

The *EUROSTARS*: Europe's Magnificent 7

The Magnificent 7 has become a popular and widespread term used for seven US stocks. These stocks include behemoths like Apple, Amazon, Google's parent Alphabet, Facebook (now Meta), Microsoft, Tesla, and Nvidia. Over the past decade, these companies have not only reshaped their respective industries but also delivered outstanding returns to their shareholders, significantly outperforming the broader market. These companies have increased their weight and influence in benchmark indices. This winner-takes-all paradigm has had a big impact on the global economy and financial markets.

EUROSTARS

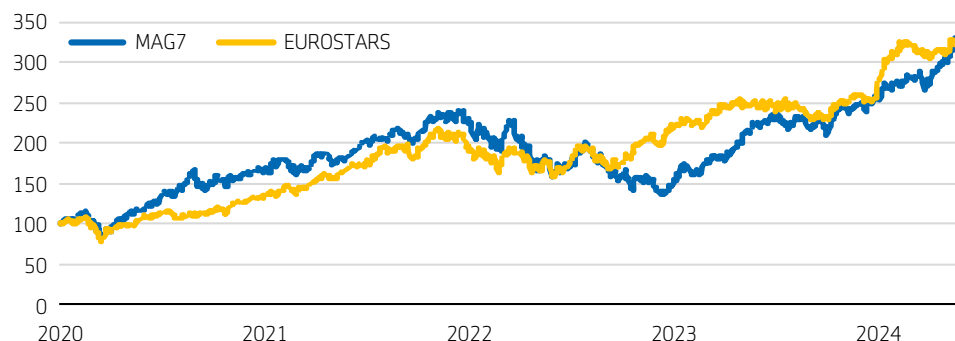
Europe has its own set of winners: the *EUROSTARS*. This basket of European stocks consists of companies that also live up to the winner-takes-all paradigm. These *EUROSTARS* have gained a strong market share in their industries and have driven European equity market returns. The *EUROSTARS* consists of Novo Nordisk, ASML, LVMH, Ferrari, Adyen, Schneider Electric and Hermes.

Stargazing: *EUROSTARS* at par with the Magnificent 7

Interestingly, since the start of 2020, the *EUROSTARS* have matched – and actually outperformed - the very strong performance of the Magnificent 7. With a total return of +224% since 2020, the *EUROSTARS* have returned 30% on an annual basis. That is at par with the return of the Magnificent 7, which had an average annual return of +30% over that same period. Interestingly, the *EUROSTARS* had a lower realized volatility (23%) in comparison to the Magnificent 7 (30%)¹.

Chart 1: Total Return Index

Index Returns of Magnificent 7 and *EUROSTARS* (01/2020 = 100). Total return index based market-capitalization weighted daily total returns in US dollar



Source: Aegon AM, Bloomberg. Data as per 06/2024.



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¹Realized (annualized) returns and realized (annualized) volatility are based on market-capitalized weighted daily total returns in the period 01/01/2020 to 30/6/2024. Gross dividends are used.

Table 1: Total returns per year in USD.

Total return						
	2020	2021	2022	2023	2024	Cumulative
Magnificent 7	68%	40%	-40%	76%	32%	227%
EUROSTARS	34%	58%	-7%	31%	25%	224%

Source: Aegon AM, Bloomberg. Data as per 06/2024.

EUROSTARS: which stocks are in the galaxy?

Unlike the tech-heavy Magnificent 7, the EUROSTARS span a wider variety of sectors, from healthcare and luxury goods to automotive and industrial technology.

- **Novo Nordisk**, the Danish pharmaceutical giant, is a leader in diabetes care and has reported stellar growth on the back of the success of its weight loss drug. This success has pushed-up the market value of Novo Nordisk, making it the company with the highest market valuation on the European continent.
- The runner up – in terms of market capitalization – is **ASML**. This Dutch company is the only supplier of extreme ultraviolet lithography machines used for semiconductor manufacturing.
- Other EUROSTAR companies include luxury goods conglomerates **LVMH** and **Hermes**. These companies continue to set the global standard in luxury goods.
- **Ferrari**, the Italian luxury sports car manufacturer, remains an icon of performance and exclusivity and has also earned a place in the basket.
- **Adyen** is a fintech that has become one of the market leaders in the online payment landscape. The Amsterdam based company has profited from the strong growth in e-commerce and online payments.
- Lastly, **Schneider Electric**, a French multinational specializing in energy management and automation solutions, has been pivotal in the global transition towards sustainable energy and in the build-out of datacenters.

