## Market Price Monitor

### Local Equity Markets

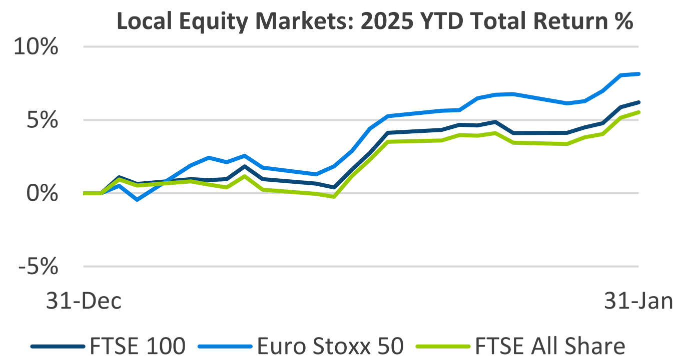
- Global equity markets had a strong start to 2025, with the Euro Stoxx 50 outperforming its global peers as stronger than expected Eurozone economic data and revised earnings expectations supported equities in the region.
- The Euro Stoxx 50 was up 8.1%.
- The FTSE 100 returned 6.2%.

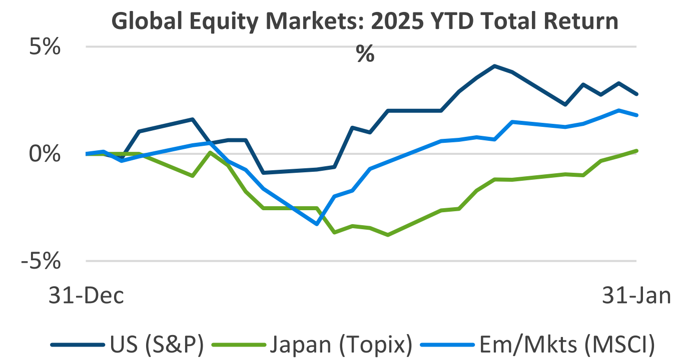
### Global Equity Markets

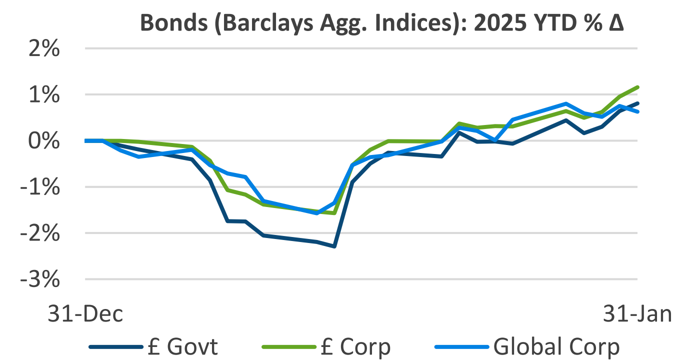
- The S&P 500 ended the month up 2.8%.
- The Topix index ended the month flat.
- The MSCI emerging markets index gained 1.8%.

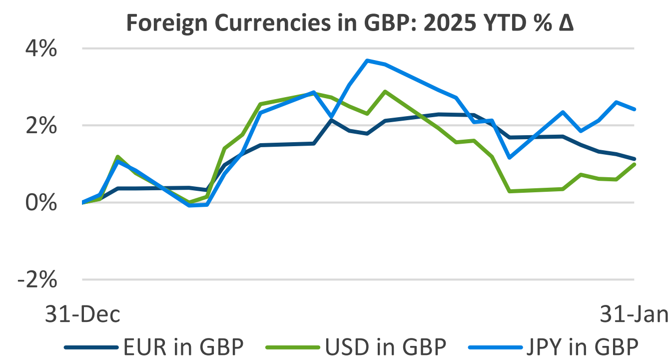
### Bond/FX Markets

- Both the British government and corporate bond indices rose in January. The former was up 0.8% and the latter gained 1.2%.
- The British Pound had a poor performance in January, weakening by 2.4% and 1.1% against the Japanese Yen and the Euro, respectively. The Pound dropped by 1.0% against the US Dollar.




