Market Commentary
August 25th, 2025

English Version

Insigneo Weekly Dispatch

Have You Heard About the C.O.W. Stocks?

Get guidance on investments, and the major structural factors behind your clients' portfolios.

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Have You Heard About the C.O.W. Stocks?

The C.O.W. stocks—Costco, Oracle, and Walmart—have recently outperformed most of the Magnificent Seven, thanks to strong financials, including high cash reserves and robust cash flow generation.

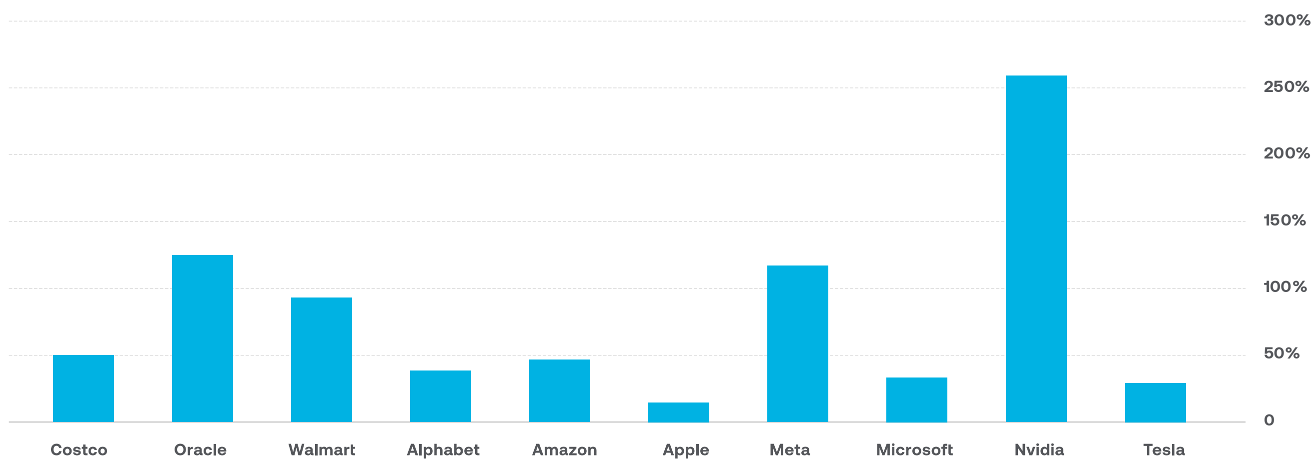
COW stocks are considered highly resilient, particularly in uncertain economic times.
Costco and Walmart benefit from recession-proof business models, pricing power, and strong consumer loyalty.

Oracle has successfully reinvented itself through cloud and AI-related services. Its transformation into a key player in the AI-driven cloud services industry positions it for substantial future growth.

We have all heard of the Magnificent Seven stocks (Amazon, Apple, Google, Microsoft, Meta, Nvidia, and Tesla) and some of us may even remember the FANGs (Facebook-now Meta-, Amazon, Netflix, and Google -now Alphabet-), but have you heard about the COWs? Unlike Magnificent Seven or FANGs, COWs is not a glamorous moniker. In fact, much like the animals that they are named after, this group tends to be overlooked. However, it is comprised of three companies that play an important role in the economy: Costco, Oracle, and Walmart. Given these companies' recent performance, "thoroughbreds" might be a better nickname.

As we can see on the chart below, **from the beginning of 2024 through the time of this writing, the COWs outperformed all but two of the Mag Seven, Meta and Nvidia. In fact, Oracle came in second in that entire group, topped only by Nvidia.** What is so special about these stocks that has led them to outperform the AI darlings of Wall Street?

Graph 1: Equity Performance (from 12/31/23 - 8/21/25)



Source: Insigneo, Bloomberg; as of 08-21-25

First, much like the Mag Seven, the COWs enjoy high quality financial positions, including strong balance sheets and profitability metrics. Most retailers tend to have relatively low levels of cash on their balance sheet due to the high flexibility needed for managing product inventory. For example, large U.S. retailers Target, Macy's, TJX and Best Buy maintain a combined average of approximately $4 billion in cash or cash equivalents on their balance sheets. Costco and Walmart maintain a combined average of $12 billion, three times as much as their competitors.

