led, propelling both 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.

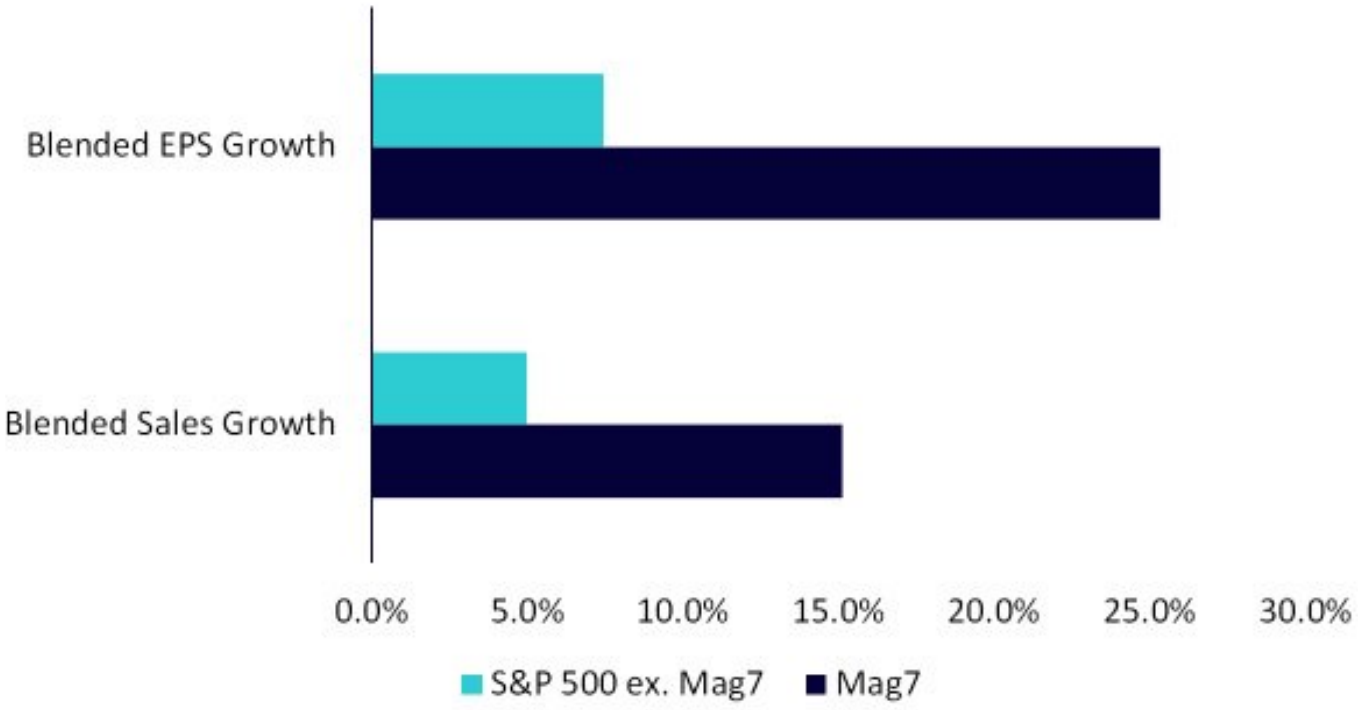
Valuations and Earnings Strength

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 August 15, 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 PEG ratio suggests valuations are justified. Bridgewater analysis shows that **14% annual EPS growth over the next decade** would be sufficient to sustain their equity premium relative to bonds, a level below their historic approximately 20% pace, but still robust enough to support current multiples.

Growth Rates for Magnificent 7 Stocks and S&P 500 ex. Magnificent 7 Stocks



Sources: WisdomTree, FactSet, as of 8/15/25. 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 Mag7, with each company leveraging AI in ways that reinforce its market leadership and profitability:

- **Microsoft & Alphabet:** Monetizing AI through **cloud infrastructure and platforms** (Azure, Google Cloud), embedding AI into productivity suites and enterprise workflows, and 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 center of long-term equity growth opportunities.

M&A Advantage through High Valuations

With elevated equity market capitalizations, 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.

The **WisdomTree U.S. Quality Growth Index** currently holds all the 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 premiums** that have historically been rewarded in equity markets.

Top 10 Stocks by Weight in WisdomTree U.S. Quality Growth Index

Name	Weight
NVIDIA Corporation	12.70%
Microsoft Corporation	8.90%
Amazon.com, Inc.	7.50%
Apple Inc.	7.00%
Alphabet Inc. Class A	6.80%
Meta Platforms Inc Class A	6.60%
Broadcom Inc.	4.70%
Tesla, Inc.	2.80%
Eli Lilly and Company	2.50%
Visa Inc. Class A	2.20%

Sources: WisdomTree, FactSet, as of 7/31/25. Subject to change.

Conclusion

The Mag7 remains central to the U.S. 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, the **rules-based, quality-focused framework** of the **WisdomTree U.S. Quality Growth Index** provides a disciplined way to capture Mag7 leadership while also systematically rotating into other high-quality growth opportunities, enhancing both resilience and diversification.

Important Risks Related to this Article

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