**Total Returns as of January 31, 2025**

| | 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 | 6.2% | 5.5% | 8.1% | 2.8% | 0.1% | 1.8% | 0.8% | 1.2% | 0.6% | 1.1% | 1.0% | 2.4% |
| 3 Month | 7.6% | 6.9% | 9.9% | 6.2% | 3.6% | -1.9% | 0.0% | 2.1% | -0.8% | -1.0% | 3.7% | 1.7% |
| 1 Year | 18.0% | 17.1% | 17.5% | 26.4% | 11.9% | 15.3% | -0.9% | 4.0% | 2.3% | -2.0% | 2.6% | -3.2% |
| YTD | 6.2% | 5.5% | 8.1% | 2.8% | 0.1% | 1.8% | 0.8% | 1.2% | 0.6% | 1.1% | 1.0% | 2.4% |

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

## Insurance Monitor

### Solvency II Risk Free Rates

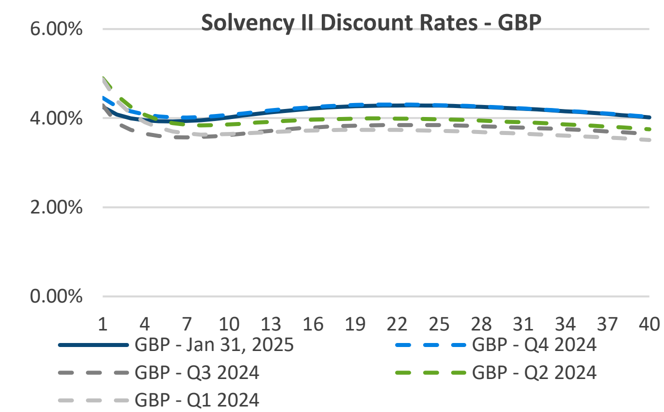
- GBP risk-free rates fell at all terms in January, with the declines more pronounced at the short-end of the curve.
- The 1 and 5-year GBP risk-free rates fell by 20 and 10 basis points, respectively.
- EUR risk-free rates rose in the region of 5 to 8 basis points in January.
- The EUR CRA was unchanged and remains floored at 10 basis points.

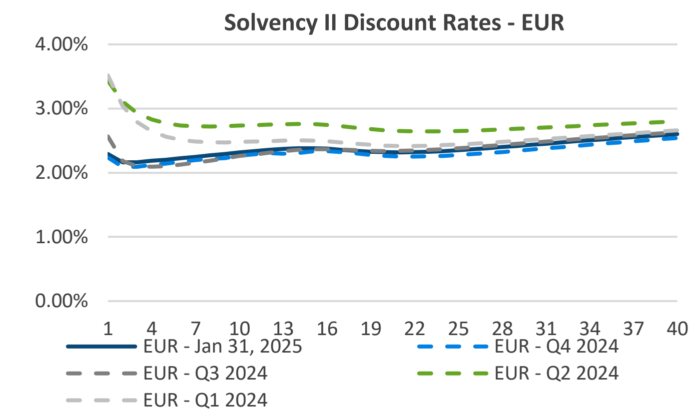
The **Solvency II risk-free discount rates** are calculated independently based on applying the Smith-Wilson Extrapolation to swap rates sourced from Bloomberg and applying the Credit Risk Adjustment as defined in the Technical Specs. For the official published curves please refer to EIOPA and PRA websites.

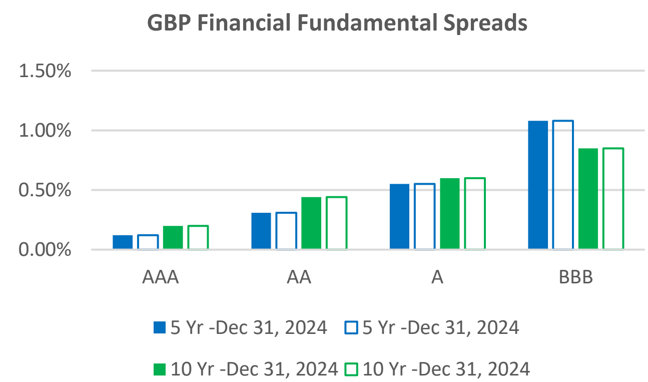
### Solvency II Fundamental Spreads

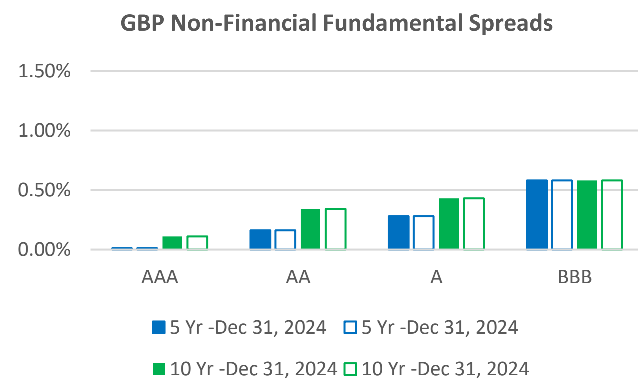
- There were no material changes since the start of the year.

