

**Market Price Monitor**

**Local Equity Markets**

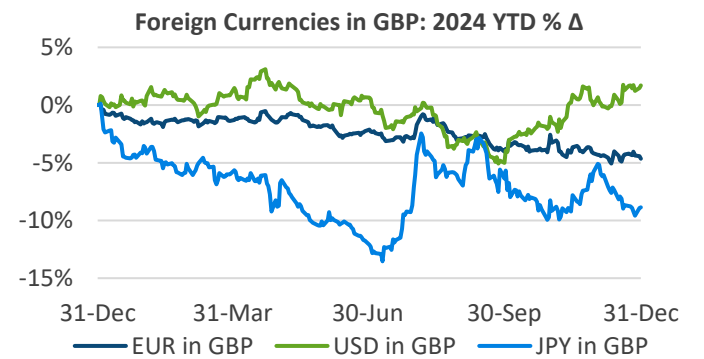
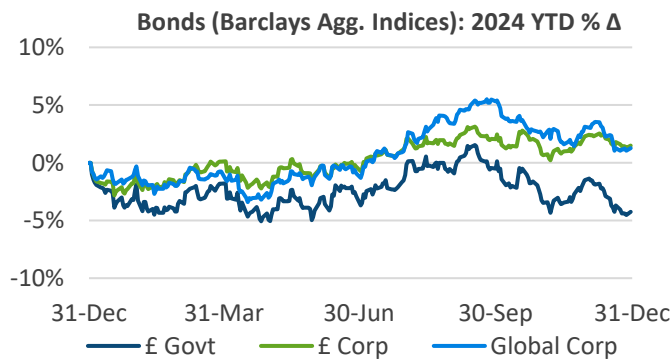
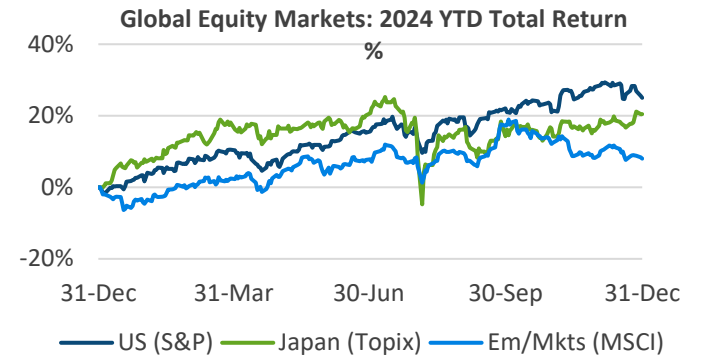
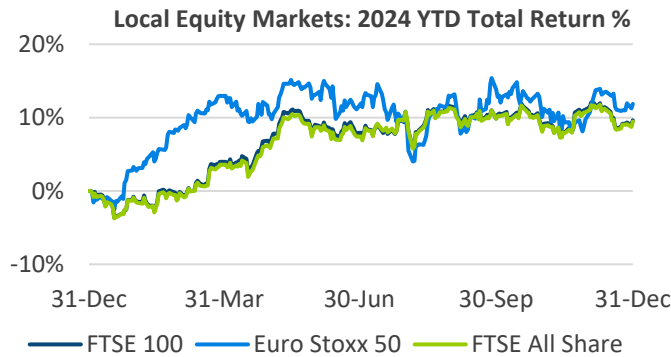
- Global equity markets had a mixed performance in December, as the US Federal Reserve projections showed fewer rate cuts in 2025.
- The FTSE 100 ended the month down 1.3%, having gained 9.7% over 2024.
- The Euro Stoxx 50 was up 1.9% in December.

**Global Equity Markets**

- Despite losing 2.4% in December, the S&P 500 outperformed in 2024, returning 25.0%.
- The Topix was up 4.0%.
- The MSCI Emerging Markets index ended the month relatively flat.

**Bond/FX Markets**

- Both the British government and corporate bond indices fell in December. The former was down 2.5% and the latter fell by 0.6%.
- The British Pound had a mixed performance in December, strengthening against the Euro and the Japanese Yen by 0.5% and 3.2%, respectively. However, the British Pound weakened against the US Dollar by 1.7%.



