



LGT Snapshot

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The GRANOLAS: Europe's answer to the Magnificent 7?

One year since the phrase "Magnificent 7" hit headlines, the mega-cap tech giants of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla (though more recently Tesla has been a detractor) have propelled the US stock market to multiple all-time highs. Synonymous with investor exuberance around artificial intelligence (AI), these names continue to buoy markets, accounting for over half of market returns over the past year. Meanwhile, a less spoken about set of companies have also been performing well within Europe, and are having a similar impact on the European stock market. Dubbed the "GRANOLAS" by Goldman Sachs analysts, the likes of GSK, Roche, ASML, Nestlé, Novartis, Novo Nordisk, L'Oréal, LVMH, AstraZeneca, SAP, and Sanofi, collectively command a market capitalisation exceeding €2.6 trillion and have accounted for around 50% of the gains on the EURO STOXX 600 index, which continues to hit new highs in 2024.¹

The Rise of the GRANOLAS

The GRANOLAS have emerged as a formidable force, representing approximately a quarter of the STOXX 600's market capitalisation, approaching the Magnificent 7's 28% weighting. A diverse spread of companies compared to the tech heavy US Magnificent 7, the GRANOLAS are made up of companies from a variety of sectors, including pharmaceuticals, consumer staples and technology, marking a significant departure from traditional European industry leaders like telecoms and oil.

The GRANOLAS have contributed significant gains in European equity markets, boasting an average return of 15% over the past year, outpacing the STOXX 600's growth trajectory. While perceived as relatively less expensive compared to their American counterparts which are trading at a 20x price-to-earnings ratio, they prioritise shareholder value and offer relatively high dividends, averaging at 2.5% in contrast to the 0.3% yield of the Magnificent 7.

Over the past three years, the GRANOLAS have performed in line with the Magnificent 7 with much lower volatility, as the chart below demonstrates. This underpins the defensive characteristics, downside protection and diversification benefits across the different sectors.

¹ Goldman Sachs and Morningstar Direct

Europe's biggest companies have kept pace with Wall Street's Magnificent Seven

Total returns (normalised)

— Magnificent Seven — Granolas



Source: Bloomberg

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Navigating economic and geopolitical headwinds

The European economy has faced various challenges over the past couple of years. The war in Ukraine led to an energy supply crisis and post-pandemic inflationary pressures saw the European Central Bank (ECB) increase interest rates to record highs. At the beginning of 2024, many European countries were flirting with recession, plagued by weak growth and cost of living crises.

Despite these economic and geopolitical headwinds, the global nature of the GRANOLAS, with less than 20% of revenues coming from Europe, mean these companies are well placed to remain resilient during turbulent periods. These businesses have achieved over €500 billion in revenue the past year alone, reflecting an impressive 8% annual growth rate.²

The performance of the GRANOLAS over the past couple of years has helped underscore the potential for Europe's stock market. With attractive dividend yields, strong growth forecasts, and a global reach, these companies certainly warrant investor attention. Within the LGT WM portfolios, we prefer to attain our exposure to European equities through a number of these high quality, durable businesses that, despite being listed in Europe, are global in nature. These global businesses with global revenue streams are trading at attractive valuations relative to their worldwide developed market peers, and certainly relative to the lofty valuations of the Magnificent 7. We are confident this approach of identifying quality businesses at attractive valuations in unloved parts of the world will serve us well.

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² Morningstar Direct