Milliman Market Monitor - December 2024

Market Commentaries

Equities

● Equity markets ended the year on a dour note, with the S&P 500 closing the month down 2.4%. The U.S. FOMC cut rates by 25 basis points in their December meeting; however, they struck a more 'hawkish' tone as the committee will revise their plans for any future rate cuts.

● European equities were slightly stronger, with the EuroStoxx 50 returning 1.9%. The ECB cut rates by 25 basis points and signaled more rate cuts to come, and this helped offset the soft macroeconomic data and political uncertainty weighing on markets. UK equities were weaker, with the FTSE 100 returning -1.4%.

● Japanese equities were stronger, with the Nikkei up 3.9% as the Bank of Japan stepped back from hiking rates further this month, causing the Yen to fall. The political turmoil in South Korea weighed on the Won; the KOSPI was down 2.3%.

● Aussie equities fell, with the ASX 200 down 3.2%. Most sectors were down; however, the overall drop was mainly due to falls in the Materials and Financials sectors, both down over 4%.

Fixed Income

● Although the FOMC cut rates this month, bond yields rallied as fixed income traders are pricing in the potential inflationary impact of the incoming Trump administration. US 10-year yields rose by 40 basis points to close at 4.569%.

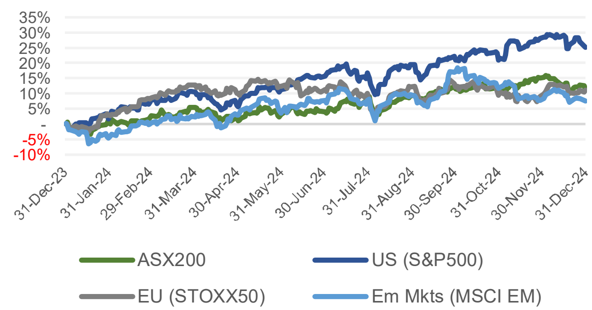
● Australian government bond yields had a more muted December, with 10-year government bond yields only rising 2 basis points to close at 4.362%. The RBA held rates steady in their December meeting; however, they maintain a 'dovish' lean. Overall, Australian bonds returned 0.5%, and global bonds returned -0.9%, as measured by their Bloomberg Aggregate Indices.

Currencies

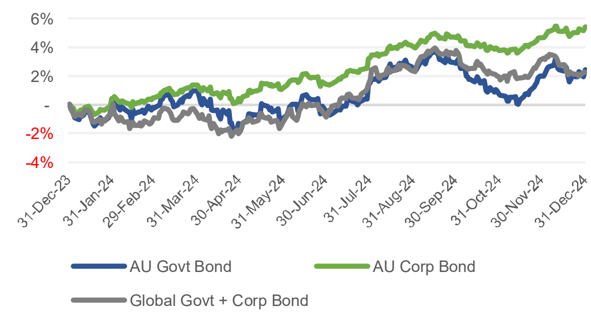
● The Aussie dollar fell sharply against the USD this month following the hawkish pivot of the FOMC. The AUD/USD rate returned -5.2%, closing at 61.88 US cents.

● The Aussie dollar was also significantly weaker against the Euro and British Pound, and slightly worse against the Yen.

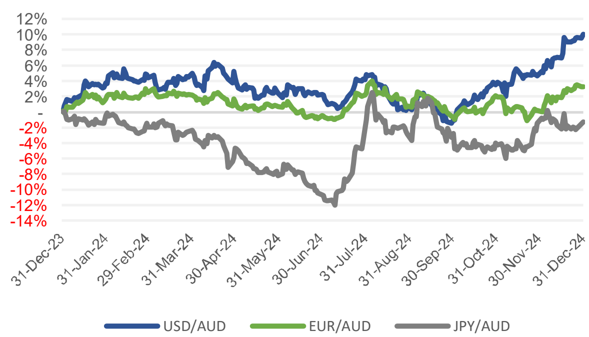
Equities: YTD Total Return[1] %



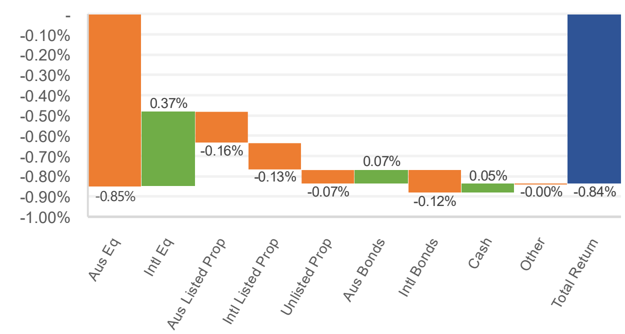
Fixed Income: YTD Return[2] %



Foreign Currencies: YTD Return %



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



Returns ending 31 December 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	-3.2%	-2.4%	1.9%	-0.1%	0.5%	0.7%	-0.9%	5.2%	3.1%	0.2%
3 Month	-0.8%	2.4%	-1.8%	-8.0%	-0.5%	0.7%	-1.2%	11.7%	3.9%	2.1%
1 Year	11.4%	25.0%	11.0%	7.5%	2.4%	5.4%	2.2%	10.1%	3.3%	-1.3%
CYTD	11.4%	25.0%	11.0%	7.5%	2.4%	5.4%	2.2%	10.1%	3.3%	-1.3%

