Milliman Market Monitor - June 2024

Milliman

Market Commentaries

Equities

● US Equities performed well in June, thanks to cooling inflation data in the US and further rallies by large-cap tech firms. Both the May CPI and PCE figures came in below expectations, which led to investors pricing in an increased chance of US rate cuts this year. The S&P 500 returned +3.6%.

● European equities showed weakness this month, with volatility picking up as local elections took place. The Euro Stoxx 50 returned -1.7%. UK equities trended similarly, with the FTSE 100 returning -1.3%.

● Japanese equities made some solid gains this month, with the Nikkei 225 returning 2.9%. Mainland Chinese and Hong Kong stocks were weaker, with the Hang Seng falling 2.0%.

● Aussie Equities were up slightly despite monthly CPI coming in higher than expected, with the ASX 200 returning 1.0%. 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

● The lower-than-expected US inflation data in June pushed US rates down as the market priced in an increased chance of rate cuts by the FOMC later this year. US 10-year Treasury yields closed at 4.3961%, a 10 basis point drop.

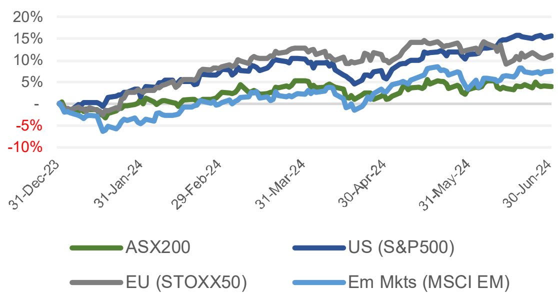
● Australian Govt bond yields also fell this month, with the 10-year yield closing at 4.3102% (a 10bp fall). Yields were tracking even lower however they spiked around 12bp following the CPI print. Overall, Australian Bonds returned +0.9%, and Global Bonds returned +0.8%, as measured by their Bloomberg Aggregate Indices.

Currencies

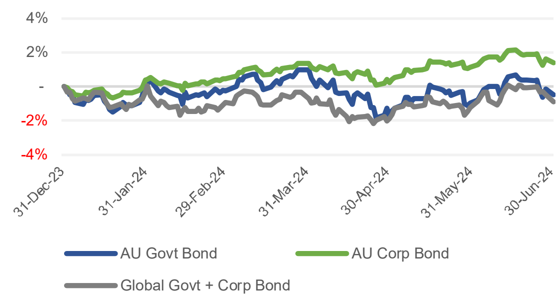
● The Aussie dollar was slightly stronger against the USD following the shift in rate expectations in Australia due to the higher than expected CPI data. The AUD/USD rate returned +0.3%, closing at 66.70 US cents.

● The Aussie Dollar also made strong gains against the other major currencies. In particular, it rose by 2.5% against the Yen in June.

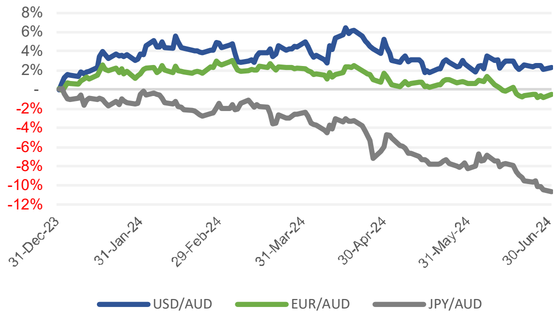
Equities: YTD Total Return[1] %



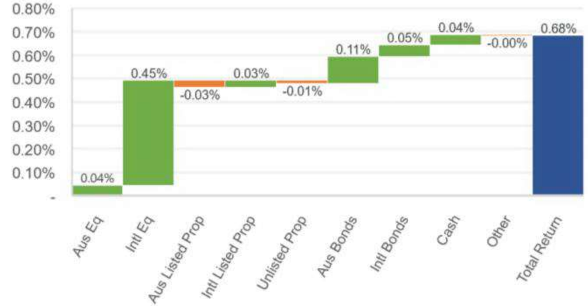
Fixed Income: YTD Return[2] %



Foreign Currencies: YTD Return %



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



Returns ending 30 June 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	1.0%	3.6%	-1.7%	3.9%	0.9%	0.4%	0.8%	-0.3%	-1.5%	-2.5%
3 Month	-1.1%	4.3%	-2.1%	5.0%	-1.1%	0.2%	-0.2%	-2.2%	-3.0%	-8.1%
1 Year	12.1%	24.6%	14.0%	12.5%	3.2%	6.1%	2.7%	-0.1%	-1.9%	-10.4%
CYTD	4.2%	15.3%	10.4%	7.5%	-0.1%	1.6%	-0.5%	2.1%	-0.9%	-10.5%

