Milliman Market Monitor - November 2024

Market Commentaries

Equities

● U.S. equities had a good month, with the markets reacting positively to the outcome of the U.S. presidential election. Additionally, positive macroeconomic data and corporate earnings helped the market rally. The S&P 500 returned 5.9%.

● European equities were down due to fears over future U.S. trade policy and earnings warnings for automotive and consumer goods stocks. Weaker consumer sentiment in both Europe and China drove these concerns. The EuroStoxx 50 returned -0.4%. UK equities performed better, with the FTSE 100 returning 2.2%.

● Japanese and other Asian equities were lower as well due to trade policy risk and a strengthening USD. Ultimately, the Nikkei closed the month lower, returning -2.2%

● Aussie equities rallied through November, with the ASX 200 closing up 3.8%, driven by gains in most sectors. The standout sectors this month were IT and utilities, returning 10.4% and 9.1%, respectively. The materials sector was the worst, returning -2.7% due to weak sentiment out of China.

Fixed Income

● Key central banks, such as the U.S. Fed, cut rates this month. Unlike equity markets, fixed income markets had a more muted reaction to the U.S. election. U.S. 10-year Treasury yields closed at 4.1685%, an 11.6 basis point drop.

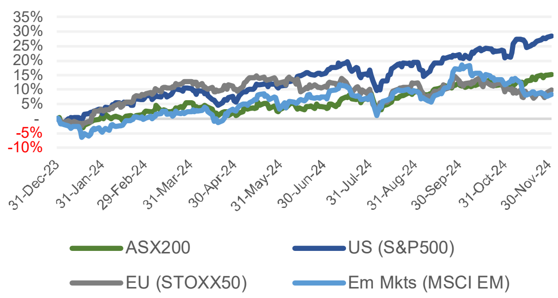
● Australian government bond yields fell in line with U.S. rates, with the 10-year Australian government bond yield falling to 4.3396%, a 16.4 basis point drop. Overall, Australian bonds returned 1.2%, and global bonds returned 1.2%, as measured by their Bloomberg Aggregate Indices.

Currencies

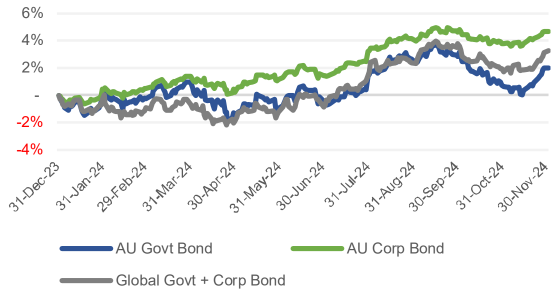
● The Aussie dollar fell this month against the USD following the U.S. election, which led to the USD strengthening against other currencies. The AUD/USD rate declined by 1.1%, closing at 65.12 U.S. cents.

● The Aussie dollar was stronger against the euro and British pound this month but fell against the yen.

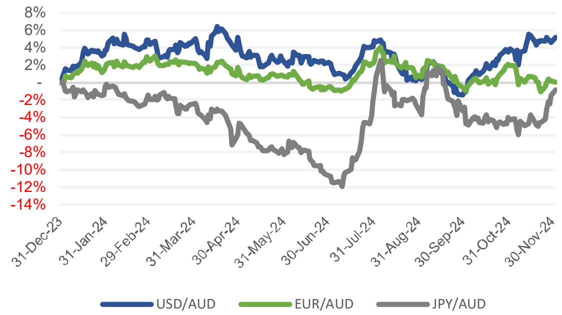
Equities: YTD Total Return[1] %



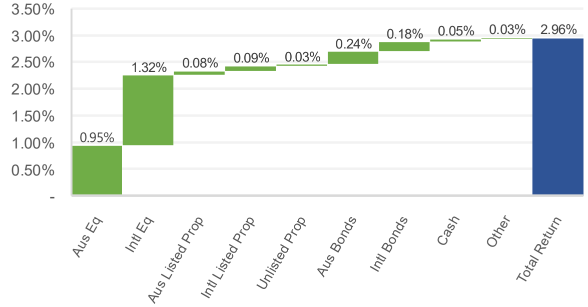
Fixed Income: YTD Return[2] %



Foreign Currencies: YTD Return %



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



Returns ending 30 November 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	3.8%	5.9%	-0.4%	-3.6%	1.2%	0.9%	1.2%	1.1%	-1.8%	2.6%
3 Month	5.5%	7.2%	-2.8%	-1.7%	-0.7%	0.5%	0.7%	3.9%	-0.6%	1.4%
1 Year	23.4%	33.9%	12.4%	11.9%	4.9%	6.9%	6.2%	1.4%	-1.5%	0.4%
CYTD	15.1%	28.1%	8.9%	7.7%	2.0%	4.7%	3.1%	4.6%	0.2%	-1.5%

