Milliman Market Monitor - September 2024

Milliman

Market Commentaries

Equities

● US equities rallied through most of September as the Federal Open Market Committee (FOMC) began its easing cycle, cutting rates by 50bp in its monetary policy meeting this month. Initial gains were pared back as investors digested the latest Federal Reserve Dot Plot which showed a more gradual easing cycle than the market was anticipating. The S&P 500 returned +2.1%

● European equities were more muted this month due to economic data showing sluggish growth, with the Euro Stoxx 50 returning +0.9%. U.K. equities were weaker this month, with the FTSE 100 returning -1.7%.

● Japanese equities had a poor month as narrowing interest rate spreads caused the yen to strengthen further following the Bank of Japan's (BoJ) decision to hike rates in July. Ultimately, the Nikkei closed the month lower, returning -1.9%.

● Aussie equities had a positive month, with the ASX 200 closing up 2.2%. The Reserve Bank of Australia (RBA) held rates steady in its latest meeting again. August CPI was lower, down to 2.7% YoY. The materials sector was by far the best-performing sector, up +11.0%, while healthcare was the worst performer, returning -3.8%. The strong return in the materials sector was driven by an iron ore spike, which in turn was driven by the large-scale stimulus the Chinese government announced toward the end of the month.

Fixed Income

● Unlike equities, U.S. fixed-income markets did not bounce back as much following the initial sell-off at the start of August. U.S. 10-year Treasury yields closed at 3.9034%, a 13 basis point drop.

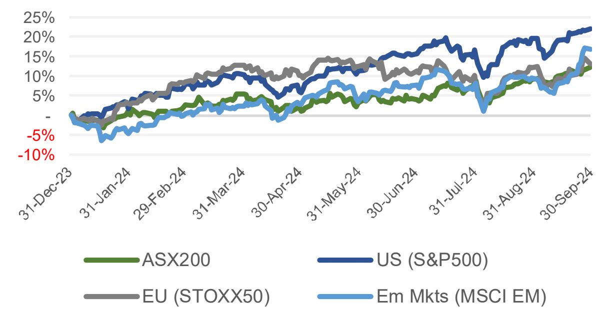
● Australian government bond yields were slightly higher this month, with the 10-year yield closing at 3.9722% (a 0.5 basis point rise). Overall, Australian bonds returned +0.3%, and global bonds returned +1.1%, as measured by their Bloomberg Aggregate Indices.

Currencies

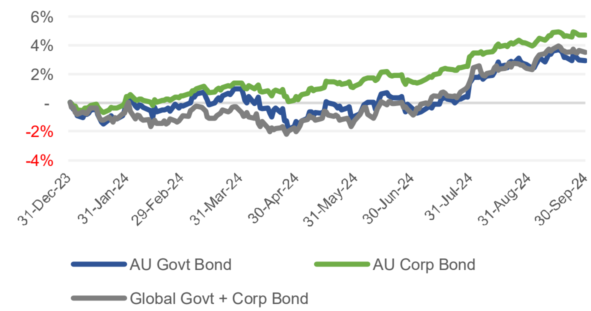
● The Aussie dollar strengthened further against the USD this month following the shift in rates and the iron ore spike. The AUD/USD rate returned +2.1%, closing at 69.13 U.S. cents.

● The Aussie Dollar was stronger against the other major currencies this month.

