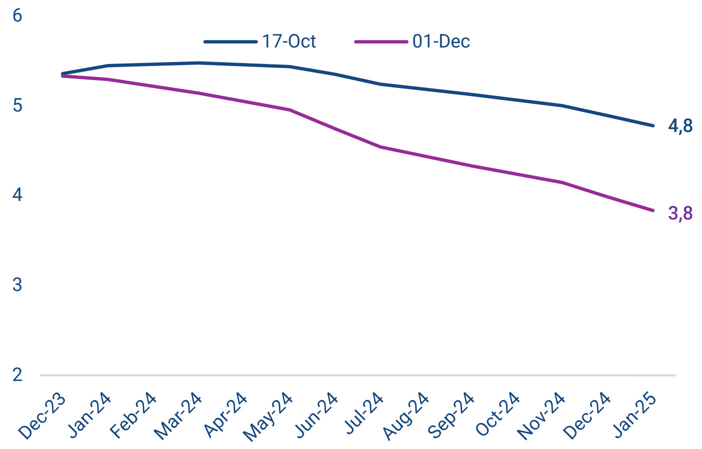
1.5% of rate cuts priced in
Implied fed funds rate at each Fed meeting



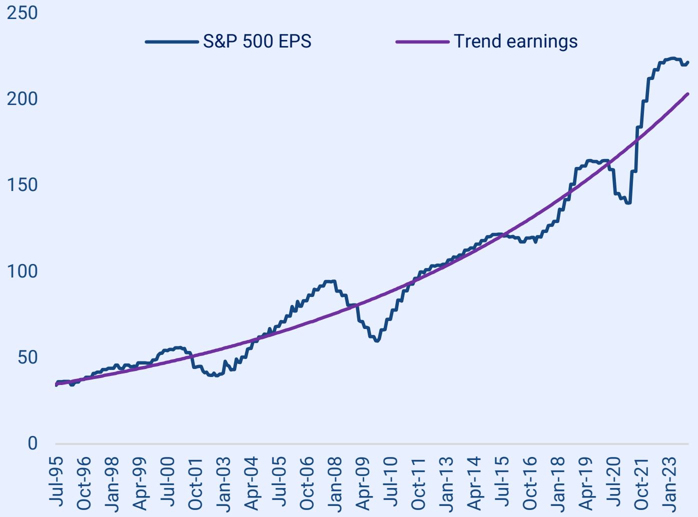
Source: 10X Investments Bloomberg

In November the mix of declining inflation and strong US GDP growth in Q3 fuelled optimism in markets, supporting the idea of a “soft-landing”.

This optimism was further bolstered by dovish talk from members of the Federal Reserve, leading markets to price in an additional 1% of interest rate cuts over the next year, with a total anticipated cut of 1.5% by January 2025.

The combination of these rate cut expectations, and resilient U.S. economic performance sparked a significant rally in both global equities (+10%) and global bonds (+6%) over the last month.

S&P 500 earnings elevated
S&P 500 EPS & trend Jul 95 - Nov 23



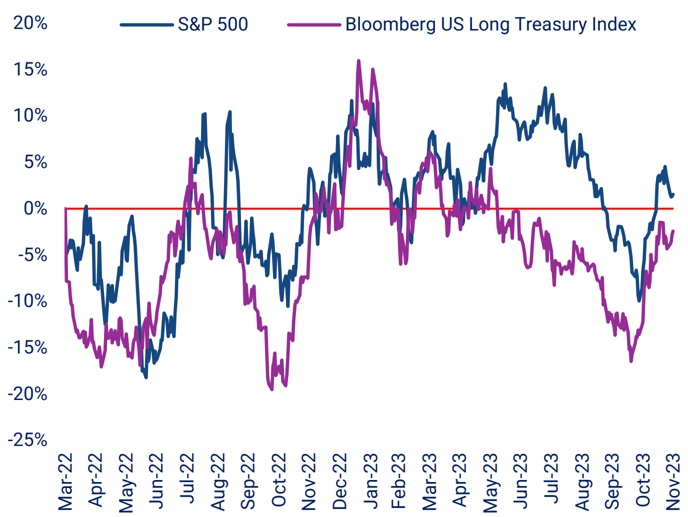
Source: 10X Investments Bloomberg

Zooming out, the current $221 Earnings Per Share for the S&P 500 is materially above the long-term trend of $203. Historically, earnings have always reverted to and often through the long-term trend.

Looking ahead, earnings forecasts for 2024 are pretty optimistic, with an expected growth of 11.5%. This is especially strong given where we are in the current interest rate cycle.

Equity markets are wearing rose-tinted glasses. Not only are current earnings materially above the long-term trend, but markets are discounting strong earnings growth next year. While this is possible, if earnings fall short of these expectations the range of outcomes from this starting point is skewed to the downside.

Positive stock-bond correlation
Rolling 3 month total return in USD Mar 22 - Nov 23



Source: 10X Investments Bloomberg

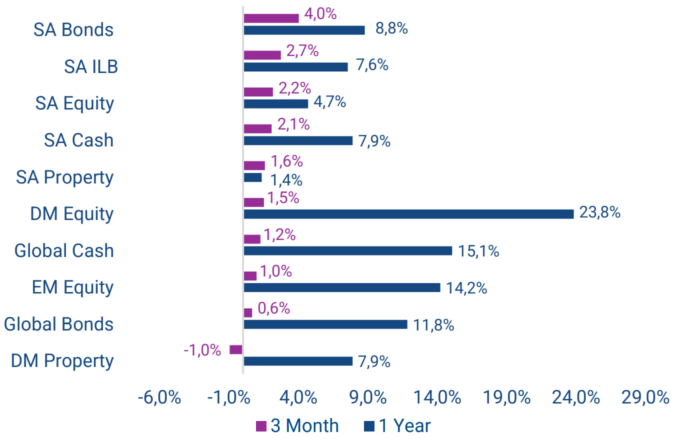
It’s all one trade - stock and bond returns have been moving together over the last 24 months. With higher rates leading to lower equity valuations and vice versa.

