Milliman Market Monitor - August 2024

Market Commentaries

Equities

● The primary factors influencing equity market returns through August were concerns over weaker-than-expected economic data and ongoing speculation over future central bank policy. There was a dramatic sell-off to start the month, however, markets quickly recovered. At the Jackson Hole symposium, US FOMC chair Jerome Powell gave a strong indication that an easing cycle would begin very soon in the US. US equities bounced back from the initial sell-off at the start of the month. The S&P 500 returned +2.4%.

● European equities were slightly stronger this month, with the EuroStoxx 50 returning +1.8%. UK equities were flat this month; the FTSE 100 gained 0.1%.

● Japanese equities had a poor month due to ongoing yen weakness following the Bank of Japan (BoJ)'s decision to hike rates at the end of July. Japanese equities experienced the sharpest drop in the broad sell-off in early August, with both the Nikkei and Topix futures falling over 12% in a single day. The markets quickly bounced back the next day and regained most of these losses. Ultimately, the Nikkei closed the month lower, returning -1.2%.

● Aussie equities had a neutral month, with the ASX 200 closing virtually flat for the month. The RBA held rates steady in their latest meeting. July CPI was slightly higher than predicted at 3.5% YoY. Tech stocks were the best-performing sector, up +6.1%, while energy was the worst performer, returning -7.8%.

Fixed Income

● Unlike equities, US fixed-income markets did not bounce back as much following the initial sell-off at the start of August. US 10-year Treasury yields closed at 3.9034%, a 13 basis point drop.

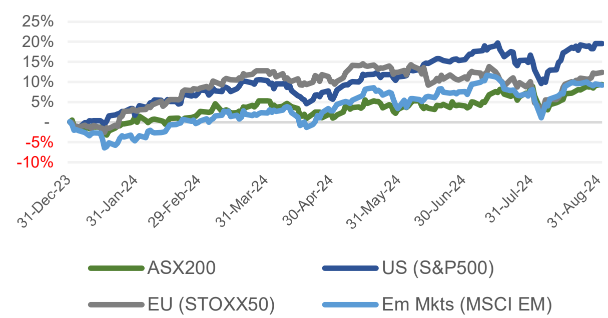
● Australian government bond yields also fell this month, with the 10-year yield closing at 3.967% (a 15bp fall). Overall, Australian bonds returned +1.3%, and global bonds returned +1.0%, as measured by their Bloomberg Aggregate Indices.

Currencies

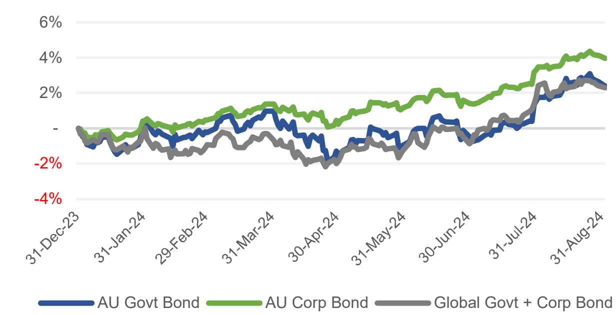
● The Aussie dollar strengthened this month against the USD, the AUD/USD rate returned +3.3%, closing at 67.65 US cents.

● The Aussie Dollar was stronger against the other major currencies this month.

