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How vulnerable is mega-cap tech to tariff turmoil?

Published: 2 days ago



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The mega-cap tech companies remain at the forefront of innovation, but they are not a monolith and remain highly exposed to global policy shocks.

Over the past two years, a small group of mega-cap tech stocks hasn't just led—they've defined the market. The Magnificent Seven became the center of gravity for performance, sentiment and allocation. But in 2025, that gravitational pull is becoming a point of vulnerability. Doubts around the **durability of the AI capex cycle**—particularly in the wake of DeepSeek—splashed cold water on AI enthusiasm. And now, rising trade tensions are pressuring the global supply chains at the heart of their business models.

Caught in the crosshairs of a trade war

The Trump administration's **sweeping "Liberation Day" tariffs** have sent shockwaves through global markets. While intended to level the playing field, these measures have placed significant pressure on America's leading tech companies.

- **Up to 75% of the Mag 7's suppliers are located overseas**, particularly in East and Southeast Asia. Apple relies heavily on Chinese and Vietnamese facilities for iPhone assembly¹, Nvidia and AMD depend on Taiwanese and Korean fabs for chip production and Tesla imports EV components from China—even for its U.S. production lines.
- **These companies don't just build abroad, they sell there too.** Apple, Microsoft, Google and others generate over half of their revenue overseas².
- **Tariffs could squeeze margins and hamper innovation.** Electronics, semiconductors, server infrastructure—all areas dominated by the Mag 7—are at the center of the new tariff lists. Capital expenditures may also slow, with steel, aluminum and copper tariffs increasing the cost of the data center buildout.
- **Foreign retaliation adds another layer of risk.** The EU and China have weighed retaliation by targeting the massive U.S. services trade surplus—largely driven by U.S. tech companies³.

Markets recalibrate risk and earnings potential

So far, the pullback hasn't been triggered by collapsing fundamentals, but a repricing of risk. Investors are reassessing margins, capex and earnings potential in a more uncertain environment, and valuation compression has followed. The forward P/E ratio for the Mag 7 has declined to ~22x from 31x at the start of the year, marking the cheapest levels since January 2023—before the AI investment theme even gained traction.

This may look like a bargain, but the next big test will be earnings. Economists have downgraded GDP expectations to 0-1% for 2025, and the pass-through of a weaker growth outlook has yet to materialize in 2025 earnings expectations⁴. The Q1 season will involve more cautious guidance from management teams, with analyst downgrades likely to follow.

Investor positioning: From all-in to rebalance

Market concentration, once a tailwind for performance, has become a liability in a more uncertain environment and a key driver of market rotation. The mega-cap tech companies remain at the forefront of innovation, but they are not a monolith and remain highly exposed to global policy shocks. For investors, the playbook isn't to abandon the cohort, but to manage your exposure, protect portfolios against downside risk and keep an eye on where leadership is headed next—as beyond the trade headlines, AI advancement is rapidly progressing.

Mag 7 valuations are at their lowest levels since January 2023, pending new earnings guidance

Weighted P/E ratio, next 12 months



Source: FactSet, J.P. Morgan Asset Management. Data are as of April 7, 2025.

¹ According to some tech analysts, an iPhone could cost \$3,5000 if produced in the U.S.— triple the price.

² Source: FactSet GeoRev.

³ According to the U.S. Department of Commerce, the U.S. had a services trade surplus of \$280 billion in 2023, with digitally enabled services accounting for 64% of all U.S. services exports.

⁴ As of 4/7/25, Mag 7 FY 2025 earnings expectation had barely come down to 16.6% from 16.9% expected a month prior, as analysts await fresh guidance post-tariff developments to make significant revisions.

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