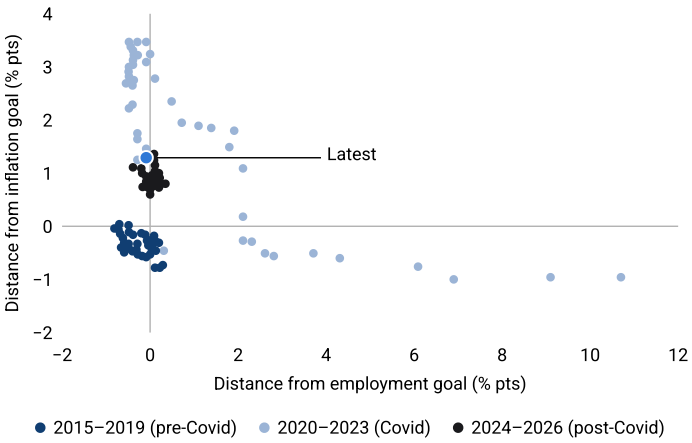
Fed's dual mandate miss

Distance from goal, 2015–2026 (% pts)



Source: 10X Investments, Bloomberg.

Employment is at the Fed's goal; inflation is not. The chart plots distance from the inflation goal against distance from the employment goal. Pre-Covid sits bottom-left: unemployment through full employment, inflation below target.

The Covid years arc from an 11-point employment gap round to inflation three points high. The post-Covid cluster sits close to the employment goal but roughly a point above target on inflation, and that is where convergence stalled.

With employment at goal, the inflation miss is the only live one, which makes it hard to argue policy is restrictive enough.

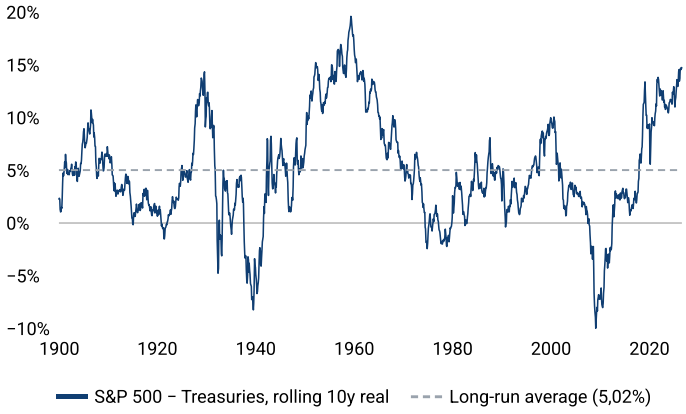
The equity risk premium realised over the past decade is near 15% a year, roughly three times its long-run average and top decile in 120 years. A favourable starting point, not a run rate.

Two things produced it, at different stages. Bonds spent most of the last cycle at negative real yields and have since repriced, with real yields now the highest in about 25 years. That explains much of why the spread looks this wide. One leg has repriced and one has not.

The spread has reached this level three times before: the late 1920s, the early 1960s and 2000. Equities carried the adjustment on each occasion, though it took years to come and markets ran further first.

Realised equity risk premium at a century high

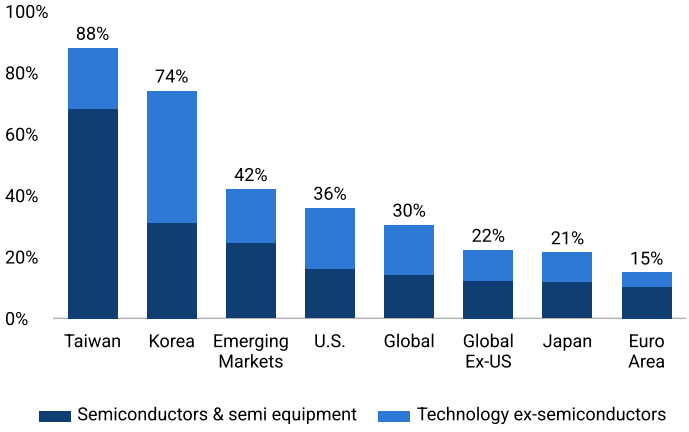
Rolling 10-year real total returns: S&P 500 - Treasuries



Source: 10X Investments, Bloomberg.

EM and the US are especially tech heavy

Technology market capitalisation (% of broad market)



Source: 10X Investments, Bloomberg, MSCI.

Emerging markets are now a more concentrated technology bet than developed markets. Technology is near 88% of market capitalisation in Taiwan and 74% in Korea, around 42% for EM in aggregate against 36% for the US and 15% for the euro area.

Composition matters more than level. Semiconductors are roughly 60% of EM technology exposure against under half in the US. EM is levered to the manufacturing layer of the AI build-out, the US to the software and platform layer above it.

Adding EM alongside a US technology position is therefore less of a diversifier than the labels suggest. Both run off the same demand, and in EM the exposure sits in a small number of Taiwanese and Korean names.