**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 Q4 2024 | -20 | -10 | -5 | -2 | -1 |
| Since Q3 2024 | -3 | 33 | 40 | 44 | 43 |
| Since Q2 2024 | -64 | -3 | 16 | 28 | 31 |
| Since Q1 2024 | -62 | 15 | 38 | 54 | 56 |

**Change in EUR Discount Rates (bps)**

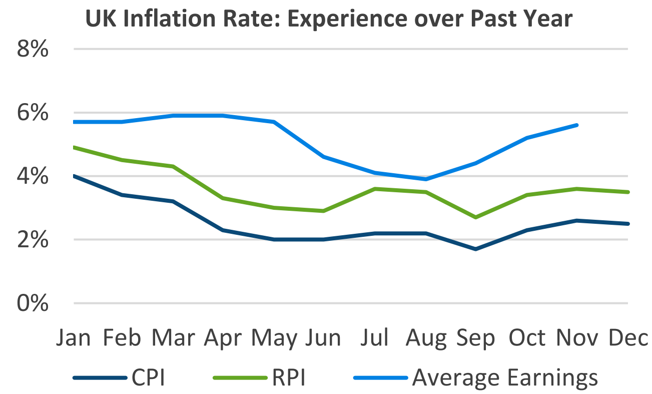
| | 1Y | Y5 | Y10 | Y20 | Y30 | CRA |
|---|---|---|---|---|---|---|
| Since Q4 2024 | 6 | 6 | 5 | 6 | 8 | 0 |
| Since Q3 2024 | -28 | 10 | 6 | -2 | -3 | 0 |
| Since Q2 2024 | -114 | -57 | -42 | -34 | -26 | 0 |
| Since Q1 2024 | -123 | -36 | -16 | -10 | -7 | 0 |

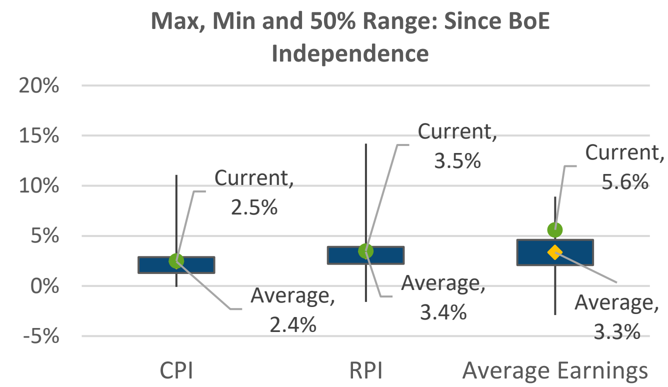
**Milliman Financial Risk Management**
London Market Monitor – 31 January 2025

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

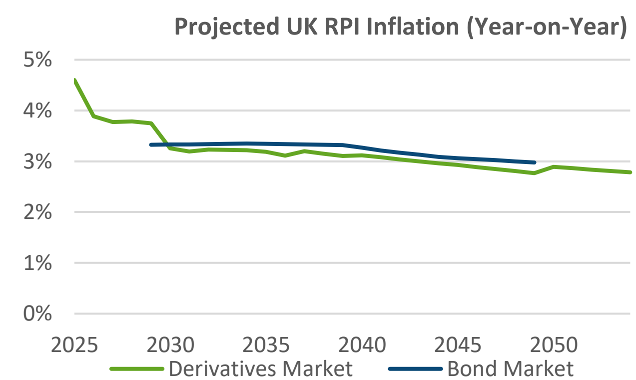
## UK Inflation Monitor

- UK's CPI fell by 10 basis points to 2.5% in December.
- Similarly, UK's RPI measure decreased by 10 basis points to 3.5% in December.
- According to the ONS: *"The largest downward contribution came from restaurants and hotels; the largest upward contribution came from transport."*
- Average earnings rose by 40 basis points to 5.6% in November.
- The projected RPI curve increased at the short-end in comparison to 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.