[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

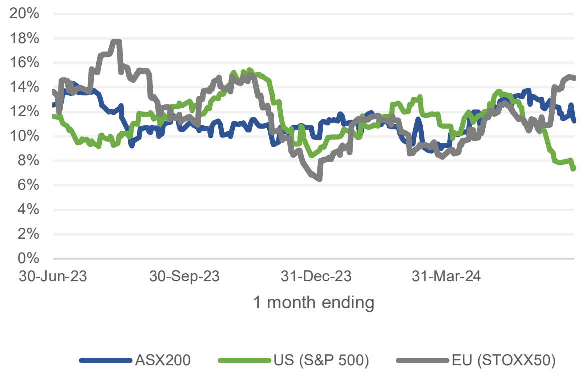
● Implied volatility, often viewed as the market's fear index, has decreased for the ASX200 and S&P 500, while it has increased for the Stoxx 50 and is above the 75th percentile over the past year. The implied likelihood of the S&P 500 falling more than 10% and 5% in July has decreased from last month, currently sitting at 1% and 5%, respectively.

● Global bond yields were under pressure for most of June due to weaker-than-expected economic activity data out of the U.S. Notably, the ISM manufacturing index declined further to 48.7 (contractionary range), while JOLTs job openings fell to their lowest level in over three years. The monthly job gains pattern in the U.S. had been slowing, and retail sales in May were also disappointing. The 10-year US Treasury yield fell as much as 28 basis points mid-June, partially due to recent political uncertainties surrounding both the French and British elections. The European Central Bank delivered a hawkish cut this month and noted that further cuts would be data-dependent. The Bank of England kept rates on hold at 5.25% this month but hinted that more policymakers might be close to backing interest rate cuts.

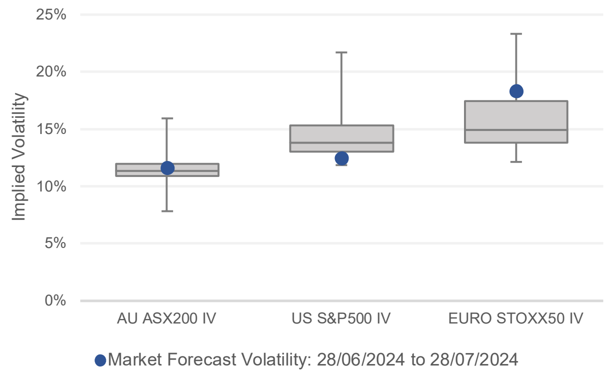
● In the bottom half of June, the monthly inflation figures for May in both Canada and Australia were higher than expected, and this changed the market outlook for the RBA from neutral to potentially one more hike this year before the anticipated monetary easing cycle next year. During this, the 10-year US Treasury yield had recovered around 20bps, and traders started to focus on key data during the first week of July.

● The global equities over June were rather mixed, with both FTSE 100, EuroStoxx 50, and Chinese equities underperforming, while S&P 500 and Nikkei 225 were the outliers. The tech sector and chip makers such as Nvidia have propelled U.S. equities higher, and it is reasonable to question how long this AI chip rally momentum can continue to support the broader markets in an environment where the Fed is trying to cool the economy and battle inflation with high interest rates. The USD/JPY had broken through 160, a record level in 35 years, and the recent weakness in the Japanese yen assisted the Nikkei 225 in climbing higher through stronger export demand and tourism. This is also a level where Bank of Japan officials are likely to intervene to support its currency, and we could potentially see a market knee-jerk reaction. The current VIX level still remains near historical low levels, and this can indicate some degree of market complacency.

Realised 1 Month Equity Volatility (%)

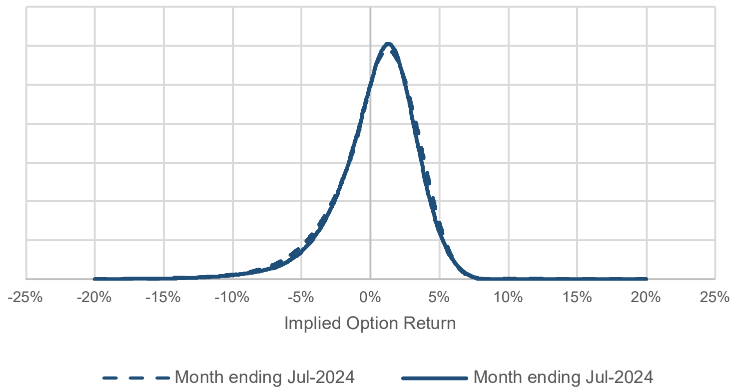


Implied Volatility[3,4] (IV)



