Milliman Market Monitor - October 2024

Market Commentaries

Equities

● US equities experienced a volatile October, with stocks moving lower throughout the month. Investors were concerned about persistent inflation figures as well as the upcoming US presidential election and its implications for future monetary and fiscal policy. The S&P 500 returned -0.9%.

● European equities fared poorly due to disappointing earnings from key European stocks and data showing signs of slowing economic momentum. The EuroStoxx 50 returned -3.3%. UK equities also weakened this month, with the FTSE 100 returning -1.5%.

● Japanese equities had a good month despite concerns that the strong yen could impact the importer-heavy market. The BoJ held rates steady this month but struck a hawkish tone. Ultimately, the Nikkei closed the month higher, returning +3.1%.

● Aussie equities had a poor month, with the ASX 200 closing down 1.3%, driven by falls in Materials, Consumer Staples, and Utilities stocks, which fell 5.2%, 7.0%, and 7.2%, respectively.

Fixed Income

● Fixed-income markets rallied significantly this month as US inflation data showed CPI eased less than expected. US 10-year Treasury yields closed at 4.2844%, a 50 basis point rally.

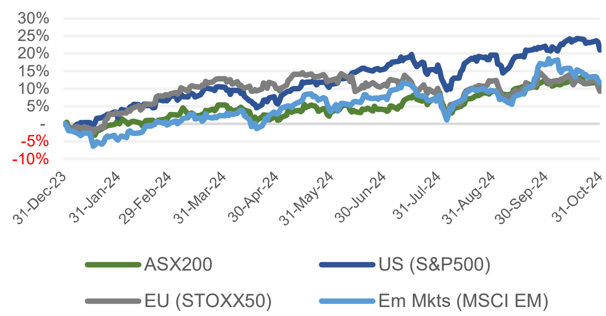
● Australian government bond yields were significantly higher this month in line with moves overseas, with the 10-year yield closing at 4.5039% (a 53bp rise). Inflation has been falling in line with the RBA's forecasts, but rates are not expected to be cut until at least February 2025. Overall, Australian Bonds returned -2.1%, and Global Bonds returned -1.5%, as measured by their Bloomberg Aggregate Indices.

Currencies

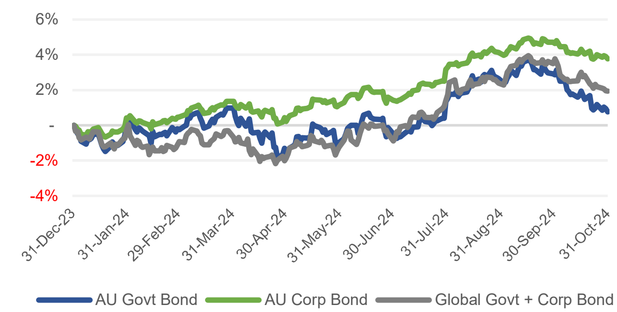
● The Aussie dollar fell this month against the USD following the rally in sovereign yields. The AUD/USD rate returned -5.0%, closing at 65.82 US cents.

● The Aussie dollar was also weaker against the Euro and British Pound this month but slightly stronger against the Yen.

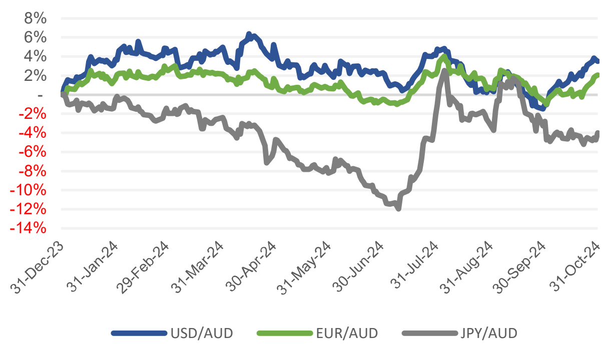
Equities: YTD Total Return[1] %



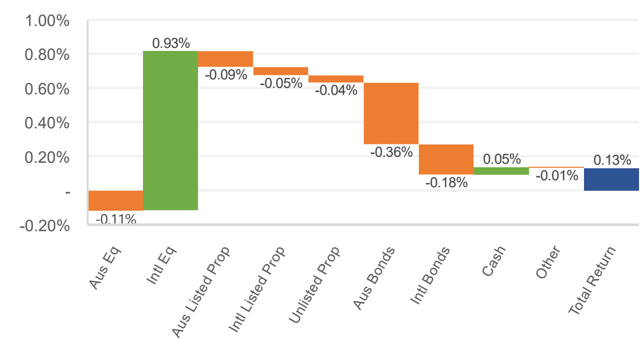
Fixed Income: YTD Return[2] %



Foreign Currencies: YTD Return %



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



Returns ending 31 October 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	-1.3%	-0.9%	-3.3%	-4.4%	-2.1%	-0.9%	-1.5%	5.0%	2.6%	-0.8%
3 Month	2.1%	3.7%	-0.7%	3.6%	-0.6%	0.6%	0.5%	-0.6%	-0.1%	-1.9%
1 Year	24.9%	38.0%	21.9%	25.3%	7.0%	7.9%	8.4%	-3.7%	-0.9%	-3.9%
CYTD	10.9%	21.0%	9.3%	11.7%	0.8%	3.8%	1.9%	3.5%	2.1%	-4.0%

[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.