[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 decreased for the ASX200, S&P 500, and Stoxx 50, yet the Stoxx 50 still remains above the 50th percentile over the past year. The implied likelihood of the S&P 500 falling more than 10% and 5% in December has decreased from last month, currently sitting at 1% and 5%, respectively.

● U.S. Treasury yields continued to climb after Donald Trump claimed victory in the U.S. Presidential Election this month, as his proposed trade tariffs and corporate tax cut agenda are likely to support domestic inflation. This also dampened the anticipated progression of future rate cuts by the Fed, leading to the Treasury interest rate curve flattening, with the spread between 2-year and 10-year yields less than 1 basis point apart. Historical back tests show that when the yield curve becomes inverted over a period, there is a greater chance of a recession in the medium term.

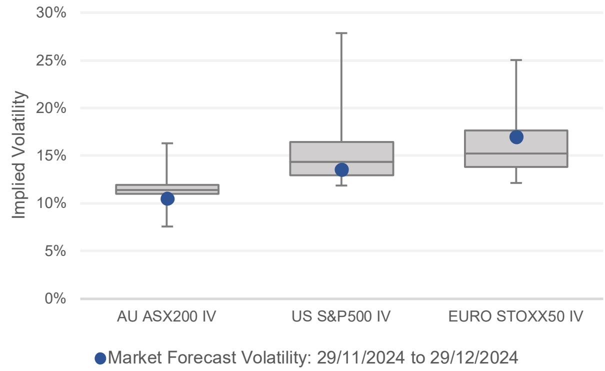
● During the last week of this month, global rates fell sharply (28 basis points from peak to bottom) to levels below the end of October as the Ukraine-Russian conflict escalated and the appointment of U.S. Treasury Secretary Scott Bessent, who aimed to target inflation and address the rising Federal fiscal debt level. Despite poor performance in the tech sector, the S&P 500 reached a new record high this month, driven by an anticipated corporate tax cut in Trump's agenda and improved consumer confidence over last month, suggesting that retailers could pass on most of the cost increases. It is still unclear how Trump will implement the new tariffs and their impacts on global growth, particularly in China and Europe. The central banks in Canada, Europe, and the UK are continuing their easing cycles amid deteriorating local economic activities.

● The Australian monthly headline inflation for October was below market expectations, and the 10-year domestic bond yield fell 16 basis points lower than a month ago. Despite the recent four consecutive 'GDP per capita' recessions (quarters), three out of four major local banks are now predicting the first rate cut around May next year. RBA Governor Bullock highlighted that the Australian labor market is still resilient, with new jobs being added along with population growth, and that our unemployment rate remains materially lower than in other countries.

● The ASX200 also reached a new record high this month, driven by a rally in the financial sector and a rebound in raw mineral prices, while Australian housing prices stalled.

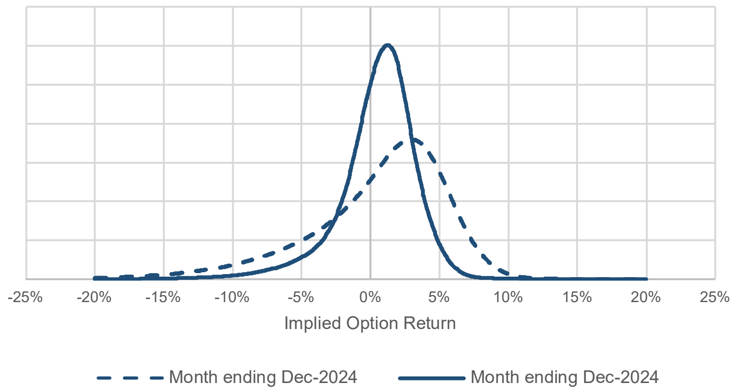
Realised 1 Month Equity Volatility (%)

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 Dec-2024	Month ending Nov-2024
Falling more than 10%	**~ 1%**	~ 5%
Falling more than 5%	**~ 5%**	~ 14%

[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.