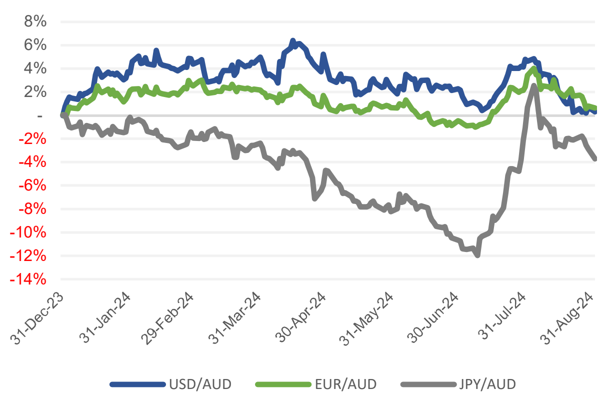
Equities: YTD Total Return[1] %



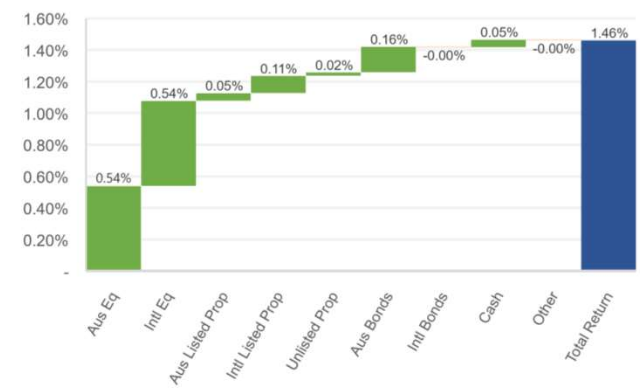
Fixed Income: YTD Return[2] %



Foreign Currencies: YTD Return %



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



Returns ending 31 August 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	0.5%	2.4%	1.8%	1.6%	1.3%	0.9%	1.0%	-3.3%	-1.3%	-0.8%
3 Month	5.7%	7.4%	-0.3%	5.9%	3.7%	3.0%	3.7%	-1.7%	0.1%	5.8%
1 Year	14.9%	27.1%	18.2%	15.1%	4.9%	6.8%	6.0%	-4.2%	-2.3%	-4.6%
CYTD	9.1%	19.5%	12.1%	9.5%	2.6%	4.1%	2.4%	0.7%	0.8%	-2.9%

[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

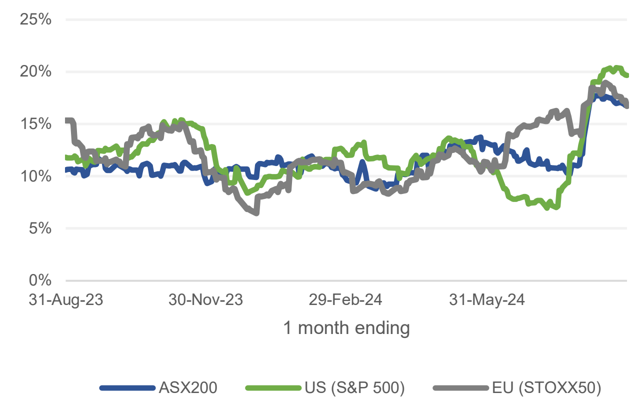
● Implied volatility, often viewed as the market's fear index, has decreased for the ASX200, S&P 500, and Stoxx 50. While the ASX200 remains below the 50th percentile, the S&P 500 and Stoxx 50 remain above the 50th percentile over the past year. The implied likelihood of the S&P 500 falling more than 10% and 5% in September has reduced from last month, currently sitting at 2% and 7%, respectively.

● The market dynamics in early August demonstrated the fragility in the market segments associated with crowded strategies such as the USD/JPY carry trade where investors borrowed cheap funding out of Japan to earn much higher interest rates from investing in US bonds but were exposed to the currency risk. The BoJ surprisingly lifted its cash rate from 0.1% to 0.25% at the end of July with hawkish language that helped the Japanese Yen continue to strengthen against the greenback. The much weaker-than-expected job numbers and the manufacturing ISM figure being in a contractionary range early this month led to concern about global growth and the speculation of a “hard landing”.

