Milliman Market Monitor - July 2024

Market Commentaries

Equities

● July was a volatile month for U.S. equities, with poor tech earnings and weak jobs data shifting markets. The U.S. FOMC kept rates steady in their latest meeting, Fed Chair Powell was more dovish in his comments and the market is pricing in a rate cut around September. The S&P 500 returned +1.2%.

● European equities were slightly weaker this month, with volatility picking up following the French election. The Euro Stoxx 50 returned -0.3%. U.K. equities fared better due to strong Q2 economic data. The FTSE 100 gained 2.5%.

● Japanese equities had a poor month due to the Bank of Japan (BOJ) hiking rates and announcing it would curtail its bond purchasing program. This caused the yen to significantly strengthen afterwards, which brought Japanese equities down too. The Nikkei closed the month down 1.2%.

● Aussie Equities had a solid month, unlike international markets, with the ASX 200 returning +4.2%. Q2 CPI came in just under consensus which shifted market expectation from a possible rate hike to a full rate cut by February. The consumer discretionary sector was the best-performing sector, up 9.1%, while utilities were amongst the worst performers, down 2.9%.

Fixed Income

● U.S. yields fell following weak jobs data and a soft CPI release suggesting there could be a rate cut by September. U.S. 10-year Treasury yields closed at 4.0296%, a 37 basis point drop.

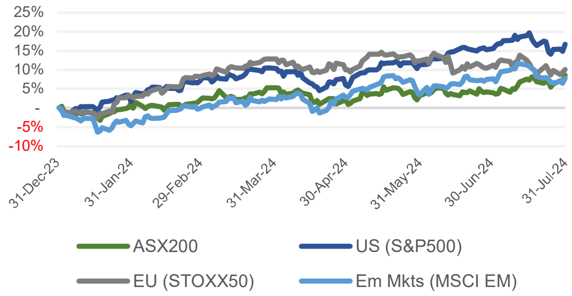
● Australian government bond yields also fell this month, with the 10-year yield closing at 4.1152% (a 20bp fall). Overall, Australian Bonds returned +1.5%, and Global Bonds returned +1.9%, as measured by their Bloomberg Aggregate Indices.

Currencies

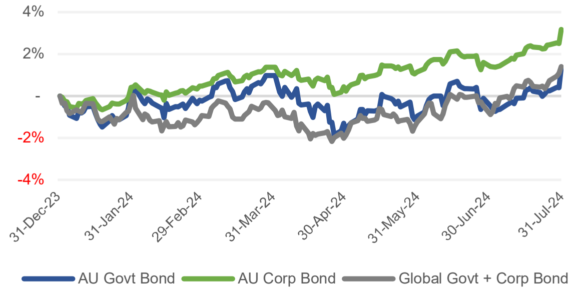
● The Aussie dollar weakened this month against the USD. The AUD/USD rate returned -2.0%, closing at 65.42 U.S. cents.

● The Aussie dollar was also weaker against other major currencies. In particular, it lost 8.6% against the yen following the rate hike in Japan, which caused the yen to strengthen significantly.

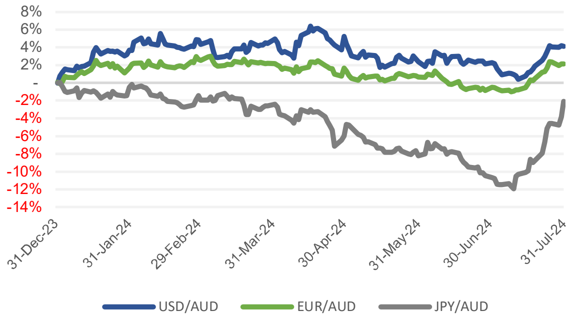
Equities: YTD Total Return[1] %



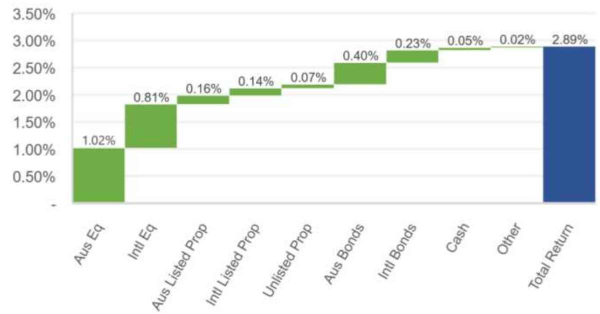
Fixed Income: YTD Return[2] %



Foreign Currencies: YTD Return %



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



Returns ending 31 July 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	4.2%	1.2%	-0.3%	0.3%	1.5%	1.6%	1.9%	2.0%	3.0%	9.4%
3 Month	6.2%	10.0%	0.0%	4.8%	2.7%	2.7%	3.5%	-1.1%	0.4%	4.1%
1 Year	13.5%	22.1%	11.7%	6.3%	4.3%	6.9%	4.7%	2.7%	1.1%	-2.6%
CYTD	8.6%	16.7%	10.1%	7.8%	1.3%	3.2%	1.4%	4.1%	2.1%	-2.1%

