Milliman Market Monitor - February 2024

Market Commentaries

Equities

● February was a good month for equities as resilient economic data and stronger-than-expected earnings reports pushed stocks higher. The S&P 500 gained 5.2% this month.

● European equities performed in line with the US. The EuroStoxx 50 was up 5.0%. In contrast, UK equities underperformed due to weak company earnings and a Q4 GDP print showing the UK fell into a recession. The FTSE100 was flat for the month.

● Japanese equities continued to outperform, with the Nikkei up 7.9% and the Topix up 4.9%. This was primarily driven by further Yen's weakness in helping the export-oriented market. Chinese and Hong Kong stocks rebounded, with the Hang Seng up 6.6%. This was due to an increase in activity following the Lunar New Year plus supportive measures from the Chinese Government including a cut to the 5-year prime loan rate.

● Aussie Equities underperformed their international peers, with the ASX 200 up 0.8%. Tech stocks were the clear outperformer, up 19.5% for the month, while the Materials and Energy sectors weighed down the index, down 5.4% and 6.8% respectively.

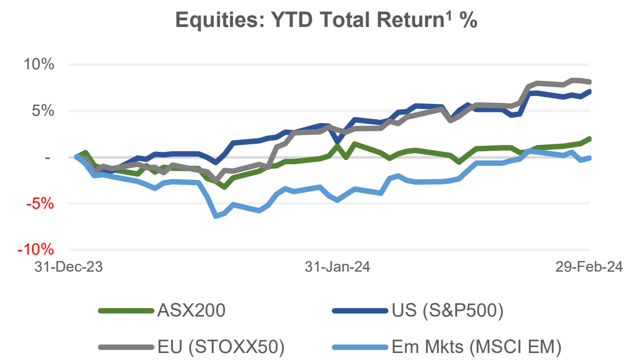
Fixed Income

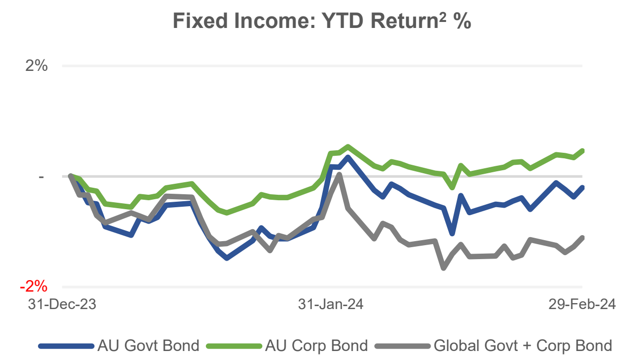
● Fixed Income markets were down this month as investors continue to pare back their forecasts for when the US FOMC will cut rates further out into the future. The US PMI print was in expansionary territory and the Jan jobs data showed 353k new jobs were added to the US economy. US CPI increased 3.1% YoY for January, which was higher than the market prediction of 2.9%. Overall, the index still fell slowly versus December data, where it was 3.4%.

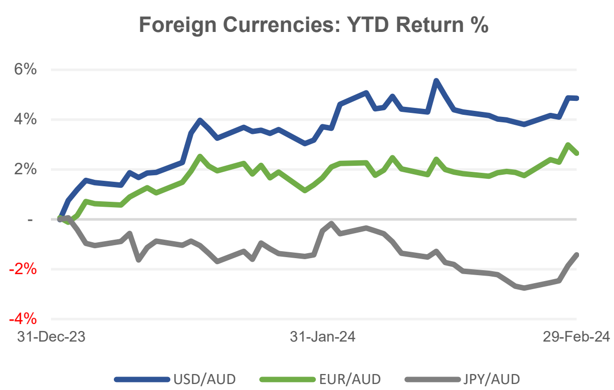
● The move in overseas yields led Aussie traders to push back their bets on when the RBA would begin easing towards September. Overall, Australian Bonds returned -0.4%, and Global Bonds returned -0.8%, respectively, as measured by Bloomberg Aggregate Indices.

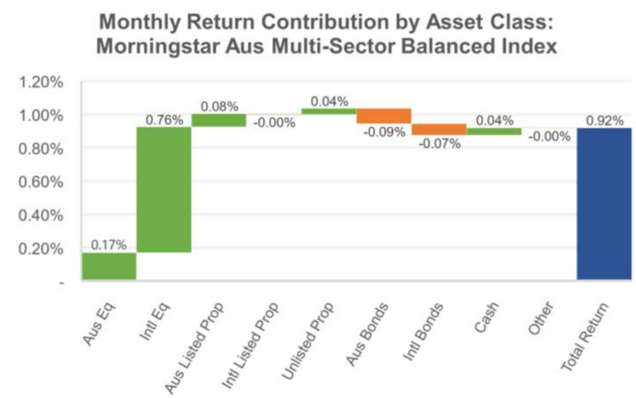
Currencies

● The Aussie dollar weakened further against the US Dollar. The AUD/USD rate lost 1.1%, closing at 64.97 US cents.









