Milliman Market Monitor - January 2024

Market Commentaries

Equities

● January 2024 started with moderate profit-taking in global equities following a strong Santa rally in late December last year. The commentary from the global central banks also tried to manage excessive rate cut anticipations this year. But the momentum started turning in the middle of the month with a loosening US labour market, PCE CPI at 2% and solid 4Q GDP of 3.3%. This reignited the hope of easing monetary policy without entering a recession. S&P 500 gained 1.67% in which the AI sector and chip sector contributed significantly.

● European equities were mixed. The EuroStoxx 50 was up 2.9%. In the UK, the FTSE 100 was down 1.3%.

● Japanese equities outperformed, with the Nikkei up 7.6% and the Topix up 7.8% driven by the Bank of Japan decided to maintain its negative interest rate policy. Hang Seng fell 9% due to a continuing sluggish domestic economy and debt-ridden residential property development sector.

● Aussie Equities benefited from a crude price recovery and improved interest margins in banks, with the ASX 200 up 1.2%. Most sectors were stronger, with Energy stocks and Financial stocks among the best performers, up 5.2% and 5%, respectively. The mining stocks were the worst performing this month, albeit still making a loss of 4.8% this month.

Fixed Income

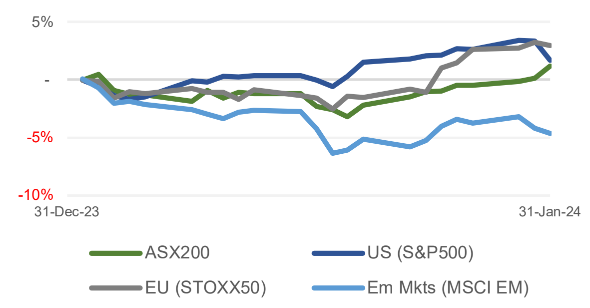
● Sovereign bond yields climbed during the first half of this month as traders pared back some of the additional rate cuts priced in relative to the central banks' projections. The increase in yields was later retraced after weaker than expected US job data and declining US core inflation.

● There was no RBA meeting in January, but the AUD yield curve became steeper due to much weaker-than-expected 4Q CPI Overall, Australian Bonds returned 0.2%, and Global Bonds lost 0.3%, respectively, as measured by Bloomberg Aggregate Indices.

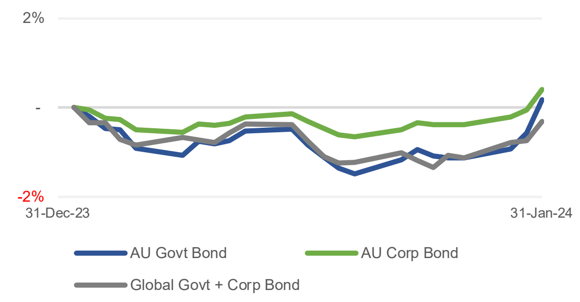
Currencies

● The Aussie dollar weakened against the US Dollar despite similar interest rate movements this month. The AUD/USD rate lost 3.7%, closing at 65.68 US cents .

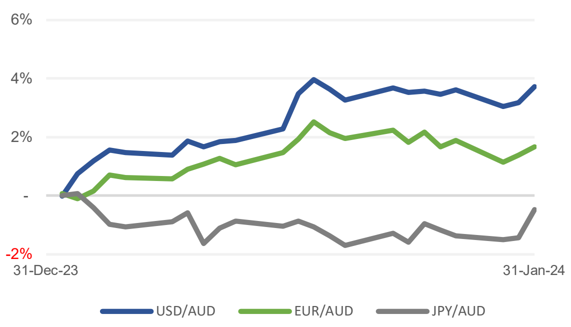
Equities: YTD Total Return[1] %



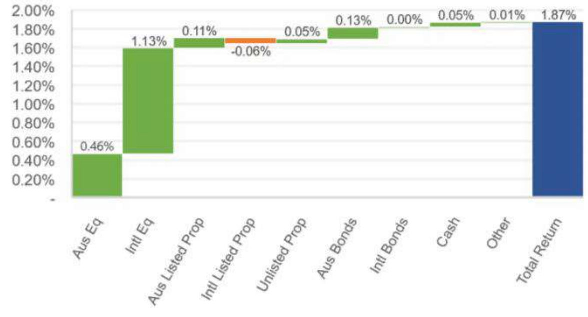
Fixed Income: YTD Return[2] %



Foreign Currencies: YTD Return %



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



Returns ending 31 January 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	1.2%	1.7%	2.9%	-4.6%	0.2%	0.4%	-0.3%	3.7%	1.7%	-0.5%
3 Month	14.0%	16.0%	14.8%	7.0%	6.4%	4.4%	6.0%	-3.5%	-1.3%	-0.4%
1 Year	7.1%	20.8%	14.5%	-2.9%	2.0%	5.0%	2.8%	7.4%	7.0%	-4.9%
CYTD	1.2%	1.7%	2.9%	-4.6%	0.2%	0.4%	-0.3%	3.7%	1.7%	-0.5%

