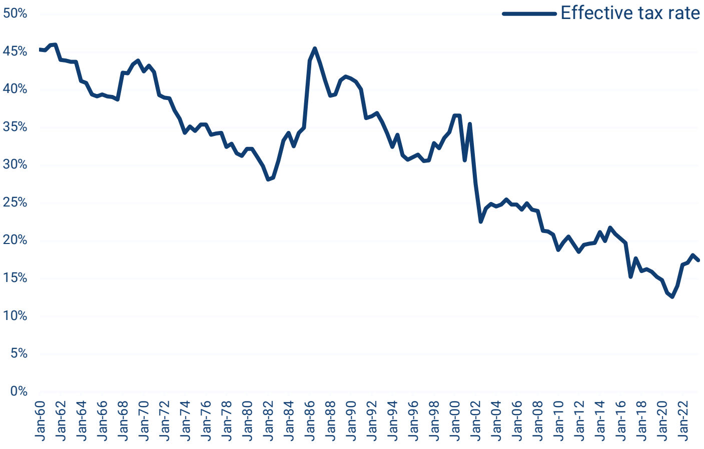
The 10X Global Connect – January 2024

Falling tax rates have been a tailwind for US profits

US non-financial corporates effective tax rates 1960 - 2023



Source: 10X Investments, St Louis Fed

Effective corporate tax rates in America have continually declined over the past 36 years.

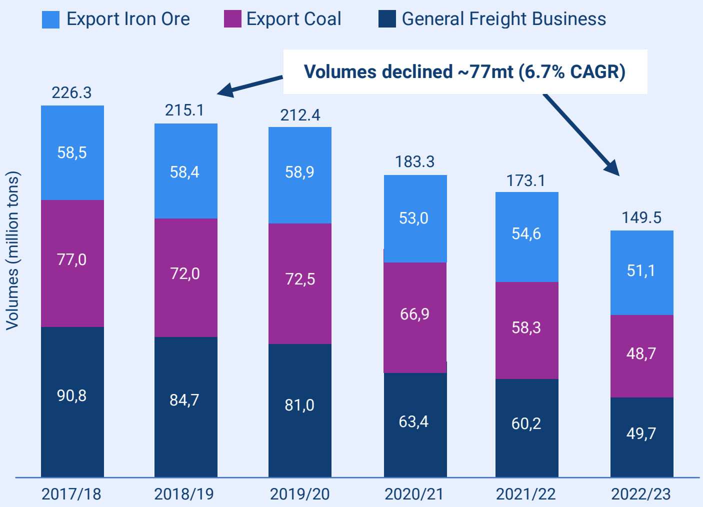
The drop from the highs of 45% in 1987 to 17% in 2023 has contributed +20% of the real EPS growth for US Equities during this period.

The most recent decrease occurred as part of the Trump tax cuts in 2017, which reduced the top corporate tax rate from 35% to 21%, leading, in most cases, to lower effective tax rates for many businesses.

Whilst this tailwind for US earnings may not become a headwind, despite record US fiscal deficits, the room for further reductions from this point is limited.

Decline in Transnet rail volumes

Rail volumes 2017/18 -2022/23



Source: Transnet Recovery Plan

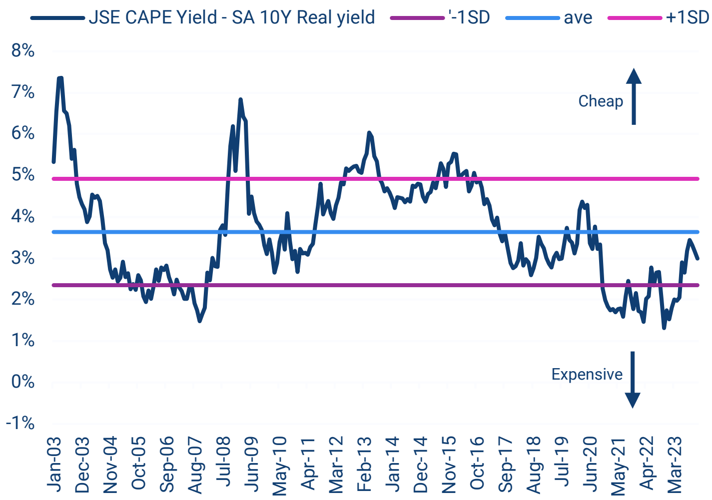
Transnet has experienced significant underperformance in its rail and ports operations, characterised by declining volumes.

It is estimated that the wider logistics crisis has cost the South African economy between 5-6% in 2022 and 2023. Further, the MTBPS, highlights that operational failures affecting coal and iron ore exports could have contributed an additional 1.3% to the current account balance in 2022.

These operational failures have led to financial losses for Transnet, necessitating a R47 billion guarantee from the National Treasury, with further discussions on additional financial support continuing. These developments have significant implications for South Africa's debt-to-GDP trajectory.

