Syntax

Measuring the Impact of the Magnificent Seven on Market Returns with Syntax Direct

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Key Takeaways

- This analysis compares the returns for the Syntax 500 Index, Syntax's large cap US benchmark, against the Syntax 493 index model, which removes the "Magnificent Seven"

- The cumulative return of the Syntax 500, which includes the Magnificent Seven, was 34% higher than the Syntax 493 over the 5 years ending August 31, 2024

- The annualized returns over the past five years for the Syntax 500 were 15.9% compared to 12.7% for the Syntax 493, a difference of 320 basis points per year

- The Magnificent Seven represent 32% of the US large cap market; when these stocks are excluded from the index, the top 10 constituents comprise just 16.5% of the large cap market

- The Magnificent Seven as a group returned 30.3% per year over the past five years, increasing their collective float-adjusted market cap from $4 to $14 trillio

Overview

The Magnificent Seven (Microsoft, Apple, NVDIA, Amazon, Alphabet, Meta Platforms, and Tesla) and their respective growth have been a collective lightning rod for the financial press, with each of these stocks leading the broader market up and down at various points in time. We quantified the impact of the Magnificent Seven over the past 1-, 3- and 5-years by comparing the results of the Syntax US Large Cap 500 Index (Syntax 500)[1] to what we refer to as the Syntax 493, an index model which excludes these seven companies. Exhibit 1 provides an overview of this custom index model's construction.

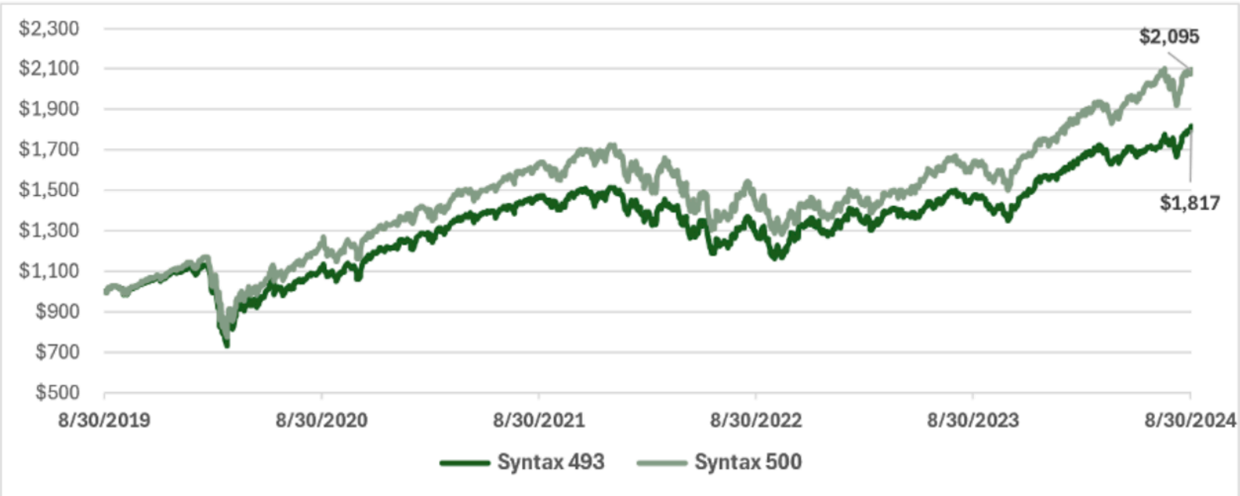
Exhibit 1: Key Facts on the Construction of the Syntax 493 Index Model

Syntax 493 Index Model:	Key Facts Summary
Strategy Type	Custom Large Cap Index
Investment Objective	Reduce Mega Stock Concentration Risk
Universe	Syntax US LargeCap 500
Target # Stocks	493
Factor Tilts	None
Weighting Methodolgy	Market Cap Weighted
Excluded Sectors	None
Excluded Stocks	Microsoft, Apple, NVIDIA, Amazon, Alphabet, Tesla, Meta Platforms
Rebalance Frequency	Quarterly
Dividend Treatment	Reinvest In Portfolio

Source: Syntax Direct

Once the assumptions above are selected, the index model is constructed along with a backtest and key statistics. Exhibit 2 compares the growth of a hypothetical $1,000 investment over time for the Syntax 493 and the Syntax 500 benchmark. The two performed similarly from August 2019 until March 2020. After the initial drawdown associated with the COVID-19 pandemic, the Syntax 500 began to outperform the Syntax 493. The ending values for the Syntax 500 and Syntax 493 as of August 31, 2024, were $2,095 and $1,817, respectively.

