

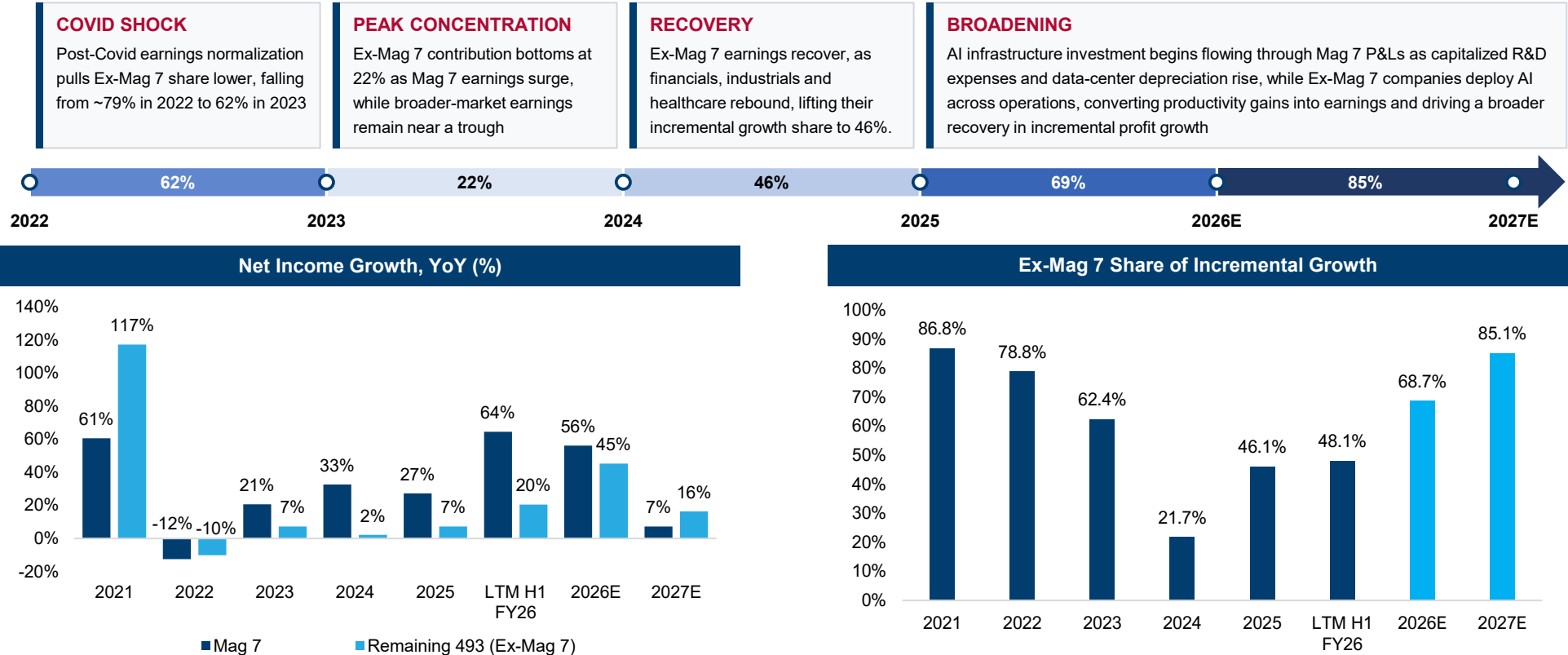
Special Report

Beyond Mega-Caps: A Broader Earnings Story



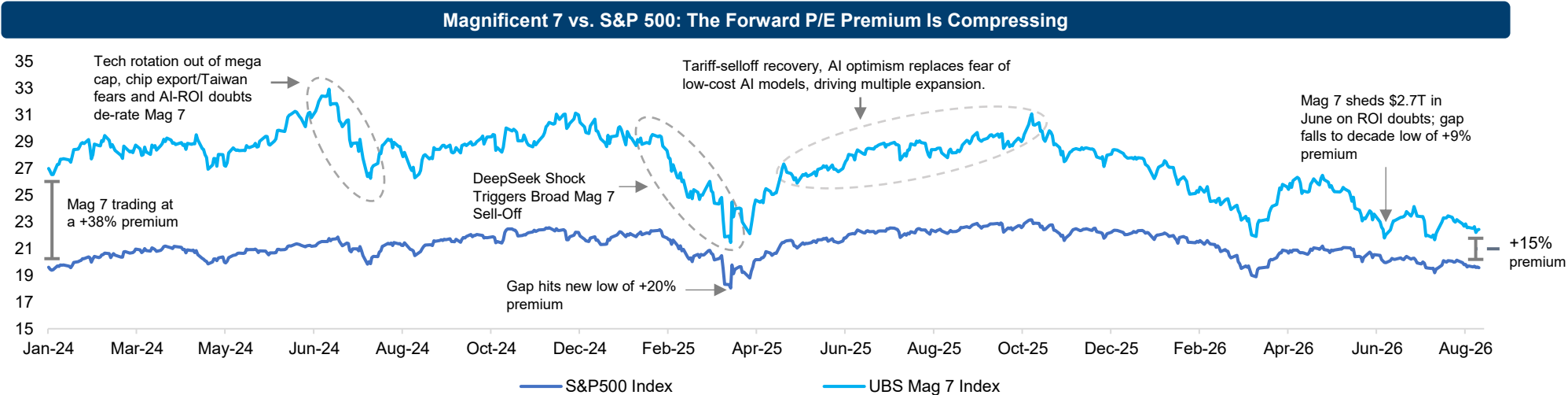
The Mag 7 Earnings Monopoly Is Retreating Gradually

- **2024 marked peak Magnificent 7 concentration:** Enterprise AI capex flowed disproportionately to the Magnificent 7 through their core infrastructure businesses (Nvidia's chip buildout, Google Cloud and Azure, AWS, and Meta's ad-efficiency gains) concentrating incremental S&P 500 earnings growth in a handful of names.
- **Street expects earnings growth to broaden in 2026 and 2027:** Ex-Mag 7 companies are expected to contribute ~69% of incremental S&P 500 net income in 2026, up from ~48% on an LTM basis, rising further to ~85% in 2027, with their earnings growth projected at 16% versus 7% for the Magnificent 7.

