Tyler Mordy
CEO & CIO
Forstrong Global Asset Management Inc.

Key Takeaways

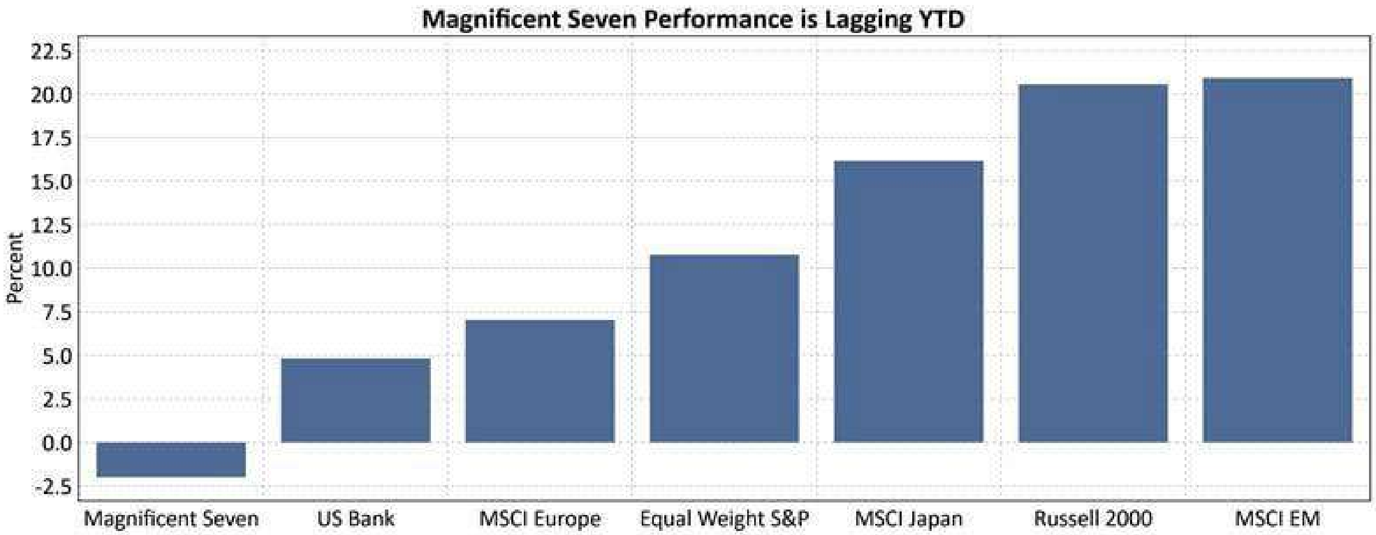
- **The market no longer needs seven stocks to carry it forward.** Leadership is broadening across sectors, styles and regions.
- **AI is getting bigger, not smaller.** The next winners won't be the builders of AI but the companies and countries putting it to work.
- **Forstrong's "Rise of the Rest" Super Trend is underway.** Higher interest rates and improving earnings are creating compelling opportunities well beyond the Mag 7.

Ask Forstrong: The Magnificent 7 has carried markets for years. Is this year's weakness just noise or the beginning of a new market regime?

What a World Cup this has been. Tearful farewells. Stunning upsets. New heroes. Cristiano Ronaldo's emotional exit from the international stage. Traditional powerhouses like Brazil and Germany knocked out by Norway and Paraguay. And, of course, Canada's inspiring run to the Round of 16, lifting the national mood in a way few sporting events can.

The lesson is obvious: yesterday's champions are not guaranteed tomorrow's success.

Financial markets are telling a similar story. For much of the last decade, the investment playbook was simple: own America's mega cap technology stocks. When they rose, the S&P 500 rose with them. When they stumbled, the broader market usually followed. That relationship has begun to break down. The once-vaunted Mag 7—a useful, if imperfect, proxy for the AI hyperscalers—has struggled this year. The group of seven, as our friends at Deutsche Bank point out, has even managed to underperform one of the year's worst-performing asset classes: long-dated UK government bonds.