Exhibit 2: Growth of $1,000 Investment for Syntax 493 vs. Syntax 500



Source: Syntax Direct. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index or index model. Please see important disclaimers regarding backtested data prior to inception.

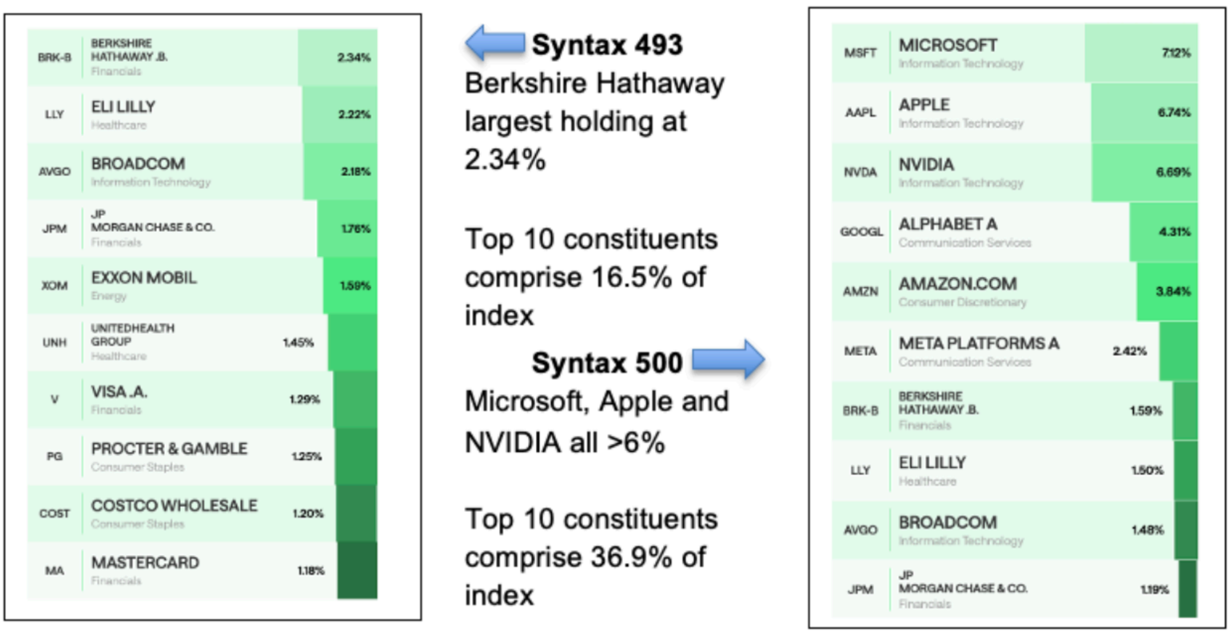
Exhibit 3 below shows the trailing 1-, 3-, and 5-year results through August 31st. The Syntax 493 posted double digit returns over the past 1-year (+23.41%) and 5-years (+12.68%) but trailed the full Syntax 500 by 425 basis points over the past year, and by 326 basis points over the past 5-years.

	Syntax 493	Syntax 500	Difference
1 Year	23.41%	27.66%	-4.25%
3 Year	7.39%	8.71%	-1.32%
5 Year	12.68%	15.94%	-3.26%

Source: Syntax Direct. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index or index model. Please see important disclaimers regarding backtested data prior to inception.

When the 5-year results are viewed through a cumulative lens, the Syntax 493 returned 81.7% compared to the Syntax 500's 109.5%. Looked at differently, a hypothetical $1,000 invested in the Syntax 500 returned 34% more than the Syntax 493 due to the inclusion of the Magnificent Seven. Interestingly, the gap in performance was much less over the past three years, reflecting the market's drawdown in 2022. The Syntax 493 returned 7.39% annually during this period, which was 132 basis points less than the Syntax 500.

As expected, the exclusion of the Magnificent Seven has a significant impact on the top 10 holdings. Exhibit 4 highlights the top ten constituents in the Syntax 493 and 500.