[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

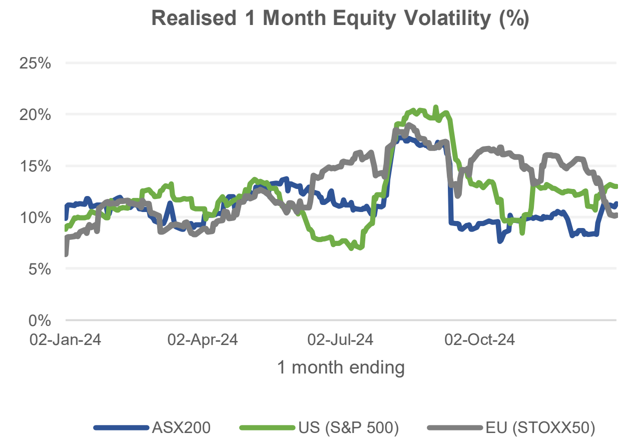
● Implied volatility, often viewed as the market's fear index, has increased for the ASX200, S&P 500, and Stoxx 50, and the S&P 500 remains above the 75th percentile over the past year. The implied likelihood of the S&P 500 falling more than 10% and 5% in January has increased from last month, currently sitting at 2% and 10%, respectively.

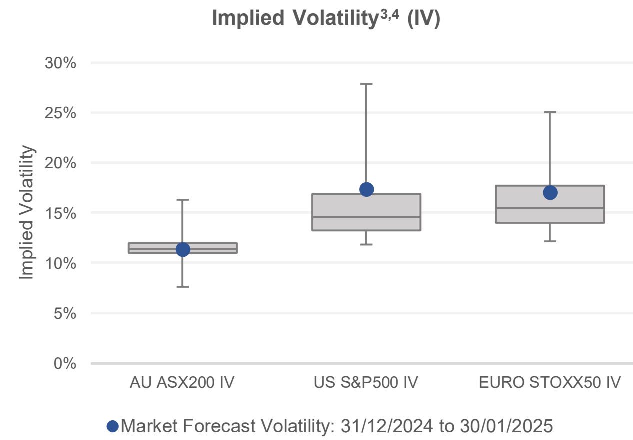
● The US Fed lowered its official cash rate by 25bps in December as anticipated but signaled a slower pace of easing in 2025. This led to the US 10-year yield gaining 40bps over the month and finishing at its highest levels since May. The US 2-year yield also climbed 9bps while the yield curve steepened further to 36bps. The Fed Chair Powell highlighted that the cash rate had been reduced by 100bps thus far from the recent peak and, while inflation has eased significantly over the past two years, it remains somewhat elevated relative to the central bank's 2% longer-run goal.

● Potential rate cuts in the future would also depend on signs that US economic activities are being constrained meaningfully under the current market conditions. The US unemployment rate has increased very gradually to 4.2% from 3.7% a year ago, while the overall wage increase has been relatively strong. There is also material uncertainty around how far the Trump administration will put up their tariffs once they take office in late January 2025, which is likely to result in higher domestic prices and contribute to inflation.

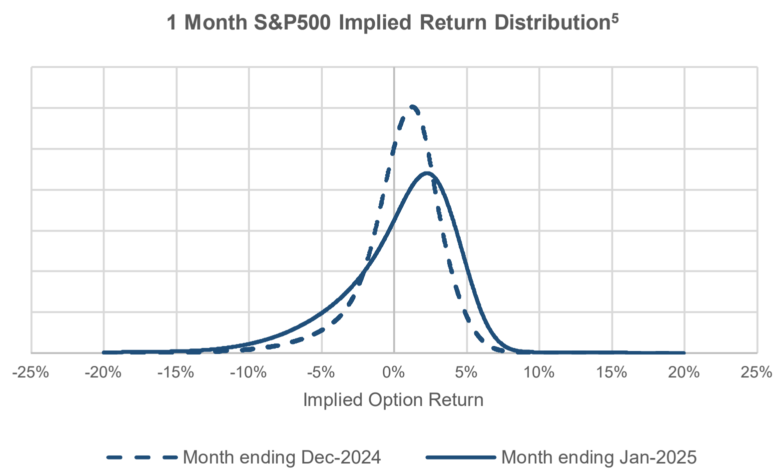
● At the beginning of the month, the global equities were performing well with both the ASX200 and S&P500 making record highs, but they could not hold on to the gains until the end of 2024 and closed at levels lower than a month ago. Some factors for this weakness include dampened FOMC future rate cut projections and sluggish Chinese economic growth despite the material stimulus packages announced back in September.

