



Evaluating the market: Interest rates, banks and financial sector opportunities

Interest rates remain a key influence on investment markets. Portfolio Manager, Alan Pullen guides us through the direction of the markets, the potential impacts of the upcoming US election, and Magellan's outlook on opportunities within the banking sector. Alan also highlights promising opportunities in other financial companies demonstrating stability and growth amidst market turbulence, such as Visa, Brookfield, and Intercontinental Exchange.

Interest rates continue to be a key influence on the markets. Where do you see the markets heading in the near term? And what are the key drivers?

Interest rates have been crucial to markets this year. The US has started cutting rates, with a significant 50 basis point cut initially. Solid economic and employment data suggest a slower pace of future cuts, possibly 25 basis points over the remaining two meetings this year, supporting the soft-landing narrative. The ten-year yield, a proxy for the risk-free rate, is currently in the 4-4.5% range and is expected to remain stable. Moving forward, individual stock performance will likely drive markets more than interest rates, which have had a significant influence in recent years.

What could be the impact of the upcoming election for markets?

With the election approaching, there's concern about a "clean sweep" where one party wins the presidency, House, and Congress, allowing them to implement policies freely. This could negatively impact markets, especially if it leads to big spending and higher interest rates. Trump's policies, like lowering corporate taxes, are seen as more market-friendly compared to the Democrats' potential tax increases. Ideally, a split government, where different parties control the Senate and the White House, would prevent extreme policies and be better for market stability.

What about banks? We don't currently hold any in the global portfolio. Is that likely to change soon?

Due to the defensive nature of the portfolio and the focus on downside protection, banks have a high bar to be included. While there are quality banks globally, they aren't as high quality as other stocks in the portfolio. Banks can play a role due to their leverage to economic outlooks, but the potential downside scenario in the US, with a 30% risk of a harder landing, makes them too cyclical. Currently, to maintain downside protection, there are no banks in the portfolio, though they are being monitored. Recent results have been good, but future scenarios are being considered.


Are there other financial companies on your radar that you see as potential opportunities?

The portfolio includes high-quality financial companies like Visa, Mastercard, Brookfield, and Intercontinental Exchange (ICE). Below is an update on how they are currently faring in the market.

- **Visa:** Is currently facing a Department Of Justice antitrust investigation due to its market power, but in our view this is seen as manageable, even if they're some of the contracts that they have to renegotiate. They compete really hard on acceptance, on things like fraud. We still think they'll be highly competitive in that market.
- **Brookfield:** An asset manager in the alternative space, performing well with strong growth and attractive valuation. We continue to see great value in that stock as they continue to attract record flows into their private assets.
- **Intercontinental Exchange (ICE):** Known for its futures exchanges and ownership of the New York Stock Exchange, benefiting from market volatility and opportunities in the US mortgage market. Despite recent headwinds from high interest rates, we believe it remains a strong performer with long-term potential.

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