

The 'Magnificent Seven' tech stocks drive markets higher as AI mania grips investors



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May 30, 2023 · 3 min read

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As AI mania accelerates into the summer months, a tale of two markets facing investors is becoming more extreme.

[Last week](#), the Nasdaq 100 Index ([^NDX](#)) — which is comprised of the 100 largest tech stocks on the Nasdaq — jumped over 3% while the Dow Jones Industrial Index ([^DJI](#)) languished in the red. That's only the fifth such occurrence since the dot-com bubble popped two decades ago.

Meanwhile, looking under the market's hood, on both Thursday and Friday more stocks listed on the NYSE hit new 52-week lows than new 52-week highs. Yet on both days the Nasdaq 100 surged over 2%.

Each of these signals says something slightly different, but they all occur nearly exclusively during times of market stress like bear markets and early-stage bull markets when doubts are still top of mind.

Broadly speaking, investors have soured on the overall market and are piling money into the much-hyped artificial intelligence trade, which is feeding the concentration of market gains into only a few companies.

Or as Bank of America strategist Michael Hartnett calls these stocks, the 'Magnificent Seven' — Apple ([AAPL](#)), Alphabet ([GOOGL](#), [GOOG](#)), Microsoft

([MSFT](#)), Amazon ([AMZN](#)), Meta ([META](#)), Tesla ([TSLA](#)), and Nvidia ([NVDA](#)). (Steve Sosnick at Interactive Brokers also [wrote about the Magnificent Seven](#) last week in an article set against the rhythmic stylings of The Clash.)

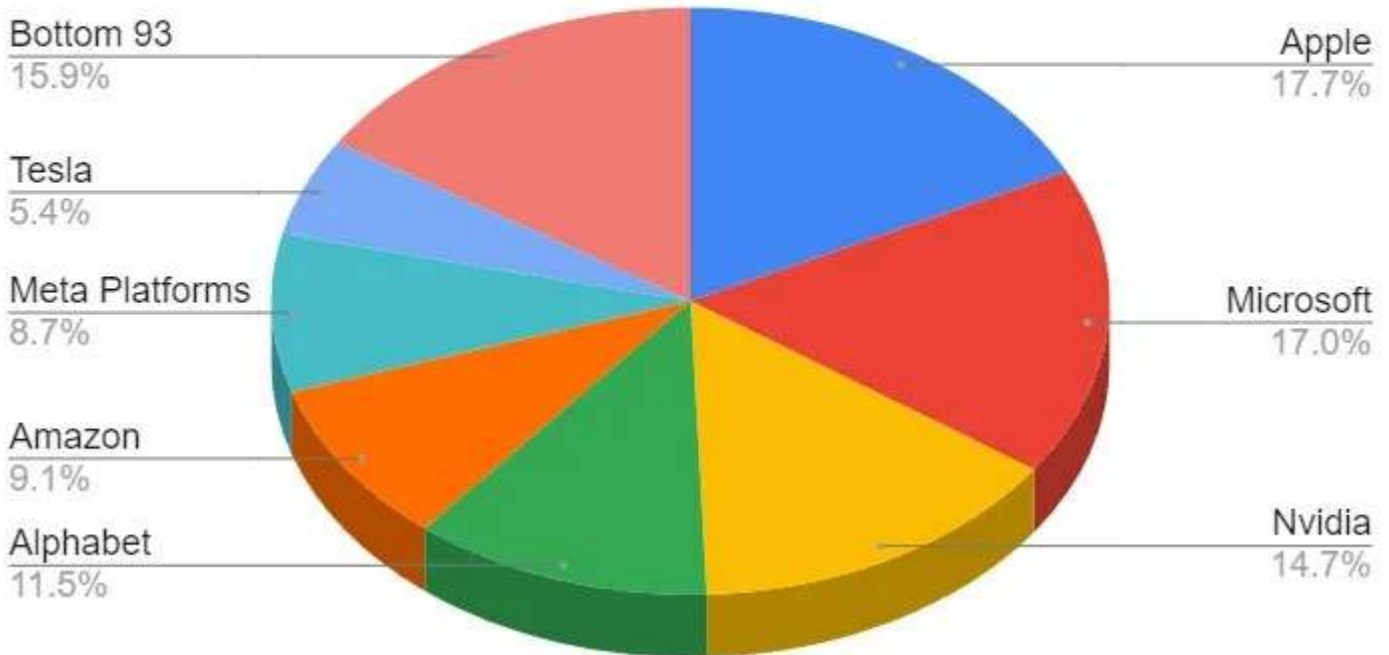


Jensen Huang, CEO of NVIDIA, speaks during a press conference at the Computex 2023 in Taipei on May 30, 2023. (Photo by Sam Yeh / AFP) (Photo by SAM YEH/AFP via Getty Images)

All told, the top seven Nasdaq 100 components are up \$3.35 trillion this year, while the bottom 93 are up only \$635 billion.