● The RBA held its official cash rate constant in December, but the post-decision statement indicated there is a “dovish pivot” in Bullock’s language. In particular, she is “not ruling anything out” early next year compared to “not even contemplating a cut” before and has “growing confidence in” falling domestic inflation. The futures market is implying almost a 70% chance of a rate cut at the next meeting in February, and the potential risk to that is that the Australian unemployment rate is still low and the monthly job gains have been rather strong.





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 Jan-2025	Month ending Dec-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.

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Observations on Sustainable Withdrawal Rates

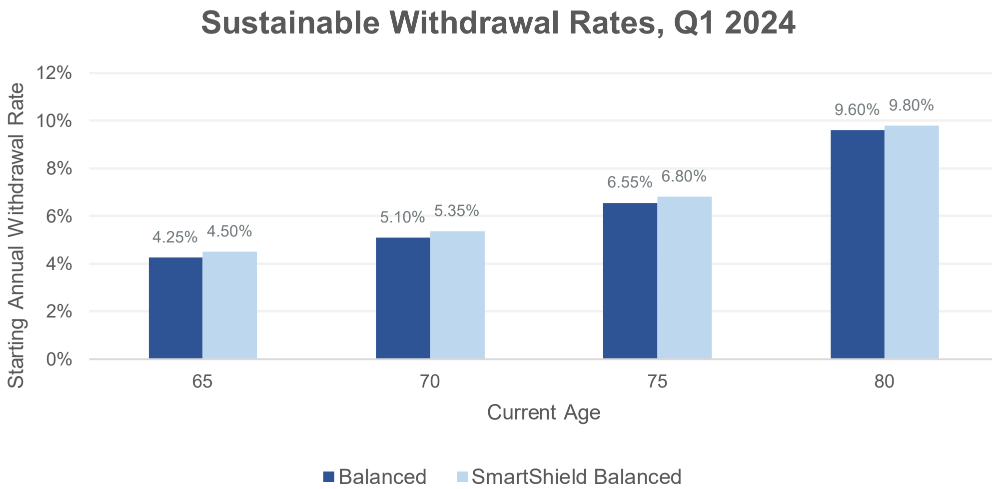
We observe that sustainable withdrawal rates at the end of Q2 2024, are higer compared to Q1 2024.

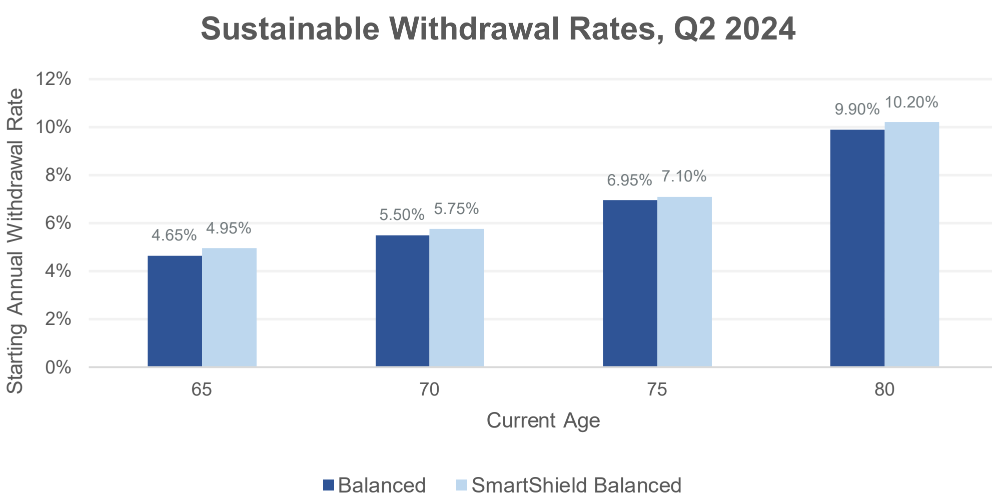
This is primarily driven by the change in interest rate levels over the period of 10 year government bond yields increasing by approximaterly 34bps, leading to higher simulated returns from all asset classes.

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 December, Milliman's SmartShield portfolios maintained an average hedge level of approximately 3% for both Australian equities and 0% global equities.



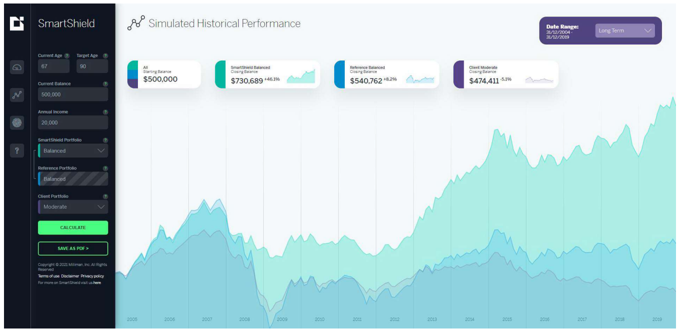


Sustainable Withdrawal Rate is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to be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