Bloomberg

March 1, 2025 | bloomberg.com

Markets

Underweighting the Magnificent Seven Paid Off for These Funds

Only 9% of global stock funds outperformed last year while underweight the group

by Henry Ren and Margaryta Kirakosian
March 1, 2025

Investments ranging from gold to European banks helped a handful of global fund managers beat the market last year even while largely avoiding the richly valued Magnificent Seven stocks.

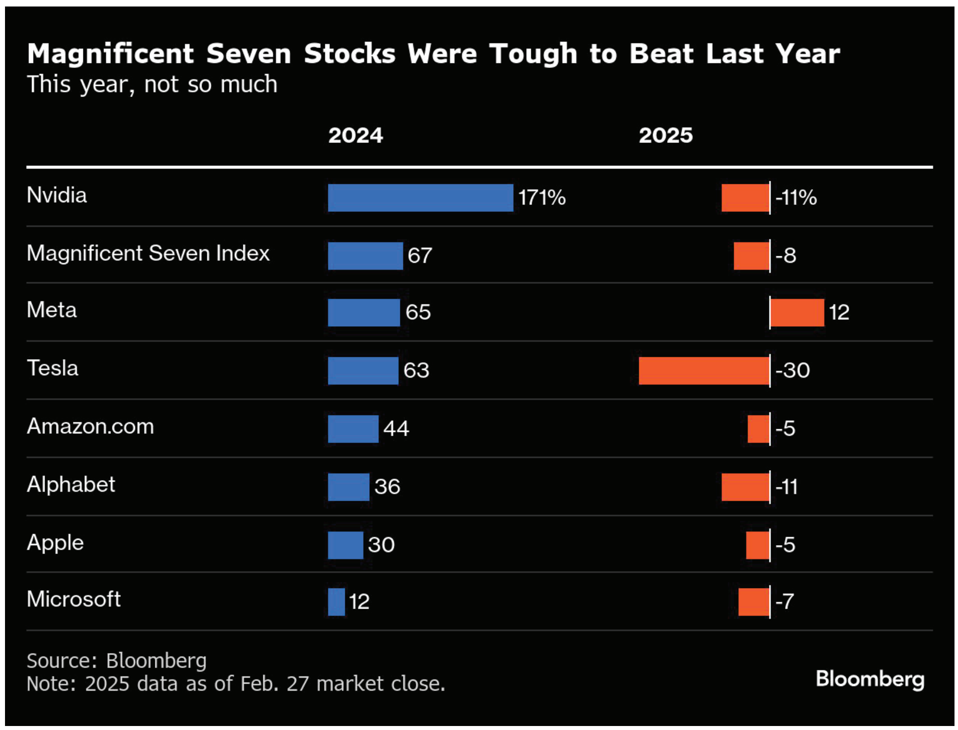
The seven account for about 20% of the MSCI All-Country World Index, a benchmark for global investing, and the group soared last year, led by Nvidia Corp. and Meta Platforms Inc. So the odds were stacked against any stock pickers who held a lower percentage of the Magnificent Seven than their index weight.

Indeed, among the 220 funds that invest in global large-cap stocks and compare themselves to the MSCI All-Country World Index, just 9% managed to outperform the index's return of about 18% last year while being underweight the big seven, according to data from Morningstar.

The winners are a good example of the advantages investors have when they're not hemmed in by limits on where, and in what types of stocks, they can invest. And with the Magnificent Seven finally underperforming the broader market as their growth slows, the fund managers' holdings provide ideas of where to look for future outperformance.

"Global is a big place -- we can play in the biggest sandbox in the world. We don't have to limit ourselves just to American big, well-owned, well-known companies. We think we can find an edge elsewhere," says Alexander Umansky of Baron Capital, whose top holdings include Latin American e-commerce giant MercadoLibre Inc. and South Korea's Coupang Inc.

