

# Magnificent 7 fatigue? Investing in ‘the best of the rest’

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As some of the stocks leading the market over the past three years slow their ascent, BlackRock’s BGF US Flexible Equity Fund portfolio manager Ibrahim Kanan discusses ideas for finding new “winners.”

### Quick read

The Magnificent 7 stocks have been leading the market for the better part of three years, but time and the evolution of the AI investment cycle are revealing degrees of “magnificence” as fortunes diverge. BGF US Flexible Equity portfolio manager Ibrahim Kanan is eyeing the race as the baton is passed to the next leg of prospective market leaders.

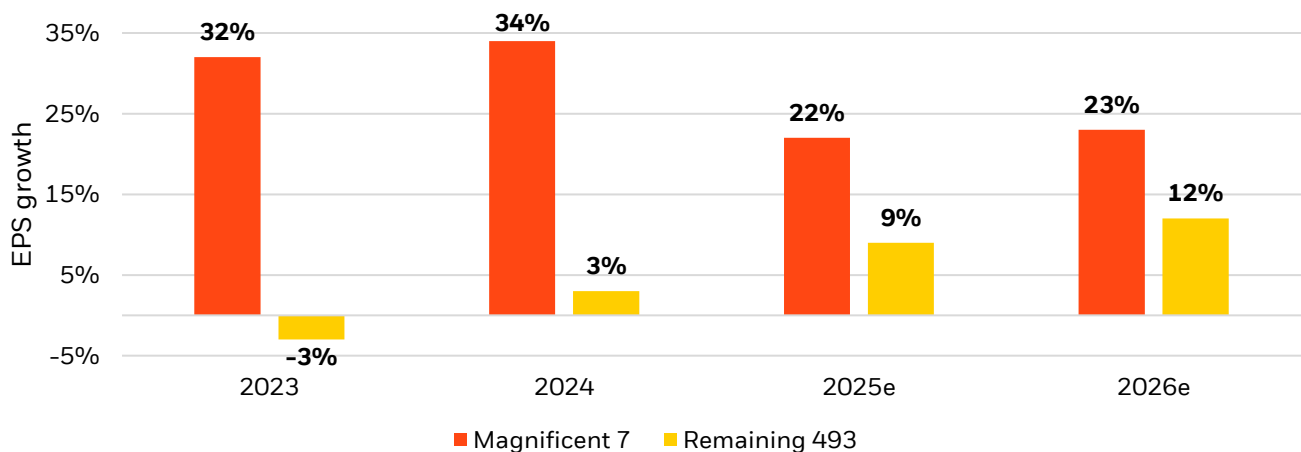
The U.S. stock market has been driven by narrow forces over the past three calendar years as the collective energy around artificial intelligence (AI) supercharged early leaders in the “Magnificent 7” — the mega-cap stocks in the S&P 500 highly leveraged to the AI buildout.

Ibrahim Kanan, Head of the U.S. Core Equity team within BlackRock Fundamental Equities, and portfolio manager of the BGF US Flexible Equity Fund sees change afoot. After a multi-year period of historic concentration in the widely tracked S&P 500 Index, a long-anticipated broadening is finally starting to take shape — and, in the process, seeding a robust field for active stock selection.

Analyst estimates point to a narrowing earnings growth gap between the Mag 7 and the rest of the market in 2026, as shown in the chart below. As portfolio manager and active stock picker, Ibrahim sees this presenting opportunity to enter or add to positions in fundamentally sound (and some forgotten) companies at undemanding valuations.

## Minding the gap

S&P 500 Index earnings per share growth, 2023-2026



Sources: FactSet, Bloomberg as of Dec. 31, 2025. Chart shows year-over-year earnings per share (EPS) growth for the Magnificent 7 (NVDA, AAPL, GOOGL, MSFT, AMZN, META, TSLA) and remaining 493 stocks in the S&P 500 Index. Figures for 2025 and 2026 are based on consensus analyst expectations.

He offers three reflections as this market broadening unfolds, informed by his strategic focus on targeting above-market returns:

### **Broaden your lens, but narrow your picks**

The Mag 7 account for 34% of the S&P 500 Index today<sup>1</sup>. This compares to 19% at the end of 2010<sup>2</sup>. In Ibrahim's assessment, this means many large U.S. companies that are "great, quality businesses" have been overlooked — and that many investors are left underexposed to them by virtue of tracking the index.

For example, a \$200bn market cap company is less than 0.40% of the S&P benchmark as of end of March index-hugging investors may be undershooting its potential upside.

Some investors have looked to other indexes for "diversification" away from the S&P 500's top-heavy bias. Among them: the equal-weighted S&P 500 and the small-cap Russell 2000. Ibrahim cautions that leaning into the former means neutralizing AI outperformance, while pivoting to the latter comes with a quality sacrifice, as many small public companies today are unprofitable. He further suggests that the equal-weighted S&P 500, which apportions each of the 500 constituents at equal measure, has underperformed its market-cap-weighted counterpart amid the recent broadening.

Within his BGF US Flexible Fund Ibrahim is targeting differentiated companies which may have been forgotten about amidst the market concentration but with prospects of delivering more return than the broader U.S. indexes. One area of interest is industrials. Ibrahim has been increasingly looking at exposure in Industrials. Here he sees positive trends extending beyond the AI capex infrastructure build out, with manufacturing indicators in the US inflecting positively in January for the first time in two years and continuing to trend strongly. Further themes such as reshoring and a more favorable rates backdrop also support this trajectory.