Returns ending 29 February 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	0.8%	5.3%	5.0%	4.8%	-0.4%	0.0%	-0.8%	1.1%	1.0%	-1.0%
3 Month	9.4%	12.0%	11.6%	3.8%	2.6%	2.6%	1.9%	1.7%	0.9%	0.4%
1 Year	10.6%	30.5%	18.0%	8.7%	3.1%	5.7%	3.9%	3.6%	5.8%	-5.9%
CYTD	2.0%	7.1%	8.1%	-0.1%	-0.2%	0.5%	-1.1%	4.8%	2.6%	-1.4%

[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 ASX200, S&P 500 and Stoxx 50 and remains below the 25th percentile over the past year. The implied likelihood of the S&P 500 falling more than 10% and 5% in March has decreased compared to last month, currently sitting at 1% and 5%, respectively.

- The Nonfarm payrolls for January (+353k) were almost double the analyst's estimate, and this was the largest job gain over the past 12 months. Powell's post-FOMC comments highlighted that, while the inflation trend is encouraging, the risk is of being complacent about cutting interest rates too soon. The FOMC members "need to see continued good data before we can begin the process of reducing the federal funds rate". This sparked a rally in global yields during February.

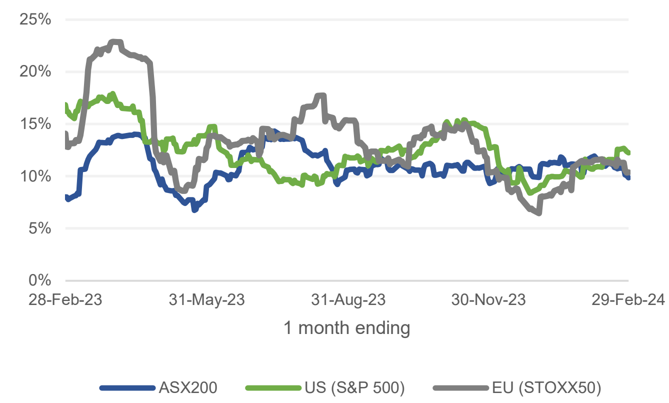
- The stronger-than-expected US CPI data inflation for January also did not help to ease the US Fed members' concern. The recent job listings and job claims have been showing the US labour market loosening, and consumer confidence has been falling, but US PMS prints indicate the economy is still in expansionary mode.

- The short-term trend in the bond market continues to price earlier and more rate cuts compared to the policymakers' estimate and underestimates the probability of the global economy persisting despite the US Fed fund rate being at its highest level in the past 20 years.

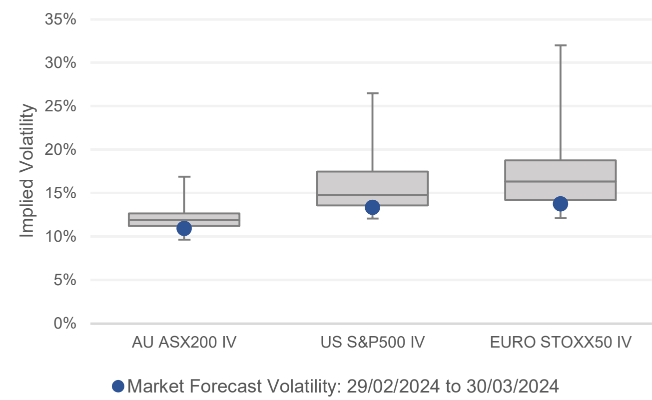
- Overall, both developed equity markets and emerging markets had performed well in February. However, the gains are very concentrated, coming from tech companies (AI-related) and chip makers (Nvidia and alike). This boom in technology valuation had overshadowed the recent large falls in coal energy and industrial minerals such as iron ore, which had fallen by 11% this month.

- Both the S&P 500 and the ASX 200 had made new record highs this month, but VIX futures and equity implied volatilities are trading below the 5th percentile over the past 3 years. The developed markets are insulated from the weakness in the Chinese markets for now, but there is a risk of broader market contagion.

Realised 1 Month Equity Volatility (%)

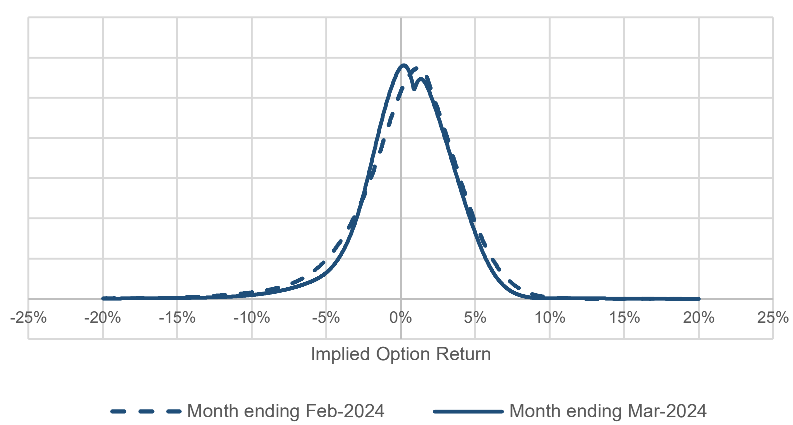


Implied Volatility[3,4] (IV)



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 Mar-2024	Month ending Feb-2024
Falling more than 10%	**~ 1%**	~ 2%
Falling more than 5%	**~ 5%**	~ 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.