Sources: MSCI, FTSE, S&P Global, Forstrong Global Asset Management

Meanwhile, a very different set of winners has emerged. US small cap stocks have delivered their strongest first half in 35 years. Japan has quietly carved out its best quarterly equity performance since 1986. Emerging markets have comfortably outperformed developed markets. Value has beaten growth. Equal-weighted indices have outperformed their cap-weighted cousins. Even within technology, leadership has begun to broaden beyond the familiar megacap names.

To be fair, 2026 has been a messy year. Some of this may simply reflect investors taking profits after an extraordinary run in the Mag 7. And recent leadership hasn't exactly been easy to decipher.

Over the past month, the best performing sectors in the US have been financials, industrials, healthcare and utilities—two cyclical groups and two defensive ones. Can you see a pattern? Yeah, we can't either.

But our investment team believes something more important is unfolding. The market no longer needs seven stocks to carry it forward. Leadership is broadening. The opportunity set is widening. An d unlike many previous false starts, we believe this rotation has legs.

Here's why.

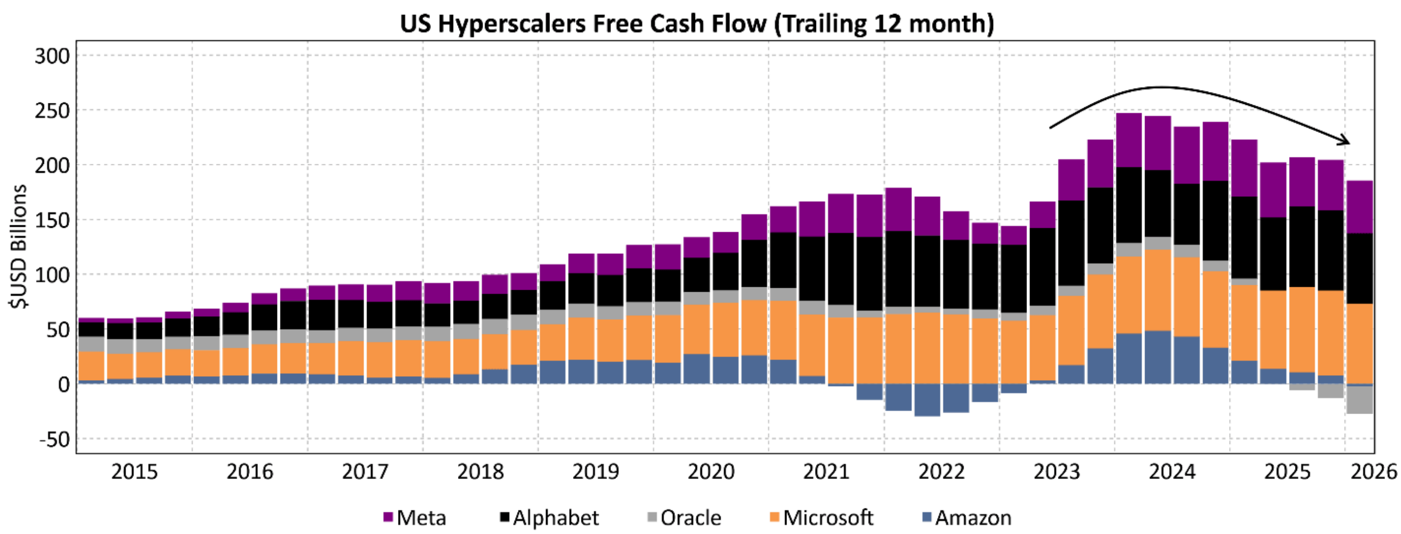
1. The AI Story Is Getting Bigger

Much of the recent underperformance in the Mag 7 reflects a simple reality: investors are becoming more demanding. For the past three years, markets rewarded companies simply for spending aggressively on AI. Today, investors want proof that those investments will generate attractive returns.

That is becoming a much tougher test. Alphabet, Amazon, Microsoft and Meta continue to pour hundreds of billions of dollars into AI infrastructure. But free cash flow has come under pressure as data centres become more expensive and the costs of memory chips, networking equipment and power infrastructure continue to climb. All four major hyperscalers reported negative year-on-year growth in 12-month trailing free cash flow in the first quarter.