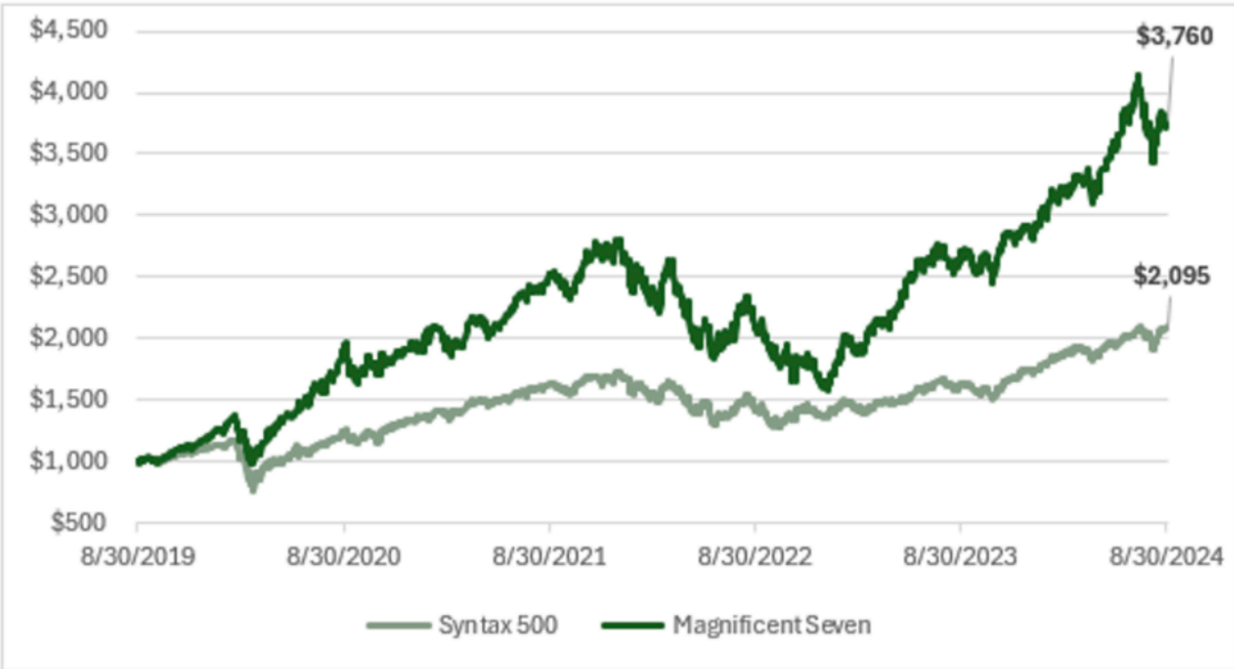


Source: Syntax Direct.

The Magnificent Seven claimed the top six spots in the Syntax 500 Index based on market cap percentage; Telsa is no longer a top 10 constituent as its ranking has fallen to 12th on the list.

To further this analysis, we created an index model consisting of only the Magnificent Seven. It should be noted that this index is purely hypothetical as our backtest goes back to August 2019,the term Magnificent Seven was not used until 2023 when Bank of America analyst Michael Hartnett used the film name in when commenting on these seven firms[1].Exhibit 5 compares the Magnificent Seven index model's performance to the Syntax 500. Over the past five years, a hypothetical $1,000 invested in the Magnificent Seven would have grown to an astonishing $3,760, which compares to the $2.095 for the Syntax 500. Over this 5-year period, the Magnificent Seven realized an annualized return of 30.3%, almost twice the Syntax 500 return of 15.9%.