Adjusted for high real yields, SA Equities are fair value

FTSE/JSE All Share CAPE Yield – SA 10Yr Real Yield



Source: 10X Investments, Bloomberg

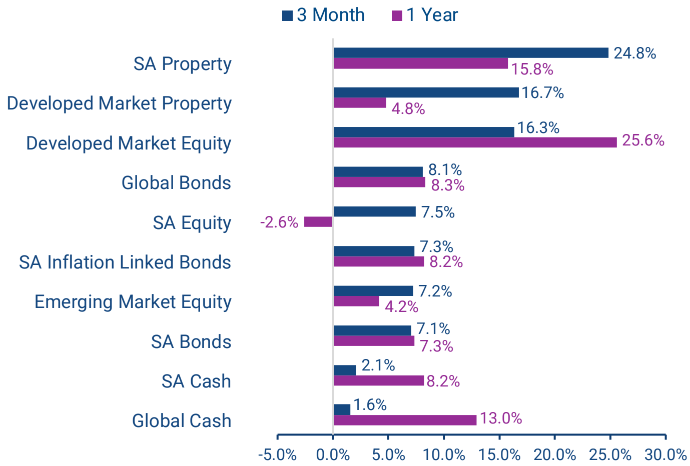
SA Equity valuations seem very cheap based on metrics like PE or CAPE ratios, reminiscent of market lows in the early 2000s, 2009, and 2020.

However, adjusting for South Africa's high real interest rates, SA equities align closer to fair value, diverging from the prior market lows.

Adjusting for interest rates is sensible as it reflects the discount rate applicable to earnings. Put another way, assuming no change in SA real yields, SA equities are fair value.

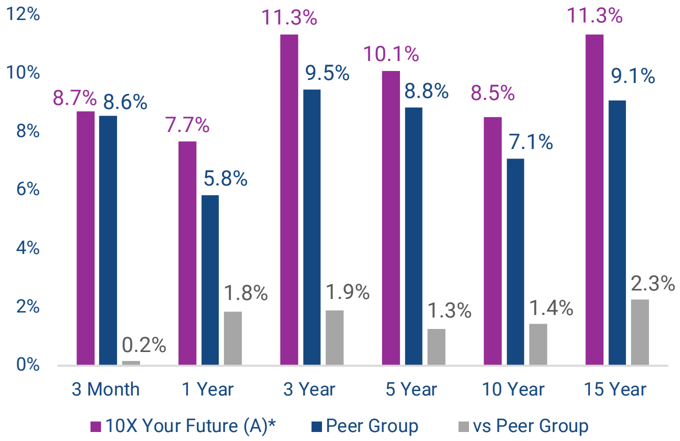
They would only be considered cheap if real yields were materially lower. Incorporating real yields into the analysis helps adjust for risks associated with value traps.

Asset class returns to 31 January 2024
Strong returns over 3 months



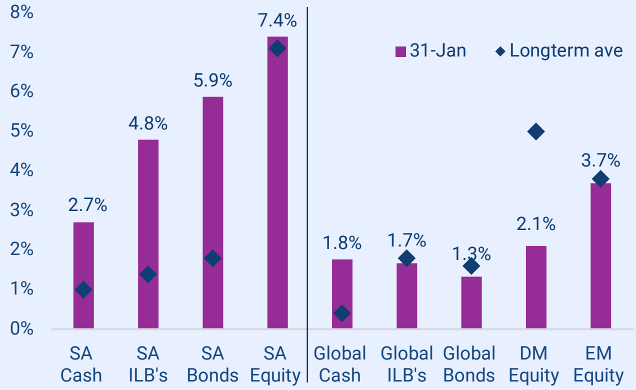
Source: 10X Investments Bloomberg

Portfolio returns to 31 January 2024
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
31 January 2024



Source: 10X Investments, Bloomberg

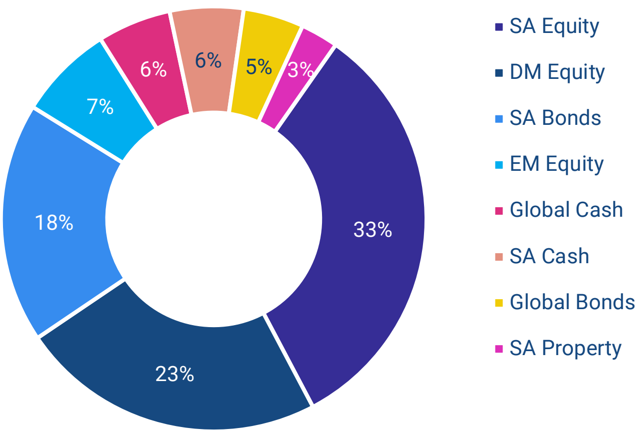
Real (after-inflation) return expectations

High real yields continue to drive attractive valuations in local asset classes with bonds and cash offering forward looking real returns materially higher than what they have over the long-term.

Adjusted for high real yields, SA equities are fair value, offering a materially lower return premium to SA Bonds that what has been realised in the past.

Global fixed income and emerging market equities are fair value whilst the long-term outlook for developed market equities is poor, driven by expensive valuations in the US.

10X Your Future Fund Asset Allocation
31 January 2024



Source: 10X Investment

Asset Allocation

The fund maintains a conservative risk positioning, with 66% exposure to growth assets, which is below the through-the-cycle target of 75%.

The lower allocation to growth assets is funded by an underweight developed market equity.

The portfolio is allocated more heavily towards South African bonds, given the prospective equity-like returns.

The remaining overweight positions are in local and global cash. Cash plays a greater role in portfolio diversification when the stock-bond correlation is positive. Cash is also currently yielding attractive real returns.

Anton Eser
Chief Investment Officer

Chris Eddy
Head of Multi Asset Funds

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