As we wrote in our [February 2026 Ask Forstrong:](#)

“Big Tech is no longer an asset-light monopoly franchise. It is now capital-hungry, more competitive and less insulated. Markets assign very different multiples to that kind of business model.”



Sources: Macrobond, Company Filings, Forstrong Global Asset Management

None of this means the AI story is broken. Far from it. If anything, AI is becoming much bigger than the companies that started it. The market is already rewarding many of the businesses supplying the AI buildout, from semiconductor manufacturers to electrical equipment, power infrastructure and industrial automation.

But history suggests the next phase will look different. Every major technological revolution follows a similar path. First comes the infrastructure. Then come the applications. The internet offers a useful comparison. Cisco built much of the plumbing. But the greatest long-term value accrued to companies like Amazon and Google that found profitable ways to use it.

AI will likely follow the same path. The biggest winners won't simply build the models. They'll use AI to improve productivity, lower costs and grow earnings in industries like healthcare, robotics, manufacturing, logistics and defence. That transition won't happen overnight. There will almost certainly be periods when enthusiasm for AI infrastructure runs ahead of reality—as this year's parabolic rally in semiconductor stocks reminds us.

But the bigger point remains intact. **AI is no longer a story about seven companies. It is becoming an economy-wide investment and capital spending cycle.** The AI race has unleashed one of the largest investment booms of the modern era, rivaling anything seen outside the industrial mobilization of the Second World War. It is fueling a surge in construction, power generation, banking, credit, mergers and acquisitions, equity issuance and asset management as governments and corporations race to finance the next wave of innovation.

Portfolio Playbook

- Stay invested in AI but broaden exposure beyond the hyperscalers.
- Look for second-order beneficiaries: companies and sectors applying AI to improve productivity and lift earnings, not just those building the underlying infrastructure.
- Continue owning the global "picks and shovels" of AI, including semiconductor leaders in Taiwan and Korea, but also industrial automation in Japan, and the raw materials like copper companies required to power the buildout.

2. Higher Rates Are Changing the Rules of the Game

For most of the post-Global Financial Crisis era, investors enjoyed an extraordinary tailwind: interest rates kept falling. That mattered because lower discount rates made future earnings more valuable. Investors were willing to pay almost any price for companies promising rapid growth years—even decades—into the future. It was the ideal backdrop for long-duration assets like technology.

That world is over. Money has a cost again.

Despite repeated hopes for lower rates, inflation has proven far stickier than expected. This has been one of Forstrong's defining Super Trends for years—and one that has served our clients well. Massive fiscal deficits, reindustrialization, defence spending and energy security all point to a world where interest rates are likely to remain structurally higher than they were during the 2010s.

That changes the rules of the game. And when the rules change, so do the winners. Investors become less willing to pay for distant promises and more interested in businesses generating cash flows today. It's one of the biggest reasons leadership has broadened beyond a handful of mega cap technology stocks.

Banks benefit from stronger net interest margins. Insurers earn more on their investment portfolios. Industrials, energy and materials companies stand to gain from the rebuilding of infrastructure and manufacturing. Businesses that spent years in the market's penalty box suddenly look much more attractive when capital once again carries a meaningful price.

Higher rates don't immediately end bull markets. They simply change who leads them.

Portfolio Playbook

- Broaden exposure beyond long-duration growth stocks.
- Increase allocations to companies and sectors with pricing power that benefit from a higher-rate environment, including materials, industrials and select financials.
- Build portfolios that can thrive even if interest rates remain higher for longer (see our last piece for income investors "Bond Market Meltdown: A Survival Guide for Income Investors").