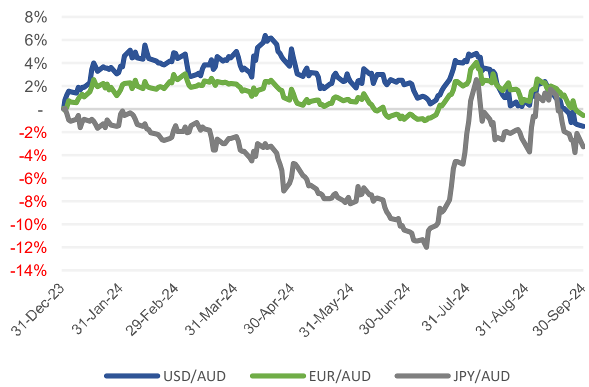
Equities: YTD Total Return[1] %



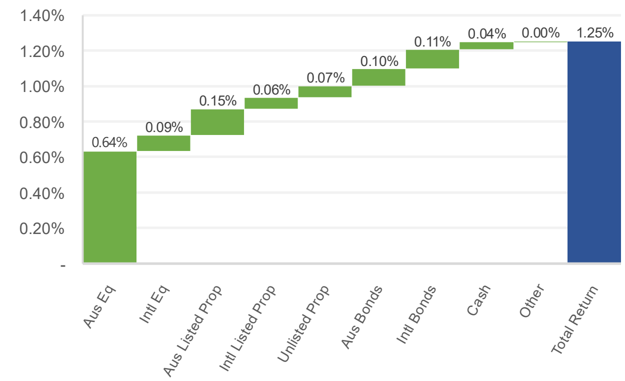
Fixed Income: YTD Return[2] %



Foreign Currencies: YTD Return %



Monthly Return Contribution by Asset Class: Morningstar Aus Multi-Sector Balanced Index



Returns ending 30 September 2024

	ASX200	US (S&P500)	EU (STOXX)	EM Mkts (MSCI)	AU Govt Bond	AU Corp Bond	Global Bond	USD/AUD	EUR/AUD	JPY/AUD
1 Month	3.0%	2.1%	0.9%	6.7%	0.3%	0.5%	1.1%	-2.1%	-1.4%	-0.4%
3 Month	7.8%	5.9%	2.4%	8.7%	3.0%	3.1%	4.0%	-3.5%	0.3%	8.1%
1 Year	21.8%	36.4%	22.7%	26.1%	7.0%	8.0%	9.1%	-6.9%	-2.0%	-3.3%
CYTD	12.3%	22.1%	13.1%	16.9%	2.9%	4.7%	3.5%	-1.5%	-0.6%	-3.3%

[1]Equities returns captures both the capital gains as well as any cash distributions, such as company dividends.
[2]AU Govt Bond uses the Bloomberg AusBond Govt 0+ Yr Index, which measures the return of Australian Treasury and Semi-government bonds maturing in 0+ years. AU Corp Bond uses the Bloomberg AusBond Credit 0+ Yr Index, which measures the return of Australian corporate/credit securities maturing in 0+ years. Global Govt + Corp Bond uses the Bloomberg Barclays Global Aggregate Index, which measures global investment grade debt from 24 countries, both developed and emerging markets issuers.

Milliman Market Monitor - September 2024

Upcoming Key Economic Events & Risk Commentaries

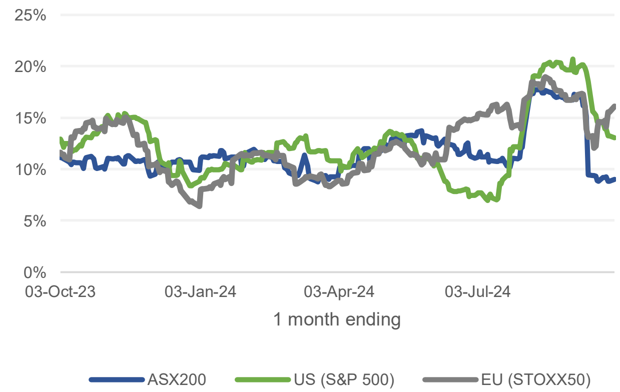
● Implied volatility, often viewed as the market's fear index, has increased for the ASX200, S&P 500, and Stoxx 50. While the ASX200 remains below the 75th percentile, the S&P 500 and Stoxx 50 remain above the 75th percentile over the past year. The implied likelihood of the S&P 500 falling more than 10% and 5% in October has increased from last month, currently sitting at 2% and 8%, respectively.