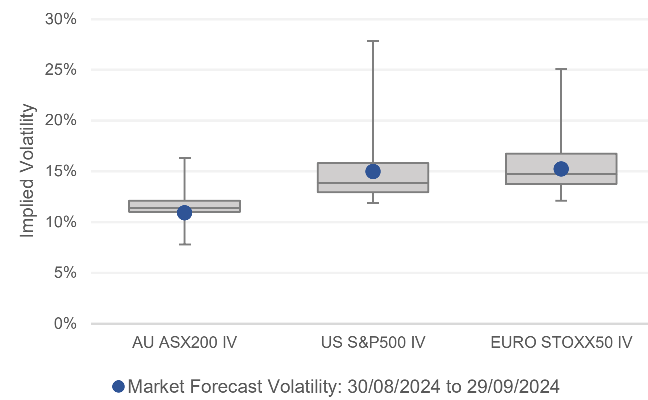
● The weaker U.S. data pushed USD rates lower and made the Japanese Yen more expensive, which is not good for Japanese exporters. N225 fell nearly 20% earlier this month before starting to recover after both the BoJ and the Fed called for calm, as well as more optimistic economic releases in the middle of August. By the end of the month, most equity indices had more than recovered the early losses except Japanese equities. The Fear Index, VIX, reached 38.57 before coming down to 15 by the end of the month, indicating a large swing in market sentiment.

● The RBA held its cash rate constant this month while remaining cautious about domestic inflation. It indicated that the benchmark for a rate cut in the near term is high, but the market consensus is that the “peak rate” has been reached. What can surprise the market is the persistent non-tradable inflation and the aggregate domestic consumption, which is still growing due to population gain despite retail sales per capita having been falling over the past 2 years. The domestic job gain over July was higher than expected, but the unemployment rate still ticked up as more people are looking for work. Second-quarter wage inflation was below consensus, and household cumulative savings during COVID are close to depleted. These point to more challenging future trading conditions and lower economic activities.

Realised 1 Month Equity Volatility (%)

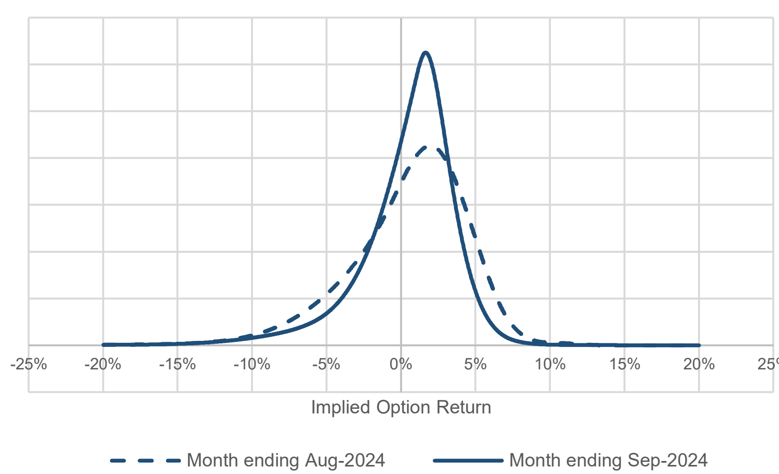


Implied Volatility[3,4] (IV)



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 Sep-2024	Month ending Aug-2024
Falling more than 10%	**~ 2%**	~ 2%
Falling more than 5%	**~ 7%**	~ 10%

