Milliman Market Monitor - February 2025

Milliman

Market Commentaries

Equities

● Growing concerns over the impact of the Trump administration's policy led US equities to fall this month. In particular, mega-cap tech stocks dragged the index lower. The S&P 500 total return index returned -1.3%.

● European equities outperformed US equities again this month. The EuroStoxx 50 TR index gained 3.4%. UK equities were also stronger, with the FTSE 100 TR index returning 2.0%.

● Japanese equities fell sharply due to the yen strengthening. The Nikkei TR index lost 6.1%, while the Topix TR index fell 3.8%.

● Aussie equities also fell 3.8% this month as most sectors posted losses. The best-performing sectors were Utilities and Communication Services, gaining over 3% each. The worst sectors this month were IT, down 12.3%, and Healthcare, down 7.7%.

Fixed Income

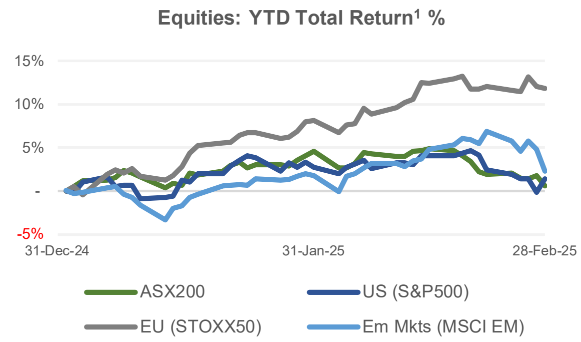
● US yields fell this month, with the 10-year yield falling 33 basis points to close at 4.2082%. Despite the possibility of Trump's tariffs inflating prices further, fixed income markets were more concerned with weaker US sentiment data and concerns over growth.

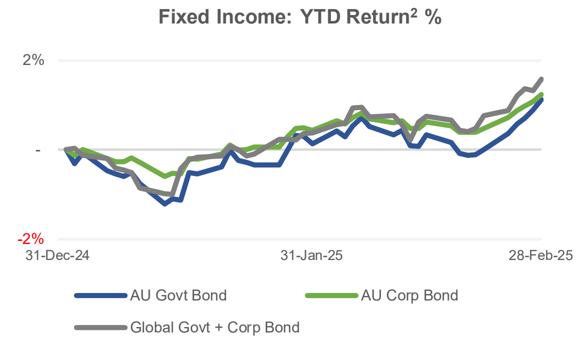
● Australian government bond yields also fell this month as the RBA cut rates in their February meeting. Aussie 10-year yields fell 13.5 basis points to 4.2941%. Overall, Australian bonds returned 1%, and global bonds returned 1.2%, as measured by their Bloomberg Aggregate Indices.

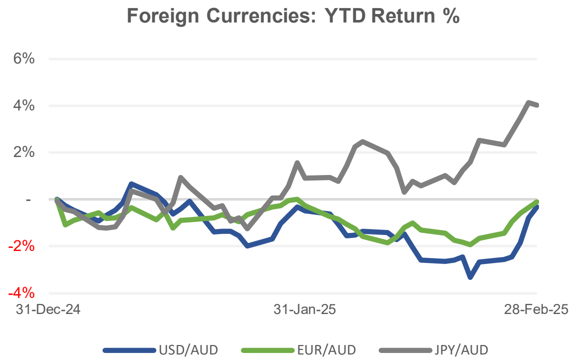
Currencies

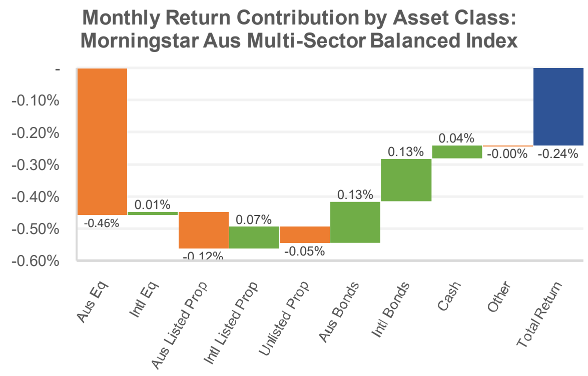
● The Aussie dollar was slightly weaker against the USD this month, closing at 62.09 US cents (a 0.1% fall).

● The Aussie dollar fell significantly against the Pound (-1.5%) and the Yen (-3.0%). It was marginally weaker against the Euro, down 0.2%.