The composition of the EUROSTARS aligns with several economic trends. The wave of **digitalization** has benefitted ASML and Adyen. The increased demand for **healthcare** services – and especially obesity treatments – has improved the sales figures of Novo Nordisk. The **growth of household wealth**, including in Asia, has increased the demand for luxury goods. Schneider Electric has benefitted from the **energy transition** that is taking place around the world. Altogether, these four strong trends resulted in a significant growth driver. The EUROSTARS have had a unique or very strong positioning in these market trends, resulting in excellent shareholder returns.

This balanced composition not only makes the EUROSTARS a formidable counterpart to the US's Magnificent 7 but also a critical component in any well-diversified global investment portfolio.

Clearly, the galaxy of *EUROSTARS* is rather subjective and constructed with a hindsight bias – but that also applies to the Magnificent 7. The *EUROSTARS* are mostly selected based on their unique position in their industries and their importance in the European investment landscape. There are other companies with similarities to the *EUROSTARS* profile. For example, **ARM**, a UK-headquarter designer and manufacturer of semiconductor technology. Despite its strong positioning in the sector, impressive investment returns and market capitalization of more than \$150 billion, this company did not make the cut as it is listed in the US and only from 2023. Another good example is **Spotify**. Spotify – founded and headquartered in Sweden – is a successful European company that has revolutionized a total industry and has a leading market position in music streaming. Like ARM though, Spotify is listed in the US and did not make the cut.

The returns of the EUROSTARS and Magnificent 7 have been at par this decade. Adjusted for risk, the EUROSTARS did even better.

Comparing the Magnificent 7 vs the EUROSTARS

One distinct difference between the *EUROSTARS* and the Magnificent 7 is market capitalization. Altogether, the market capitalization of the Magnificent 7 is close to \$16 trillion and the companies are among the largest listed on the US exchange. The Magnificent 7 consist of six companies with a market capitalization in excess of \$1 trillion, and Nvidia, Apple and Microsoft have market capitalizations in excess of \$3 trillion. Tesla, with a market capitalization of roughly \$600 billion, is the only constituent valued at less than \$1 trillion.

This stands in sharp contrast to the market capitalization of the *EUROSTARS*. None of the *EUROSTARS* has a market capitalization exceeding \$1 trillion; the market capitalization of the seven constituents combined is just below \$2 trillion. The *EUROSTARS* are not necessarily the companies with the largest market capitalization in Europe, but it does contain the three largest companies: Novo Nordisk, ASML and LVMH. Even these mega-caps have not surpassed the magical \$1 trillion threshold.

Also based on profit, the *EUROSTARS* clearly fall short against the Magnificent 7. The Magnificent 7 achieved a combined profit of \$930 billion. The combined profit of the *EUROSTARS* was only \$140 billion. That combined profit of the 7 European stocks was thus lower than the individual profits of Apple, Microsoft, Google, and Amazon.

Table 2: Market Cap and gross profit in USD

Market Cap & Profit								
	Mag 7	APPLE	MSFT	GOOGLE	AMZN	NVDA	META	TSLA
Market Cap	16.006	3.283	3.366	2.300	2.059	3.050	1.318	630
Profit	930	169	146	174	270	44	109	18
	EUROSTARS	Novo	ASML	LVMH	FERR	ADYEN	SCHN	HERMES
Market Cap	1.846	641	388	357	69	35	129	227
Profit	140	29	15	64	3	2	16	10

Source: Bloomberg. Data as per 06/2024.

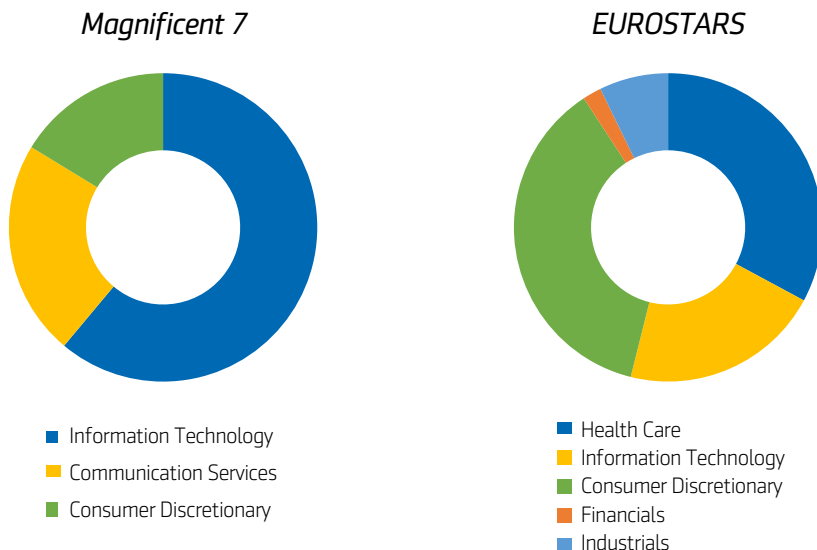
In addition to market capitalization, the sector composition also shows a marked difference. The *Magnificent 7* are predominantly driven by technology, yet only Nvidia, Microsoft, and Apple are officially categorized under the information technology (IT) sector. Google and Meta, despite their tech foundations, are classified under the communications sector, together constituting 23% of the index. Tesla, known for its electric vehicles, falls under the consumer discretionary category, carrying a 16% weight within the *Magnificent 7*.