● The U.S. Fed started its easing monetary policy cycle with a 50 basis points cut in response to slowing job growth and weak economic activity indicators in recent months. While U.S. domestic inflation has been trending lower, the latest figure was still above the Fed's target of 2%. It is clear that the Fed's key focus is now to safeguard jobs and support maximum employment at a neutral growth rate. This helped global equities (S&P 500 reached a new record high) and pushed rates lower, but part of this rally was pared back as the dot plot showed most committee members are expecting more gradual movements in easing financial conditions. Because it takes time for the rate cut to make an impactful difference to the real economy, the potential risk is that U.S. job growth deteriorates sharply in the near term, leading to a material recalibration in the Fed's policy and market volatility.

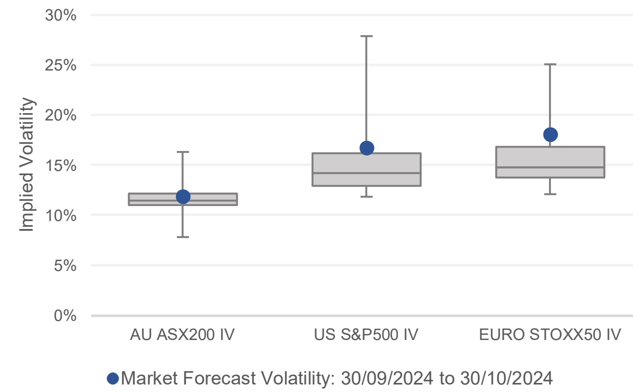
● Another market driver this month was the largest stimulus package by the Chinese central authority since the onset of COVID-19 in 2020. It introduced policies to lower borrowing costs, reduce deposits for buying properties, provide cheap funding for share investing, buy unsold apartments for social housing, and offer cash allowances as social welfare. The objective of these measures is to mitigate the negative wealth effect by supporting domestic equity and property markets, aimed at stimulating domestic consumption, which has been falling. Chinese and regional Asian equities rallied aggressively (the Shanghai Shenzhen Index gained 24% in one week). The downside risk to this over-optimism is if the induced domestic consumption only lasts temporarily and fails to change underlying consumer behavior.

● The RBA held its cash rate constant this month, with the minutes still emphasizing the focus on bringing domestic inflation back to the target band. The monthly headline CPI as of August 24 was 2.7% year-over-year, the lowest level in almost three years, while about half of a rate cut is priced into the market. Domestic job growth and consumption are currently supported by population growth, and if the federal government plans to cut down on immigration, the RBA would shift its focus to GDP per capita, which has been falling for three consecutive quarters.

Realised 1 Month Equity Volatility (%)

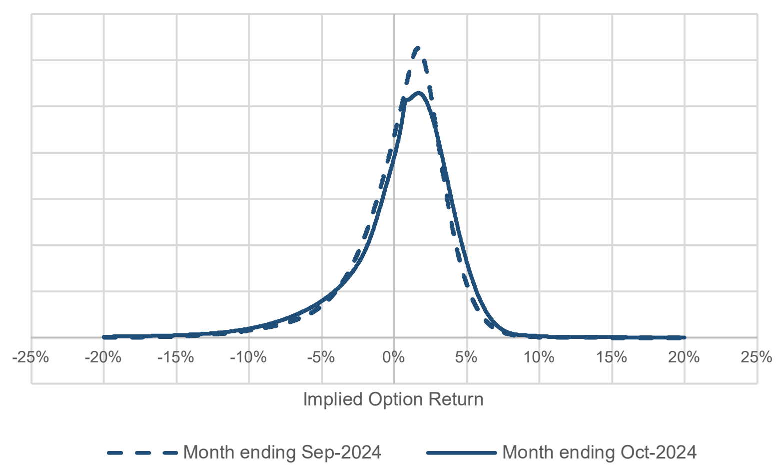


Implied Volatility[3,4] (IV)



The chart above shows the current market implied volatility for the next month, and compares it against the range of implied volatilities for the past 1 year.

