Mag-7 earnings season so far so good

Image source: iStock/metamorworks

April was marked by significant volatility following Trump's tariff announcements. The S&P 500 experienced a sharp decline of approximately 12% in early April—one of the most rapid two-day drops in the index's history. The Roundhill Magnificent Seven ETF (MAGS) saw a maximum drawdown of nearly 30% from its December peak. However, by early May, the S&P 500 had recovered, supported by strong corporate earnings and a 90-day pause on most tariffs.

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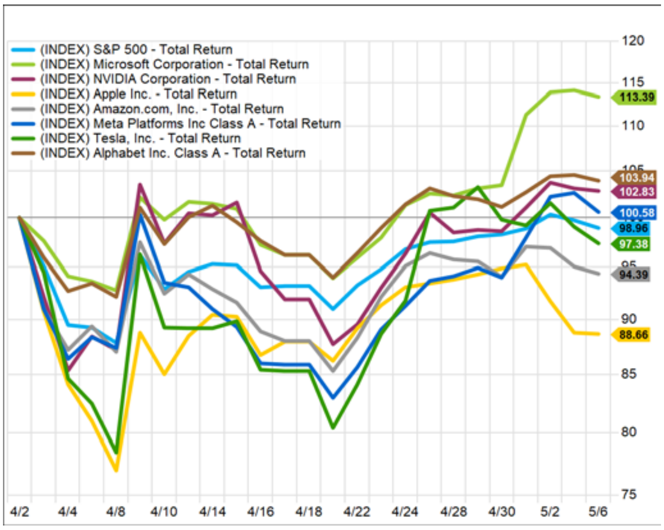
With six of the Mag-7 stocks having already reported the earnings season has been largely positive for the group:

- **Microsoft, Alphabet, and Meta** are trading higher than they were the day before "Liberation Day." Their earnings reports exceeded expectations, and they are not directly affected by the tariffs. Forward-looking commentary from management was notably upbeat.
- **Tesla, Apple, and Amazon** are directly exposed to the new tariffs. With announcements coming almost daily, the financial impact is difficult to quantify. Nevertheless, management teams emphasised what they can control, and the overall tone was reassuring. While their shares have rebounded, they remain below pre-"Liberation Day" levels.
- **Nvidia** has yet to report (29 May). Although it too faces risks related to tariffs and export controls, the strong results from its major customers - Microsoft, Meta, and Alphabet - provide a positive read-across.

1 MAG-7 – Total Return since "Liberation Day" (until 6 May)



Source: Factset

Earnings results – overall better than feared

Microsoft (beat): Results were stronger than expected across the board, with Azure growth reaccelerating to +35% YoY. The pickup in cloud reinforces AI leadership and reassures us that elevated datacentre capex is value accretive.

Apple (miss): Delivered mixed results with in-line hardware growth and strong 12% services growth but guided cautiously on revenue and margins due to tariffs and AI delays. Despite those risks, shares trade at 27x forward P/E (31% premium to S&P 500).

Amazon (mixed): Posted solid Q1 results with resilient AWS and e-commerce but gave a cautious Q2 guidance due to tariffs. Advertising and Cloud - key profit growth engines - remain resilient.

Meta (beat): Execution has been exemplary, with a strong Q1 beat, bullish Q2 guidance despite expected weakness from Chinese e-commerce advertisers, and rising AI capex for the full year. Shares trade at ~21x forward P/E, but capex runs at 35% of revenue and puts pressure on near term cash flow.

Alphabet (beat): Delivered a strong Q1 beat with Search outperforming expectations, Cloud and YouTube solid, and margins expanding; while Alphabet never provides formal guidance, investors found earnings call commentary reassuring. At 17x forward P/E with mid-to-high-teens EPS growth – the stock is trading at a discount to the market.

Tesla (miss): Q1 2025 earnings missed expectations, with sales down 9% YoY and net income falling 71% YoY due to weaker deliveries and pricing. Upcoming robotaxi plans and Elon Musk's renewed focus on Tesla helped lift the stock nearly 10% post-results. Shares now trade above 8.4x EV / Sales (2026e).

Key learnings from the Mag-7 earnings season so far

1. Tariffs do not derail full-year profit outlook for tech giants

While the impact of tariffs varies widely, the overall profit outlook for tech giants remains intact.

- **Amazon** appears well-prepared, with increased inventory and a diversified supply chain.
- **Apple** estimated a modest $900 million impact in Q2 (approximately 1% of sales), with most products still exempt from tariffs. The company is mitigating further risks by shifting production from China to other regions.
- **Meta, Microsoft, and Alphabet** face minimal direct exposure. Meta did note some advertising headwinds due to reduced spending by Chinese e-commerce platforms following changes in tariff exemptions but still guided above consensus for Q2.
- **Tesla** remains exposed but has downplayed concerns - potentially for political reasons.

