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Magellan Global Equities Update

Arvid Streimann explores significant market trends and explains how the global strategy is set to take advantage of new opportunities while keeping an eye on potential risks. Arvid also talks about the recent adjustment to the portfolio's maximum cash level and comments on the market impact following Trump's election.

In 2024, global markets surged by around 30%. Following the November US election, where Donald Trump and the Republican Party secured a decisive victory, markets contributed approximately 8% of that growth. Do we need to see a correction to uncover opportunities, or are there parts of the market you are excited about?

In 2020, market performance was primarily driven by improved sentiment rather than better fundamentals, leading to higher-than-average valuations. So, when we're thinking about where market valuations are, they are higher than average because you've seen sentiment drive markets. When we're thinking about the market outlook, a market correction like you mentioned, that's not our base case and that's why the fund is fully invested. We think that a market correction is a lower probability and see lower returns than last year as opposed to outright negative returns.

What are you seeing as the risk when you're looking forward?

Investors should consider a few key risks moving forward. Firstly, interest rates are a significant factor. In 2022, rising bond yields in the U.S. led to a 20% market decline in USD terms. This year, we expect the debate to shift from potential rate cuts to possible rate hikes by the Federal Reserve, driven by economic stimulus and deregulation efforts from a Trump administration. These actions, coupled with negative supply shocks and immigration policies, could lead to higher inflation, necessitating a Fed response. The base case is that interest rates will remain high or increase slightly, but a rapid rise could cause a market downturn, especially given current high valuations.

Secondly, geopolitical risks involving China and Iran are notable. With China, a trade deal is likely due to their weak domestic economy and reliance on exports. However, failure to reach an agreement could escalate trade conflicts and impact the global economy. Regarding Iran, tensions are expected to rise due to U.S. opposition to their regime and nuclear program. While Iran's influence is currently limited, aggressive actions could disrupt global oil supplies, driving up energy prices and negatively impacting markets.

Lastly, the Chinese economy poses a risk. As the world's second-largest economy, its ongoing struggles could worsen. Although Chinese policymakers are managing downside risks, they are not creating upside potential. A poorly handled trade war or ineffective economic policies could lead to deteriorating economic conditions in China, posing a risk for investors.

In 2024, the Magellan Global Fund achieved returns comparable to the market while maintaining lower risk levels. How have you managed to meet these dual objectives of risk management and return? Additionally, could you discuss the recent changes to the maximum cash levels?

Last year was quite successful, as we managed to achieve market-like returns while taking on materially less risk than the market. This was accomplished through several key strategies. Firstly, we stayed fully invested, anticipating no hard landing, which proved to be the right decision. Secondly, we focused on structural growth themes, particularly digitalisation, which saw significant advancements in 2024. We gained exposure to this trend through companies like ASML and major cloud providers such as Alphabet, Amazon, and Microsoft. These companies benefited from strong revenue growth with minimal production costs, contributing positively to our portfolio.

Additionally, we carefully managed our defensive portfolio by shifting from consumer staples to health care. Consumer staples faced challenges due to price-conscious consumers and elevated input costs, leading to a tough revenue outlook. In contrast, health care benefited from attractive structural growth tailwinds

driven by an aging population and the general demand for quality health care systems. This strategic shift proved beneficial.

Lastly, we made changes to our cash management policy, reducing the maximum cash the fund can hold from 20% to 10%. This formalised our previous unofficial cap and if you see us use cash it will be to either maintain a below-market level of risk or in response to a high conviction view of an imminent market decline. This adjustment allows us to balance our stock portfolio more effectively while adhering to our risk management objectives.

Could you explain how you're balancing growth, defensive, and cyclical companies in your portfolio? Additionally, where are you currently seeing opportunities, and what recent changes have you made to the portfolio?


We see several key opportunities in the market. Firstly, semiconductors are a significant area of interest. Despite debates about the near-term outlook, the medium to long-term demand for semiconductor chips remains strong due to their pervasive role in the global economy. High-quality companies like ASML, which has a monopoly in producing cutting edge semiconductor manufacturing machines, are particularly attractive investments.

Secondly, the health care sector offers promising opportunities, driven by the aging population and government interest. Companies like Stryker, a leader in joint replacements and surgical equipment, and UnitedHealth, the largest health care provider in the U.S., benefit from structural growth tailwinds and scale advantages.

Lastly, the consumer staples sector presents turnaround opportunities. For example, Nestlé, despite facing short-term pressures from price-conscious consumers and input costs, has strong brands and a new management team. In our view, these factors should mean that the current challenges are temporary, making the company a compelling investment for the future.

Watch the video [here](#)

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