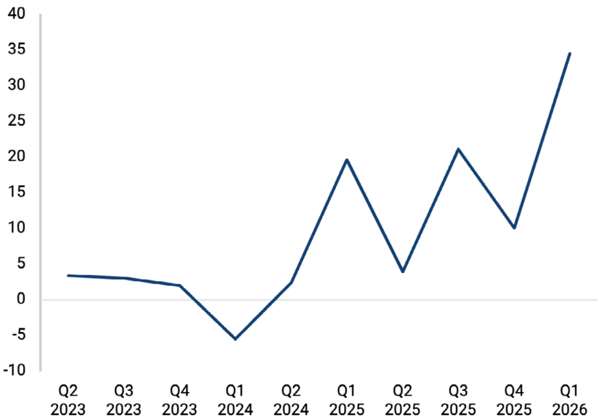
Framing the Future | May 2026

S&P 500 earnings growth is increasingly non-operating

Change in non-operating income for Mag-5 as a share of total S&P 500 net income growth.



Source: 10X Investments, Bloomberg, Pre-tax income less operating income for Microsoft, Meta, Nvidia, Amazon, Alphabet as a % of S&P 500 EPS growth Y-o-Y.

Headline S&P 500 earnings growth is being flattered by non-operating income at five names: Alphabet, Amazon, Nvidia, Meta, and Microsoft. They hold large stakes in private firms like Anthropic, SpaceX, and Waymo, and unrealised gains on those positions now run straight through reported net income. The chart shows the share of S&P 500 earnings growth coming from these moves has risen from near zero in 2023 to roughly 35% in Q1 2026.

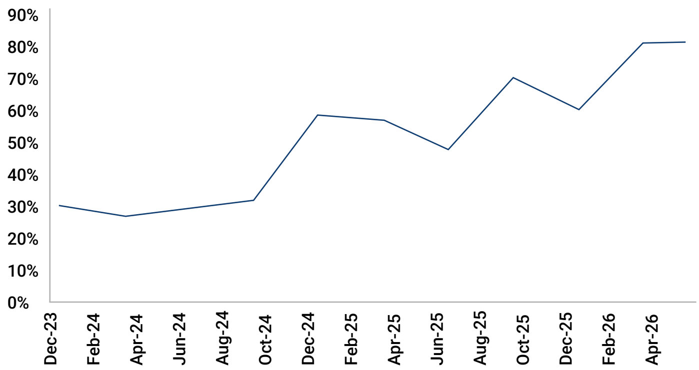
It matters at the index level. The S&P 500 reported +27.2% earnings growth in Q1 2026, but strip out this delta and it falls to around +17.5%. The same mechanism works in reverse: a drop in private market valuations would depress reported earnings with no change in underlying operations. What looks like broad-based momentum is, in part, mark-to-market gains on a few AI-adjacent balance sheets.

The rising correlation between gold and SA equities has been a powerful tailwind, and much of the local market's recent strength reflects it. But it cuts both ways. Given the concentration of precious metals miners in the index, the direction of gold now largely dictates the direction of SA equity.

Consider how fast it has moved: gold started 2025 near $2,600 an ounce and ran to around $5,500, before selling off to near $4,080, down more than 13% in the past month, even as some forecasts still point to $6,000. The round trip is already underway, which is the point. We are not predicting a direction, simply shining a light on the risk: SA valuations may remain relatively attractive versus the rest of the world, but that cheapness sits on a narrow, one-directional return engine, and the range of potential outcomes is wide.

SA equity correlation with gold

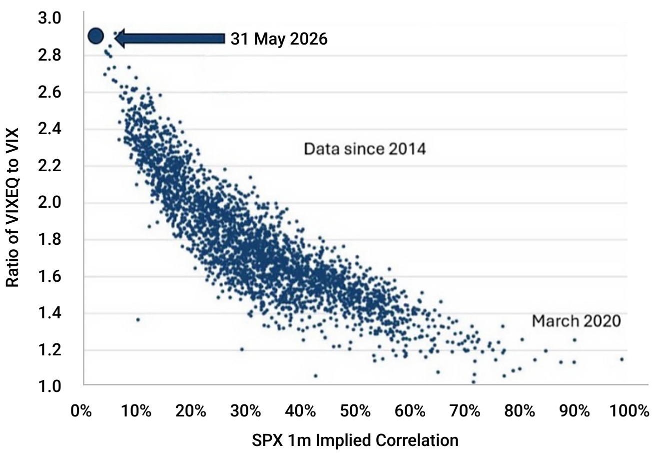
Rolling 12-month correlations, Jun 2024 - May 2026



Source: 10X Investments, Bloomberg.

The curious case of collapsing correlation

VIXEQ (single-stock implied vol) to VIX (index implied vol) ratio vs S&P 500 1-month implied correlation, daily since 2014.