Observations on Sustainable Withdrawal Rates

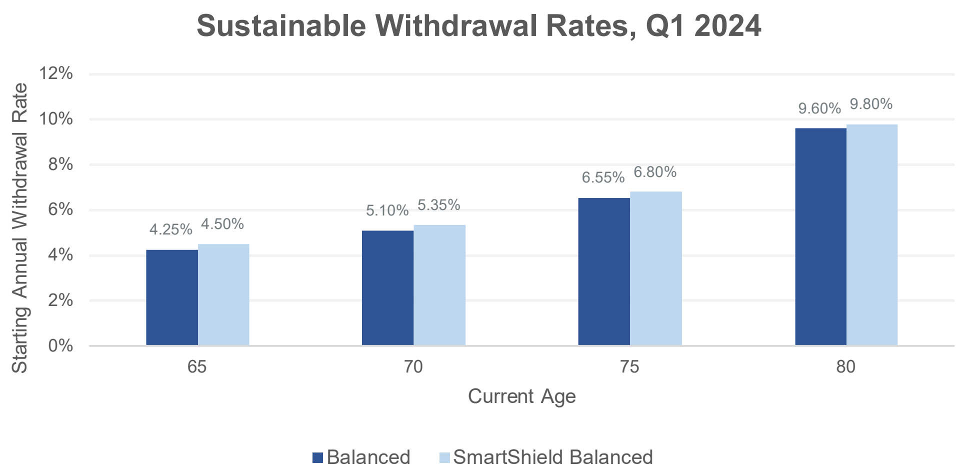
We observe that sustainable withdrawal rates at the end of Q2 2024, are higer compared to Q1 2024.

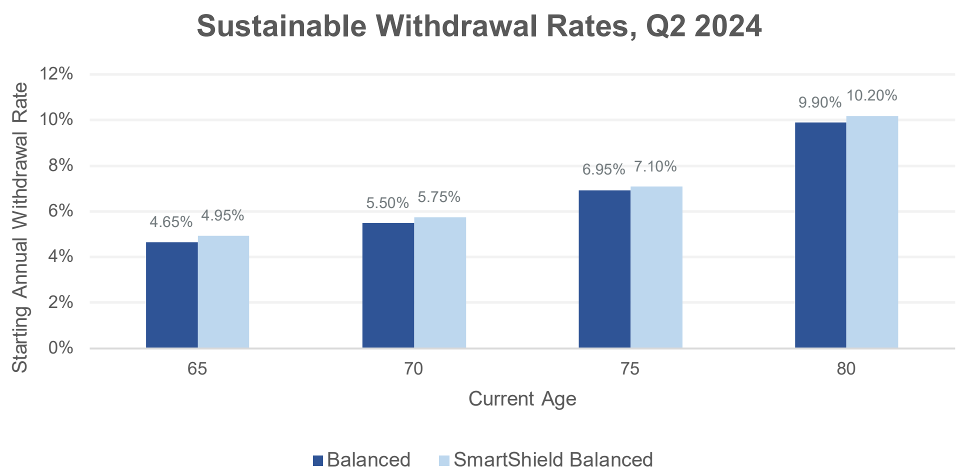
This is primarily driven by the change in interest rate levels over the period of 10 year government bond yields increasing by approximately 34bps, leading to higher simulated returns from all asset classes.

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.

Due to the market rally in November, Milliman's SmartShield portfolios maintained an average hedge level of approximately 0.0% for both Australian equities and global equities.



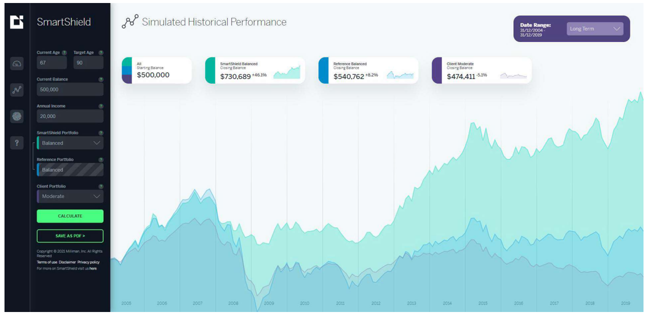


Sustainable Withdrawal Rate is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to be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



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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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