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Quarterly Topic: Reality Meets Expectation for the Mag 7

Second Quarter 2024



*Wealth Management & Trust*

# Quarterly Market Review

Second quarter 2024



Corey Mowen, CFP®, DPT, MS  
VP- Trust Investment Officer  
San Antonio / Central Texas  
(210) 987-5527  
trust@rio.bank



Luis Hernandez  
VP- Trust Investment Officer  
Rio Grande Valley  
(956) 878-1401  
trust@rio.bank

## Overview:

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# Reality Meets Expectation for the Mag 7

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Wes Crill, PhD, Senior Investment Director and Vice President, Dimensional Fund Advisors

## SURPRISE, SURPRISE

Magnificent 7 actual vs. analyst forecast earnings per share, 2022–2023

	2022			2023		
	ANALYST FORECAST	ACTUAL	DIFFERENCE	ANALYST FORECAST	ACTUAL	DIFFERENCE
NVDA	\$3.77	\$1.74	-53.8% ▼	\$8.69	\$11.94	37.4% ▲
AAPL	\$6.06	\$6.10	0.7% ▲	\$5.95	\$6.13	3.0% ▲
TSLA	\$3.73	\$3.63	-2.7% ▼	\$3.61	\$4.30	19.2% ▲
MSFT	\$9.14	\$9.64	5.5% ▲	\$9.35	\$9.68	3.6% ▲
AMZN	\$1.09	-\$0.27	-125.0% ▼	\$1.93	\$2.89	49.7% ▲
GOOGL	\$5.04	\$4.55	-9.6% ▼	\$5.21	\$5.81	11.4% ▲
META	\$10.49	\$8.59	-18.2% ▼	\$11.33	\$14.90	31.5% ▲

It is unlikely any stock has an expected return of 100% per year. That seems too high to be the cost of equity capital for a company, and it's doubtful anyone would sell a stock with an expected return 10 times the historical stock market return.<sup>1</sup> A realized return that big likely means the company surprised investors in a good way.

The Magnificent 7 stocks returned on average more than 111% in 2023, exceeding the S&P 500 Index by over 85 percentage points. While it's hard to say what cash flow expectations were built into their stock prices, comparing analyst earnings estimates to actual earnings suggests these companies exceeded expectations for the year. All seven reported earnings exceeding average forecasts. For example, Nvidia posted an earnings per share 37.4%

higher than the average analyst expectation. Contrast this with 2022, when five of the seven companies' earnings fell short of analyst expectations. The average Magnificent 7 stock return that year trailed the S&P 500 Index by 28 percentage points.

Expecting Mag 7 outperformance to continue is to bet on these companies further exceeding the market's expectations. Simply meeting expectations may result in returns more in line with the market, consistent with the history of top US stocks.

1. The S&P 500 Index had an annualized return of 10.3% from January 1926 to December 2023. S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

See following page for important disclosure.

# Reality Meets Expectation for the Mag 7

**Past performance is no guarantee of future results.**

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