1 Month S&P500 Implied Return Distribution[5]



Implied likelihood[5] of S&P 500:	Month ending Oct-2024	Month ending Sep-2024
Falling more than 10%	**~ 2%**	~ 2%
Falling more than 5%	**~ 8%**	~ 7%

[3]**Implied Volatility (VIX) r**epresents the expected volatility of the index over the next 30 days (starting from the effective date of this report), as derived from the market prices of index options traded on the exchange.
[4]**Box & Whisker Plot** is designed to give readers a quick sense of the range of implied volatility for the past year. The end of the whiskers indicate the maximum and minimum implied volatility for the past year. The box represents the interquartile range (from first to third quartile implied volatility values), and the middle line indicates the median implied volatility value for the past year.
[5]**Implied Return Distribution / Implied Likelihood r**epresents the forecasted return (and its likelihood) of the index over the next 30 days (starting from the effective date of this report), as implied from the market prices of index options traded on the exchange.

Milliman Market Monitor - September 2024

Observations on Sustainable Withdrawal Rates

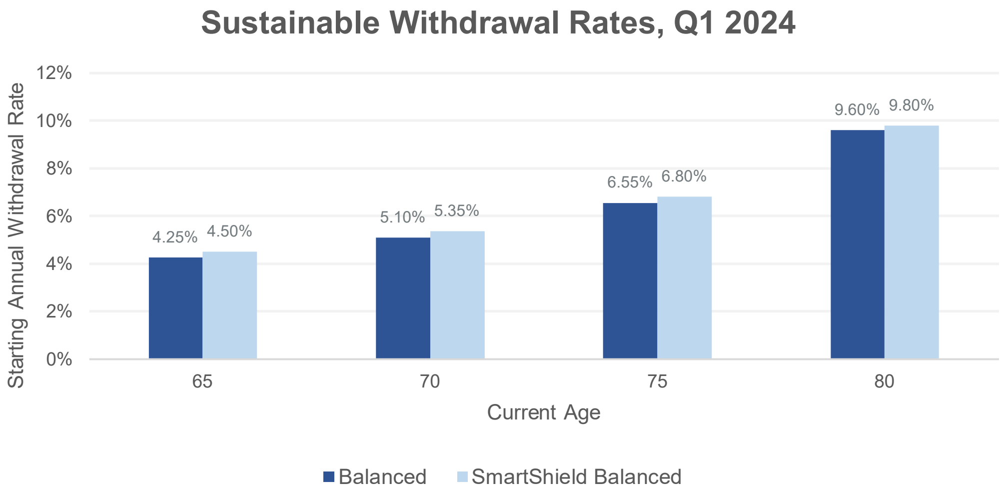
We observe that sustainable withdrawal rates at the end of Q2 2024, are higer compared to Q1 2024.

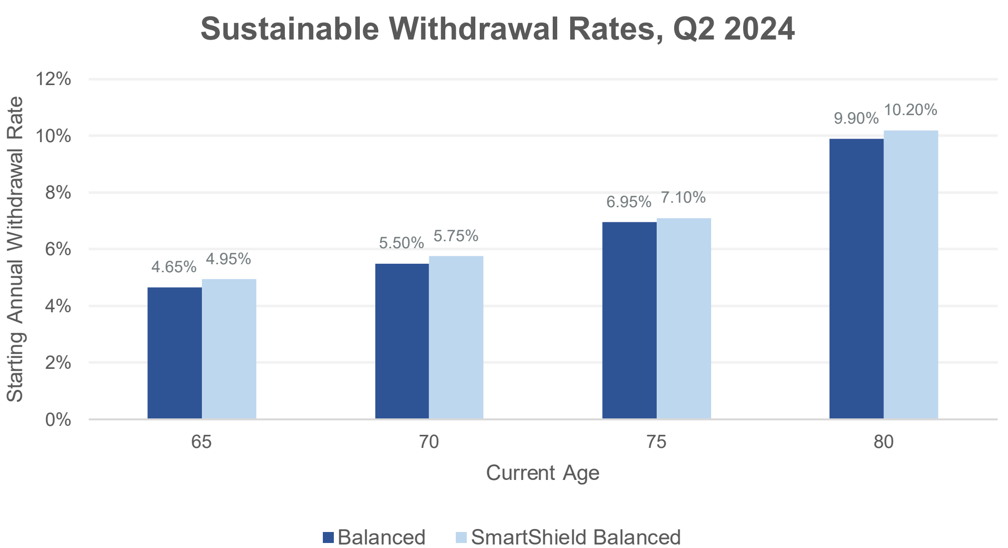
This is primarily driven by the change in interest rate levels over the period of 10 year government bond yields increasing by approximaterly 34bps, leading to higher simulated returns from all asset classes.

