

**Market Price Monitor**

**Local Equity Markets**

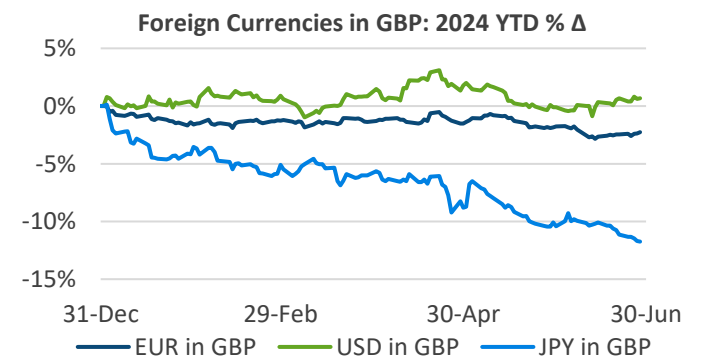
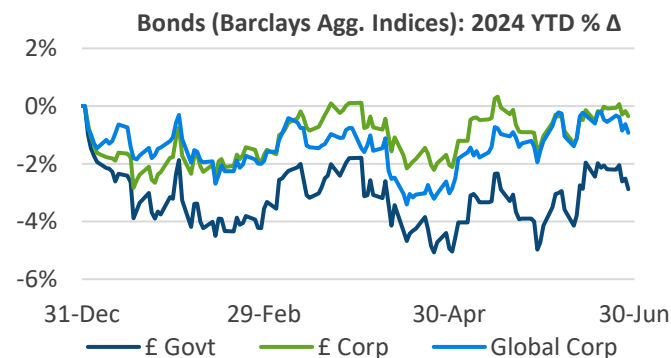
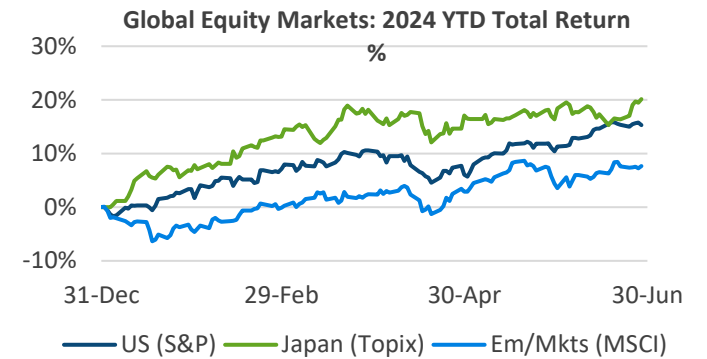
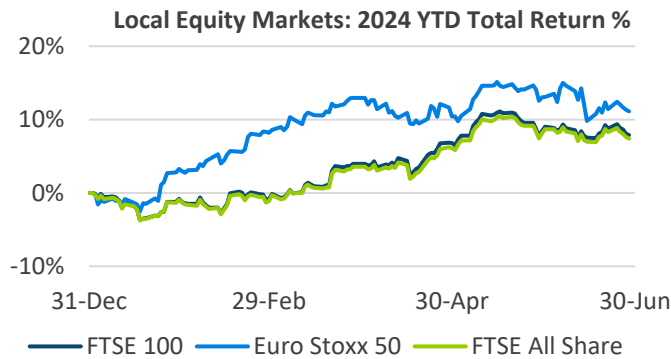
- Global equity markets had a mixed performance in June, as UK and Europe faced political uncertainties due to upcoming elections, whereas hopes of a soft landing continued to be the theme in the US.
- The Euro Stoxx 50 ended the month down 1.7%, closing the first half of the year with gains of 11.1%.
- The FTSE 100 lost 1.1% in June, up 7.9% year-to-date.

**Global Equity Markets**

- The S&P 500 and the Japanese Topix ended the month up 3.6% and 1.5%, respectively.
- The MSI Emerging Markets index was up 4.0%.

