Milliman Market Monitor - May 2024

Market Commentaries

Equities

● May was a strong month for US equities, fuelled by stronger-than-expected Q1 company earnings and economic data suggesting signs of moderation in US consumer spending. The S&P 500 returned 5.0%.

● European equities were slightly stronger as PMI data showed economic activity was improving. The EuroStoxx 50 returned 2.1%. UK equities performed similarly, with the FTSE 100 gaining 1.6%.

● Japanese equities had a more middling performance this month as the ongoing Yen weakness weighs on local consumer sentiment. The Nikkei 225 returned 0.2%. Chinese and Hong Kong stocks were stronger this month thanks to positive economic data, with the Hang Seng up 1.8%.

● Aussie Equities were up slightly despite monthly CPI coming in higher than expected, with the ASX 200 returning 0.9%. IT and Utilities were among the best sectors, returning 5.4% and 3.4% respectively, while the worst sector was the Telecommunications sector, which was down 2.6%.

Fixed Income

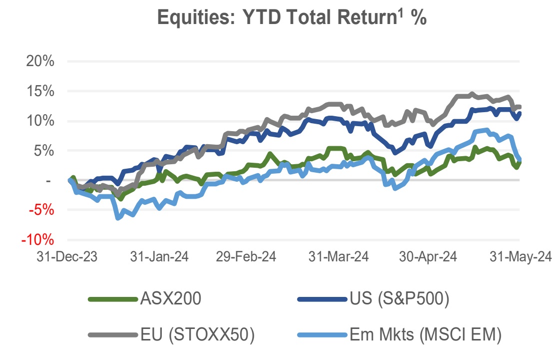
● Fixed Income markets saw a slight fall in yields this month despite a slower pace of disinflation. Although the FOMC minutes reinforced the sentiment that any rate cuts would be pushed back further in time, comments from Chairman Jerome Powell dispelled any fears that the next rate move might be another hike. US 10-year Treasury yields fell by 19bp to sit at 4.4985%.

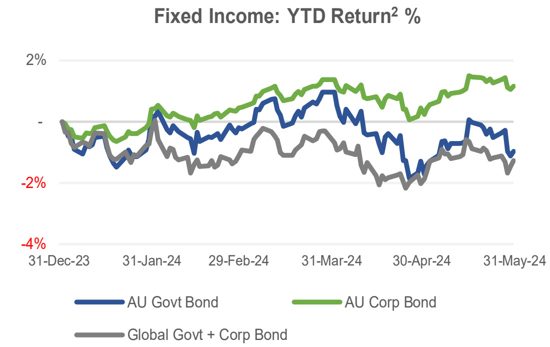
● Australian fixed income markets were mixed as the latest monthly Aussie CPI data came in above estimates, leading to the market shifting its forecasts for future RBA rate cuts further out, well into 2025. Overall, Australian Bonds returned 0.3%, and Global Bonds returned 0.8%, respectively, as measured by Bloomberg Aggregate Indices.

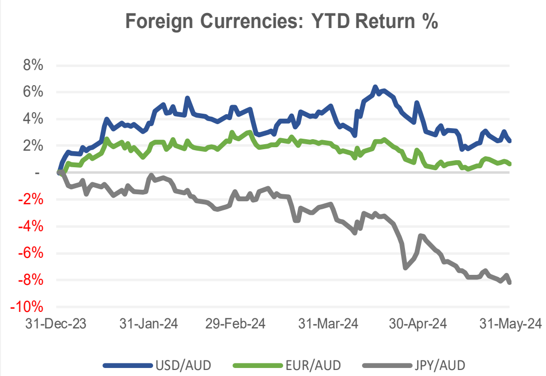
Currencies

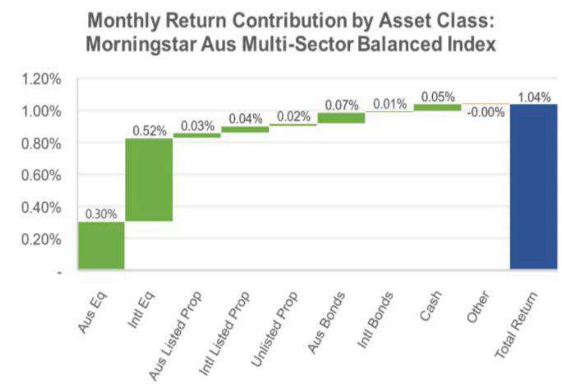
● The Aussie dollar strengthened this month against the USD following the drop in US yields, while Aussie rates remained more stable. The AUD/USD rate gained 2.7%, closing at 66.53 US cents.

● The Yen continues to weaken against the other major currencies. The AUD/JPY rate has gained another 2.5% to close at 104.661 Yen, approaching its 10-year high.