Overall, the Magnificent 7 are adapting through supply chain diversification, inventory management, and production relocation to sustain financial performance despite ongoing trade tensions.

2. Digital advertising surprisingly robust despite headwinds

Advertising is considered cyclical, so a slowdown was expected. But the trends were stronger than anticipated.

- **Meta and Google** reported strong beats, while Amazon's advertising growth was in line with expectations.
- All three companies highlighted **AI-driven enhancements** to their ad platforms, with improved Return on Ad Spend (ROAS) supporting higher pricing.
- **The tariff risk is manageable:** ad spend by Chinese e-commerce platforms (e.g., Shein, Temu) has declined following tariff exemption withdrawals. Still, Meta guided to 8–15% top-line growth in Q2, driven by strong pricing and international expansion.
- **Large platforms remain resilient:** Meta, Google, and Amazon all reported steady ad demand throughout Q1, with a strong start to Q2 as well. Advertisers continue to prioritise spend on the largest platforms, leaving smaller players vulnerable - evidenced by Snap's 15% share decline following weak guidance.

3. Cloud revenue trends remain stellar

Overall, demand in the cloud segment remains robust, and current supply constraints suggest enterprise demand is outpacing expectations—a positive signal for the sector's outlook.

- **Microsoft** led the pack, with Azure revenue growing 35%, beating guidance of 31–32%, driven by both AI and non-AI workloads. Easing year-over-year comps suggest further acceleration is likely.
- **Amazon AWS** grew 17%, slightly below expectations, but reported a strong $12 billion increase in backlog and beat on operating profit.

- **Google Cloud** maintained 30% YoY growth, consistent with Q4, though management noted capacity constraints as a limiting factor.

4. Datacentre investment continues, disproving weakening thesis

This earnings season should put an end to speculations that hyperscalers might curtail AI investments due to low ROI.

- **Microsoft reiterated FY25 and FY26 capex guidance.** Press reports suggesting that Microsoft might cut AI spend proved unfounded. In fact, Azure's reacceleration amid capacity constraints confirms high ROIs.
- **Meta increased its 2025 capex guidance,** with resilient revenue trends reinforcing AI's positive impact on business performance. Alphabet and Amazon also reaffirmed their full-year capex guidance.
- This strong commitment to datacentre spending aligns with recent messages from hardware suppliers like Vertiv and Amphenol, **providing reassurance about Nvidia's near-term outlook.**

Mag-7 earnings estimates are resilient, valuation premium has narrowed

Consensus earnings estimates for the Mag-7 have held up better than for the broader market. The group is now expected to deliver 17.5% EPS growth over the next two years, down only slightly from 18.4% prior to the tariff announcements (see our focus note from 17 March). Within the group, only Tesla has seen material EPS downgrades. Estimates for the other Mag-7 stocks (or Mag-8, if including Broadcom) have remained broadly stable. In contrast, the rest of the S&P 500 has seen more significant revisions. Consensus EPS growth expectations for the index now stand at 11.6% over the next two years, down from 13.0% on 17 March.

On a PEG (Price/Earnings-to-Growth) basis, Nvidia, Amazon, Alphabet, and Broadcom (if included in an expanded Mag-8) screen as more attractively valued than the broader market. In contrast, **Apple, Microsoft,** and **Meta** appear more expensive on this metric. **Tesla's** elevated valuation cannot be justified by the core EV business alone—it reflects investors' bullish expectations for its long-term opportunities in robotaxis and humanoid robots.

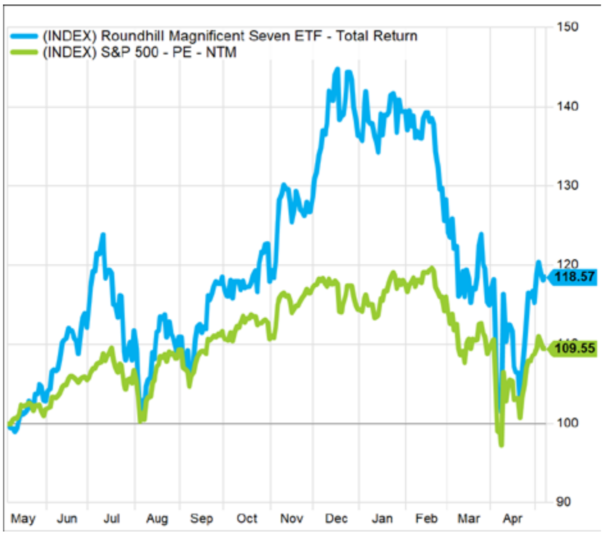
② Mag-8 (Mag7 + Broadcom) - Valuation and Consensus Estimates (as of 6 May 2025)