	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	-1.3%	-1.2%	1.9%	-2.4%	4.0%	-0.1%	-2.5%	-0.6%	-2.0%	-0.5%	1.7%	-3.2%
3 Month	-0.2%	-0.4%	-1.7%	2.4%	5.4%	-7.8%	-3.5%	-0.3%	-4.0%	-0.6%	7.0%	-2.6%
1 Year	9.7%	9.5%	11.9%	25.0%	20.5%	8.1%	-4.0%	1.7%	1.1%	-4.6%	1.7%	-8.9%
YTD	9.7%	9.5%	11.9%	25.0%	20.5%	8.1%	-4.0%	1.7%	1.1%	-4.6%	1.7%	-8.9%

## Milliman Financial Risk Management

London Market Monitor – 31 December 2024

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

### Insurance Monitor

#### Solvency II Risk Free Rates

- GBP risk-free rates increased at all terms in December.
- The 10 and 30-year GBP risk-free rates rose by 39 and 36 basis points, respectively.
- EUR risk-free rates rose at all terms in December, except for the 1-year rate which fell by 1 basis point.
- The 10 and 20-year EUR risk-free rates increased by 21 and 20 basis points, respectively.
- The EUR CRA was unchanged and remains floored at 10 basis points.

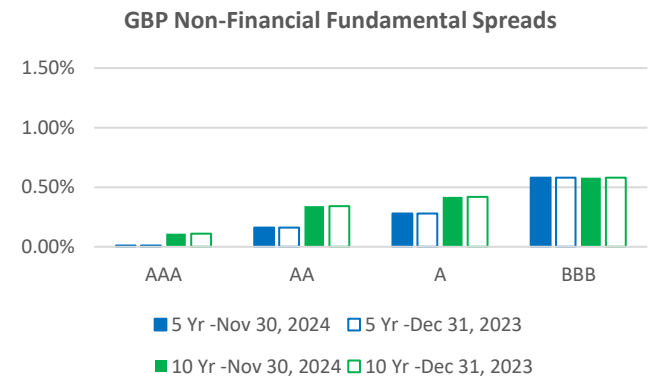
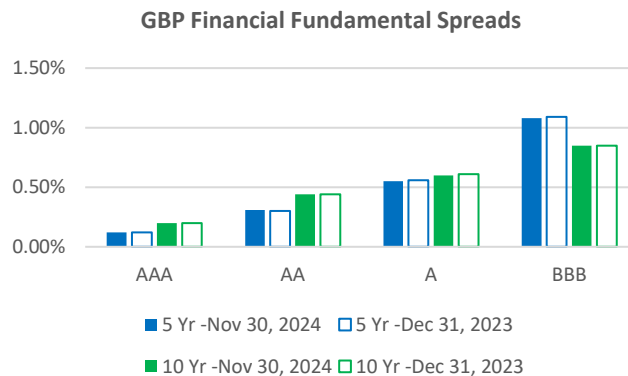
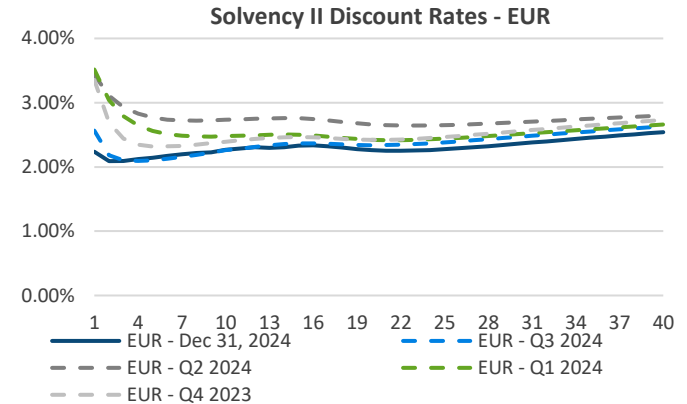
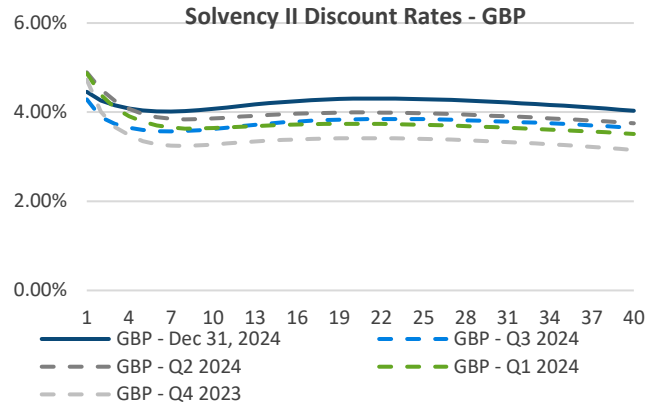
The **Solvency II risk-free discount rates** are calculated independently based on applying the Smith-Wilson Extrapolation to swap rates sourced from Bloomberg and applying the Credit Risk Adjustment as defined in the Technical Specs. For the official published curves please refer to [EIOPA](#) and [PRA](#)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