[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

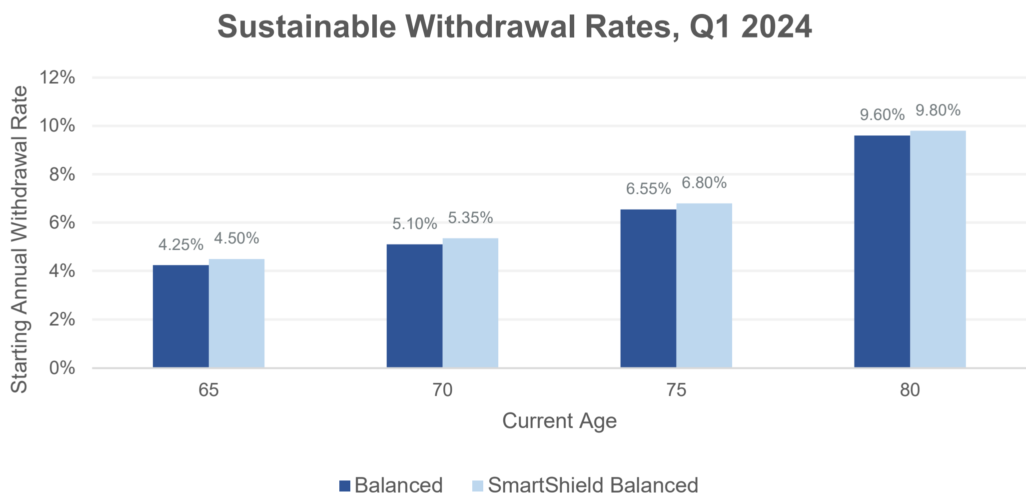
We observe that sustainable withdrawal rates at the end of Q2 2024, are higer compared to Q1 2024.

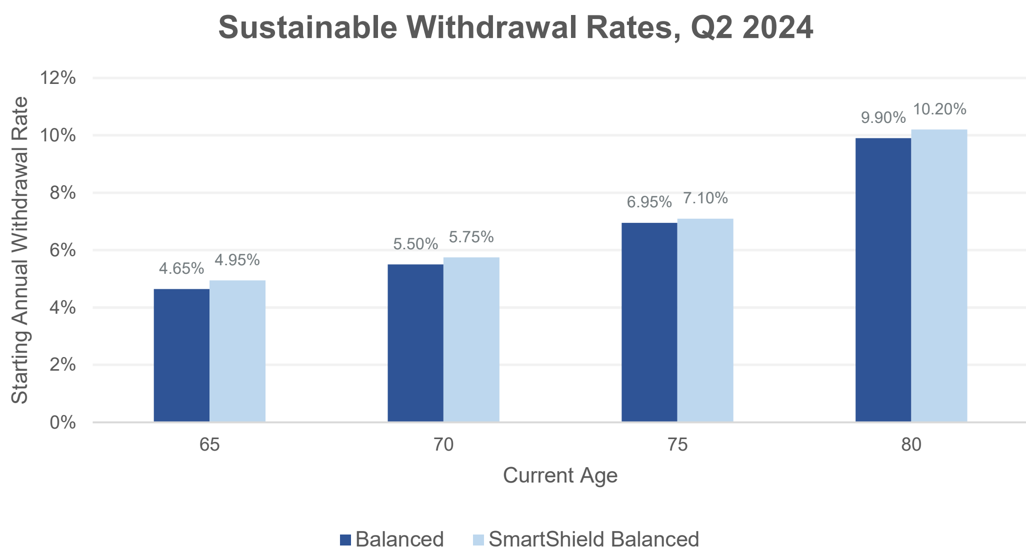
This is primarily driven by the change in interest rate levels over the period of 10 year government bond yields increasing by approximaterly 34bps, leading to higher simulated returns from all asset classes.

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



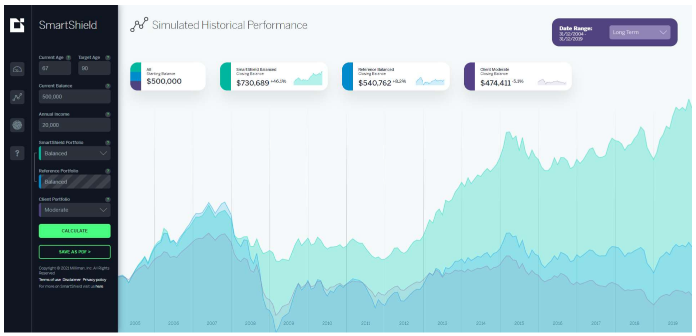


Sustainable Withdrawal Rate is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to be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