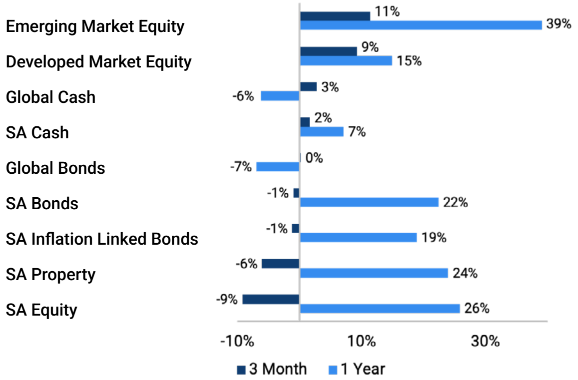
Source: 10X Investments, Bloomberg.

S&P 500 index volatility looks calm, but the calm is borrowed. The ratio of VIXEQ to VIX sits at an extreme high and S&P 500 1-month implied correlation at an extreme low, which tells us stocks are moving on their own stories rather than together. That low correlation is suppressing index vol, so the VIX is understating how much volatility is actually live at the single-stock level.

We treat this as a caution signal. Correlation mean-reverts, and it snaps higher in stress when names start selling off in unison (March 2020, bottom right). A quiet index here reflects dispersion doing the work, not an absence of risk, and it can reprice quickly.

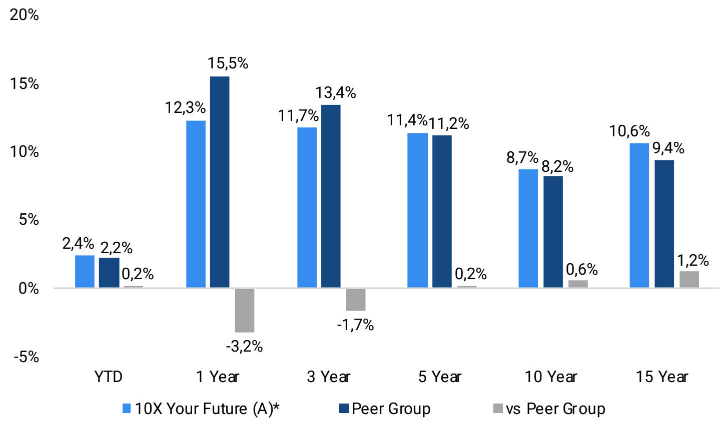
Asset class returns to 31 May 2026

SA assets under pressure



Source: 10X Investments, Bloomberg.

Portfolio returns to 31 May 2026



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

Real (after-inflation) return expectations

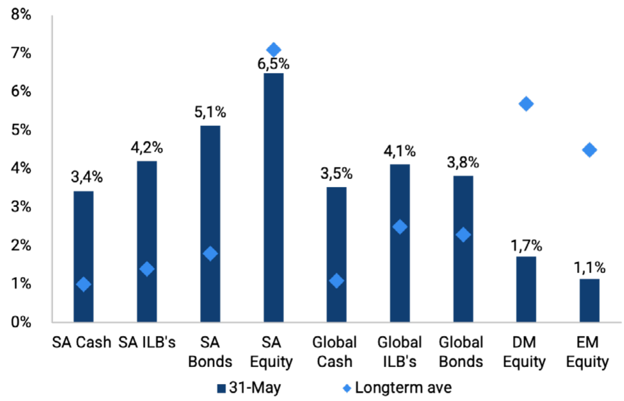
SA assets' attractive real return expectations remain underpinned by elevated real yields, but the potential return dispersion is wide, as they are increasingly driven by the direction of gold.

Globally, emerging markets have become the main beneficiary of the AI trade through South Korea and Taiwan. The strong price returns have compressed longer-term expected returns.

Broad market indices now show a negative risk premium versus defensive assets, which currently offer relatively attractive real returns.

5-10 year expected real returns

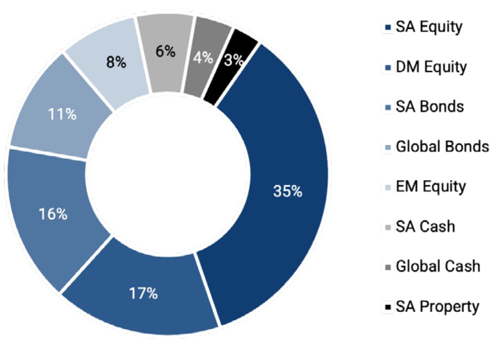
in Rands - 31 May 2026



Source: 10X Investments, Bloomberg.

10X Your Future Fund Asset Allocation

31 May 2026



Source: 10X Investments.

Asset allocation

The portfolio remains defensively positioned, with 63% allocated to growth assets, as global risk premiums continue to compress. We remain concerned that most broad asset classes are now being driven by either gold or the wider AI trade.

During the month we trimmed exposure to the broad emerging market index following its strong run and rising concentration risk. We continue to hold a meaningful allocation to global bonds and cash, where elevated real yields are attractive and compressed risk premiums elsewhere offer little compensation.

WRITTEN BY

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Head of Investments

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