

ABOVE THE FRAY

Magnificent 7 Outperformance May Not Continue

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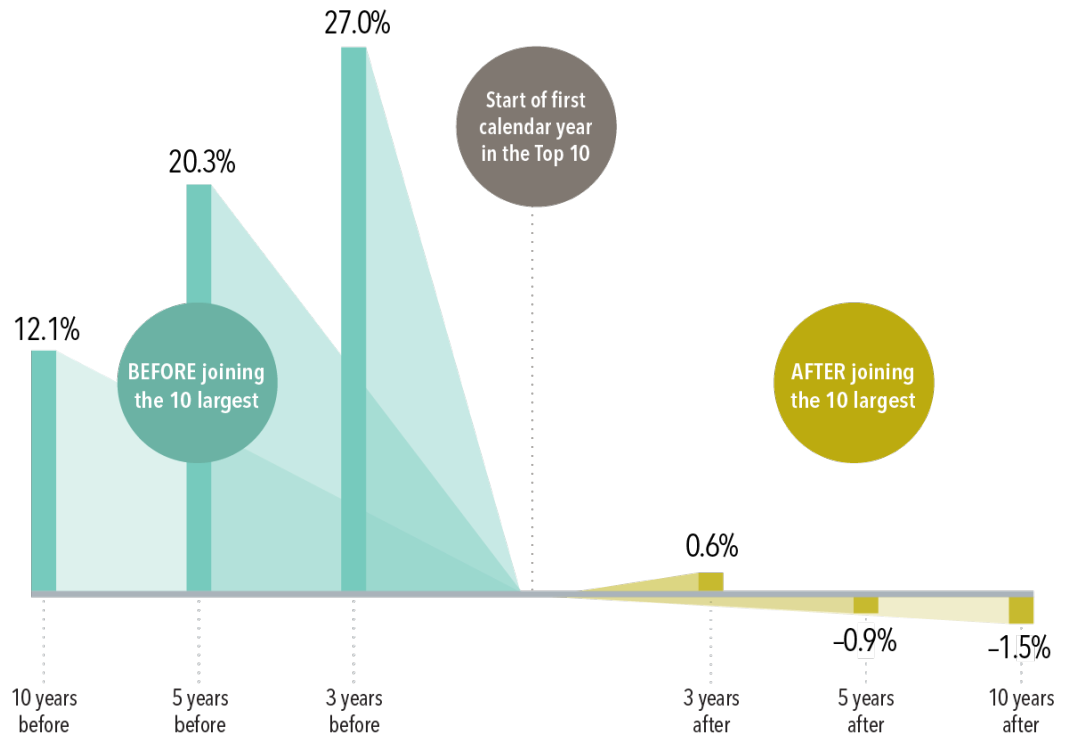
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The Magnificent 7 stocks¹ continue to capture the focus of investors as these large growth names have outpaced the bulk of global equities. Their outperformance is notable because eye-popping returns for top stocks tend to occur before they reach the top of the market. Once there, subsequent returns tend to lag the market.

This is a cautionary tale for investors expecting continued outperformance from the Magnificent 7. In fact, rather than seeking additional exposure to these mega cap stocks, investors should ensure their portfolios are broadly diversified to capture the returns of whatever companies ascend to the top in the future.

Exhibit 1**View from the Top**

Annualized returns in excess of the US market before and after joining the top 10 largest US stocks, January 1927–December 2022

**Past performance is not a guarantee of future results.**

In USD. Data from CRSP and Compustat. Companies are sorted every January by beginning-of-month market capitalization to identify first-time entrants into the top 10.

The market is defined as the Fama/French Total US Market Research Index. The Fama/French indices represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP. See "Index Description" for a description of the Fama/French index data.

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This article originally appeared in Above the Fray, a weekly newsletter for Dimensional clients.

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Fama/French Total US Market Index: Fama/French Total US Market Research Factor + One-Month US Treasury Bills. Source: Ken French's data library: https://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html

Results shown during periods prior to the index inception date do not represent actual returns of the index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance results assume the reinvestment of dividends and capital gains.

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1. The Magnificent 7 stocks include Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla. Named securities may be held in accounts managed by Dimensional.

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