Returns ending 31 May 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	0.9%	5.0%	2.1%	0.6%	0.3%	0.7%	0.8%	-2.7%	-1.0%	-2.4%
3 Month	1.2%	3.9%	3.9%	3.5%	-0.8%	0.7%	-0.1%	-2.3%	-1.9%	-6.9%
1 Year	12.9%	28.2%	21.1%	12.4%	0.2%	4.5%	1.7%	-2.3%	-0.8%	-13.4%
CYTD	3.2%	11.3%	12.4%	3.4%	-1.0%	1.1%	-1.3%	2.4%	0.7%	-8.2%

[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

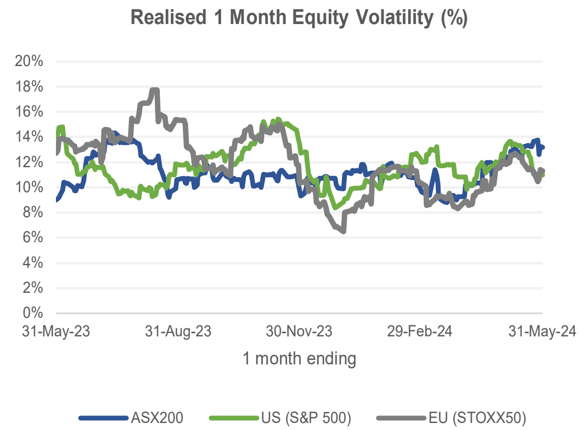
● Implied volatility, often viewed as the market's fear index, has decreased for ASX200, S&P 500 and Stoxx 50, while remains below the 55th percentile over the past year. The implied likelihood of the S&P 500 falling more than 10% and 5% in June has decreased from last month, currently sitting at 1% and 6%, respectively.

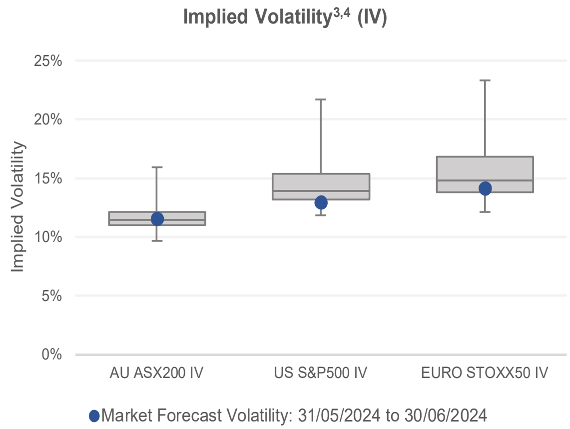
● The US Treasury 10-year bond yield, UST 10y yield, fell as much as 37bps during earlier May on the back of a moderating CPI print for April (the slowest pace since last December) and a weaker retail sales figure. Most impactful was Fed Chair Powell's comment that further rate hikes are still unlikely, even though the momentum in falling inflation seems stalled, and the current high rates would stay for longer to give Fed members more time to assess their impact on the economy. The global bond yields climbed back (+30bps for the US 10-year Treasury) after the wage inflation data remained stickier than anticipated in the UK and Germany, while Mr. Kashkari from the Fed suggested that "the bank's policy stance is restrictive, but policymakers haven't entirely ruled out additional rate hikes".

● Similarly, domestic interest rates fell earlier in May (-32bps at the 10-year) and then recovered (+26bps) in the second half of the month. The Australian Federal Budget, which was announced, is perceived as balanced, with its impact on the market muted. AUS wage data released was just under consensus at 4.1% yoy, while there were more jobs created over April than expected. However, the official unemployment rate returned to above 4% for the first time due to a pick-up in the participation rate. The RBA noted that while the labour demand has certainly cooled over the past, so far. This has only translated into a gradual softening in employment growth.

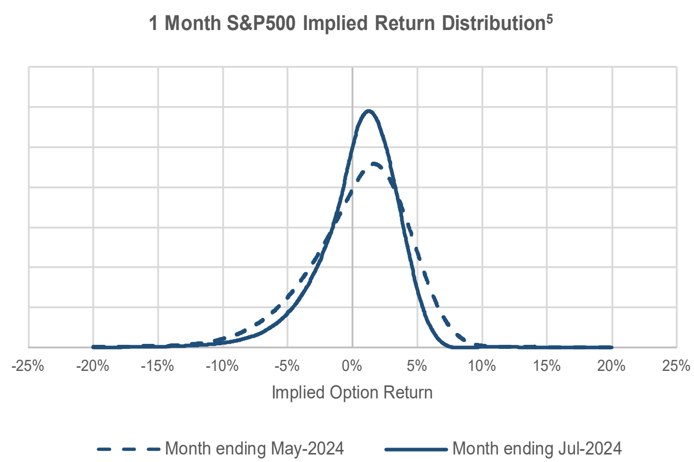
● While the market-implied rate cuts globally now are not as aggressive as they were earlier this year, the stickiness of service inflation globally can still cause concern among policymakers. The benchmark for switching from conservatively dovish to hawkish remains high, but this could change if the wage growth does not moderate, and the labour market starts to loosen further materially. If this happens, then rates would be rebased, potentially leading to market volatility.

