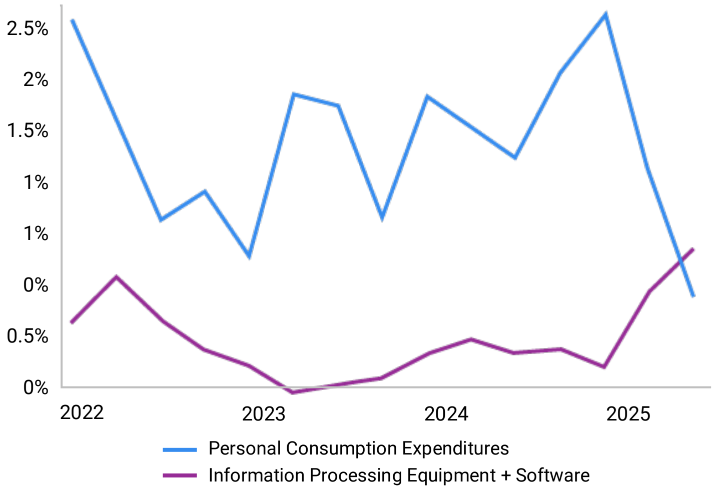
10X Global Connect – July 2025

AI spending is eating the US economy

Two-quarter average contribution to quarterly GDP growth



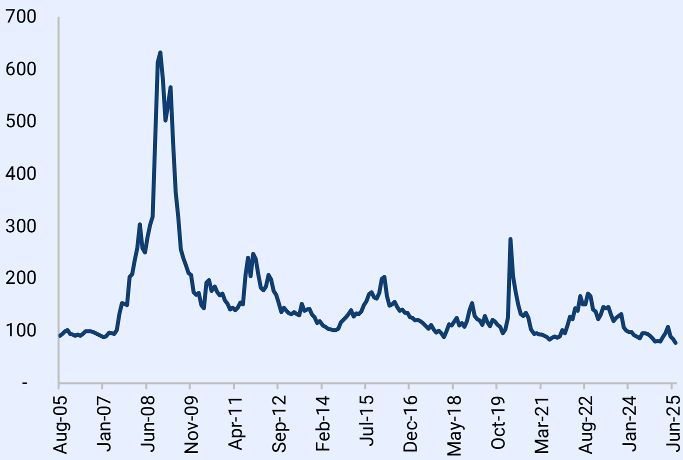
Source: Bloomberg, Renaissance Macro.

During the first half of 2025, corporate outlays on information processing equipment and software lifted real GDP by around 1%. Personal consumption, despite making up 70% of the economy, raised growth by only 0.6%. The consumer is still dominant in size, yet its momentum is clearly fading.

Technology investment tells the opposite story. The categories that capture data centres, servers, and enterprise software represent barely 6% of output, but they delivered the largest single contribution to growth. Firms are racing to build the digital infrastructure that underpins artificial intelligence, and those dollars now set the pace for the entire economic expansion.

Corporate Bond spreads at lowest since 2007

Bloomberg global IG spreads Aug 05 - July 25



Source: 10X Investments, Bloomberg.

Global investment grade credit spreads have narrowed to 77bps, the tightest level seen since the eve of the global financial crisis in 2007.

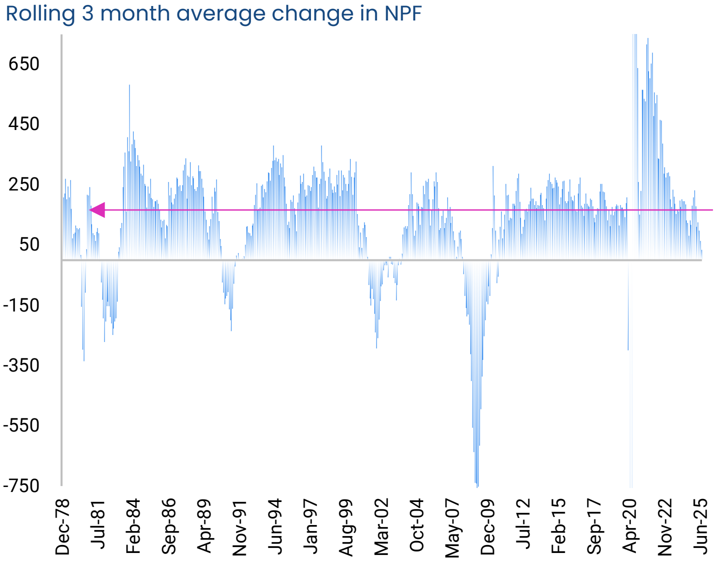
Investors now demand the smallest premium for corporate default risk in almost two decades, driving spreads well below their long run average and deep into the bottom decile of the historical range.

Markets are effectively pricing in flawless corporate fundamentals and abundant liquidity, leaving little cushion should growth disappoint, or volatility resurface.

With credit spreads this thin, most of the income in global fixed income now comes from government bonds rather than corporate debt.

Job market hiring is coming to a standstill

Rolling 3 month average change in NPF



Source: 10X Investments, Bloomberg.