**Bond/FX Markets**

- The British government bond index was up 1.3%, and the British corporate bond index gained 0.7%.
- The British Pound had a mixed performance in June, gaining 1.5% and 0.5% against the Japanese Yen and Euro, respectively. However, weakening by 0.8% against the US Dollar.



	Total Returns as of June 28, 2024											
	FTSE 100	FTSE All Share	Euro Stoxx 50	US (S&P)	Japan (Topix)	Em/Mkts (MSCI)	£ Govt	£ Corp	Global Corp	EUR in GBP	USD in GBP	JPY in GBP
1 Month	-1.1%	-1.2%	-1.7%	3.6%	1.5%	4.0%	1.3%	0.7%	0.3%	-0.5%	0.8%	-1.5%
3 Month	3.7%	3.7%	-1.6%	4.3%	1.7%	5.1%	-1.1%	-0.5%	-0.2%	-0.9%	-0.2%	-6.1%
1 Year	12.8%	13.0%	14.9%	24.6%	25.6%	13.0%	4.7%	10.6%	4.9%	-1.4%	0.5%	-9.9%
YTD	7.9%	7.4%	11.1%	15.3%	20.1%	7.7%	-2.9%	-0.3%	-0.9%	-2.3%	0.7%	-11.7%

## Milliman Financial Risk Management

London Market Monitor – 28 June 2024

Data sources: Bloomberg; Barclays; EIOPA; PRA; ONS; Milliman FRM

### Insurance Monitor

#### Solvency II Risk Free Rates

- GBP risk-free rates declined at all terms, with the declines more pronounced at the short-end of the curve.
- The 1 and 5-year GBP risk-free rates fell by 17 and 20 basis points, respectively.
- Similarly, EUR risk-free rates fell in June.
- The 1 and 5-year EUR risk-free rates, decreased by 15 and 13 basis points, respectively.
- The EUR CRA was unchanged and remains floored at 10 basis points.

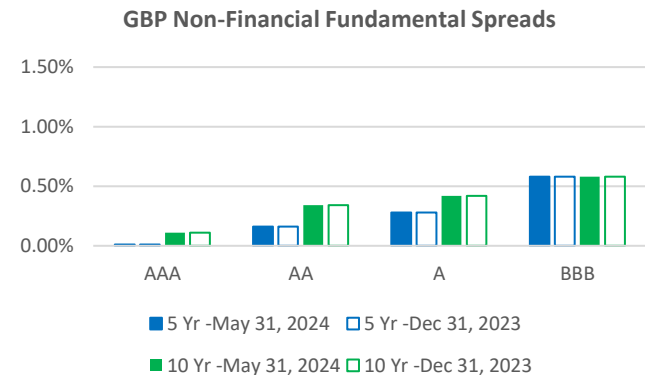
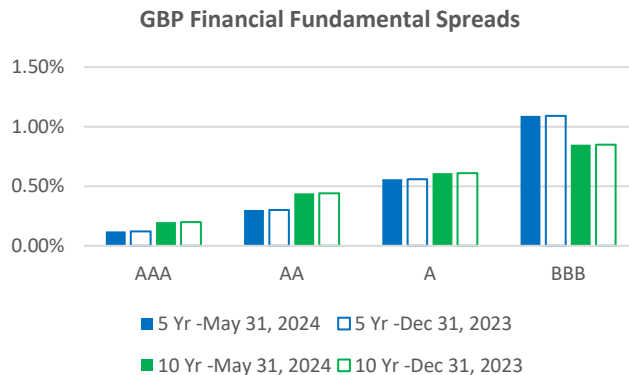
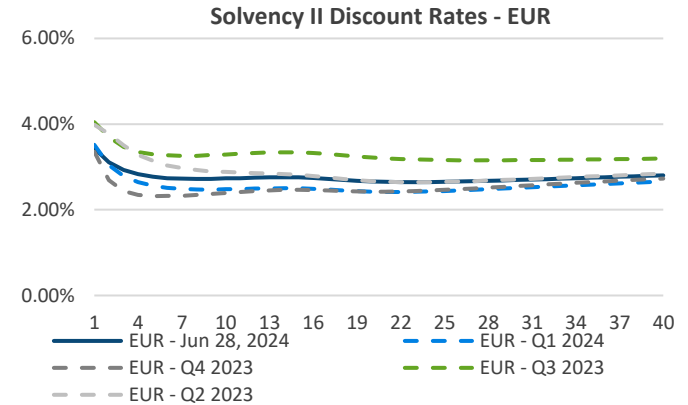
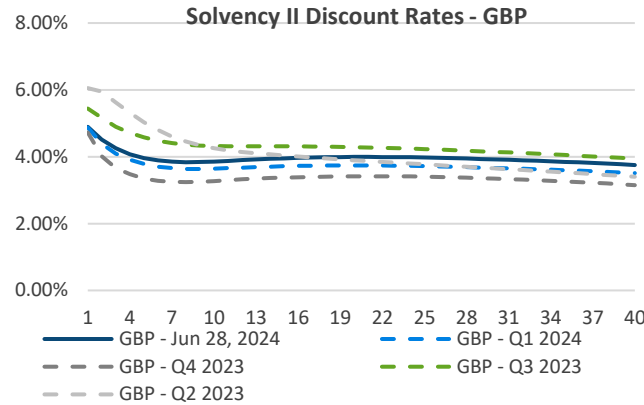
The **Solvency II risk-free discount rates** are calculated independently based on applying the Smith-Wilson Extrapolation to swap rates sourced from Bloomberg and applying the Credit Risk Adjustment as defined in the Technical Specs. For the official published curves please refer to [EIOPA](#) and [PRA](#) websites.

