

Stock Story



CME Group

A natural hedge.

CME Group (CME) is the world's leading derivatives marketplace and serves as a core defensive holding within the Magellan Global Fund. CME operates a diversified exchange business across major asset classes – including interest rates, equities, foreign exchange and commodities – providing a natural hedge during periods of market volatility.

Not all exchange businesses are created equal. Derivative exchanges are amongst the highest quality, operating as a near monopoly in key contracts and proprietary benchmarks given the significant network effects generated from liquidity, clearing and benchmark status. This near-monopoly creates capital efficiencies and substantial barriers to entry for potential competitors.

These quality attributes we believe have been critical in CME's consistent and exceptional financial performance. For CME, 2024 was the best year in its history, followed by record-breaking results in the first half of 2025. This strength is reflected in its best-in-class profitability, with operating margins reaching 68% in 2024. CME's business model thrives on uncertainty, as market participants increasingly turn to derivatives to hedge risk. Recent trading volumes have been bolstered by geopolitical instability in Ukraine, Russia and the Middle East, shifting global supply chains and macroeconomic uncertainty. The firm has proven its operational resiliency during extreme market stress, notably transferring a record US\$32 billion in mark-to-market cash in a single day following the announcement of US tariffs in April 2025, up 45% on the previous single-day record.

In parallel with these cyclical tailwinds, CME has pursued strategic initiatives to drive structural growth. Key developments include the successful launch of new derivative products, the creation of innovative platforms and expansion into international and retail markets. While still a minority business segment, the retail customer base has shown rapid growth, aided by strategic partnerships with brokers like Robinhood and investment in education. This has led to strong retail demand for contracts on gold and cryptocurrencies like Bitcoin and Ethereum that, importantly, diversify CME's revenue streams while maintaining the quality of earnings.

Given this attractive and resilient profit pool, new competitors continue to try their luck. The latest launch attempt, the FMX Futures Exchange, was launched in September 2024. With backing from several major investment banks and market makers, FMX is attempting to challenge CME's dominant position in interest rate futures. FMX's primary strategic differentiator is its partnership with the London Stock Exchange Group's LCH Clearing Services, the largest clearer of interest rate swaps. FMX argues this partnership allows customers to achieve superior cost efficiencies by reducing the amount of collateral required.



A year after launch, FMX has failed to gain meaningful traction. Its market share remains negligible, with most of the trading activity likely incentivised. CME's deep liquidity, which provides a tangible cost advantage to traders through tight bid-ask spreads and compelling cross-margining efficiencies, continues to attract volumes. Additionally, in periods of heightened volatility (for example, Liberation Day in April 2025), market participants fled to established exchanges like CME. Given our strong view on CME's quality attributes, we expect CME to maintain its dominance and view any share price weakness from this competitive threat as a buying opportunity for the Magellan Global Fund.

CME, thus, is well placed to grow above GDP with a high degree of confidence and is a beneficiary in the current world of elevated uncertainty and volatility.

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