Returns ending 28 February 2025

	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	-3.8%	-1.3%	3.4%	0.5%	1.0%	0.8%	1.2%	0.1%	0.2%	3.1%
3 Month	-2.6%	-1.0%	14.0%	2.1%	1.6%	2.0%	0.7%	4.9%	3.0%	4.3%
1 Year	9.9%	18.4%	14.8%	10.1%	3.8%	6.2%	5.0%	4.6%	0.5%	4.2%
CYTD	0.6%	1.4%	11.8%	2.3%	1.1%	1.2%	1.6%	-0.3%	-0.1%	4.0%

¹Equities returns captures both the capital gains as well as any cash distributions, such as company dividends.
²AU 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. The S&P 500 and Stoxx50 remains above the 75th percentile over the past year. The implied likelihood of the S&P 500 falling more than 10% and 5% in March has increased from last month, currently sitting at 4% and 12%, respectively.

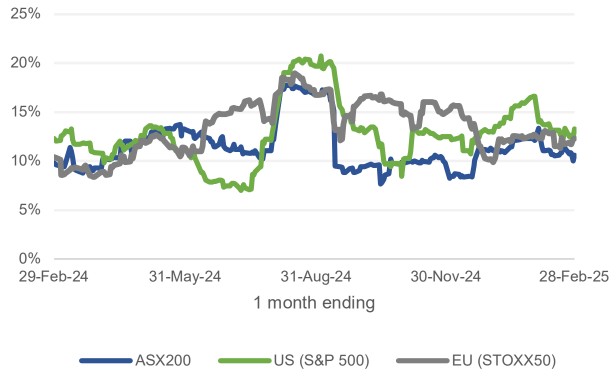
● The US Treasury yields fell over February as investors switched their attention from how Trump's tariffs might derail the domestic disinflation momentum to their implications on the medium- to long-term economic growth. The tariffs are taxes on imported goods, paid by US consumers so reduce their purchasing power. While this can raise tax revenue in the short term, it hinders the economy in the long term. Despite the UST 10-year yield falling 31 bps and most FOMC members still being supportive of cutting rates cautiously, the S&P500 total-return fell 1.3% and VIX Index increased to 19.63.

● Trump introduced an additional 10% tariff on Chinese goods and insisted on pressing with a 25% tariff against Canada and Mexico to take effect on March 4th. Both countries face the risk of recession without a material trade surplus against the US. The Bank of England lowered its cash rate from 4.75% to 4.5% in February (third cut since August 2024) as the central bank tried to avoid a recession.

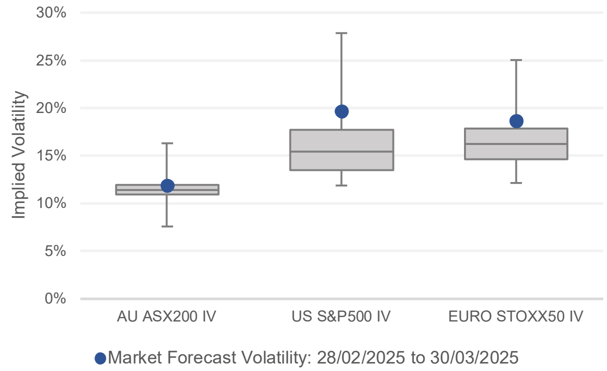
● The RBA lowered its cash rate by 25 bps (to 4.1%) this month for the first time since 2021 as the latest flash domestic headline and core inflation are just under 3%. Both wage increases and GDP growth have been slowing. What worries the RBA is the resilient domestic employment where the unemployment rate now at 4.2% which is historically low compared to the past when entering a monetary easing cycle. Other factors also include the recent low Australian Dollar and upcoming US tariffs, which could lead to a pickup in inflation.

● The ASX200 reached a new record high near 8,556 in February on the back of an improved Westpac consumer confidence index, the stretching valuations (P/E) of domestic banks as well as the anticipated rate cut. Unfortunately, the market could not hold on and in fact finished the month 4.2% lower than the previous month. The retracement came as investors had to rebase their expectations after earnings results, which were about average, but the overall equity valuations were embedded with high expectations and met with disappointments.