[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

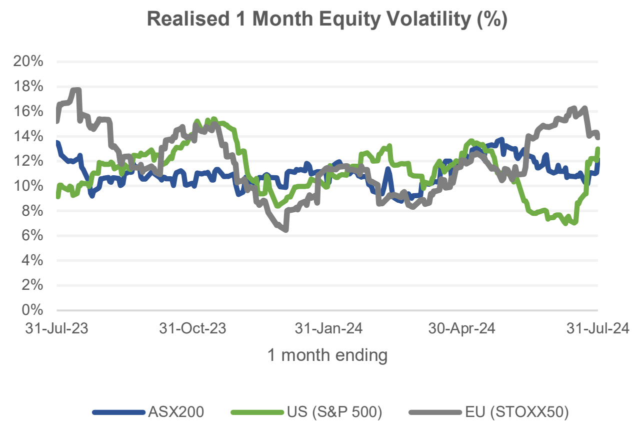
● Implied volatility, often viewed as the market's fear index, has increased for the ASX200 and S&P 500, with both indicies above the 75th percentile over the past year. The implied likelihood of the S&P 500 falling more than 10% and 5% in August has increased from last month, currently sitting at 2% and 10%, respectively.

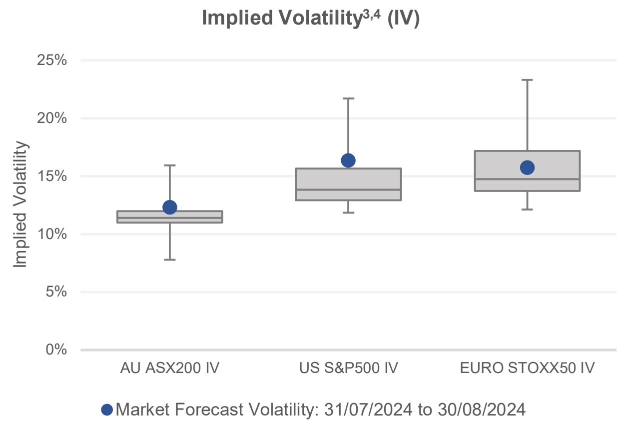
● The global rates had been moving sideways due to the mixed US job claims and economic growth figures until the last week of July, during which FED Chair Powell became more dovish and commented that a rate cut may come as soon as September. Additionally, the ADP Employment Change over July came in modestly under market expectation. The recent activity data in Europe, the UK and Canada has been weakening, and both the Bank of England (BoE) and the Bank of Canada (BoC) have already started their easing cycle. Both the BoE and the FED still had lingering concerns about their local service inflation, while rate cuts have been gradually priced in the futures market.

● The BOJ surprisingly lifted its cash rate from 0.1% to 0.25% and released a plan to adjust its bond-purchase program. Together with Powell's dovish comment, this led to a narrowing interest rate differential and accelerated the retracement in USD/JPY from its record level earlier in July. The Japanese Yen had weakened as much as 15% at one stage against USD this calendar year, and this had been a well-sought-after carry trade while the Japanese equities performed up 27% at their peak this calendar year. This turned around quickly as many traders started rushing for the exit to take profit and pushed Asian equities lower and the Yen higher.

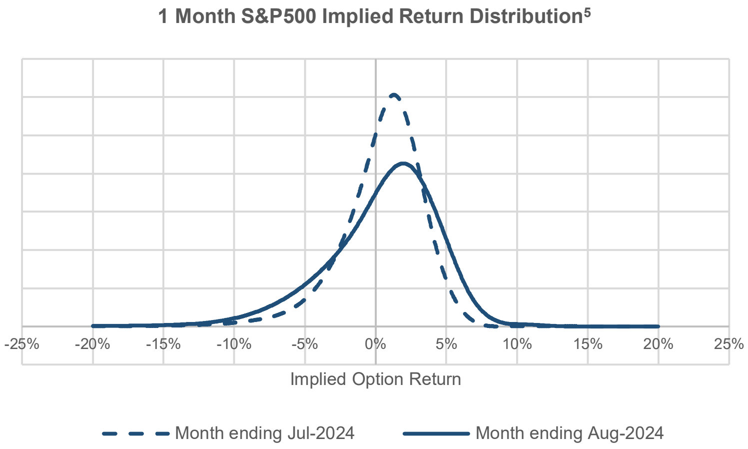
● The core Q2 Australian CPI came in just under consensus, and the implied odds switched from a possible rate hike to a full cut by next February. This rate view change helped the ASX200 to climb higher over July and pushed the Australian Dollar lower against the Greenback. The dead-cat bounce in the Chinese equities due to sluggish domestic growth recovery and lack of meaningful fiscal stimulus did not inspire market sentiment in the rest of Asia.