At the same time, both companies generate combined average cash flows from operations to the tune of $25 billion. The combined average cash flows from operations of Target, Macy's, TJX and Best Buy do not surpass $4 billion. Like its other two partners in the COWs, Oracle also boasts of strong cash flow generation. Its numbers might not be as astronomically high as some of its larger peers in the software industry, but its profitability metrics, in terms of operating margins and Return on Invested Capital, surpass most of its competitors.

Although the COWs rise to power begins with quality financials, it does not end there. In fact, much of their appeal lies on a second trait - resilience - especially in uncertain economic environments. Providing essential goods and services at discounted prices, Costco and Walmart are considered to be recession-proof companies, able to weather all types of economic scenarios. If you have ever been to Costco, you know that it is very hard to go in and come out with only one item. Studies by multiple sources show that the average amount spent per visit to this store is between $100 and $150. With an estimated 30 visits per member per year, this translates to approximately $3,000 to $4,500 spent by members on a yearly basis. Supported by close to 77 million paid memberships at the end of 2024, these spending figures do not even include the club membership fees required to access the store, which range between $65 and $135 per year (Source: Business Insider). At the same time, Walmart has built its own unique franchise, offering discounted items and services ranging from everyday staple items, to groceries, to pharmacy services. Although the numbers vary, some analysts estimate that in the U.S. alone, Walmart stores get an approximate 8.5 to 9 billion visits per year, not including online shoppers. The company has also made great strides in rivaling Amazon in the ecommerce industry and so far, it is proving to be successful. To date, approximately 80% of consumers that have an Amazon Prime account also have a Walmart Plus membership (Source: Bloomberg). As a result of their strong pricing power in the industry, both Walmart and Costco have so far been able to negotiate with suppliers to share the increased costs brought about by tariffs. Information based on our own industry channel-checks appears to indicate that although some industries, such as the apparel industry, are currently able to split increased tariff costs between manufacturers and suppliers, this will likely prove unsustainable over time. The same channel-checks indicate that by the end of this year or beginning of next year, these increased costs will likely be passed on to the consumer, a dynamic that will hit consumer's pocketbooks and could drive them to become even more cost-conscious shoppers, ultimately helping Walmart and Costco's discounter approach.

Compared to the latter two COWs, Oracle is a different breed; however, its changing business model also makes it resilient in uncertain times. Few companies have been able to successfully reinvent themselves after losing industry leading positions in past decades, and Oracle appears to be one of them. In years past, Oracle excelled as an IT services provider specializing in database management. Having lost its leadership as the industry evolved, the company is now getting a new lease on life as the AI-boom has led it to become a premier cloud-based database management provider. Oracle's recession-proof characteristics are two-fold. First, much like for the Mag Seven, critical AI-related services, such as cloud-based database management will be needed regardless of economic environment. Oracle's revenues in this business line have increased by 35% from $32.5 billion in 2020 to $49 billion currently. However, Wall Street estimates that this segment's revenues could reach $80 billion in the next three years, representing a growth rate of 80%. Second, the Trump administration's focus on making the U.S. the "AI capital of the world", is creating key projects such as Stargate, of which Oracle's is an important component. Some of the benefits of the company's key role in this industry are already starting to bear fruit, as evidenced by OpenAI's recent announcement that it will be contracting up to 4.5GW of cloud-service capacity from Oracle, representing increased revenues of approximately $30 billion for the latter. At this point, the future looks promising for Oracle.

Although the COWs are proving to be thoroughbreds in the equity markets, their all-weather resiliency and relatively low profile compared to the Mag Seven does not betray their moniker. Regardless of what investors choose to call these three companies, their long-term potential remains strong. ■

At the time of publication, the author does not hold any positions in the securities mentioned.

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