Milliman Market Monitor - March 2025

Market Commentaries

Equities

● Global equity markets fell this month due to US economic and geopolitical concerns, driven by rising yields and tariff issues. The S&P 500 TR index returned -5.6%.

● European equities also fell but fared better than those in the US. The EuroStoxx 50 TR index returned -3.8%. UK equities were also weaker, with the FTSE 100 TR index returning -2.0%.

● Japanese equities also fell, with the Nikkei TR index returning -3.3%, while the Topix TR index gained 0.2%.

● Aussie equities also fell this month as most sectors posted losses. The ASX200 TR index was down 3.4%. The best-performing sectors were Utilities, up 2.2%, and Materials, up 0.2%. The worst sectors this month were IT, down 9.6%, and Consumer Discretionary, down 6.2%.

Fixed Income

● US yields were up mid-month but ended the month largely unchanged. The 10-year yield fell 0.3 basis points to close at 4.2053%. The latest US Personal Consumption Expenditure data (for February) surprised markets on the upside, suggesting an uptick in inflation due to the threat of tariffs.

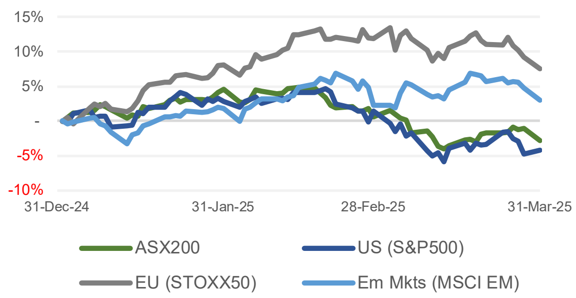
● Australian government bond yields climbed this month, with the 10-year yield gaining 9 basis points to 4.3841%. Overall, Australian bonds returned 0.1%, and global bonds returned -0.4%, as measured by their Bloomberg Aggregate Indices.

Currencies

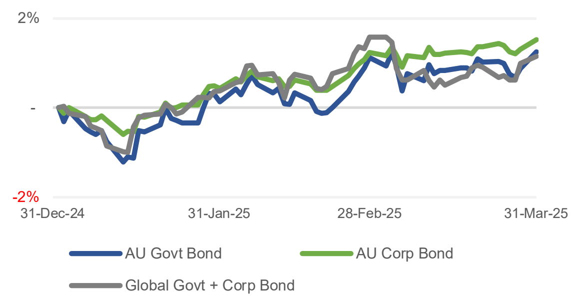
● The Aussie dollar was slightly stronger against the USD this month, closing at 62.47 US cents (a 0.6% gain).

● The Aussie dollar fell significantly against the Euro (-3.6%) and the British Pound (-2.0%), but it was up against the Yen (+0.2%).

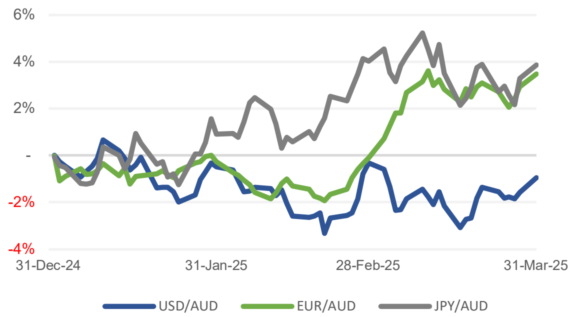
Equities: YTD Total Return[1] %



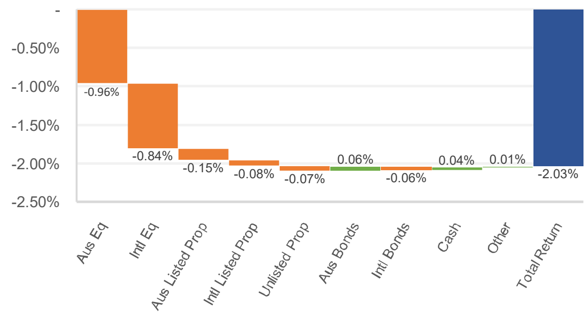
Fixed Income: YTD Return[2] %



Foreign Currencies: YTD Return %



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



Returns ending 31 March 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	-3.4%	-5.6%	-3.8%	0.6%	0.1%	0.3%	-0.4%	-0.6%	3.6%	-0.2%
3 Month	-2.8%	-4.3%	7.5%	2.9%	1.2%	1.5%	1.1%	-0.9%	3.5%	3.9%
1 Year	2.8%	8.3%	5.8%	8.1%	2.7%	5.6%	3.7%	4.4%	4.5%	5.2%
CYTD	-2.8%	-4.3%	7.5%	2.9%	1.2%	1.5%	1.1%	-0.9%	3.5%	3.9%