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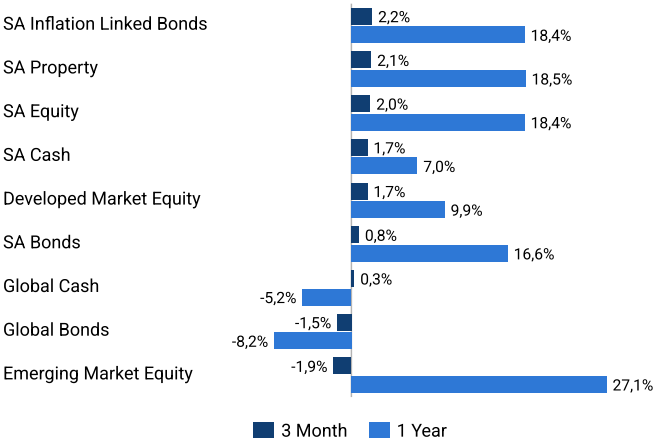
Asset class returns to 31 August 2026

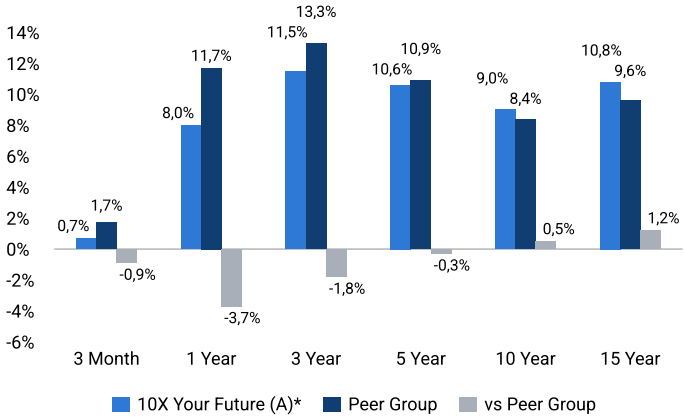
Soft asset class returns over three months (returns in ZAR)



Source: 10X Investments, Bloomberg.

Portfolio returns to 31 August 2026

10X Your Future Fund vs Peer Group (annualised %)



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

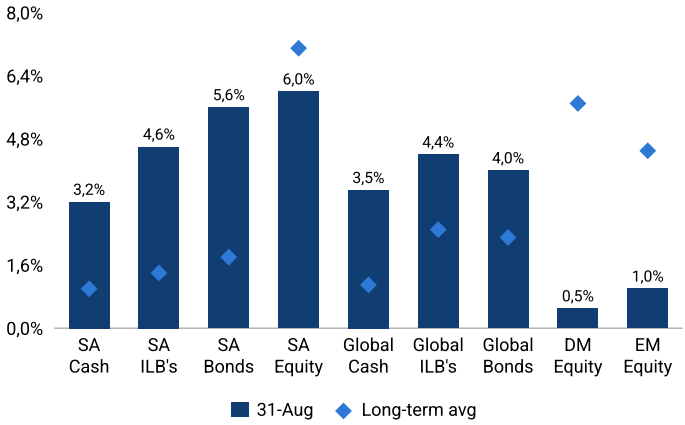
Real (after-inflation) return expectations

Higher bond yields over the month improve long-term return expectations across the fixed income universe, driven by higher market-implied breakeven inflation in South Africa and higher real yields globally.

The rally in equity markets, locally and globally, compressed forward-looking expected returns. Global earnings growth sits at levels that look unsustainable over any longer horizon, creating a headwind for long-term global equity returns. The gap between expected equity and bond returns has narrowed, leaving investors less compensated than history for taking risk at this point in the cycle.

5–10 year expected real returns

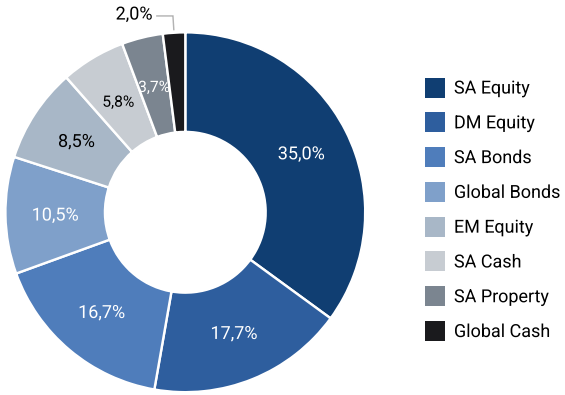
In Rands — 31 August 2026



Source: 10X Investments, Bloomberg.

10X Your Future Fund Asset Allocation

31 August 2026



Source: 10X Investments.

Asset allocation

We hold 65% in growth assets, a defensive position given compressed equity risk premia locally and globally. We reduced SA equity over the month as the market has rallied 10% since mid-July and forward returns from this level no longer justified the weight.

Higher global real yields have created short-term mark-to-market headwinds, but the entry point is now the best in 25 years. Global fixed income again offers long-term investors a credible source of real returns.

We continue to favour broader diversification in global equity, using the S&P Global Dividend Aristocrats and S&P 500 Equal Weight to reduce single-stock risk and hold companies with higher earnings visibility and cheaper valuations.

WRITTEN BY
Chris Eddy
Head of Investments

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Our Head Office

The Terraces, 14th Floor,
34 Bree Street
Cape Town, 8001

10X Intermediaries

+27 (0)21 412 1010
intermediaries@10x.co.za
www.intermediaries.10x.co.za

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