This means Hartnett's 'Magnificent Seven' account for 84% of the Nasdaq 100's \$4 trillion growth in market valuation in 2023. Apple and Microsoft have *each* gained more in value than the entire bottom 93 stocks.

Nasdaq 100 — \$4.0 Trillion Gain in Market Cap YTD



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Although the lion's share of valuation gains are concentrated in a few large stocks, several software and chip companies also riding the AI wave are producing outsized returns in May.

Chipmaker Marvell Tech ([MRVL](#)) is up 65% this month after surging 30% on Friday alone. The chipmaker expects to at least double its AI revenue in fiscal 2024.

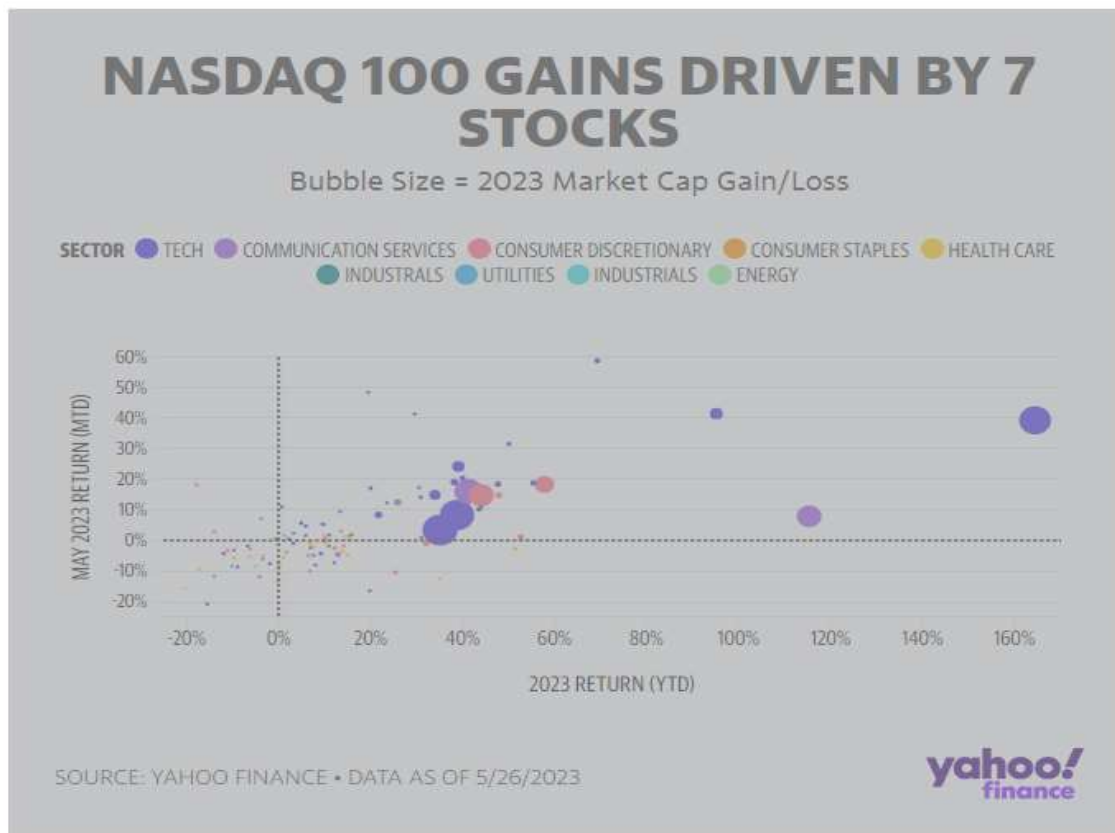
Cloud-based security company Zscaler ([ZS](#)) is up 45% — second this month in the Nasdaq 100. And American Micro Devices ([AMD](#)) managed to best Nvidia's impressive May return having gained 42% so far this month.

The graphic below shows the month-to-date return for Nasdaq 100 stocks during May (y-axis) versus the year-to-date performance for 2023 (x-axis).

Bubble size grows with the 2023 change in market capitalization. Dots are colored based on sector.

Unsurprisingly, the big blue dot in the far upper right is Nvidia, the top gainer for the year and one of the top gainers for the month of May. It's market cap is up over half a trillion dollars — as is that of Apple and Microsoft.

The next four biggest gainers in market cap this year are Alphabet, Amazon, Meta Platforms, and Tesla. After that, the valuation gains drop off.



Meanwhile, retail names in both the consumer discretionary and staples sector have gotten whacked in May as former areas of strength once again collapse, another pain trade reversing on investors.

With the US debt ceiling fight [appearing headed toward a resolution](#) and the [Federal Reserve's next move now an open question for investors](#) in the real world, markets have turned their attention to more artificial concerns.

As Yahoo Finance's Josh Schafer reported this weekend, strategists at Citi wrote in a recent note "US markets are powered by the AI theme, which tends to increase rates sensitivity even further." Meaning the AI trade is now the Fed trade.

Or as BofA's Hartnett wrote last week, "No conviction in macro narrative of 2023 means big conviction in new micro narrative of AI."