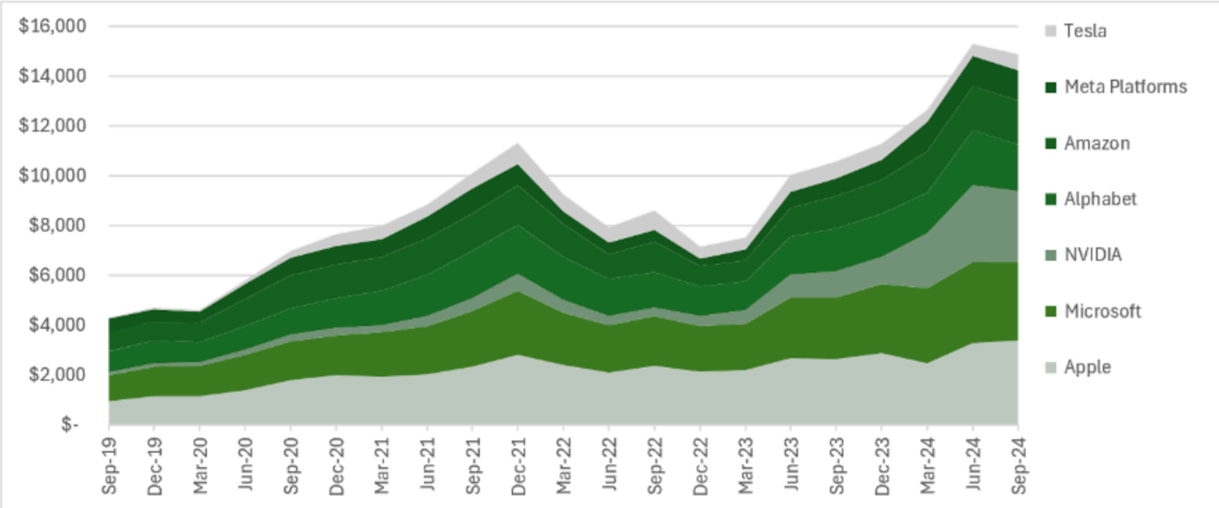
Exhibit 5: Growth of $1,000 Investment for Syntax 500 vs. Magnificent Seven



Source: Syntax Direct.

The return pattern of the Magnificent Seven over the past five years has been more volatile on both the upside and downside, with an annualized standard deviation of 25.7%, which compares to 18.2% for the Syntax 500. This higher level of volatility is captured during the 2022 tech driven sell off and the subsequent rebound in 2023. In 2022, the Magnificent Seven were down -39.9% compared to -19.6 for the Syntax 500. In 2023, this group of tech driven companies was up 75.9% compared to 27.1% for the Syntax 500. The return of the Magnificent Seven can be seen by their collective increase in market value. Exhibit 6 shows the group's value was $4 trillion five years ago. Today, the group is collectively valued at more than $14 trillion. [JC1] Apple and Microsoft each have a market cap of more than $3 trillion, NVIDIA is near that mark at $2.9 trillion. Alphabet represents $1.9 trillion, Amazon is $1.8 trillion, and Meta Platforms is $1.2 trillion. Tesla has the lowest valuation at roughly $600 billion.

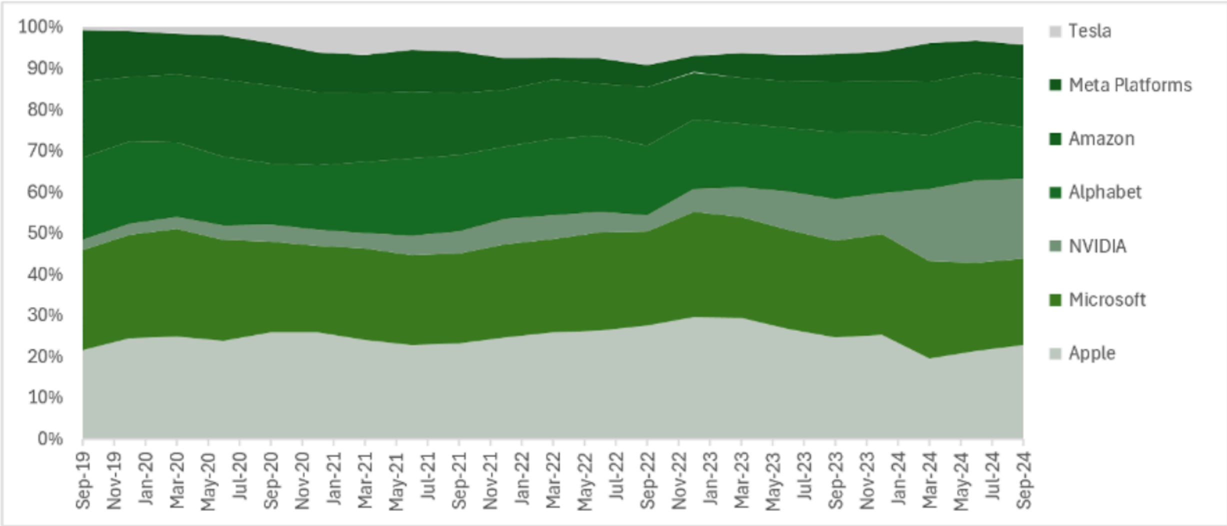
Exhibit 6: Float Adjusted Market Cap of Magnificent Seven ($ Billions)



Source: Syntax. Float-adjusted market cap as of the index model's rebalance date, the third Friday of March, June, September, and December of each year. as well as the date of analysis on September 11, 2024.