Using the SmartShield series of portfolios as an example, we have illustrated that additional sustainable withdrawal rates are achieved when we add a risk management strategy to the portfolios.

By controlling the level of volatility and reducing the impact of sustained market drawdowns, solutions such as the SmartShield portfolios which employ a risk management strategy, can reduce the exposure to sequencing risk and result in higher sustainable withdrawal rates for retirees.

In September, Milliman's SmartShield portfolios maintained an average hedge level of approximately 2% for Australian equities and 6% global equities.



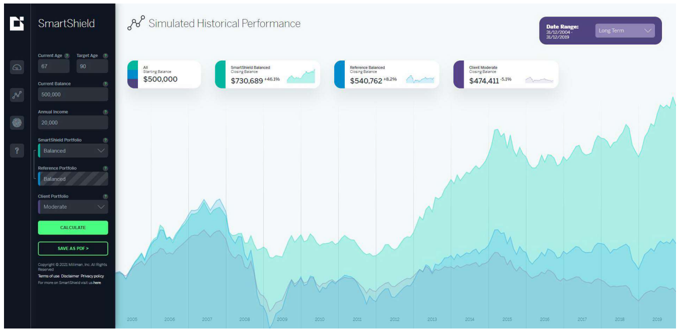


Sustainable Withdrawal Rate is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to be less than 5 years. Note the withdrawal rate is calculated with regards to future projections of 5,000 stochastic scenarios. Further information on the assumptions used to generate these scenarios can be found via our portfolio simulator, which is free to access at https://smartshield.millimandigital.com/.
For example, a 4% sustainable withdrawal rate for a 70 year old retiree with $500k balance means the retiree can withdraw $20k in the first year. And for each subsequent years, the amount the retiree can withdraw is $20k plus any increase due to projected inflation (CPI).

SMARTSHIELD™ SIMULATOR – FREE ACCESS FOR FINANCIAL ADVISERS

Built for financial advisers and complementary to Milliman's SmartShield portfolios, the Simulator strengthens your client conversation by:

- Calculating the likelihood of meeting retirement goals
- Illustrating the impact of experiencing a market crash scenario e.g. the GFC or Covid-19



Simple to sign-up and FREE to access CLICK THIS LINK: https://smartshield.millimandigital.com/Identity/Account/Register

If you would like more information on the content in this report, or more information about our

SmartShield Managed Account portfolios, please call us on +61 (0)2 8090 9100 | or visit **advice.milliman.com**

Favourable SQM RESEARCH

LIMITATIONS & DISCLAIMERS

Milliman Pty Ltd ABN 51 093 828 418 AFSL 340679 (Milliman AU) for provision to Australian financial services (AFS) licensees and their representatives, [and for other persons who are wholesale clients under section 761G of the Corporations Act]. Not for public use or distribution.

Past performance is not indicative of future results. Recipients must make their own independent decisions regarding any strategies or securities or financial instruments mentioned herein.

Milliman Pty Ltd does not make any representations that products or services described or referenced herein are suitable or appropriate for the recipient. Many of the products and services described or referenced herein involve significant risks, and the recipient should not make any decision or enter into any transaction unless the recipient has fully understood all such risks and has independently determined that such decisions or transactions are appropriate for the recipient.

Any discussion of risks contained herein with respect to any product or service should not be considered to be a disclosure of all risks or a complete discussion of the risks involved.

The recipient should not construe any of the material contained herein as investment, hedging, trading, legal, regulatory, tax, accounting or other advice. The recipient should not act on any information in this document without consulting its investment, hedging, trading, legal, regulatory, tax, accounting and other advisors.

Milliman Pty Ltd does not ensure a profit or guarantee against loss.