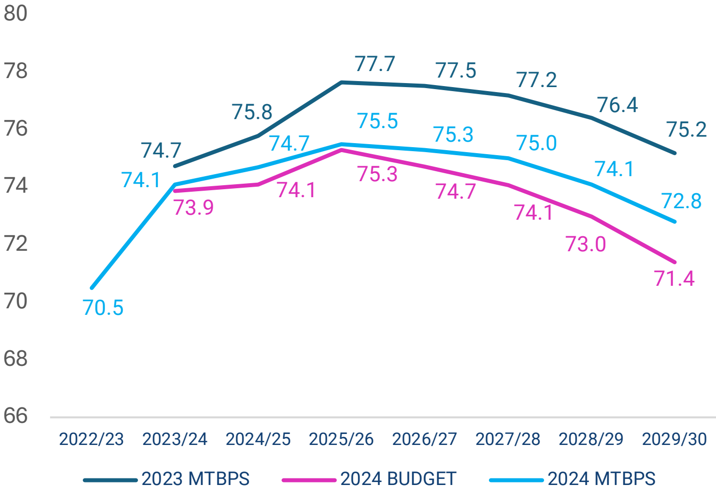
10X Global Connect – October 2024

Conservative budget estimates

South Africa Debt-to-GDP trajectory; MTBPS 2024



Source: 10X Investments National Treasury

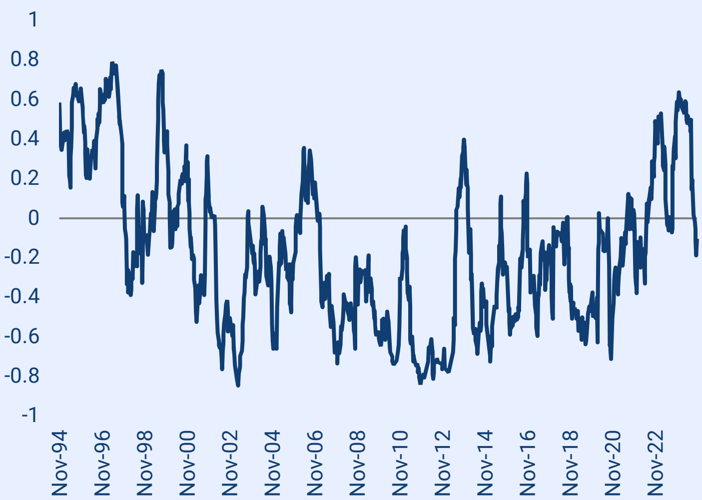
National Treasury's 2024 MTBPS emphasised unlocking economic growth through infrastructure investment, supported by structural reforms and improved state capacity.

However, the Treasury's budget projections tell a different story, with a cautious growth outlook of 1.1% in 2024 and 1.7% over the medium term, despite expectations of fiscal consolidation, stable inflation, and lower interest rates.

This conservative approach raises the projected debt-to-GDP ratio compared to February's budget, setting a lower bar for potential positive surprises in the years ahead.

Negative correlation is back

26-week correlation between US Equities and US Bonds



Source: 10X Investments Bloomberg

The sharp rate-hiking cycle driven by high inflation led to a positive stock-bond correlation in the U.S, meaning bonds failed to diversify stock exposure as both assets moved in the same direction.

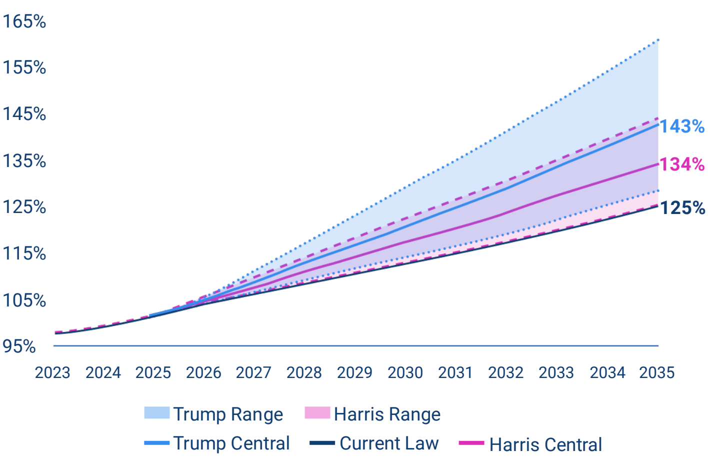
Now, for the first time since 2021, before the rate hikes began, we're seeing a return to a negative correlation between stocks and bonds.

This shift aligns with declining inflation and growing concerns about the strength of the U.S. labour market.

The renewed negative correlation boosts the appeal of bonds in a portfolio context, supplementing their attractive return outlook relative to equities (see below).

Large fiscal deficits set to increase US debt burden

Projected US debt-to-GDP 2025-2035



Source: 10X Investments CBO, CRFB

As both parties work to garner support in the lead-up to the U.S. election, policy proposals from Democrats and Republicans indicate that large fiscal deficits will persist regardless of the outcome.

