Q2 2025

Magellan Global Equities Update

Alan Pullen shares insights into the market trends and dynamics currently shaping the investment landscape, highlighting emerging portfolio opportunities and key areas to watch. He also provides an update on recent movements within the portfolio.

Could you give us an update on the past quarter? Were there any developments or standout moments that particularly caught your attention?

The quarter began with market volatility triggered by Trump's tariff announcements, which initially caused a sharp 10% drop. However, we viewed these moves as negotiation tactics and used the dip as a buying opportunity. Markets rebounded quickly, ending the quarter up.

Geopolitical tensions, particularly in the Middle East, had limited impact on markets. This was attributed to the US becoming energy-independent, reducing reliance on Middle Eastern oil. While inflation remains a consideration, the overall effect on stocks was minimal, and markets responded reasonably.

Tech stocks led the portfolio's performance, driven by strong earnings and enthusiasm for AI. Companies like Microsoft, TSMC and Meta posted significant gains, with Microsoft's Azure showing over 30% growth. Defensive stocks lagged slightly in the strong market environment, though names like Dollar General performed well due to company-specific improvements.

Dollar General is a company that many Australians might not be familiar with. Could you give us some background on who they are, what they do, and how they fit into the broader market landscape?

Dollar General is a US discount retailer with nearly 20,000 small-format stores, mainly in rural, low-income areas. It focuses on everyday essentials, making it a stable and defensive business with minimal online competition.

The company faced operational issues like theft and stockouts, which lowered its valuation. However, with a seasoned CEO returning and improvements in store operations, performance has rebounded, up around 20% last quarter.

Could you talk us through how the portfolio has evolved over the past quarter? Were there any notable changes in holdings or position weights?

There were minimal changes to the portfolio over the past quarter, with one stock added and one removed, both representing like-for-like exposure. The switch was driven by valuation, as one stock reached its target and was replaced with another offering similar potential at a more attractive price.

A notable adjustment was the trimming of Alphabet (Google), which has been a strong performer but is now facing headwinds in its core Search business due to the rise of AI and alternative search models. While the team remains positive on parts of Alphabet, such as Waymo and Google Cloud, we are cautious about the long-term impact on its earnings, given that over 80% still comes from traditional search.

The investment team continues to monitor Alphabet closely, balancing its strengths with the potential risks posed by evolving technology and user behaviour.

Looking ahead, how are you positioning the portfolio?

Markets have remained active, with ongoing debates regarding tariffs and economic policy. While Trump walked back some initial tariff announcements, uncertainty persists. Despite this, markets have shown resilience, pushing valuations to full levels, although not yet in bubble territory. Bargains are harder to find, and the portfolio remains defensively positioned in case of unexpected disruptions.

The base case outlook is for continued moderate growth, supported by policy developments like the 'big beautiful bill' and potential trade deals. However, while risks remain, there is some caution about pricing in too much optimism. Defensive positioning helps manage downside risk while maintaining exposure to long-term opportunities.

One area of strong conviction is AI. Companies like Microsoft and TSMC continue to benefit from real earnings growth driven by AI demand. Microsoft's Azure, for example, saw growth re-accelerate to 30%. These aren't speculative plays – they're delivering results now. Overall, the portfolio has performed strongly over the past quarter, year, and three years, with confidence in its long-term ability to deliver returns.

Watch the video here

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