### **Choose companies first, not factors or sectors**

Dispersion is evident across the market, including among the Mag 7. Ibrahim expects to see greater differentiation between AI "winners" and "losers" over the next 18-24 months.

As Carrie King, Global CIO of BlackRock Fundamental Equities, notes in a recent episode of The Bid podcast: The first-round leaders in the AI super cycle are unlikely to repeat the exponential revenue growth, margin expansion and share price appreciation that they've enjoyed since 2023. Yet the AI theme is well-poised to remain a market-driving force.

<sup>1</sup>Source: Bloomberg, 17 April 2026

<sup>2</sup>Source: Source: BlackRock Fundamental Equities with data from FactSet, Feb. 13, 2026

Ibrahim is looking in new places to capitalize on AI progress and sees opportunities emerging across sectors as use cases for the technology begin to materialize.

AI is still a force not to be ignored and within the portfolio Ibrahim is looking for companies among the "other 493" that are essentially emerging from a 2023-2024 earnings recession.

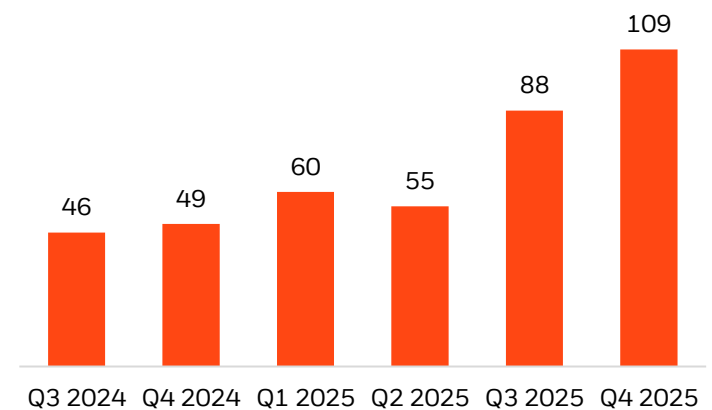
### **Diversifying in AI**

Many investors believe firmly in AI as an investment opportunity but may be worried about crowded positioning or the untold return on big capex spending — or they may simply be seeking unique expressions of the theme.

Ibrahim sees a growing number of companies across industries using AI to gain a competitive advantage. He and his team run a quantitative screen to identify such companies. They then apply fundamental analysis to see if it's bearing out in their financials — i.e., having measurable impact on company margins and revenues. Their evaluation finds the list of companies is small but growing, making it a potentially good time to pick up on a budding trend. See chart below.

## **Expanding AI rewards**

S&P 500 firms seeing positive financial impact, 2024-2025



Source: BlackRock Fundamental Equities Quantitative Research, based on company transcripts for S&P 500 Index constituents as of February 2026. Analysis of company transcripts is used to construct an AI diffusion basket that identifies companies using AI with tangible financial impact, such as improving margins.

Each of the above are not just ideas but active strategies put into practice, as Ibrahim and his team seek to advance their record of alpha generation, navigating what they see as a broader market ripe for stock picking.

## BGF US Flexible Equity Fund

### Key fund facts<sup>3</sup>

Fund AUM:  
\$1.9 billion USD

Benchmark:  
Russell 1000 index

Typical target risk:  
2.5-5% active risk

Holdings:  
25-60



**Ibrahim Kanan**  
Lead Portfolio Manager  
Managing Director  
16 years Inv. Experience



**Sally Du**  
Co-Portfolio Manager  
Director  
19 years Inv. Experience

## About the Fund

BGF US Flexible Equity fund is managed by lead portfolio manager, Ibrahim Kanan, and co-portfolio manager Sally Du. They took over management of the Fund in November 2024.

### Unlocking alpha opportunities in US equities

The US market is highly concentrated, yet earnings momentum is broadening beyond the largest stocks. This creates a compelling environment for active management – where stock selection, not index weight, drives returns.

### A high conviction, flexible solution

BGF US Flexible Equity (US Flexi) is designed to manage US market concentration while capturing differentiated alpha across the US market targeting a 2.5-5% tracking error. The style-agnostic, high conviction portfolio balances exposure to mega-caps and AI leaders with opportunities across the broader market, drawing on BlackRock's US Fundamental Equities platform best ideas from both Growth and Value teams. The pillars operate independently according to their own unique investment philosophies. This gives the PM team different lenses or perspectives to evaluate companies. We want our bottom-up convictions to drive the risks taken in the portfolio and to be the predominant driver of the portfolio's alpha over the long-run.

### Earnings first investing

The strategy is anchored in an earnings first approach where the team has a differentiated view on a company's 3 to 5-year earnings potential. The fund aims to translate the deep understanding of the fundamentals, which is enhanced by systematic tools, into alpha by maximizing stock and industry specific active risk while minimising style, country and market risks in the portfolio.

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### **Fund-specific risks**

BGF US Flexible Equity Fund

Counterparty Risk, Equity securities, ESG risk (fund screening)

Description of Fund Risks

### **Counterparty Risk**

The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

### **Equity securities**

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### **ESG risk (fund screening)**

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