● The VIX climbed from just above 12 to over 18 at one stage during July, which signalled the investors became more nervous. One factor was the escalation in the Middle East conflict between Israel and Lebanon. Another area of concern is the poor earnings in the US tech sector, while the Russell 2000 Index reached a record high in July.





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 Aug-2024	Month ending Jul-2024
Falling more than 10%	**~ 2%**	~ 1%
Falling more than 5%	**~ 10%**	~ 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

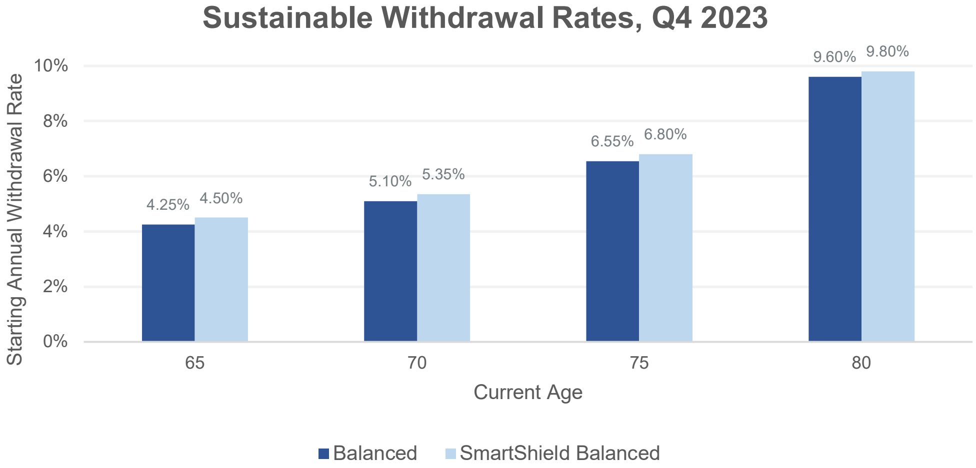
We observe that sustainable withdrawal rates at the end of Q1 2024, are unchanged compared to Q4 2023.

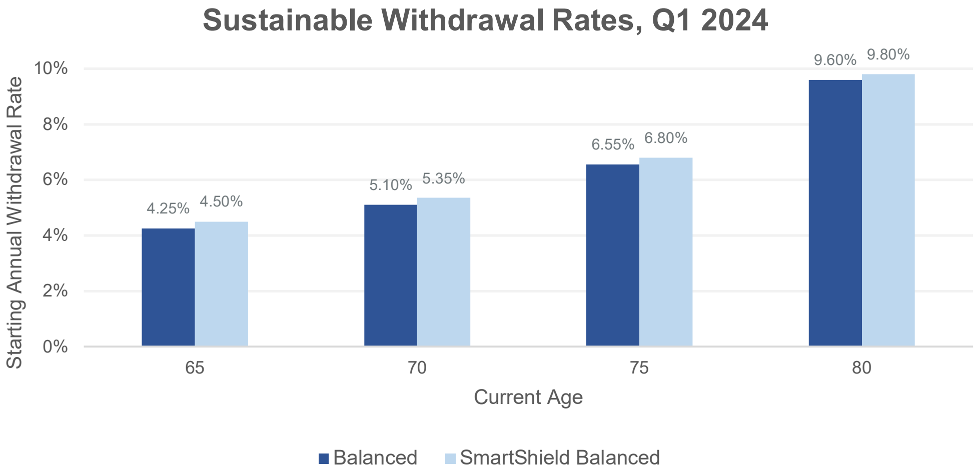
This is primarily driven by negligible change in interest rate levels over the period of 10 year government bond yields; decreasing by approximaterly 5bps, leading to insignificant simulated returns from all asset classes.

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 July, Milliman's SmartShield portfolios maintained an average hedge level of approximately 4% for Australian equities and global equities.





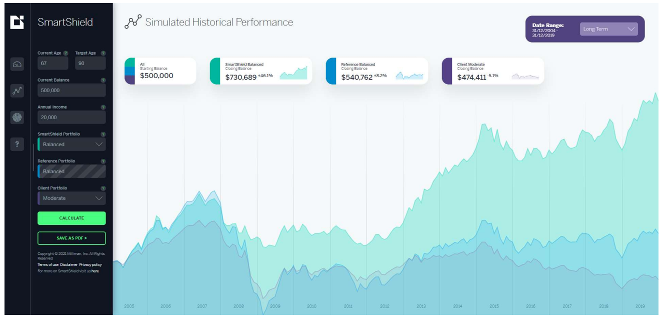
Sustainable Withdrawal Rate is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to be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



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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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