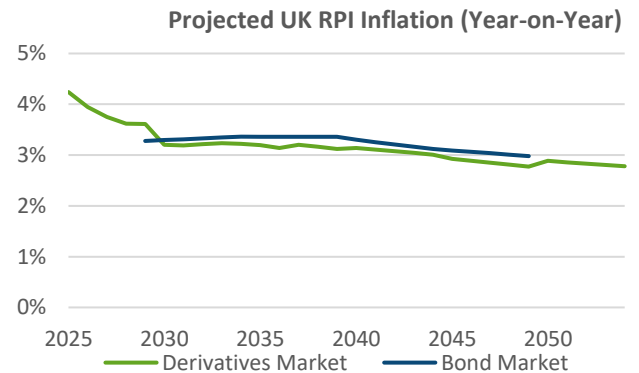
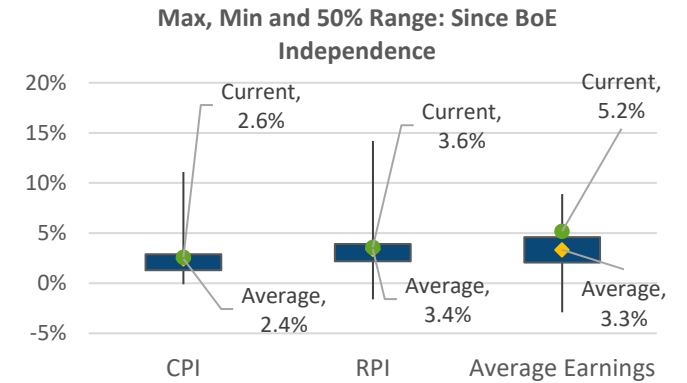
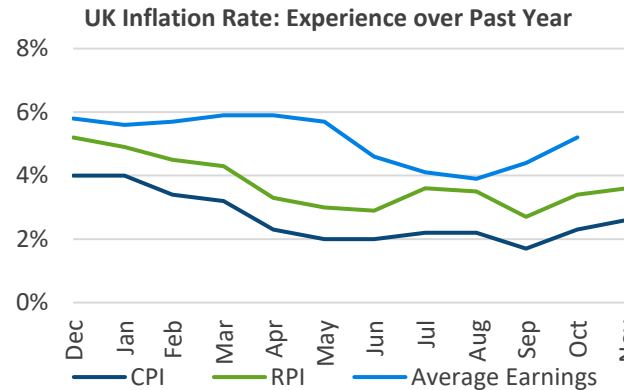


	Change in GBP Discount Rates (bps)				
	1Y	Y5	Y10	Y20	Y30
Since Q3 2024	17	44	45	46	43
Since Q2 2024	-44	8	21	31	31
Since Q1 2024	-42	25	43	56	57
Since Q4 2023	-27	69	80	89	89

	Change in EUR Discount Rates (bps)					
	1Y	Y5	Y10	Y20	Y30	CRA
Since Q3 2024	-33	4	1	-8	-11	0
Since Q2 2024	-120	-63	-47	-40	-33	0
Since Q1 2024	-128	-42	-21	-16	-15	0
Since Q4 2023	-112	-18	-12	-16	-19	0

UK Inflation Monitor

- UK's CPI rose by 30 basis points to 2.6% in November.
- UK's RPI measure increased by 20 basis points to 3.6% in November.
- According to the ONS: "The largest upward contribution came from transport."
- Average earnings rose by 80 basis points to 5.2% in October, after the previous month's figure was revised higher by 10 basis points.
- The projected RPI curve was relatively unchanged from the previous month.