[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 increased for S&P 500 and Stoxx 50. The S&P500 remains below the 45th percentile over the past year, while ASX200 and Stoxx 50 remain below 35th percentile. The implied likelihood of the S&P 500 falling more than 10% and 5% in February has increased compared to last month, currently sitting at 2% and 7%, respectively.

● At the start of the year, the financial markets had anticipated pricing that included 2 to 3 extra rate cuts in both US and European markets compared to their central banks' own forecasts.Global bond yields fluctuated during this month as traders adjusted their bets on how many rate cuts and their timings.

● Towards the start of January, the futures market priced in a 65% probability to a March FOMC rate cut. Towards the end of the month, this probability has diminished to around 30%.

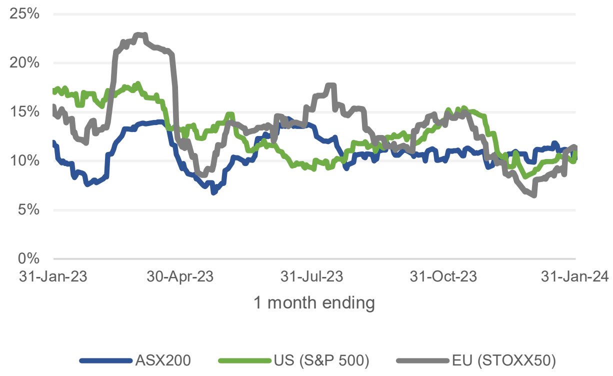
● Overall, global equities performed well over the month with both the S&P 500 and ASX 200 reaching their respective new record highs. This was stimulated by the turning point in monetary policies, with inflation now under control without heading into a recession.

● Another source of volatility this month was the Japanese monetary policy outlook. BoJ kept its negative interest rate this month, but its commentary hinted at moving away from negative interest rates later this year, which spooked the Asian equities.

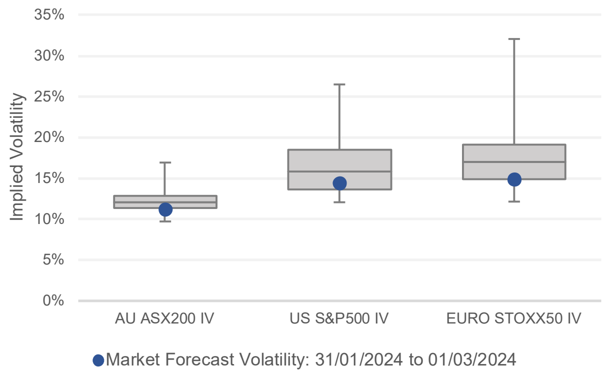
● The other area of uncertainty is Chinese equities which have fallen over 25% since the beginning of 2023 due to the sluggish domestic growth recovery and debt-ridden property sector. The developed markets are insulated from this for now but there is a risk of contagion.

● The Australian Equity Index is near its record high with most gains coming from banking and mining sectors. The short-term risk could be domestic households cutting back spending more rapidly, potentially leading to slowing activities and triggering a quicker rise in unemployment. This would hurt banks with bad loans and dampen business confidence.

Realised 1 Month Equity Volatility (%)

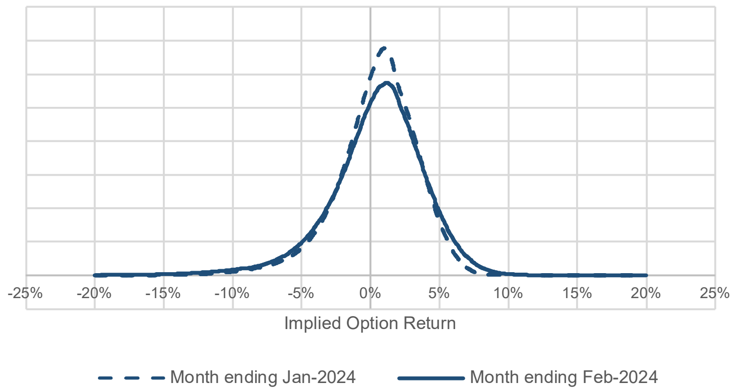


Implied Volatility[3,4] (IV)