#### Solvency II Fundamental Spreads

- There were no material changes since the start of the year.

**EIOPA fundamental spreads** show the credit spread corresponding to the risk of default or downgrading of an asset. This is shown here across financial and non-financial assets, credit quality steps 0-3 and durations of 1-30 years. The data is provided by EIOPA.

**Fundamental spread** = maximum (probability of default + cost of downgrade; 35% of long-term average spread). For fundamental spreads on other tenors please refer to the [EIOPA](#) website.

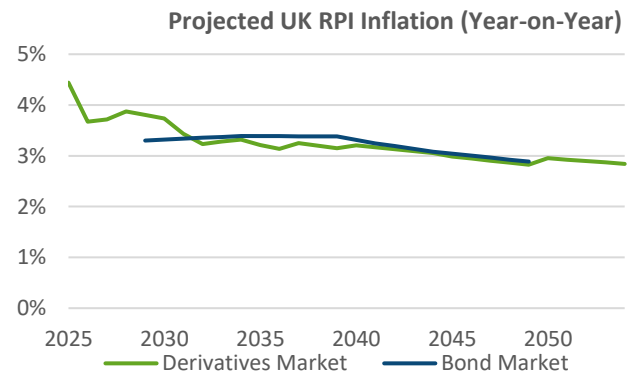
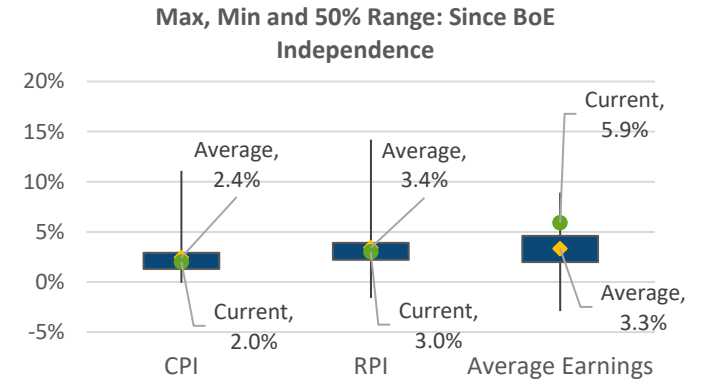
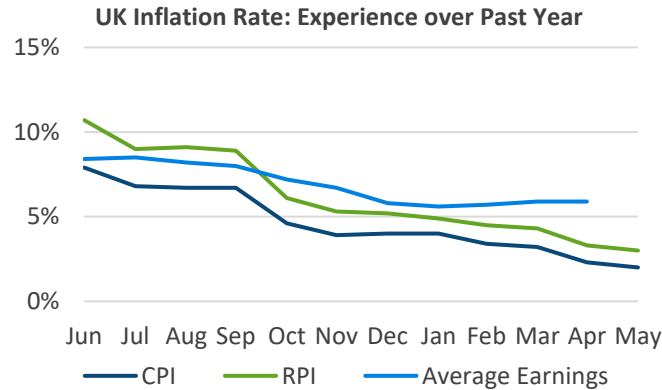