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

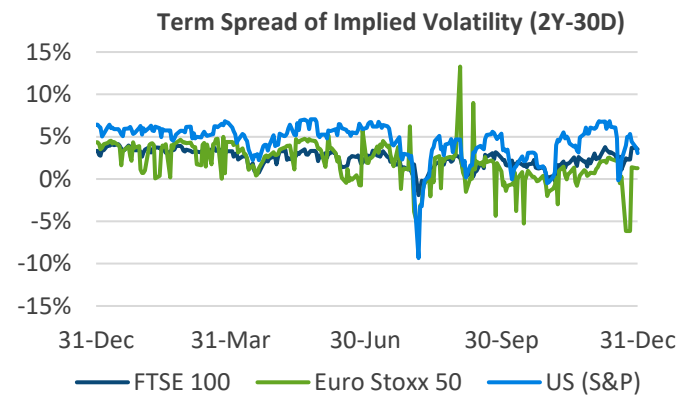
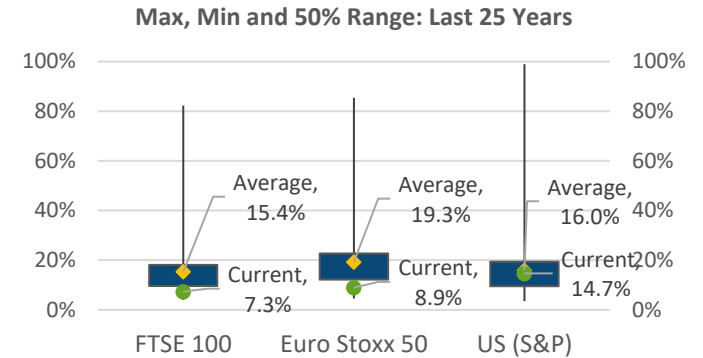
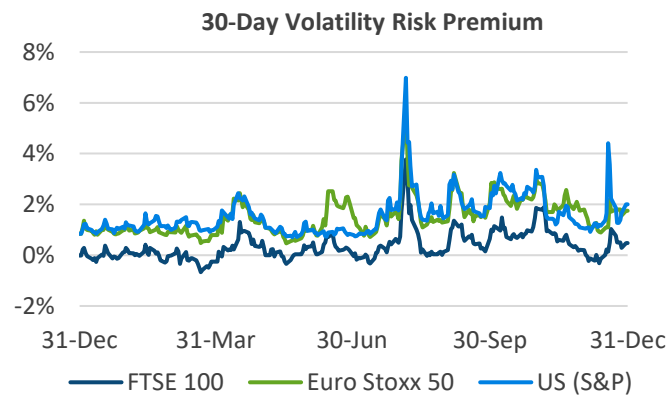
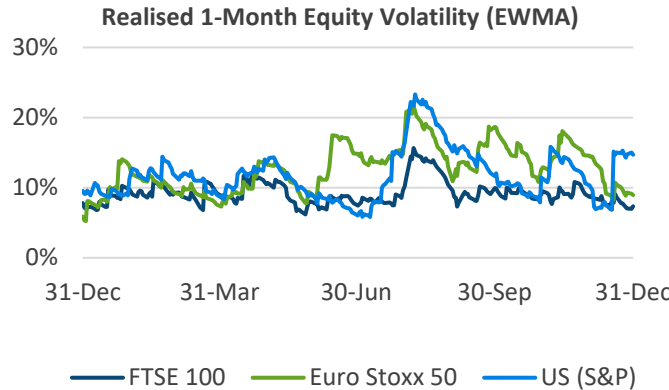
- **Consumer Price Index (CPI)** – measuring the monthly price of a basket of consumer goods and services
- **Retail Price Index (RPI)** – similar to CPI, but the main difference due the addition of mortgage payments, council tax and other housing costs
- **Average Earnings** – measuring the average 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 of the FTSE 100 and the Euro Stoxx 50 fell and in contrast, the realised volatility of the S&P 500 rose in December.
- The FTSE 100 ended the month with a realised volatility of 7.3%. The same measure stood at 8.9% and 14.7% on the Euro Stoxx 50 and the S&P 500, respectively.
- Volatility risk premiums on major indices increased. The FTSE 100 had a volatility risk premium of 0.5% at month-end. The volatility risk premium on the Euro Stoxx 50 was 1.8%, and 2.0% on the S&P 500.
- The change in spread between implied volatility of 2-year and 30-day at-the-money options was mixed but remained positive for the major indices 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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