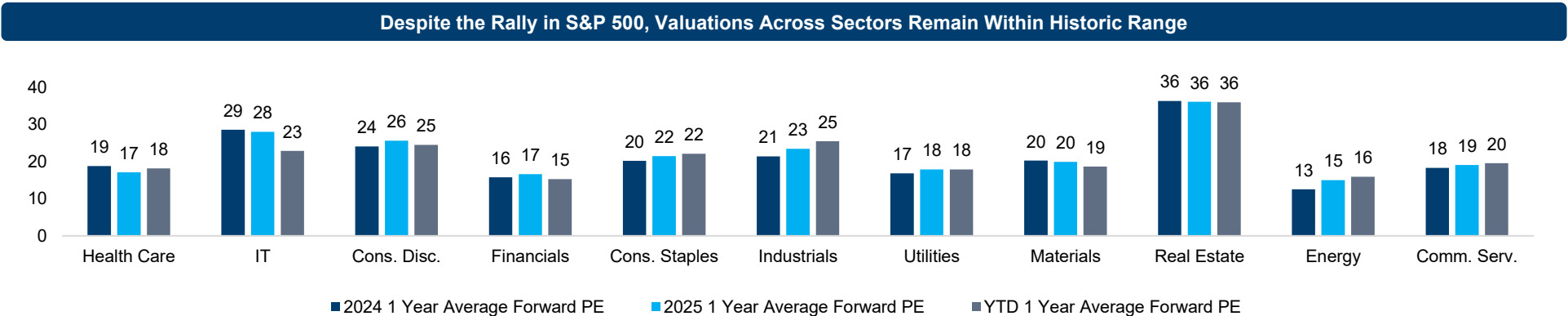


The Magnificent 7 Valuation Premium Is Narrowing

A premium compressing toward single digits points to a **recalibration of Mag 7's growth premium** rather than its rejection. The swing from +38% to a decade-low +9%, now partially recovered to +15%, reflects Mag 7's forward PE volatility, while Ex-Mag 7 multiples have stayed relatively stable. Further narrowing will **require sustainable broader-market profitability, expanding revenues and margins, rather than continued Mag 7 repricing alone.**



Source: Aranca Research, Bloomberg, Bloomberg Consensus Estimates (as on August 31, 2026)



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Ex-Mag 7 Broadening: Earnings Breadth Is a Relative And Non-linear Trade

The earnings-broadening thesis is exposed through three distinct channels:

- **Mag 7 operating risk:** Slower frontier-model deployment, rising AI capex depreciation and regulatory constraints could weaken their earnings dominance
- **Ex-Mag 7 macro risk:** Higher rates and geopolitical disruption could disproportionately pressure broader-market earnings and margins
- **Earnings-quality risk:** Fair-value gains on Mag 7 AI investments could sustain their reported earnings share even as underlying operating momentum moderates

Hence, the pace of broadening will depend not only on relative earnings growth, but also on whether reported leadership reflects operating performance or valuation-driven gains.

Upside Risks

1 Frontier Model Slowdown Could Weigh on Mag 7

Recent comments from AI leaders including Altman, Amodei, and Musk pointing to a slowdown in deploying frontier model capabilities would **weigh on Nvidia, Microsoft, Amazon, and Tesla earnings**. Meta, Apple, and Google are comparatively insulated.

2 AI Capex Depreciation Could Compress Mag 7 Margins

The scale of the AI infrastructure buildout means depreciation and amortization expense will climb steadily over the next several years, **pressuring Mag 7 margins** even where revenue growth holds up, **accelerating the shift in earnings growth toward the broader market**.

3 Regulatory Pressure Could Cap Mag 7 Growth

Ongoing antitrust and regulatory actions against Google, Amazon, Meta, and Apple could **constrain pricing power and dealmaking**. Any hefty fines or settlements, could increase the share of incremental earnings growth toward the Ex-Mag 7.

Downside Risks

1 Higher Rates Could Delay the Earnings Broadening

The Fed's September 25bps hike to 3.75%–4.00%, first since 2023, raised the cost of capital and, with street expecting another hike by year-end, points to higher-for-longer rates. This could **weaken corporate investment, suppress earnings growth across the Ex-Mag 7, and delay the expected broadening**.

2 Mag 7 AI Stakes Create Earnings Quality Risk

Mag 7 have made large investments in OpenAI and Anthropic; valuation markups flow into net income. ~69% of Alphabet's Q2 FY26 net income (up 298% y/y) came from equity gains; Amazon's \$53.4B Anthropic markup ~66% y/y of pre-tax income, **risking Mag 7 retaining more earnings share than broadening thesis assumes**.

3 Geopolitical Disruptions Could Compress Margins

Escalating geopolitical tensions, including the Middle East conflict, are accelerating nearshoring and lifting crude prices. Relocation capex, higher labor, energy and feedstock costs could compress margins in airlines, chemicals, transportation, industrials and consumer staples, **weighing on earnings growth across the Ex-Mag 7**.

Source: Aranca Research



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Connect with Our Team



Chinmay Kansara

Junior Analyst, Investment Research

✉ chinmay.kansara@aranca.com



Aditya Modi

Assistant Manager, Investment Research

✉ aditya.modi@aranca.com