[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 increased significantly for the ASX 200, S&P 500, and Stoxx 50, each remaining above the 75th percentile over the past year. The implied likelihood of the S&P 500 falling more than 10% and 5% in April has increased from last month, currently sitting at 5% and 15%, respectively.

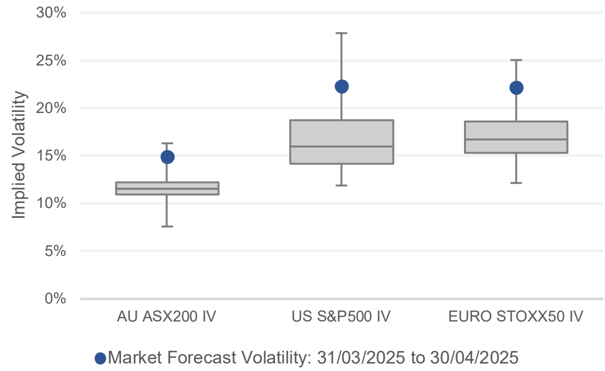
● The overall market sentiment deteriorated further in March as investors continued to ride the roller coaster of uncertainties in Trump's trade policy. Trump pressed ahead with tariffs against Canada, Mexico, and Europe, and he also threatened further retaliatory tariffs if necessary. In addition to the existing 10% tariff on Chinese goods, the 25% tariff on steel and aluminum coming into the USA will now also include automobiles and parts not made in the USA. The S&P 500 Total Return Index fell 5.6%, and the VIX Index almost reached 28 during the month.

● Both the monthly inflation number (PCE) for February and forward-looking inflation were higher than expected. Recent indicators provided mixed signals about the US economic health, which is not as robust as in 2024. The ISM Manufacturing Index fell, and there is a lower expectation for job growth. The ISM was only supported by an increase in the service sector, while the pickup in durable goods last month was mostly due to people rushing to buy cars ahead of the tariffs. There is elevated concern over stagflation, while most FOMC members remain unsure how the introduced tariffs will affect domestic inflation in the near future.

●The RBA held its cash rate at 4.1% this month, as expected. The ABS released domestic 4Q 2024 GDP growth of 0.6%, also as expected, and GDP per capita rose marginally following seven consecutive quarters of decline. Westpac consumer confidence improved over the month, and the Australian monthly CPI for February was 2.4% year-over-year, slightly below the consensus of 2.5%. However, Australian employment surprisingly dropped in February. These factors have contributed to an increase in the number of rate cuts priced into the futures market, from 2.5 to 3. Bullock, however, signaled to the market that it is still uncertain how the US tariffs will impact the Australian economy, and the overall labor market condition remains tight with a low unemployment rate.

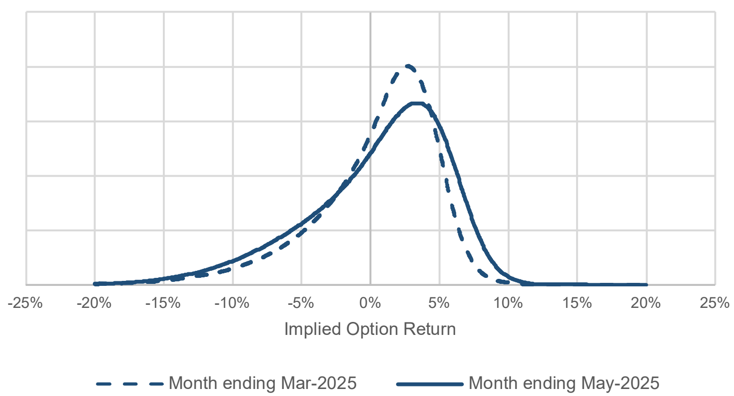
Realised 1 Month Equity Volatility (%)