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3. The Rise of the Rest: Global Investing Is Back

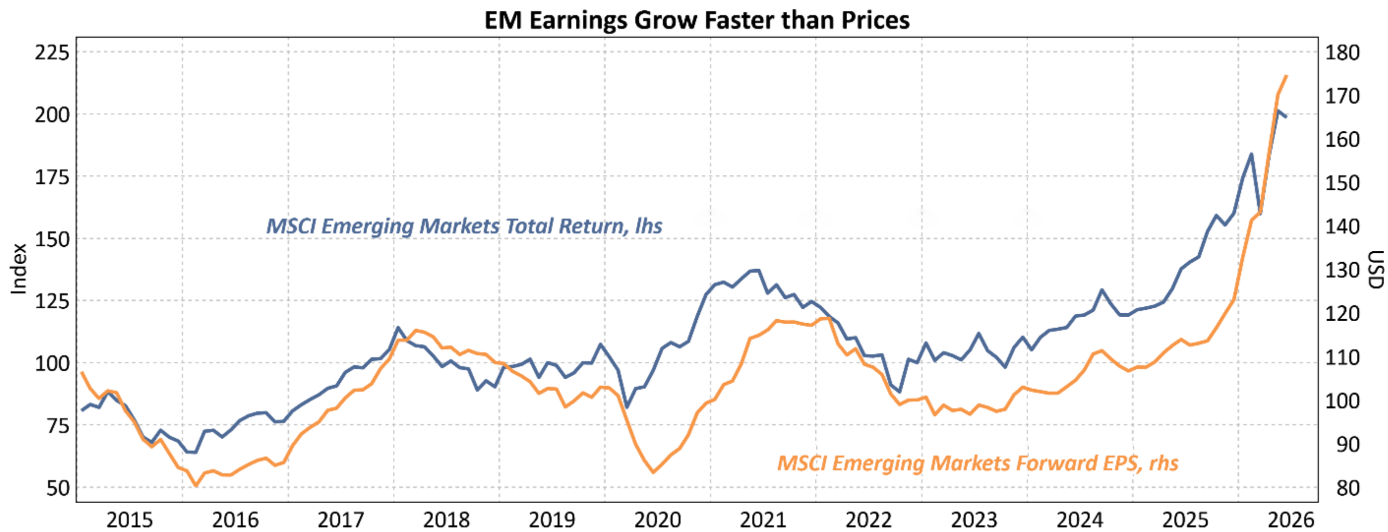
For much of the past decade, investing outside the United States felt like an exercise in patience. Europe struggled with sluggish growth. Japan remained trapped in deflation. Emerging markets lurched from one crisis to the next. Meanwhile, America's technology giants dominated earnings growth and attracted an ever-larger share of global capital.

That world is changing, too.

Germany alone plans to borrow more than €800 billion by 2030—the biggest fiscal pivot in modern history. After decades of restraint, Europe is rebuilding its military, modernizing infrastructure and strengthening energy security. Defence spending is set to reach levels not seen since the Cold War, creating a powerful tailwind for European industry.

Japan's revival continues to gather momentum. Rising wages, improving corporate governance and shareholder-friendly reforms are finally unlocking value after decades of economic stagnation.

Emerging markets may offer the most compelling story of all. Many investors still think of the asset class as a risky value trap. We think they're looking backward. The real story, looking ahead, is earnings. Forward earnings per share estimates have surged roughly 40% this year—well ahead of the market itself—driving valuations lower even as share prices have risen. In other words, earnings are growing faster than stock prices.



Sources: MSCI, Forstrong Global Asset Management

That is a remarkably healthy backdrop. Perhaps most importantly, investors no longer need to own international markets simply because they're inexpensive. They can own them because they offer compelling structural growth stories with a clear macro catalyst: Europe's fiscal renaissance, Japan's corporate transformation and emerging markets' growing role in AI manufacturing, supply chains and domestic consumption. As global growth broadens, so too does the investment opportunity. That's exactly the environment in which active global investing has historically added the most value.

Portfolio Playbook

- Look beyond the United States for the next generation of market leaders.
- Increase exposure to countries benefiting from structural investment themes, including Japan, Taiwan and parts of Europe.
- Focus on regions where earnings are accelerating, not simply where valuations appear inexpensive.

Bottom Line

The market no longer needs seven stocks to carry it forward. New leaders are emerging. The playbook that won the first half of this decade is unlikely to be the one that wins the second. Halftime is when great teams adjust their game plan. Investors should too.

Tyler Mordy, July 2026

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