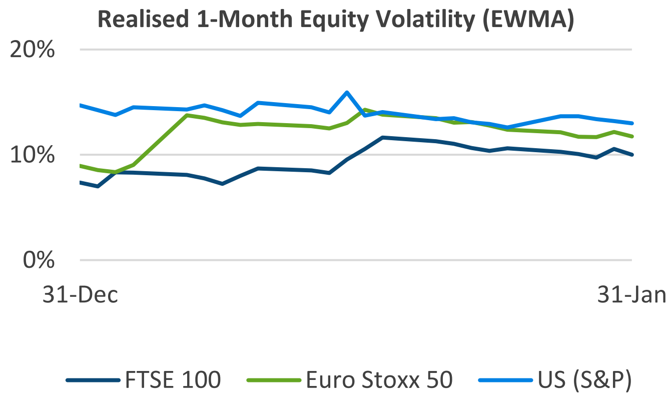
Milliman Financial Risk Management

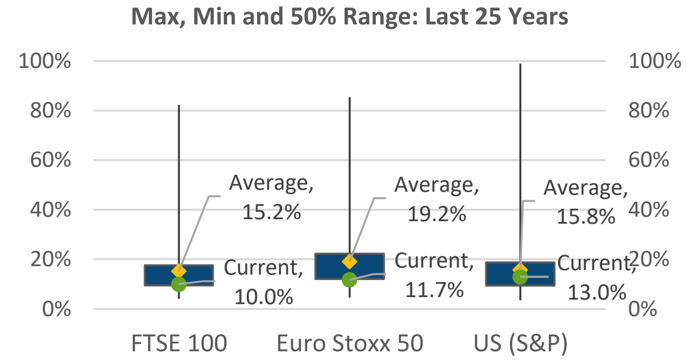
London Market Monitor – 31 January 2025

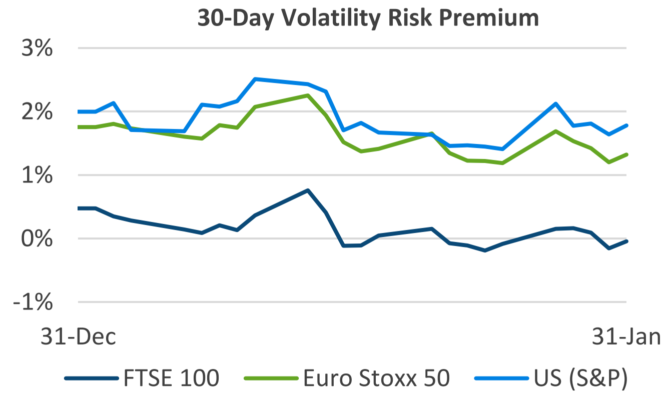
***Data sources: Bloomberg; Barclays; EIOPA; PRA; ONS; Milliman FRM***

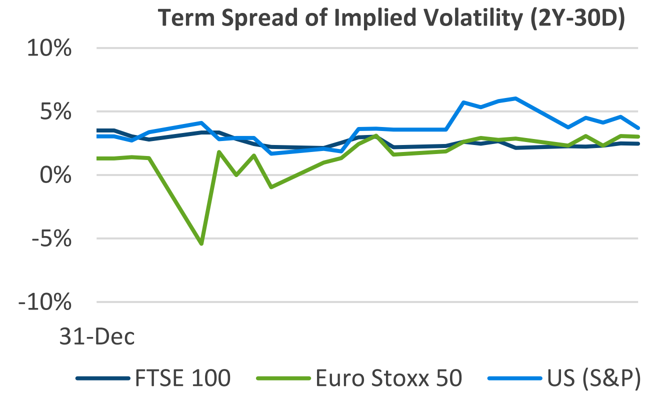
## Volatility and Hedging Cost Monitor

- Realised volatilities of the FTSE 100 and the Euro Stoxx 50 increased, whilst the realised volatility of the S&P 500 was lower at month-end.
- The FTSE 100 ended the month with a realised volatility of 10.0%. The same measure stood at 11.7% and 13.0% on the Euro Stoxx 50 and the S&P 500, respectively.
- Volatility risk premiums on major indices declined. The FTSE 100 had a volatility risk premium of 0.0% at month-end. The volatility risk premium on the Euro Stoxx 50 was 1.3%, and 1.8% 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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Established in 1998, the practice includes professionals operating from four trading platforms around the world (Chicago, London and Sydney).

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