	Change in GBP Discount Rates (bps)				
	1Y	Y5	Y10	Y20	Y30
Since Q1 2024	2	18	21	25	26
Since Q4 2023	17	61	58	58	58
Since Q3 2023	-55	-62	-46	-29	-23
Since Q2 2023	-116	-107	-40	10	27

	Change in EUR Discount Rates (bps)					
	1Y	Y5	Y10	Y20	Y30	CRA
Since Q1 2024	-8	21	25	24	18	0
Since Q4 2023	8	45	34	24	14	0
Since Q3 2023	-61	-52	-55	-56	-46	0
Since Q2 2023	-55	-37	-15	-1	-1	0

### UK Inflation Monitor

- UK's CPI decreased in May to 2.0%, a 30 basis points decline from the previous month.
- UK's RPI measure decreased by 30 basis points to 3.0% in May.
- According to the ONS: *"The largest downward contribution came from food, with prices falling this year but rising a year ago; the largest upward contribution came from motor fuels, with prices rising slightly this year but falling a year ago.."*
- Average earnings remained unchanged at 5.9% in April, after the previous month's figure was revised higher by 20 basis points.
- UK's Q1 2024 GDP growth figure was revised higher by 10 basis points to 0.3%.
- The projected RPI curve rose at the 1-year term but saw marginal declines elsewhere in comparison to the previous month.



Historical year-on-year inflation rate is assessed by the % change on:

