

US Market: Will the Magnificent Seven continue to lead?

EQUITY STRATEGY TEAM

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Is US Fed done hiking rates?

The US Fed has raised federal funds rates 11 times since March 2022 for a total of 5.25 percentage points.¹ With the conclusion of the global monetary tightening cycle, the Fed paused the rates and commit to rate cuts if inflation is on track to a healthy 2 percentage points.² Market expectations suggest that the Fed probably would not start easing policy until May 2024.²

Upcoming FOMC Meeting	Probability of Rate Cuts
20 Mar 24	50.4%
01 May 24	84.4%
12 Jun 24	104.9%
31 Jul 24	90.4%
18 Sep 24	99.0%
07 Nov 24	69.4%
18 Dec 24	69.4%

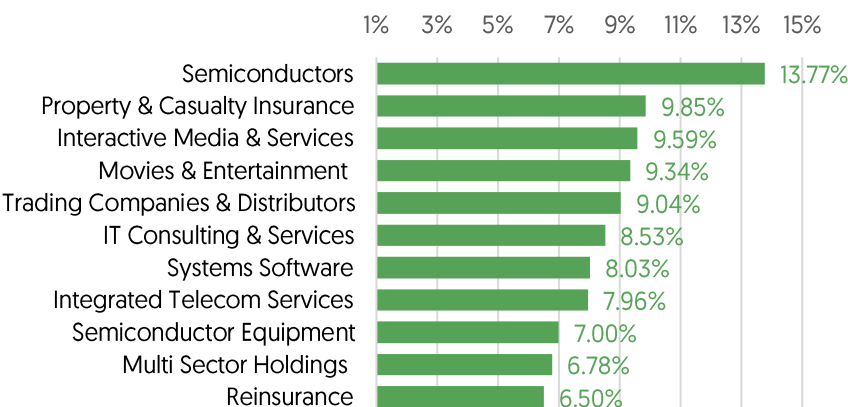
Source: Bloomberg, extracted on 25 Jan 2024

Why is the US market not affected by elevated interest rate?

Generally said that higher interest rates tend to negatively affect earnings and stock prices, with the financial sector often being an exception.³ Despite elevated interest rates, the US markets notched first record high close in 2 years, as it entered the earnings reporting season for the fourth quarter of 2023.⁴

The leaders which are the large caps tech related companies may likely continue to lead. Since the start of 2024, the so called Magnificent Seven have gained a combined US\$540.7 billion in market capitalization, compared with a total market cap gain of US\$802.5 billion for the S&P 500, according to Dow Jones Market Data as of 23 Jan 2024.⁵ The markets often favour Magnificent Seven due to their display of high quality factors, including a robust cash position, high interest coverage, and a healthy balance sheet.⁵ As such, higher rates may unlikely increase the cost of capital and may not derailing growth expectations since these big tech companies have higher growth rates than most of the S&P 500 companies.⁵ This has positioned them as the "defensive" names of the pandemic era.⁵ However, there are ongoing debates whether these big tech names are overvalued at current levels.

The leaders which are the large caps companies may likely continue to lead, and the laggards - which are the rest of the 493 S&P 500 companies - may likely play a catch up.



Top 10 best performing sub-industry of S&P 500 Index from 01 to 25 Jan 2024 based on GICS classification

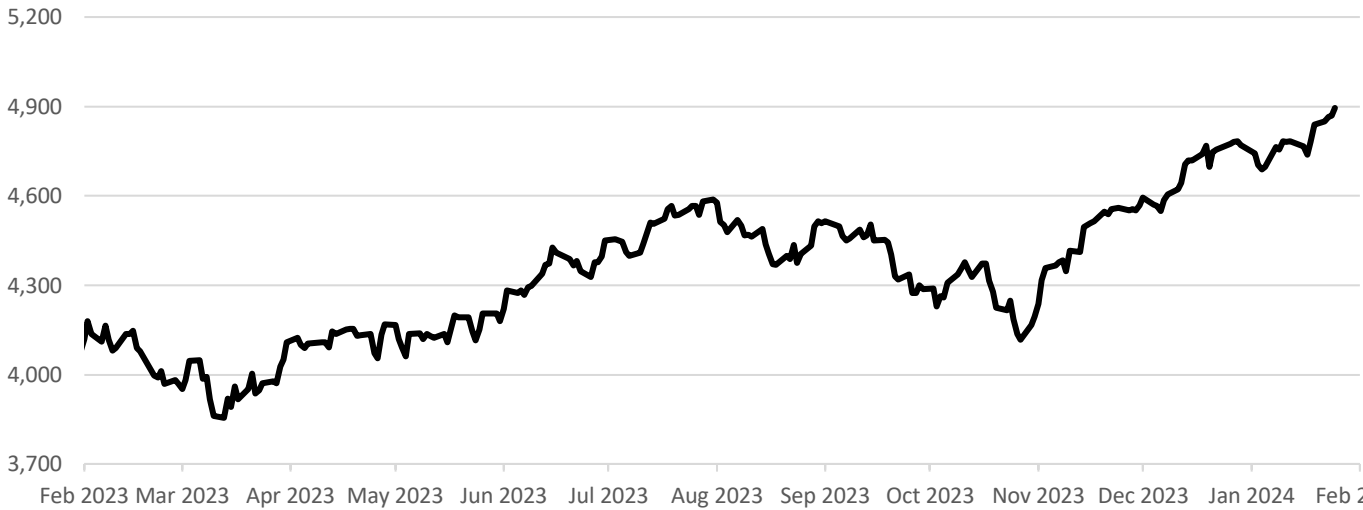
Source: Bloomberg, extracted on 25 Jan 2024