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Upcoming Key Economic Events & Risk Commentaries

● Implied volatility, often viewed as the market's fear index, has increased significantly for the ASX200, S&P 500, and Stoxx 50, and remains above the 75th percentile over the past year. The implied likelihood of the S&P 500 falling more than 10% and 5% in November has increased from last month, currently sitting at 5% and 14%, respectively.

● Despite the US supply-side activity indicators still being contractionary this month, the recent job gains were much better than the previous quarter. The Oct 24 Average Hourly Earnings grew at a healthy rate of 4% year-over-year (yoy), helping consumer confidence to improve over the same period. As a result, the key FOMC members' rhetoric became more cautiously dovish, and dampened the chances of an aggressive loosening monetary cycle, leading US Treasury yields to push upwards. US Treasury 2-year and 10-year yields had risen 53bps and 50bps, respectively.

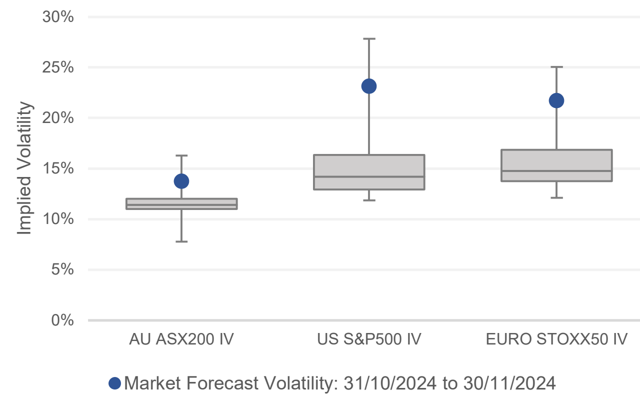
● Another material driver for the higher global bond yields was the US presidential election in November. Both the Democratic and Republican policies are likely to increase spending and push US public debt higher. In particular, the Republican party is close to having the majority in both the House of Representatives and Senate given the Trump victory to implement additional trade tariffs and lower corporate taxes, at the expense of the overall fiscal budget condition that requires further US federal borrowing. Traders anticipate these to have inflationary effects on the economy and might alter the Fed's projection in its monetary policy.

● The Australian 3Q headline CPI was 2.8% year-over-year (yoy) while the core inflation was 3.5% yoy. This suggested that domestic price growth is slowing down in line with, or slightly better than, the RBA's forecast. However, AUD job growth numbers have been very strong due to population growth and an improved participation rate, while the overall unemployment rate remained steady. This prompted a sustained level of overall domestic consumption (demand), while the same figure per capita has been falling over the past 12 months.

● The global equity markets stretched their valuations further to create a new record high for the S&P500 after Donald Trump won the US presidential election. This coincided with global interest rates climbing higher, marking it more difficult for the US federal office to service its debts. The US fiscal budget condition continues to deteriorate and is likely to add an extra burden putting US creditworthiness in question.

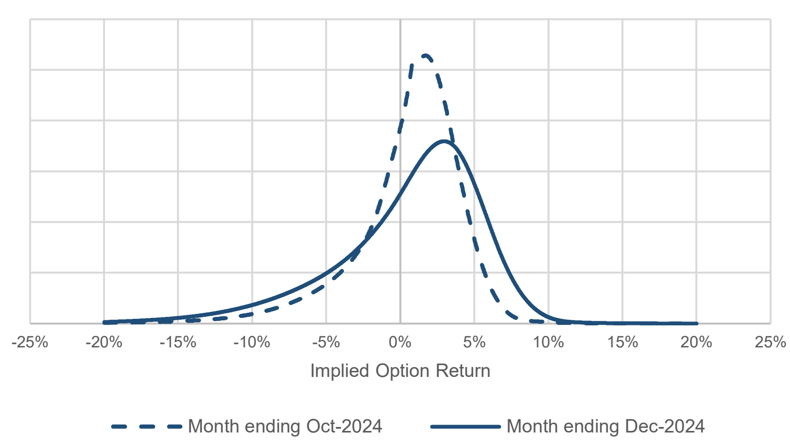
Realised 1 Month Equity Volatility (%)

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 Nov-2024	Month ending Oct-2024
Falling more than 10%	**~ 5%**	~ 2%
Falling more than 5%	**~ 14%**	~ 8%

[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.

