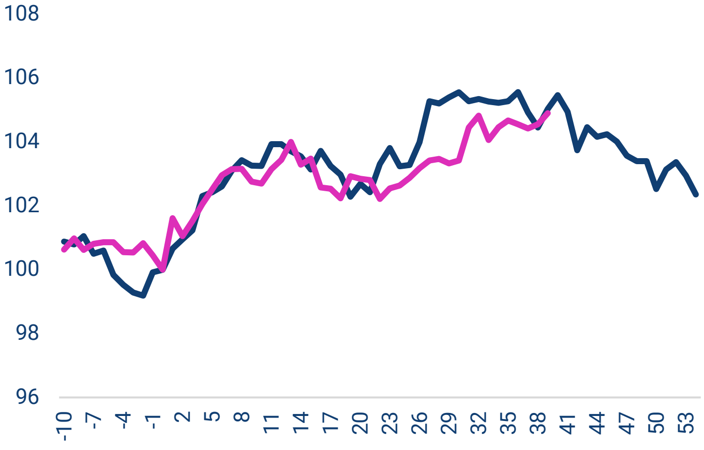
10X Global Connect – December 2024

The Trump Bump - Season 2

U.S. Dollar Index (Election Day = 100 : as of Dec 31 2024)



Source: 10X Investments, Bloomberg

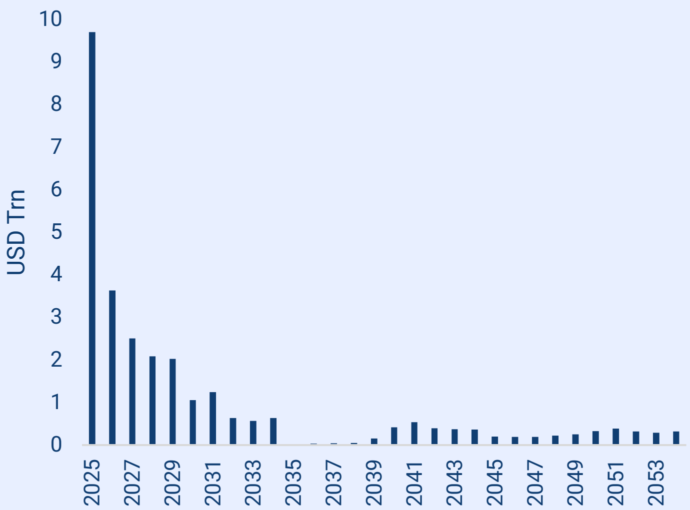
The dollar is responding to Trump 2.0 in a similar fashion to Trump 1.0, strengthening following the US election outcome.

During the early days of the first Trump Administration, the focus was on building consensus for tax cuts, tariff talk faded to the background and the dollar reverted to below its Election Day close by the Spring of 2017. Despite the incoming President's remarks that he believes the dollar is too strong, most of his policy proposals would likely strengthen the dollar over the short run, and there are fewer competing issues this time to interfere.

The strong dollar has amplified pressure on emerging markets like South Africa, with the Rand depreciating sharply.

US Government has to roll over $10trn in 2025

US Government maturity schedule as 31 December 2024



Source: 10X Investments, Bloomberg

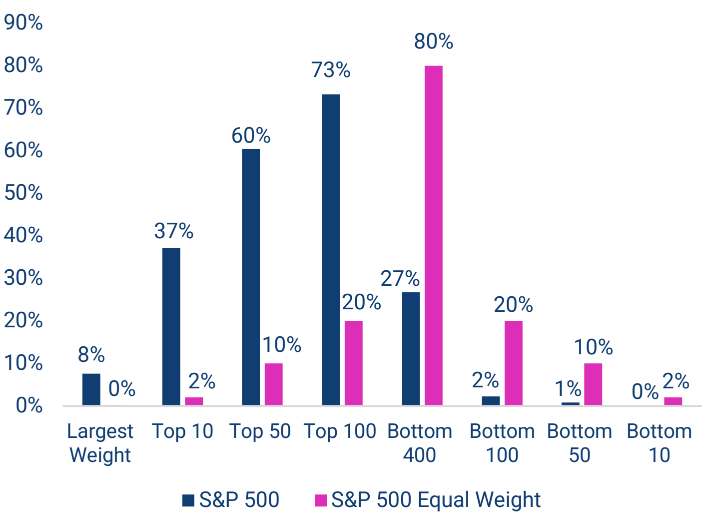
The U.S. Treasury faces the challenge of refinancing 46% of its debt in 2025 and 2026, including nearly $10 trillion in 2025. This elevated risk stems from increased T-bill issuance in 2023 and 2024, which reduced the supply of longer-duration bonds.

Concerns over U.S. fiscal sustainability have driven a 60-basis-point rise in the term premium on 10-year Treasuries, exceeding what changes in Fed expectations alone would justify.

A higher term premium, reduced use of the Fed's reverse repo (RRP) facility, and the Treasury's rollover of maturing debt into longer bonds—amid ongoing quantitative tightening—have created a liquidity vacuum, raising the risk of market volatility in 2025.

Diversification within US Equities?

Consituent exposure within S&P 500 Indices 31 Dec 2024



Source: 10X Investments, Bloomberg

Investors do not need to look beyond the U.S. to diversify away from expensive U.S. equity exposure.