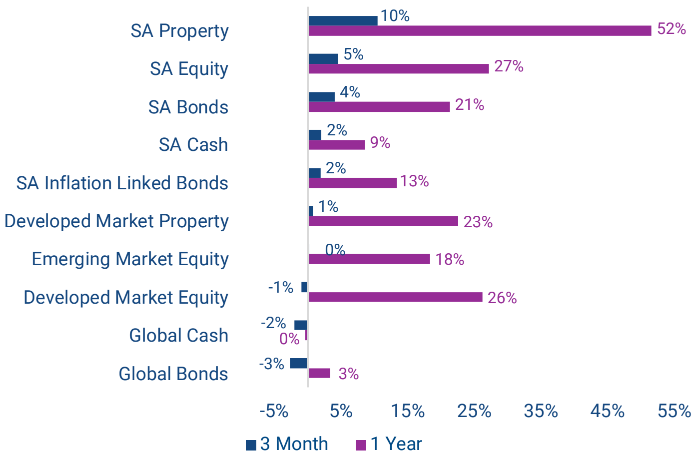
The Democrats aim to increase social spending, while Republicans propose tax cuts - both likely leading to an increase in government debt to fund the deficit.

A "Blue" or "Red" sweep, allowing full implementation of either party's policies, would significantly increase net debt beyond current CBO projections.

Questions remain as to how the market will respond to this substantial debt issuance—and whether it could prompt the return of the bond vigilantes.

Asset class returns to 31 October 2024

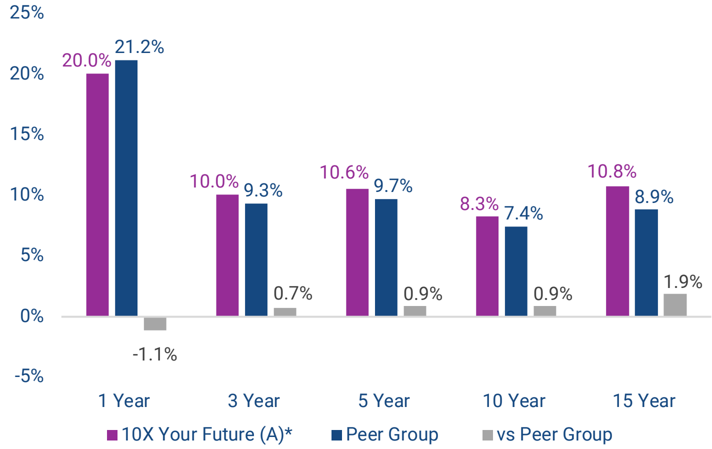
SA assets outperforming



Source: 10X Investments Bloomberg

Portfolio returns to 31 October 2024

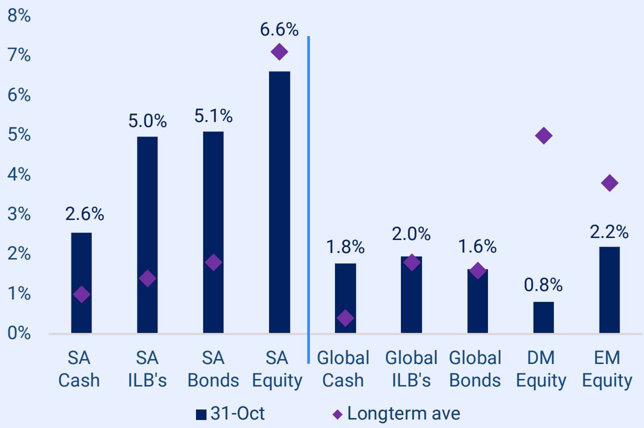
Strong long-term outperformance



Source: 10X Investments Morningstar; * returns prior to March 2019 are those of 10X Umbrella Pension Fund adjusted for Class A fee

5-10 year expected real returns

in local currency - 31 October 2024



Source: 10X Investments, Bloomberg

Real (after-inflation) return expectations

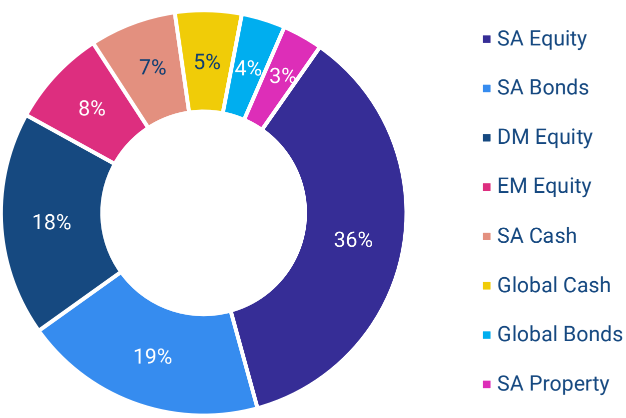
Resilient U.S. economic growth has driven global bond yields higher over the month, enhancing the long-term return outlook for bonds despite recent cuts in short-term rates.

Return expectations for global growth assets remain constrained on both an absolute and risk-adjusted basis, favouring a higher allocation toward global bonds and cash.

While expected returns from South African equities are in line with historical levels, South African bonds present a more attractive option on a risk-adjusted basis, continuing to offer equity-like returns.

10X Your Future Fund Asset Allocation

31 October 2024



Source: 10X Investment

Asset Allocation

Given the relative return outlook across asset classes, the portfolio remains defensively positioned, with 65% allocated to growth assets.

The portfolio is globally diversified, with 35% invested in offshore markets, and a reduced allocation to the more expensive and concentrated U.S. equities.

The portfolio also maintains a high allocation to South African bonds, driven by their attractive long-term return outlook.

Anton Eser
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