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 Feb-2024	Month ending Jan-2024
Falling more than 10%	**~ 2%**	~ 1%
Falling more than 5%	**~ 7%**	~ 5%

[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

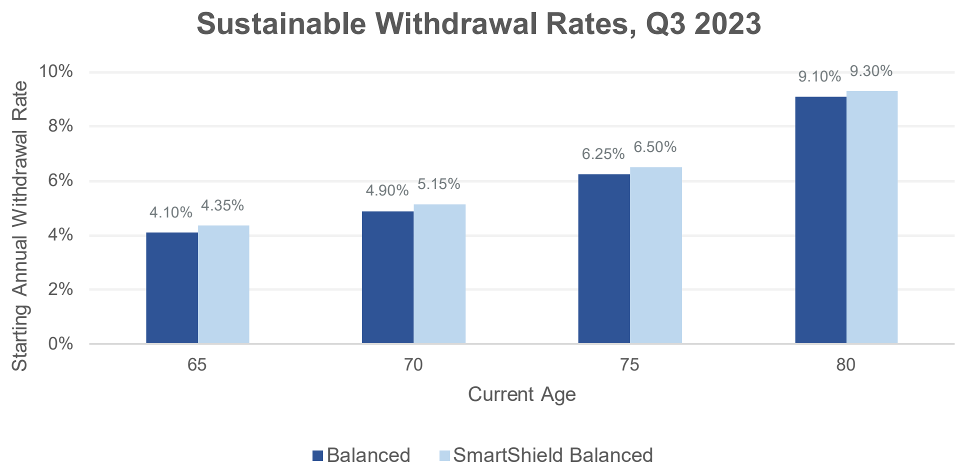
We observe that sustainable withdrawal rates at the end of Q4 2023, are higher compared to Q3 2023.

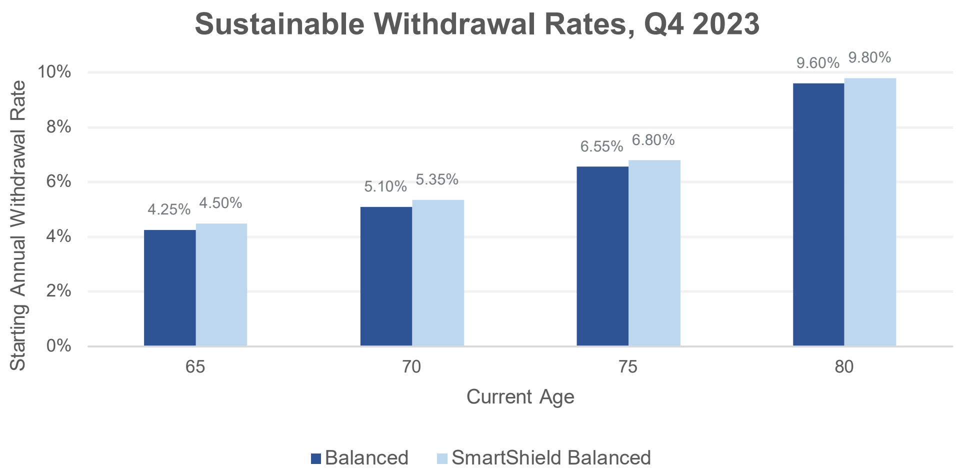
This was mainly driven by the decrease in starting inflation levels, leading to higher simulated returns from all asset classes.

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 January, Milliman's SmartShield portfolios maintained an average hedge level of approximately 9% for Australian equities and 14% for global equities.





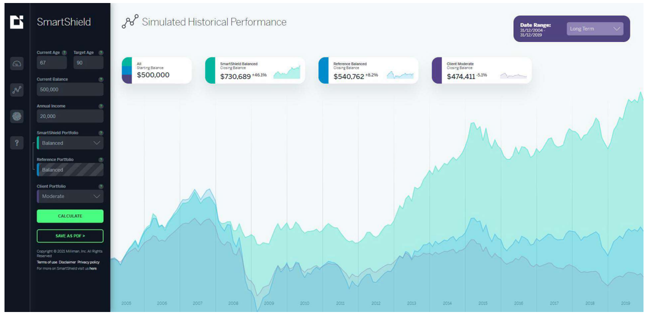
Sustainable Withdrawal Rate is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to be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

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