Next 20 stocks: Prudent diversification beyond Mag7

15 October 2025

Overview

- The Magnificent 7 (Mag7) control 31% of S&P 500's USD 59 trillion market cap, creating concentration risk; a 10% decline could wipe up to USD1.85tn from the index.
- The next 20 largest US stocks span healthcare, financials, energy, and consumer sectors, offering ~USD 12 trillion market cap and diversified exposure beyond tech-driven volatility.
- Semi-annual rebalancing captures cyclical sector rotations—defensive sectors outperform in slowdowns, while cyclicals lead in recoveries—without excessive turnover or concentration risk.
- This diversified basket trades at moderate valuations, provides dividend income, and reduces reliance on tech momentum, positioning portfolios for sustainable alpha and structural growth drivers. The risk is that there could be underperformance versus the Mag7 and may not suit investors who are aggressively chasing returns.

Executive summary

Beyond the Magnificent 7: Why the Next 20 matter for diversification

The Magnificent 7 (Mag7) — Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla — have dominated US equity returns, accounting for 31% of the S&P 500's USD 59 trillion market cap. This poses concentration risk; a 10% drop in these seven names could erase USD 1.85 trillion from the index. For investors seeking resilience, diversification beyond these tech titans is no longer optional — it is imperative.

Enter the next 20 largest US stocks by market cap, spanning healthcare, financials, energy, and consumer sectors. This basket of stocks entails a broader exposure, spanning almost all the sectors. See table on page 2 for the list of stocks.

Collectively, these firms represent ~USD 12 trillion in market cap, with sectoral breadth that mitigates tech-driven volatility. Healthcare leaders like Eli Lilly and AbbVie offer defensive growth via blockbuster drugs. Financial giants like JPMorgan and Bank of America provide capital markets exposure, while energy majors ExxonMobil and Chevron can help hedge inflationary shocks. Consumer staples such as Procter & Gamble and Walmart add stability amid economic uncertainty.

As themes evolve, market leadership will change. Recent sector rotation shows that defensive sectors outperform during GDP growth slowdowns, while cyclicals surge during economic recovery. A disciplined six-month rebalance captures these shifts without excessive turnover.

Valuation and risk profile: Unlike the Mag7's stretched multiples, this cohort trades at relatively undemanding P/E ratios and provides some cashflow via dividends. This could help enhance the total return potential.

Concentration risk is real. Diversifying into the next 20 largest US stocks offers exposure to structural growth drivers — healthcare innovation, financial digitisation, energy resilience — while reducing reliance on tech momentum. In portfolio construction, breadth is not just a hedge; it is a strategy for sustainable alpha.

Figure 1: Comparative 2-year performance

Source: Bloomberg, UOB Private Bank.

Figure 2: Relevant financial information on the Next 20 stocks

Sector	Company	Mkt cap (USDbn)	B/H/S	Cons target	Last px	% up/down	Est Yield (%)	Est P/E (x)	Est P/B (x)
Semiconductors	Broadcom	1,625	53/4/0	392.69	344.13	14.1	0.7	51.1	21.5
Insurance	Berkshire Hathaway	1,070	2/4/0	529.25	495.97	6.7	NA	23.9	1.6
Retail	Walmart	855	46/1/1	113.45	107.21	5.8	0.9	41.0	8.8
Software	Oracle	852	36/13/1	343.72	299.00	15.0	0.7	43.9	24.8
Banks	JPMorgan Chase	831	19/11/3	323.02	302.08	6.9	1.9	15.2	2.4
Pharmaceuticals	Eli Lilly	769	29/8/1	893.39	812.35	10.0	0.7	35.9	26.9
Diversified Finan Serv	Visa	686	38/8/2	394.79	348.38	13.3	0.7	30.5	17.8
Internet	Netflix	516	42/17/2	1357.24	1215.35	11.7	0.0	45.1	17.7
Diversified Finan Serv	Mastercard	513	37/8/1	647.91	567.92	14.1	0.5	34.8	57.9
Oil&Gas	Exxon Mobil	479	18/14/1	124.75	112.29	11.1	3.6	16.4	1.8
Pharmaceuticals	Johnson & Johnson	460	16/11/1	196.62	190.85	3.0	2.7	17.6	5.9
Software	Palantir Technologies	426	9/16/4	156.26	179.74	-13.1	NA	276.9	62.3
Retail	Costco Wholesale	419	25/16/1	1085.87	946.51	14.7	0.6	47.2	12.0
Pharmaceuticals	AbbVie	405	22/9/1	234.55	229.13	2.4	2.9	21.8	1507.4
Retail	Home Depot	386	28/13/3	435.95	387.72	12.4	2.4	25.9	30.2
Banks	Bank of America	371	23/7/0	55.83	50.09	11.5	2.2	13.6	1.3
Cosmetics/Personal Ca	Procter & Gamble	349	16/13/0	169.77	149.16	13.8	2.9	21.4	6.3
Healthcare-Services	UnitedHealth Group	326	21/7/2	354.76	359.93	-1.4	2.4	22.2	3.3
Aerospace/Defense	General Electric	318	17/3/2	309.32	300.08	3.1	0.5	50.8	16.6
Oil&Gas	Chevron	312	17/14/1	169.65	152.39	11.3	4.5	20.3	1.8

Source: Bloomberg, UOB Private Bank (as of 14 Oct 2025)

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