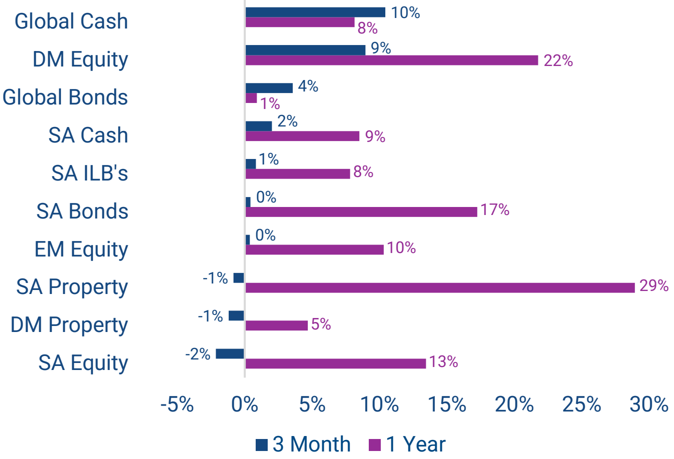
The ten largest companies in the S&P 500 Market Cap Weighted (MC) Index collectively hold a weighting nearly 20 times higher than their equivalent representation in the S&P 500 Equal Weight (EW) Index.

Over the past decade, the CAPE ratio for the EW Index has remained steady at 21x, while the CAPE ratio for the MC Index has surged from 21x to an elevated 37x.

This divergence has occurred despite the EW Index delivering stronger EPS growth, at 8% p.a. compared to 7% for the MC Index. Not all U.S. equities are overvalued or poised to deliver a lost decade.

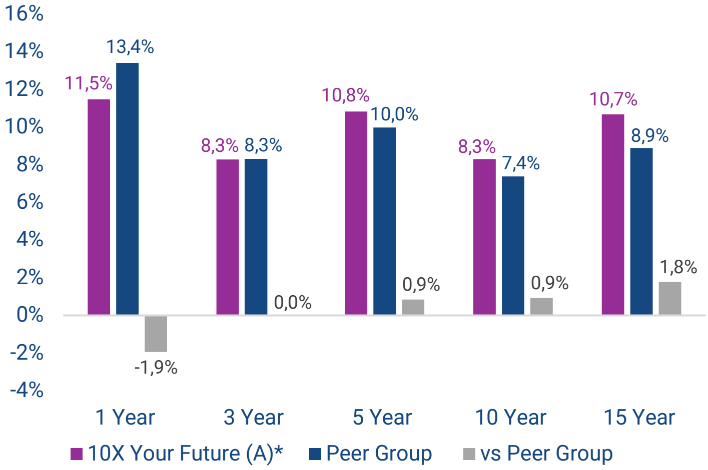
Asset class returns to 31 December 2024

Rand weakness in Q4



Source: 10X Investments Bloomberg

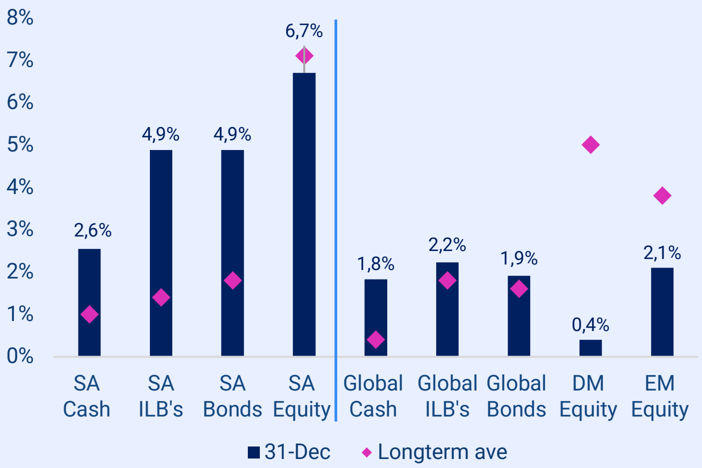
Portfolio returns to 31 December 2024



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 December 2024



Source: 10X Investments, Bloomberg

Real (after-inflation) return expectations

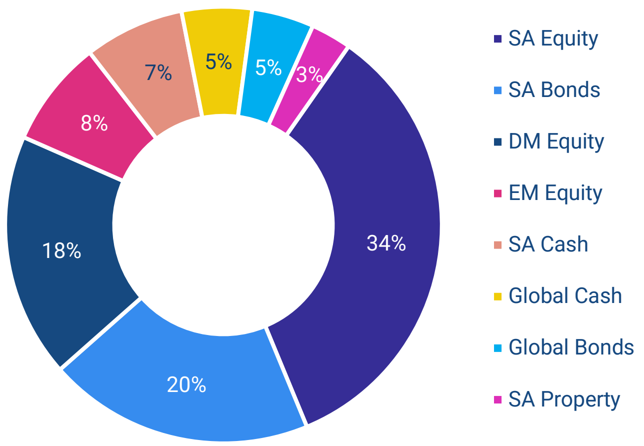
The U.S. yield curve has steepened post-election, driven by a hawkish Federal Reserve and resilient global growth. Higher yields improve prospective fixed income returns but increase the risks associated with elevated US equity valuations.

South African nominal bonds offer no risk premium over inflation-linked bonds, reflecting stable inflation expectations but limiting their appeal.

While South African equity returns align with historical averages, the compressed equity risk premium requires progress on structural reforms to lower the cost of capital in South Africa.

10X Your Future Fund Asset Allocation

31 December 2024



Source: 10X Investment

Asset Allocation

The portfolio remains conservatively positioned with a 64% allocation to growth assets and 36% invested offshore.

The largest overweight in the portfolio is in South African inflation-linked bonds which are yielding just under CPI+5%, which is very attractive on an absolute as well as a risk-adjusted basis.

US Equities, within Developed Market equities, remain the largest underweight given the challenging return outlook over the next 5 to 10 years.

Anton Eser
Chief Investment Officer

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Head of Multi Asset Funds

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