Realised 1 Month Equity Volatility (%)

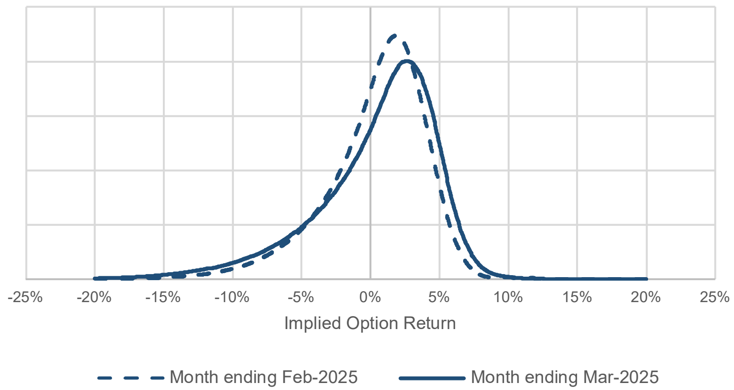


Implied Volatility[3,4] (IV)



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 Mar-2025	Month ending Feb-2025
Falling more than 10%	**~ 4%**	~ 2%
Falling more than 5%	**~ 12%**	~ 9%

[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

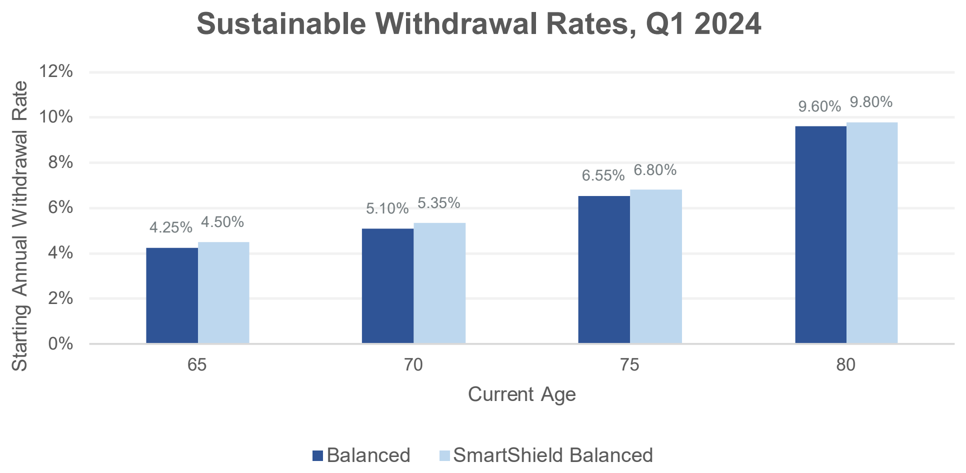
We observe that sustainable withdrawal rates at the end of Q2 2024, are higer compared to Q1 2024.

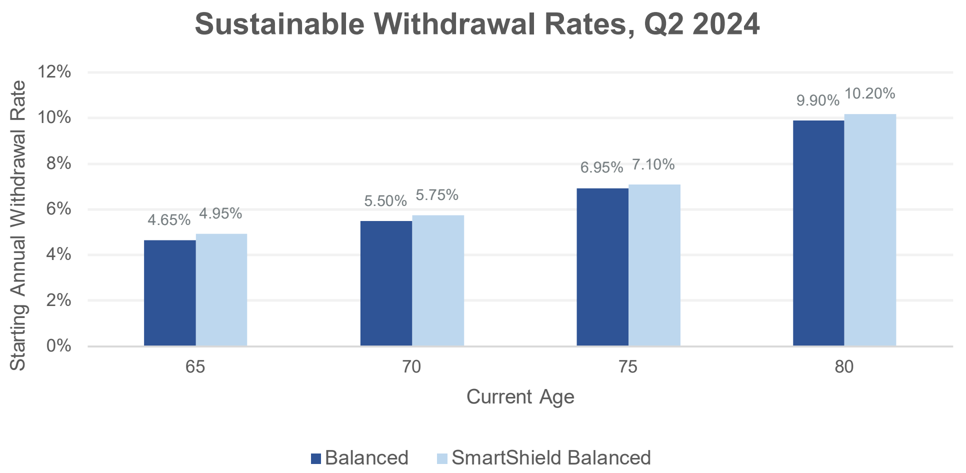
This is primarily driven by the change in interest rate levels over the period of 10 year government bond yields increasing by approximaterly 34bps, leading to higher simulated returns from all asset classes.

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



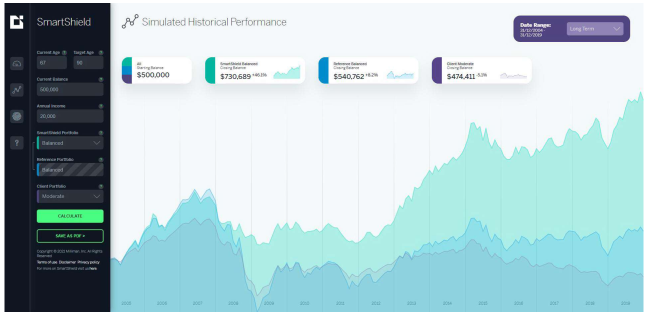


Sustainable Withdrawal Rate is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to be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