Here's a look at how some funds managed to outperform the index while underweighting the Magnificent Seven:



Kristian Heugh *Photographer: Gareth Brown*

Morgan Stanley Global Opportunity Fund

- **The track record:** The $14 billion fund run by Kristian Heugh returned 26% last year, beating 89% of peers.
- **What worked last year:** Liberty Media Corp., owner of the Formula One racing series that has seen soaring viewership in America. Heugh says the company can make more money from the US market and it has more than 80% of its revenue locked in through multiyear contracts. The stock jumped 37% in the second half. The fund also took a stake in Taiwan Semiconductor Manufacturing Co., with Heugh seeing geopolitical risks more than priced into the chipmaker's share price.
- **View on Magnificent Seven:** Owns only Meta and Amazon out of the seven stocks, with Meta as the top holding as of the end of January. Heugh sees the Facebook parent as a prime beneficiary of AI as the technology will make the company more efficient and serve ads better. Its huge spending on AI projects -- as much as $65 billion this year -- "isn't wasted capex," he says.

MainFirst Global Equities Unconstrained Fund

Jan-Christoph Herbst

- **The track record:** The €509 million ($530 million) MainFirst Global Equities Unconstrained Fund co-managed by Jan-Christoph Herbst returned 32% last year, while the MainFirst Global Equities Fund run by the same team returned 33%.
- **What worked last year:** Chinese online travel agency Trip.com Group Ltd., which Herbst says can benefit from Chinese consumers tapping into excess savings, and German software company SAP SE, which he says should increase its operating profit by 20% a year as AI helps shave costs. Almost 10% of the Global Equities Fund is invested in gold to hedge against potential pullbacks in growth-oriented stocks.
- **View on Magnificent Seven:** The Frankfurt-based manager said he's avoiding Apple due to sluggish iPhone sales and fierce competition from Chinese vendors, while shunning Alphabet; he says that, contrary to what analysts are predicting, the company's long-term revenue growth will slow from the double-digit percentage range.

Baron Global Advantage Fund

Alex Umansky

- **The track record:** Umansky's $589 million fund tracked the benchmark for nine months, only to pull ahead late in the year to end up 26%.
- **What worked last year:** He's a rare equity fund manager who got a big lift last year from gains in an unlisted company – Elon Musk's SpaceX. The rocket-launch company's valuation surged as a result of the rising prices paid in two transactions allowing insiders to sell shares. Other winners include Indian online food platform Zomato Ltd., up 119% in dollar terms, and biotech Argenx SE, which the fund has held for seven years and rose 75%.
- **View on Magnificent Seven:** The fund avoids Apple and Amazon, saying both companies are no longer early in their life cycles. Umansky sees Nvidia benefiting from -- rather than being disrupted by -- DeepSeek's cost-efficient AI model. History suggests that efficiency gains will unlock further technology improvements and more demand. "We will not have less appetite for chips. No way," he says.

Artemis Global Income

James Davidson

- **The track record:** The £1.6 billion ($2 billion) fund run by Jacob de Tusch-Lec and James Davidson returned 27% last year, beating 97% of peers, without owning shares of the most popular fast-growing companies. The fund focuses on companies that pay high dividends, thus excluding US big tech.
- **What worked last year:** Big exposure to financials, which outperformed the MSCI World index last year. A notable holding: Commerzbank AG. Davidson said he started looking at the German bank in 2023, when it paid a dividend for the first time since 2019 and unveiled a healthy cash return outlook. The stock is benefiting from higher interest rates, easing regulations and takeover interest from UniCredit SpA.
- **View on Magnificent Seven:** "The Magnificent Seven are getting good earnings revisions, but so are European banks, defense and gas-turbine companies," Davidson said. He's also finding opportunities in the companies that supply the Magnificent Seven, such as Hon Hai Precision Industry Co. The company assembles servers containing Nvidia's AI chips, but is cheaper than the chipmaker and pays a 4% dividend yield.