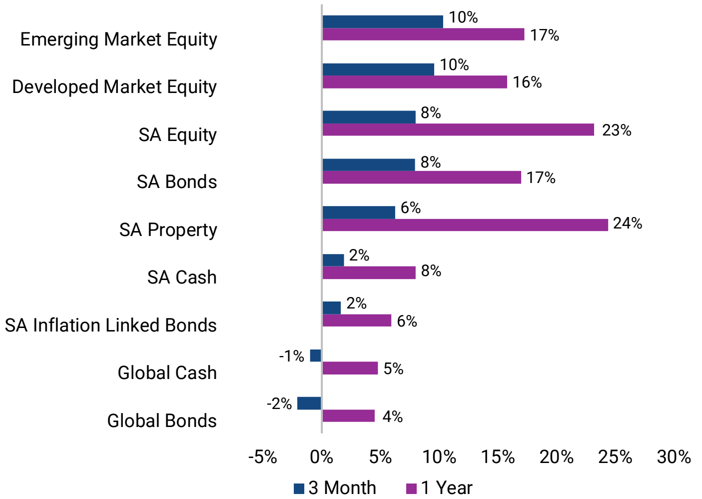
The 3-month moving average of nonfarm payroll growth has rolled over, signalling a pronounced slowdown in hiring across the United States.

Yet the unemployment rate sits at 4.2%, close to the cycle lows. The apparent contradiction is about supply, not demand. Immigration has softened and labour force participation has slipped, shrinking the pool of available workers, so even modest job creation is enough to keep the jobless rate tight.

The data therefore paint a split picture. Payroll momentum points to cooling labour demand, while the low unemployment rate still signals capacity constraints. Policymakers must reconcile these mixed signals when deciding how much slack truly remains and how much further policy restraint is warranted.

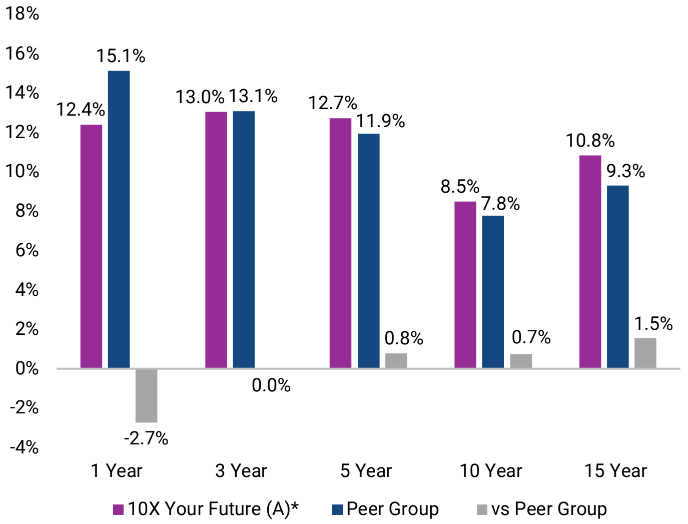
Asset class returns to 31 July 2025

Rebound in growth assets



Source: 10X Investments Bloomberg.

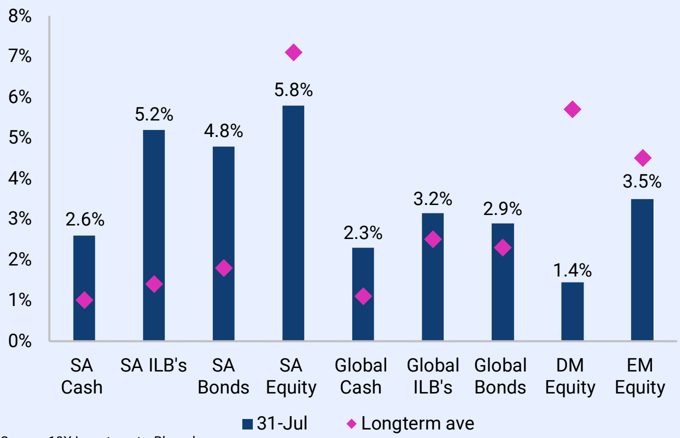
Portfolio returns to 31 July 2025



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 Rands - 31 July 2025



Source: 10X Investments, Bloomberg.

Real (after-inflation) return expectations

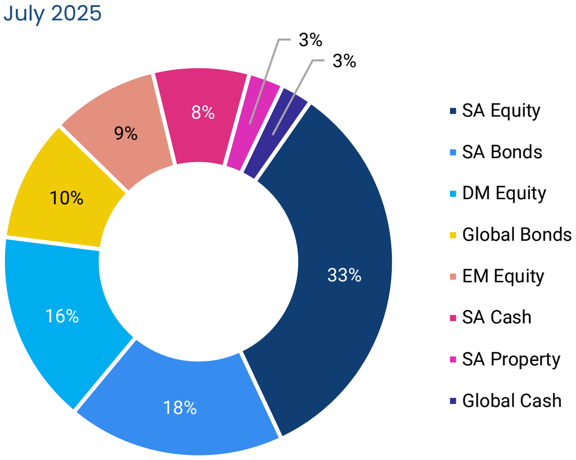
The equity market rally has seen valuations rebound from their April lows to end July at levels higher than at the start of 2025.

This has seen return expectations across growth asset markets compress, offering little or no premium to that of defensive assets likes bonds.

Both SA and Global government bonds have priced out inflation risk premiums leading to inflation-linked bonds increasing attractiveness both in absolute and risk-adjusted terms.

10X Your Future Fund Asset Allocation

31 July 2025



Source: 10X Investments.

Asset Allocation

The asset allocation remains optimised for delivering real returns over the medium term with a lower allocation to growth assets in favour defensive assets like bonds and cash.

Over the month, we increased our allocation to longer dated global inflation-linked bonds locking in the highest real yields in more than 2 decades.

We remain well diversified outside of South Africa with a higher allocation to global markets outside of the US.

Chris Eddy
Head of Investments

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