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 Apr-2025	Month ending Mar-2025
Falling more than 10%	**~ 5%**	~ 4%
Falling more than 5%	**~ 15%**	~ 12%

[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

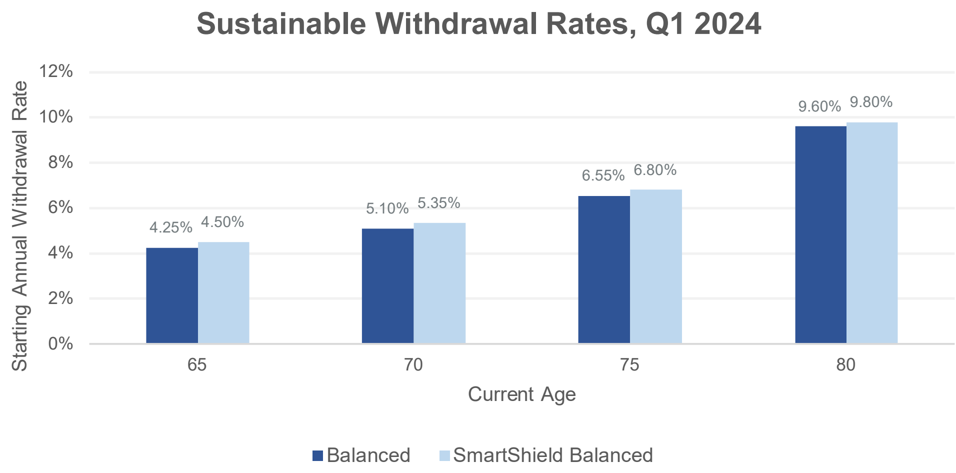
We observe that sustainable withdrawal rates at the end of Q2 2024, are higer compared to Q1 2024.

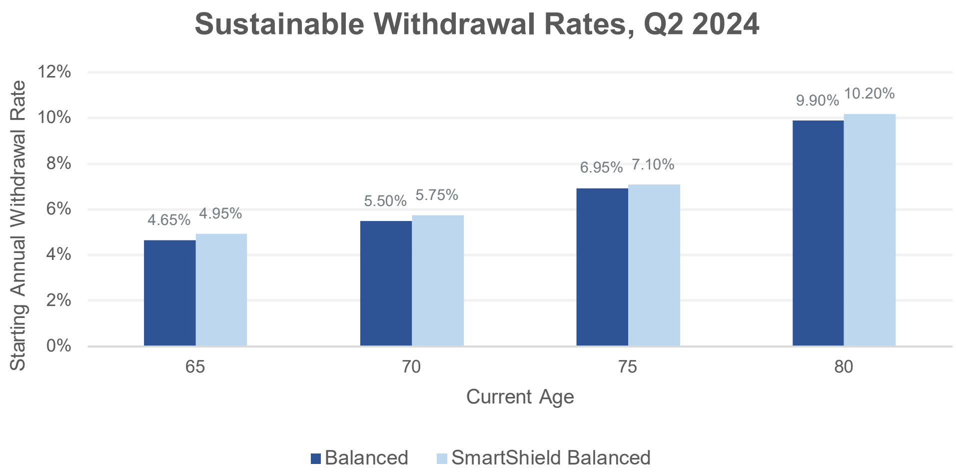
This is primarily driven by the change in interest rate levels over the period of 10 year government bond yields increasing by approximately 34bps, leading to higher simulated returns from all asset classes.

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 March, Milliman's SmartShield portfolios maintained an average hedge level of approximately 21% for both Australian equities and 4% global equities.



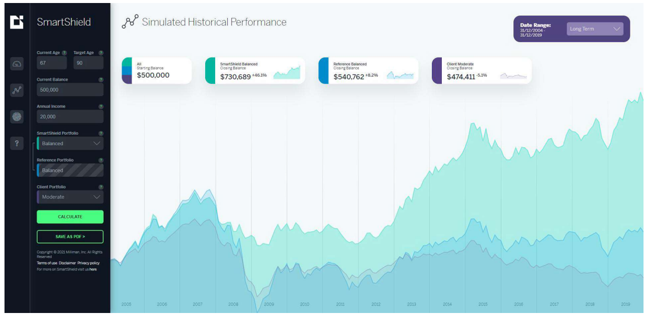


Sustainable Withdrawal Rate is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to be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