This positive stock-bond correlation has meant that it has been challenging to diversify portfolios over the last two years, leading to increased volatility on a month-to-month basis.

The bond market has adjusted to higher yields, whilst the equity market hasn’t. If earnings expectations remain robust, one can expect this positive correlation to continue.

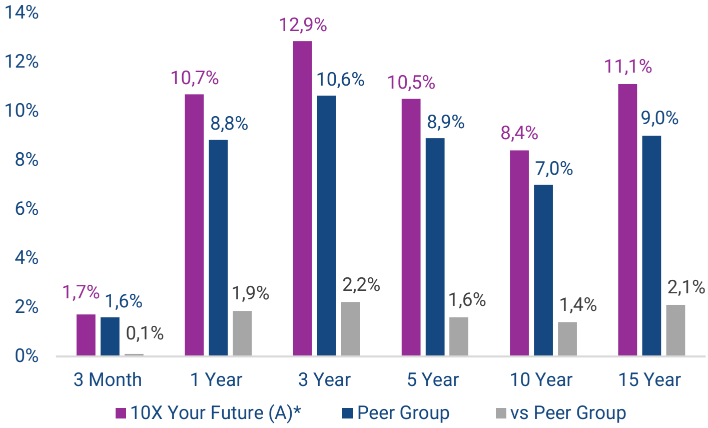
But, should earnings disappoint over the coming months, bonds should start playing their more traditional role in portfolios, diversifying soft equity market returns.

Asset class returns to 30 November 2023
Local over 3m, Global over 12m



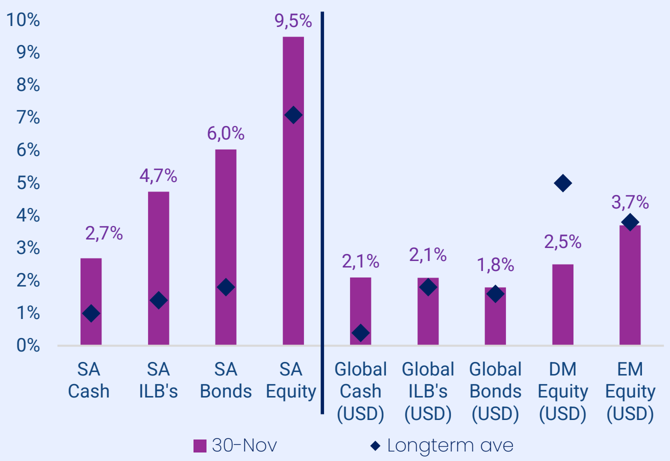
Source: 10X Investments Bloomberg

Portfolio returns to 30 November 2023
Consistent performance



Source: 10X Investments Morningstar; CPI lagged by 1 month; * returns prior to March 2019 are those of 10X Umbrella Pension Fund adjusted for Class A fee

5-10 year expected asset class return
30 November 2023



Source: 10X Investments, Bloomberg

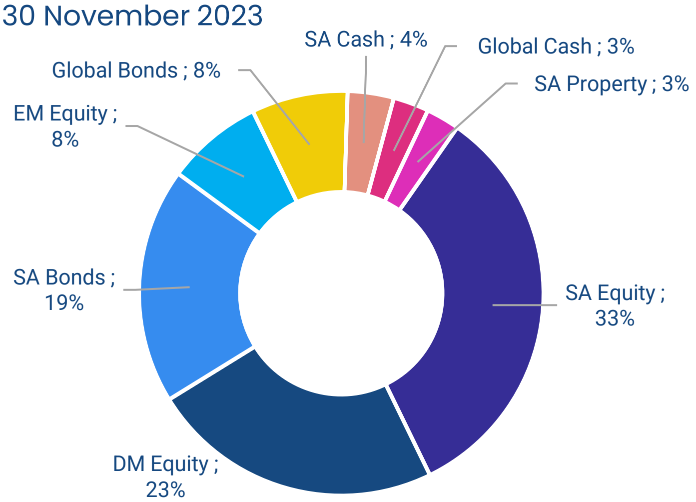
Real (after-inflation) return expectations

The strong rally in both equity and bond markets has softened long-term return expectations for all asset classes compared to last month.

High real yields on offer from fixed income asset classes mean that you can build a portfolio targeting attractive real returns with lower risk, and a lower allocation to growth assets. SA bonds continue to offer appealing equity-like real returns.

Expensive US equity valuations are driving low expected returns to global equities. The poor risk-return trade-off for global equities can be seen through the lens of returns on offer from global bonds.

10X Your Future Fund Asset Allocation
30 November 2023



Source: 10X Investment

Asset Allocation

Despite being more conservatively positioned with 67% allocation to growth assets, the fund delivered outperformance vs peers, due to the large allocation to both local, and global bonds.

This exposure has increased over the last 3 months as we have deployed cash into higher bond yields both locally and globally.

To address the dual risks of expensive valuations and concentration within global equities (read S&P 500), we have exposure to more defensive indices with quality, consistent, dividend paying companies and greater diversification.

Anton Eser
Chief Investment Officer

Chris Eddy
Head of Multi Asset Funds

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