Exhibit 7 displays each company's weight within the Magnificent Seven index model, weighted by float-adjusted market capitalization. Of note is the increase in NVIDIA, which grew from 2% in Q3 2019 to 19% in September 2024. Tesla at its peak in 2022 was 9% of the Magnificent Seven, it is now 4%. Microsoft and Apple have been the most consistent leaders within the group, with Microsoft's weight ranging between 21% to 26%, and Apple between 20% and 30%. Apple is 23% and Microsoft is 21% as of the date our analysis was performed in September 2024.

Exhibit 7: Magnificent Seven Companies as % of Magnificent Seven Total Market Cap



Source: Syntax. Float-adjusted market cap as of the index model's rebalance date, the third Friday of March, June, September, and December of each year. as well as the date of analysis on September 11, 2024.

Conclusion

The tremendous returns of the Magnificent Seven have received great attention. This paper demonstrates the impact of the Magnificent Seven on the large cap market and highlights their remarkable return of 30.3% per year over the past five years.

Much of the analysis in this paper was performed using Syntax Direct, our direct-to-index platform. In addition to its ability to create custom indices like the Syntax 493, the platform automatically creates a factsheet and an index rulebook for every index created. The index rulebook is a compliance-ready document that captures all the details and assumptions used to create an index. To learn more about Syntax Direct, please reach out to us at syntaxdata.com.

Important Disclaimers

Past performance is no guarantee of future results. The Syntax 493 Index Model and the Magnificent Seven Index Model ("the Index Models") are hypothetical index models. The inception date of the Syntax 500 Index is March 14, 2023.All performance presented for the Index Models, and all performance presented for indices prior to the inception date, is backtested performance. Backtested performance is not actual performance but is hypothetical and is suitable only for institutional audiences. Backtested performance may not be predictive of actual or future performance. Backtested data may reflect the application of the index methodology with the benefit of hindsight, and the historic calculations of an index may change from month to month based on revisions to the underlying economic and/or financial data used in the calculation of the index. Charts and graphs are provided for illustrative purposes only. Syntax® is a registered trademark of Syntax, LLC and/or its affiliates.The Syntax 500 Index is the property of Syntax LLC, which calculates and maintains the Index. Index and Index Model performance does not represent actual fund or portfolio performance, and such performance does not reflect the actual investment experience of any investor. An investor cannot invest directly in an index. In addition, the results actual investors might have achieved would have differed from those shown because of differences in the timing, amounts of their investments, and fees and expenses associated with an investment in a portfolio invested in accordance with an index or index model. None of the Index Models or the indices portrayed herein charge management fees directly to end investors or incur brokerage expenses, and no such fees or expenses were deducted from the performance shown; provided, however, that the returns of any investment portfolio invested in accordance with such indices would be net of such fees and expenses. Additionally, none of these Index Models or indices lend securities, and no revenues from securities lending were added to the performance shown. The performance shown is unaudited and subject to revision. This report is for informational purposes only and is not intended to be, nor should it be construed or used as an offer to sell, or a solicitation of any offer to buy, any security or investment vehicle. Additionally, the information herein is not intended to provide, and should not be relied upon for, legal advice, tax advice, or investment recommendations. You should make an independent investigation of the matters described herein, including consulting your own advisors on the matters discussed herein. In addition, certain information contained in this report has been obtained from published and non-published sources prepared by other parties, which in certain cases have not been updated through the date hereof. While such information is believed to be reliable for the purpose used in this report, such information has not been independently verified by Syntax and Syntax does not assume any responsibility for the accuracy or completeness of such information. Syntax LLC, its affiliates and their independent providers are not liable for any informational or technical errors, incompleteness, or delays, or for any actions taken in reliance on information contained herein. Distribution of Syntax data and the use of Syntax indices to create financial products require a license with Syntax and/or its licensors. Investments are not FDIC insured, may lose value and have no bank guarantee.

[1] The Syntax US LargeCap 500 Index is comprised of the 500 largest US companies, subject to liquidity screens and rank buffers, weighted by float-adjusted market capitalization.