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 Jul-2024	Month ending Jun-2024
Falling more than 10%	**~ 1%**	~ 1%
Falling more than 5%	**~ 5%**	~ 6%

[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

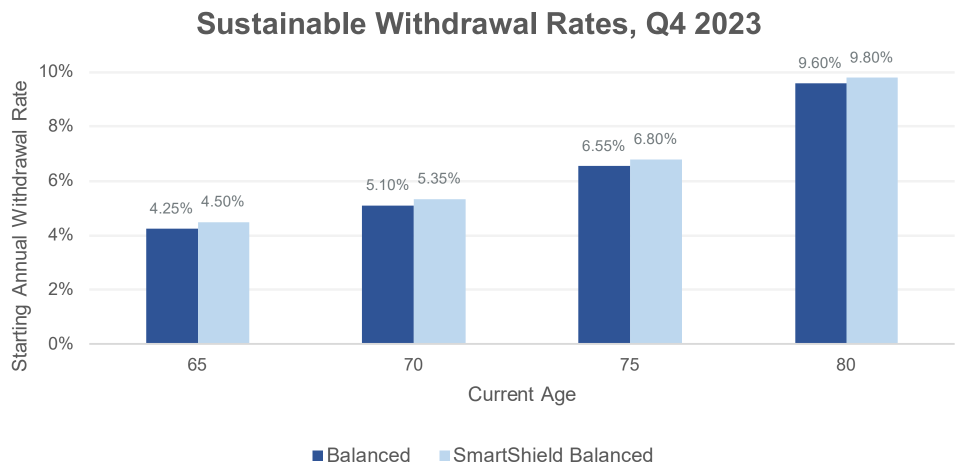
We observe that sustainable withdrawal rates at the end of Q1 2024, are unchanged compared to Q4 2023.

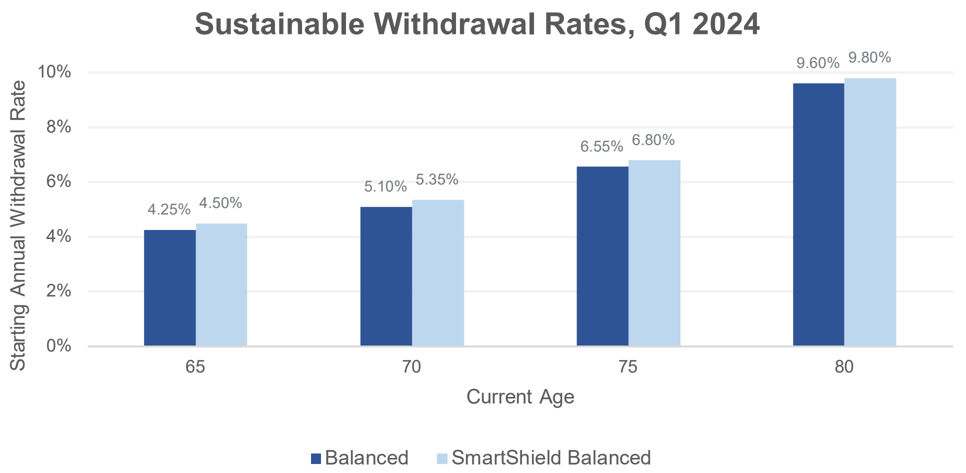
This is primarily driven by negligible change in interest rate levels over the period of 10 year government bond yields; decreasing by approximaterly 5bps, leading to insignificant simulated returns from all asset classes.

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 June, Milliman's SmartShield portfolios maintained an average hedge level of approximately 7% for Australian equities and 9% for global equities.





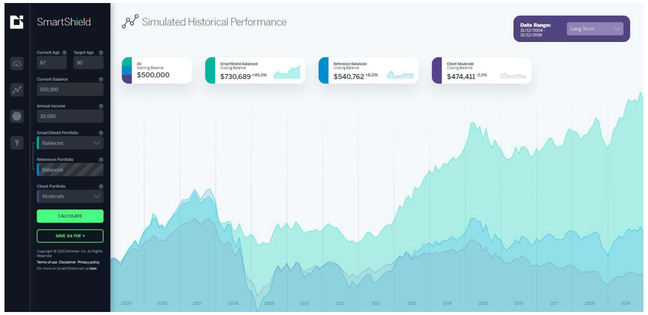
Sustainable Withdrawal Rate is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to be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