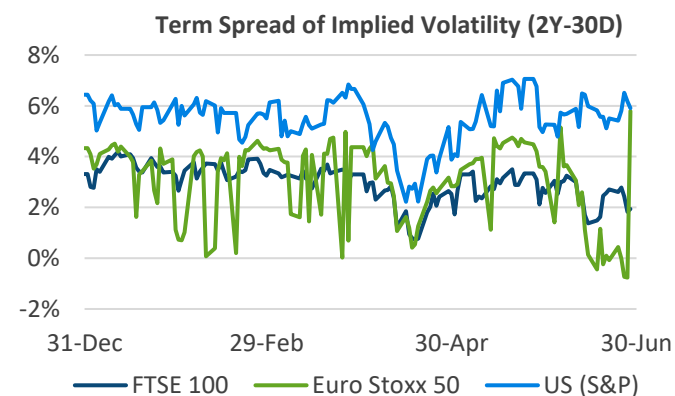
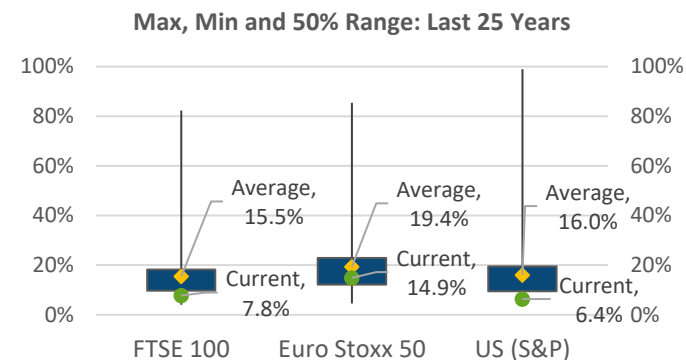
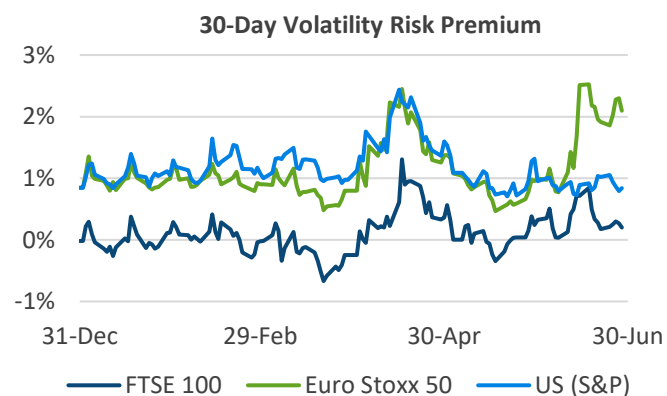
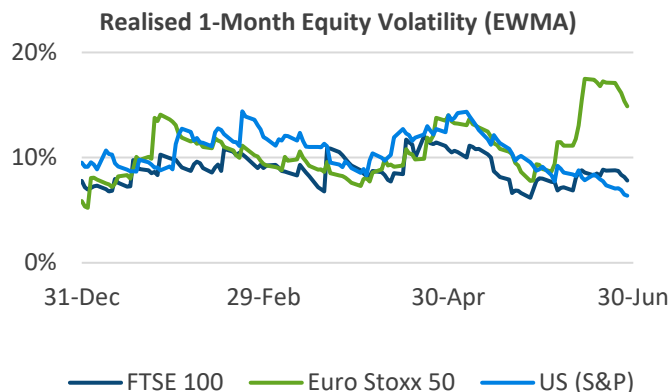
- **Consumer Price Index (CPI)** – measuring the monthly price of a basket of consumer goods and services
- **Retail Price Index (RPI)** – similar to CPI, but the main difference due the addition of mortgage payments, council tax and other housing costs
- **Average Earnings** – measuring the average total weekly employee remuneration over the previous 3 months.

Projection year-on-year inflation rate is the forward rate calculated from market data:

- **Derivatives Market View** – constructed from zero coupon inflation par swap rates against the RPI index at various tenors
- **Bond Market View** – constructed from the difference between the nominal rates implied by the conventional gilts and the real rates implied by the index-linked (RPI) gilts.

### Volatility and Hedging Cost Monitor

- Realised volatilities on major equity indices were mixed, with realised volatility on Euro Stoxx 50 increasing sharply during the month on the back of announcement of snap elections in France.
- The FTSE 100 ended the month with a realised volatility of 7.8%. The same measure stood at 14.9% and 6.4% on the Euro Stoxx 50 and the S&P 500, respectively.
- Similarly, volatility risk premium on the Euro Stoxx 50 increased, whilst remaining relatively unchanged for the other indices. The FTSE 100 had a volatility risk premium of 0.2% at month-end. The volatility risk premium on the Euro Stoxx 50 was 2.1%, and 0.8% on the S&P 500.
- The change in spread between implied volatility of 2-year and 30-day at-the-money options went negative for the Euro Stoxx 50, highlighting the increased appetite for shorter-term hedging on the index, however the spread returned back to above zero at month-end.



**Actual realised equity volatility** is measured by the weighted standard deviation of 1 month daily index change. The Exponentially Weighted Moving Average (EWMA) methodology places more importance to the recent returns in the calculation of the volatility.

**Volatility Risk Premium** is estimated as the difference between 30-day implied volatility and projected realised volatility. This reflects the additional cost of hedging from purchasing a basket of options, in comparison to managing a dynamic delta hedge with futures (ignoring rolling transaction costs).

**Volatility Term Premium** is calculated as the difference between the implied volatility of an at-the-money 2-year maturity option and the implied volatility of an at-the-money 30-day option. This gives an indication of market demand for protection over the longer term, relative to demand for protection in the shorter-term. Bloomberg as the source of the data interpolates between listed options to provide implied volatility data for these fixed terms.

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