● The JGB 10-year bond yield climbed to just below 1.1% for the first time since July 2011, with speculation that the BoJ could tighten further. Higher funding costs would trim corporate valuations in the midst of record Nikkei levels recently.





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.



Implied likelihood[5] of S&P 500:	Month ending Jun-2024	Month ending May-2024
Falling more than 10%	**~ 1%**	~ 2%
Falling more than 5%	**~ 6%**	~ 9%

[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

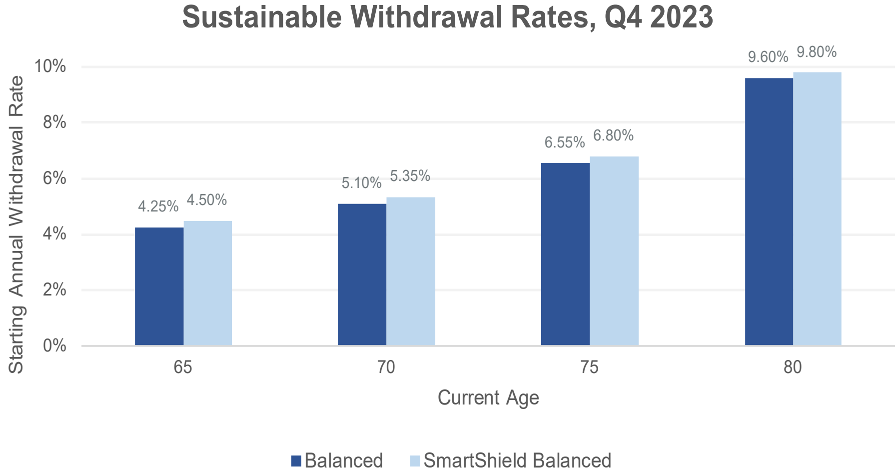
We observe that sustainable withdrawal rates at the end of Q1 2024, are unchanged compared to Q4 2023.

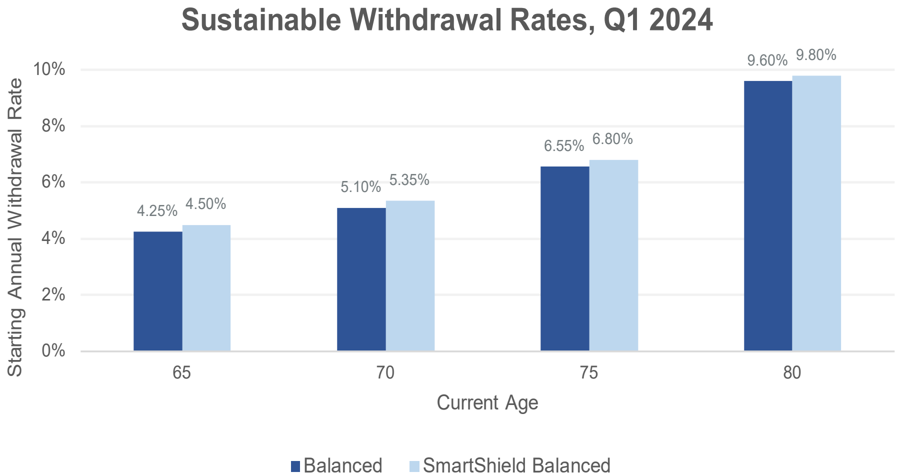
This is primarily driven by negligible change in interest rate levels over the period of 10 year government bond yields; decreasing by approximaterly 5bps, leading to insignificant simulated returns from all asset classes.

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 May, Milliman's SmartShield portfolios maintained an average hedge level of approximately 7% for Australian equities and 13% 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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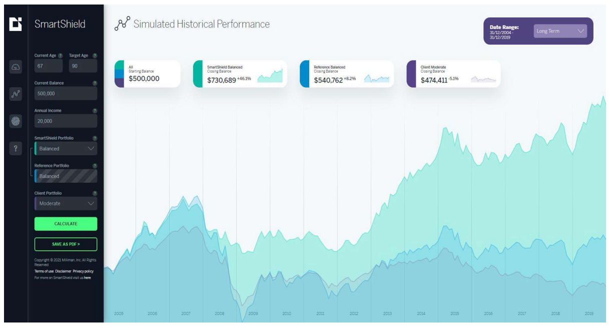
SMARTSHIELD™ SIMULATOR – FREE ACCESS FOR FINANCIAL ADVISERS

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



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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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