Although the all time high of the US S&P 500 has not been mirrored across all market segments, such as small caps, further gains are possible if market breadth strengthens.⁵ The first quarter of positive growth for the 493 S&P 500 stocks outside the Magnificent Seven is expected to emerge in 1Q after a final shortfall is reported for 4Q.⁶ And the earnings recovery should continue to broaden to more names throughout 2024.⁶ By 2024 H2, the expectations for earnings growth for the Magnificent Seven would potentially even out with the rest of the 493 S&P 500 stocks.⁵



S&P 500 Index

Below are the **index stocks** with **market cap of more than USD 50B**



Source: Bloomberg, extracted on 25 Jan 2024

Top 30 index stocks based on market cap

Ticker	Name	Market Cap	Price [USD]	Earning Announcement Date	Analysts' Consensus 12M Target Price [USD]	Potential returns from Analyst Consensus	Dividend Yield
AAPL US	APPLE INC	3.00T	194.17	01/02/2024	199.82	2.91%	0.49%
MSFT US	MICROSOFT CORP	3.01T	404.87	30/01/2024	432.49	6.82%	0.74%
GOOGL US	ALPHABET INC-CL A	1.91T	151.87	30/01/2024	157.75	3.87%	N/A
AMZN US	AMAZON.COM INC	1.63T	157.75	01/02/2024	183.79	16.51%	N/A
NVDA US	NVIDIA CORP	1.52T	616.17	21/02/2024	663.39	7.66%	0.03%
META US	META PLATFORMS INC	1.01T	393.18	01/02/2024	391.96	-0.31%	N/A
BRK/B US	BERKSHIRE HATHAWAY INC	827.74B	380.85	24/02/2024	411.25	7.98%	N/A
TSLA US	TESLA INC	580.57B	182.63	19/04/2024	223.13	22.18%	N/A
LLY US	ELI LILLY & CO	595.80B	627.62	06/02/2024	639.96	1.97%	0.83%
AVGO US	BROADCOM INC	575.81B	1230.00	01/03/2024	1160.68	-5.64%	1.71%
V US	VISA INC-CLASS A SHARES	562.13B	272.61	25/04/2024	295.18	8.28%	0.76%
JPM US	JPMORGAN CHASE & CO	499.97B	172.94	12/04/2024	190.47	10.14%	2.43%
UNH US	UNITEDHEALTH GROUP INC	456.36B	493.40	15/04/2024	596.24	20.84%	1.52%
WMT US	WALMART INC	438.40B	162.84	20/02/2024	178.41	9.56%	1.40%
MA US	MASTERCARD INC - A	409.62B	436.80	31/01/2024	467.45	7.02%	0.60%
XOM US	EXXON MOBIL CORP	409.15B	102.13	02/02/2024	124.15	21.56%	3.72%
JNJ US	JOHNSON & JOHNSON	384.11B	159.56	18/04/2024	175.65	10.09%	2.98%
PG US	PROCTER & GAMBLE CO/THE	366.18B	155.62	18/04/2024	167.25	7.47%	2.42%
HD US	HOME DEPOT INC	349.31B	350.97	20/02/2024	345.48	-1.57%	2.38%
ORCL US	ORACLE CORP	316.13B	115.00	08/03/2024	123.29	7.20%	1.39%
COST US	COSTCO WHOLESALE CORP	301.69B	679.90	08/03/2024	678.44	-0.21%	0.60%
MRK US	MERCK & CO. INC.	304.41B	120.13	01/02/2024	126.36	5.19%	2.56%
ABBV US	ABBVIE INC	291.54B	165.13	02/02/2024	169.51	2.65%	3.75%
AMD US	ADVANCED MICRO DEVICES	291.32B	180.33	30/01/2024	157.55	-12.63%	N/A
ADBE US	ADOBE INC	281.41B	622.58	14/03/2024	653.17	4.91%	N/A
CVX US	CHEVRON CORP	280.46B	148.57	02/02/2024	176.63	18.89%	4.07%
CRM US	SALESFORCE INC	270.10B	279.03	01/03/2024	288.41	3.36%	N/A
BAC US	BANK OF AMERICA CORP	263.63B	33.39	16/04/2024	37.16	11.29%	2.88%
KO US	COCA-COLA CO/THE	255.77B	59.16	13/02/2024	65.51	10.74%	3.11%
ACN US	ACCENTURE PLC-CL A	248.16B	371.94	21/03/2024	370.60	-0.36%	1.39%

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