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Observations on Sustainable Withdrawal Rates

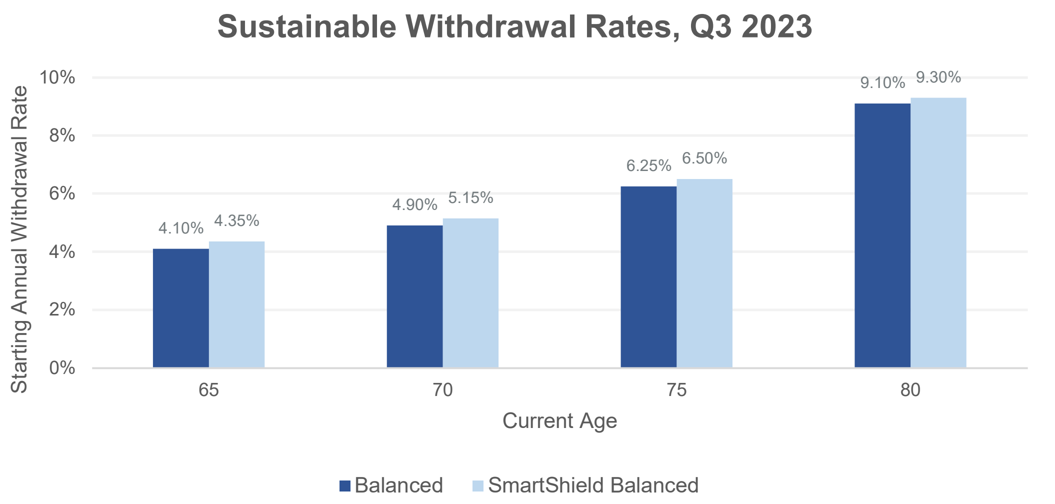
We observe that sustainable withdrawal rates at the end of Q4 2023, are higher compared to Q3 2023.

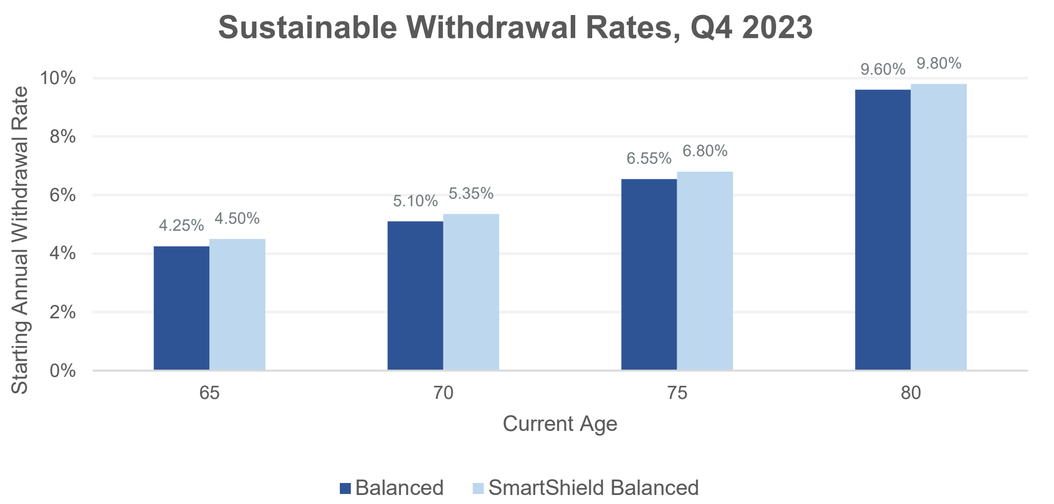
This is primarily driven by lower short-term inflation expectations which allows for marginally higher inflation-adjusted sustainable withdrawal rate.

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 February, Milliman's SmartShield portfolios maintained an average hedge level of approximately 7% for Australian equities and 5% 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).

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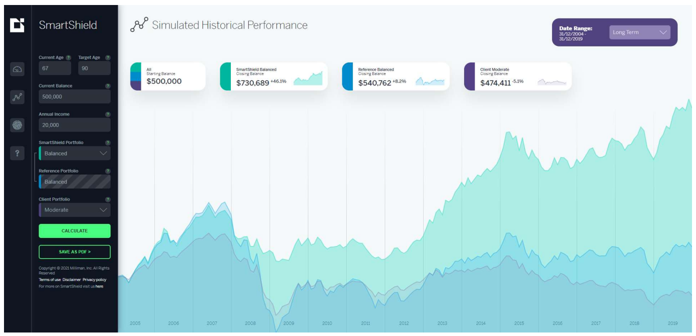
SMARTSHIELD™ SIMULATOR – FREE ACCESS FOR FINANCIAL ADVISERS

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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