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Observations on Sustainable Withdrawal Rates

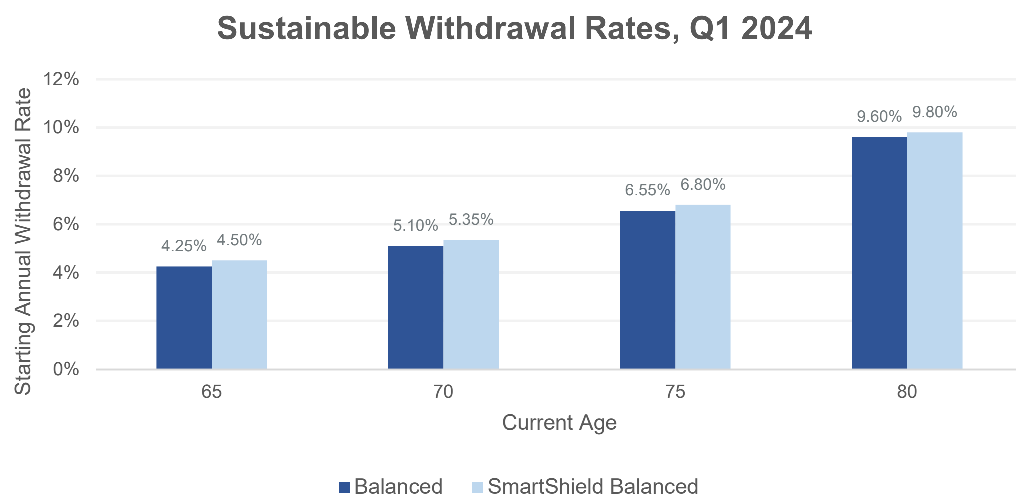
We observe that sustainable withdrawal rates at the end of Q2 2024, are higer compared to Q1 2024.

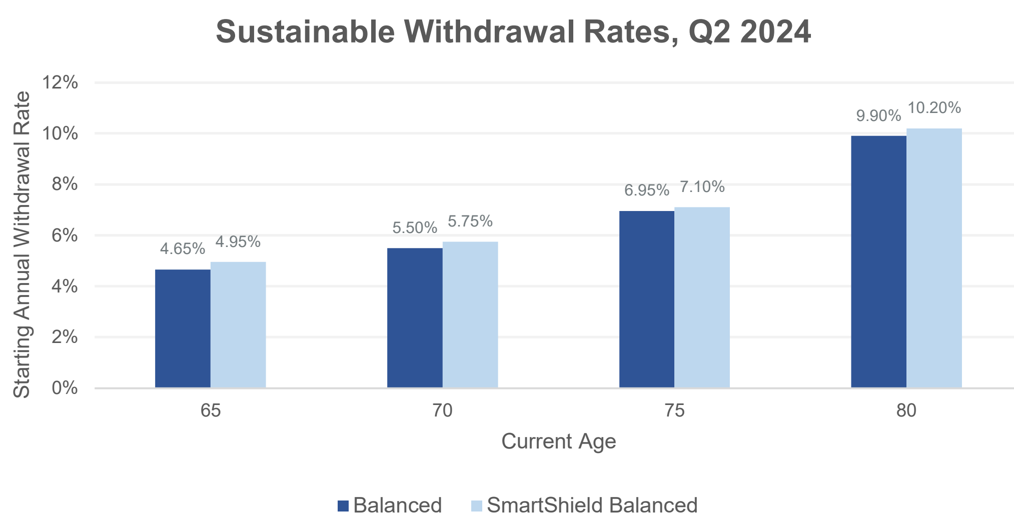
This is primarily driven by the change in interest rate levels over the period of 10 year government bond yields increasing by approximaterly 34bps, leading to higher simulated returns from all asset classes.

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 October, Milliman's SmartShield portfolios maintained an average hedge level of approximately 0.5% for Australian equities and 1% global equities.



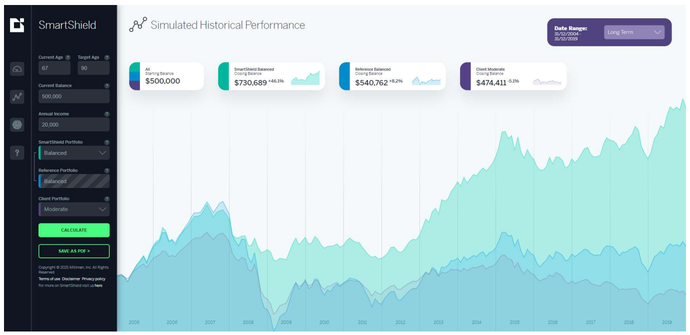


Sustainable Withdrawal Rate is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to be 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[TM] 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



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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**

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