In contrast, the *EUROSTARS* reflect a more diverse economic spectrum. Novo Nordisk, a healthcare giant, commands a 33% share of the index. ASML, an IT enterprise, holds a 21% weight, which is significantly less than the 61% IT representation found in the *Magnificent 7*. Luxury brands LVMH and Hermès, along with automotive powerhouse Ferrari, are categorized as consumer discretionary companies. Collectively, they represent 37% of the *EUROSTARS*, making it the most heavily weighted sector, a stark difference from the 16% weight this sector has in the *Magnificent 7*. Lastly, Adyen, a financial technology firm, and Schneider Electric, an industrial company, introduce the financial and industrial sectors to the *EUROSTARS*, which are notably absent from the *Magnificent 7*.

The diverse nature of the *EUROSTARS*, spanning healthcare, technology, luxury goods, and industrial sectors, underscores the multifaceted strength of the basket. This balanced composition not only makes the *EUROSTARS* a formidable counterpart to the US's *Magnificent 7* but also a critical component in any well-diversified global investment portfolio.

EUROSTARS has a market capitalization of just under \$2 trillion vs \$16 trillion for the Magnificent 7

Chart 2: Current sector composition (GICS)



Source: Aegon AM, Bloomberg. Data as per 06/2024.

The dividend yield of the *EUROSTARS* is 1.0%, which is higher than the 0.3% dividend yield of the *Magnificent 7*.

The *Magnificent 7* are considered to be a set of growth stocks. The industries that the companies are active in – mostly related to technology – exhibit strong growth potential and consequently the companies have a solid growth and profit outlook. The valuations of these stocks are considered to be relatively high, with valuations

at approximately 45x profits. The valuation of the *EUROSTARS* is at par with the *Magnificent 7*, which means that these stocks are priced for similar growth. Interestingly, in comparison to the wider indices, the *Magnificent 7's* valuation is 1.7x higher than the average of the US market whereas the *EUROSTAR's* valuation is a whopping 2.8x higher than the European average.

Table 3: Valuations. PE ratio

Valuations								
Mag 7	APPLE	MSFT	GOOGLE	AMZN	NVDA	META	TSLA	MSCI USA
46	33	39	28	54	72	27	89	26
EUROSTARS	Novo	ASML	LVMH	FERR	ADYEN	SCHN	HERMES	MSCI Europe
45	50	54	24	53	50	32	52	16

Source: Bloomberg. Data as per 06/2024.

When examining their impact on national stock indices, the influence of the *Magnificent 7* and the *EUROSTARS* is markedly different. In the United States, the year-to-date performance of the MSCI USA Index has seen an increase of 15% in the first half of 2024 (measured in US dollar to 30 June). The *Magnificent 7* alone have contributed an impressive 9% to this performance, indicating that the remaining US stocks, which make up 70% of the market capitalization, have collectively had a contribution of just +6%.

The MSCI Europe Index has enjoyed an 10% return so far in 2024 (measured in euro to 30 June). The *EUROSTARS* have contributed 3% to this figure, which means that the remaining stocks – accounting for 88% of the market - have accounted for the additional 7% of the index's returns. This disparity highlights that the *EUROSTARS* do not dominate the MSCI Europe Index to the same extent as the *Magnificent 7* do with the MSCI USA Index, which can partly be explained by the smaller index weight of the *EUROSTARS* (12%) versus the *Magnificent 7* (30%).

Conclusion

The *Magnificent 7* have received a lot of media attention. Rightfully so, because these companies are dominant in their industries and the stock indices and have performed very well. Interestingly – and often overlooked – Europe has its own set of winning stocks; the *EUROSTARS*. In a like-for-like return comparison, the *EUROSTARS* have performed even better than the *Magnificent 7* on a risk-adjusted basis, a remarkable and possibly unexpected accomplishment. And there are differences between the two that are worth highlighting: the market capitalization and profit of the *EUROSTARS* is much lower than the *Magnificent 7*, and the *Magnificent 7* have a strong tilt towards IT, while the *EUROSTARS* have a more diverse composition with a tilt towards consumer discretionary goods.

Altogether, we do acknowledge the very strong performance and dominance of the US *Magnificent 7*, but we do make a case – and even celebrate the presence of – some European companies in a well-diversified global equity portfolio. Although the weight of European stocks in a global equity portfolio might be small, there are some very interesting and important *EUROSTARS* that have a strong position in their industries.

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