	EV/Revenue			EV/EBIT		EV/FCF			P/E			PEG
	current FY	next FY	2Y CAGR	current FY	next FY	current FY	next FY	2Y CAGR	current FY	next FY	2Y CAGR	ratio
APPLE	7.7	7.2	5%	24.5	22.9	30.0	25.9	6%	28.5	26.0	8%	3.1
MICROSOFT	11.7	10.4	14%	25.9	23.1	48.7	43.0	1%	32.6	29.0	13%	2.3
NVIDIA	14.0	11.5	37%	21.9	17.3	29.7	21.8	45%	26.0	20.3	36%	0.6
AMAZON	3.0	2.8	9%	27.0	22.3	51.0	30.9	33%	30.7	25.9	16%	1.6
ALPHABET	5.0	4.6	11%	15.3	13.8	25.2	21.9	11%	17.2	16.2	12%	1.3
META	8.1	7.2	13%	20.9	18.5	42.4	33.5	-7%	23.4	21.2	9%	2.5
BROADCOM	16.8	14.5	18%	25.6	22.0	34.1	27.0	41%	30.9	26.1	37%	0.7
TESLA	10.1	8.4	10%	156.6	93.1	300.1	180.8	23%	143.6	98.2	10%	9.9
MAG 8 average	9.4	8.2		31.1	24.5	52.9	38.6		34.3	28.3	17.5%	1.6
MAG 7 (ex- Tesla, incl. Broadcom)	9.3	8.2		23.3	20.3	37.5	29.7		27.5	24.0	17.6%	1.4
SP50	3.4	3.2		19.4	3.2				21.6	19.0	11.6%	1.6

Source: Factset

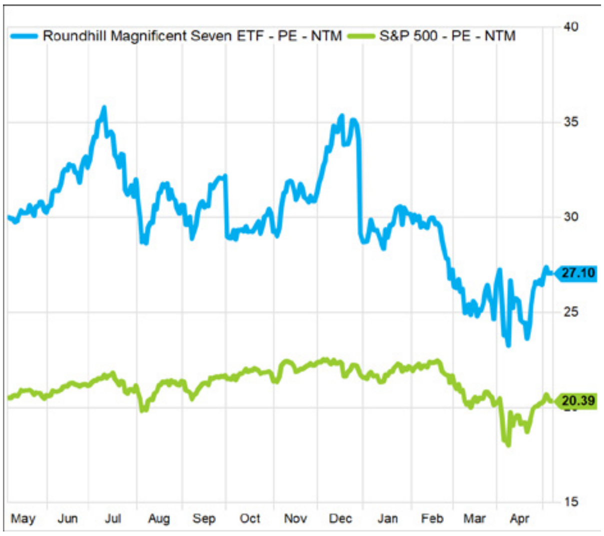
The valuation premium vs. to the market has slightly decreased. The Mag-7 ETF is currently trading at an estimated 27x forward P/E, which is still a premium compared to the S&P 500 but lower than the 30-35x range observed throughout 2024.

③ MAG-7 vs. S&P 500 Total Return (in USD, last 12 months)



Source: Factset

④ MAG-7 vs. S&P 500 Forward P/E Ratio



Source: Factset

Our take

The combination of heightened uncertainty around US tariffs, escalating trade tensions, and a slowing domestic economy is making investors more cautious. However, the leadership of the Mag-7 appears reaffirmed, supported by resilient earnings estimates and constructive guidance despite mounting headwinds.

In the current environment, we continue to advocate for diversification but see resilience among the big tech names and identify Nvidia, Amazon, and Alphabet as the most attractive within that group:

- **Alphabet and Amazon** are trading at attractive valuation multiples that, in our view, more than price in the prevailing risks - resulting in a favourable risk/reward profile.
- **Nvidia** is well-positioned ahead of its upcoming earnings report on 29 May. While risks related to tariffs and export restrictions persist, we believe these are reflected in the valuation. Robust datacentre investment continues to drive demand, and competition to Nvidia's AI chips remains limited.
- **Microsoft** has shown it is firing on all cylinders. Valuation does not screen cheap, but we expect further positive EPS revisions following last week's beat and raise.

- **Apple** has struggled to win-over investors. The tariffs pose a challenge to Apple's hardware revenue and gross profits, whereas the faster growing and more profitable services revenue is at risk of regulation. The stock valuation remains dear.
- **Meta** continued to impress with strong execution. But we are mindful of the risk of a weakening revenue trend at the time when both profits and cash flow are under pressure from high capex.
- **Tesla** – the stock continues to trade on news flow and investors' beliefs about its future technology bets.

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