Milliman Market Monitor - May 2025

Market Commentaries

Equities

● Equities in May improved as US and Chinese officials were set to resume their dialogue. Although no significant breakthroughs were announced, US officials sounded optimistic about the negotiations. The S&P 500 TR index returned 6.29%.

● European equities also gained, with the EuroStoxx 50 TR index returning 5.10%. UK equities were stronger, with the FTSE 100 TR index returning 3.27%.

● Japanese equities advanced, with the Nikkei TR index returning 5.33%, while the Topix TR index gained 5.03%.

● Australian equities returned positively, partly due to lower tariffs placed on their goods. The ASX 200 index gained 4.2%. Most sectors posted gains, including Communication Services, Industry, Info Tech, Consumer Staples, and Financials, all up over 5%. The only sectors to post losses were Health and Energy stocks, down 6.55% and 7.98%, respectively.

Fixed Income

● Another month of tariff headline volatility has left rates with a lack of clarity around the path forward. US yields were also volatile this month, with significant moves, especially at the long end of the curve. The 10-year yield increased to 4.4% before spiking to 4.59% on May 22nd. The 10-year US Treasury note yield is a key metric that helps price trillions of dollars in global assets and is seen as a catalyst for the economy.

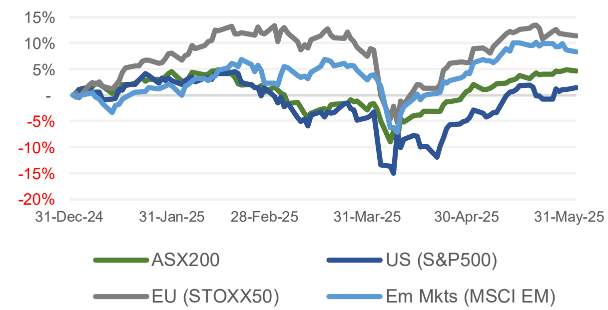
● Australian government bond yields rose this month, with the 10-year yield up 9 basis points to 4.258%. Overall, Australian bonds returned 0.1%, while global bonds returned -0.4%, as measured by their Bloomberg Aggregate Indices.

Currencies

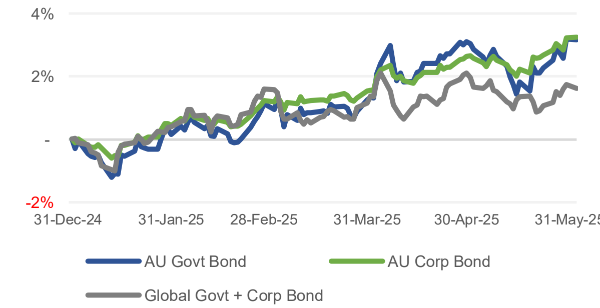
● The Australian dollar was stronger against the USD this month following the tariff news, closing at 64.31 US cents, a 0.5% gain.

● The Australian dollar gained against the Euro (0.3%) and the Yen (1.1%) but fell against the British Pound (-0.15%).

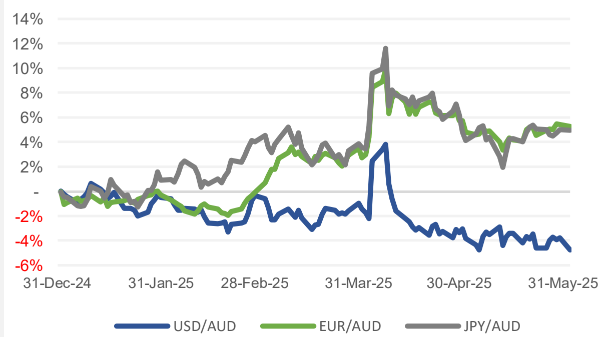
Equities: YTD Total Return[1] %



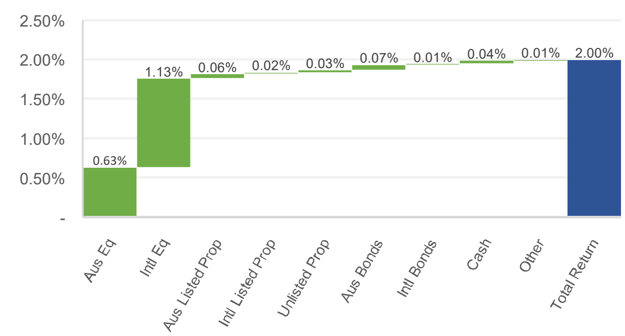
Fixed Income: YTD Return[2] %



Foreign Currencies: YTD Return %



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



Returns ending 31 May 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	4.2%	6.3%	5.1%	4.3%	0.1%	0.6%	-0.4%	-0.5%	-0.3%	-1.1%
3 Month	4.3%	-0.4%	-0.2%	6.3%	2.1%	2.0%	0.1%	-3.5%	5.5%	0.9%
1 Year	13.4%	13.5%	10.3%	13.0%	6.8%	7.6%	5.3%	3.5%	8.2%	13.0%
CYTD	5.0%	1.1%	11.7%	8.7%	3.2%	3.2%	1.7%	-3.8%	5.4%	5.0%

[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, frequently regarded as the market's fear index, has decreased. While the S&P 500 and Stoxx 50 remain above the 50th percentile over the past year. The implied probability of the S&P 500 declining by more than 10% and 5% in June has decreased from last month, currently standing at 4% and 12%, respectively.

● Global equity markets have shifted their focus from Trump's spontaneous trade announcements to real economic data, with several positive indicators boosting the S&P 500. The US Non-Farm Payroll for April exceeded expectations, coming in at +177k compared to the consensus of +138k. Strong ISM figures, particularly in the service sector, along with relatively strong recent retail sales, have further supported market recovery.

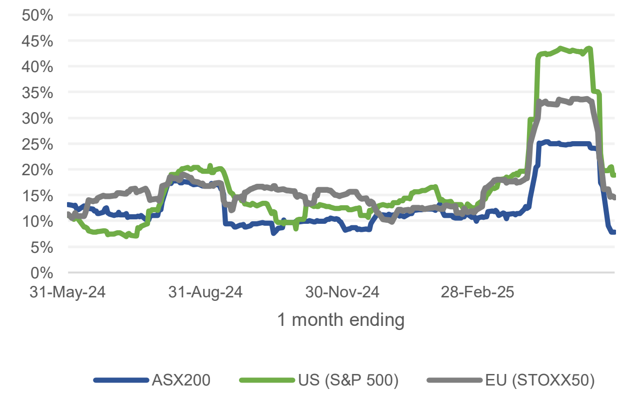
● Market volatility in U.S. Treasury yields was elevated this month, with several occurrences of intra-day trading ranges reaching 15 basis points. Recent U.S. inflation data came in lower than expected, and the US-China tariff pause announcement temporarily pushed yields lower. FOMC officials are not in a rush to adjust interest rates, preferring to wait for more clarity on trade policies and their economic impact.

● Moody's downgraded the U.S. credit rating to Aa1, aligning it with Fitch and S&P, which led to an increase in yields due to higher credit premiums. The passage of a new tax-and-spending bill under Trump contributed to higher U.S. Treasury yields, adding $3.2 trillion to projected deficits over the next decade. Meanwhile, the U.S. debt-to-GDP ratio climbed further beyond 100%. A poorly received U.S. Treasury auction resulted in the 30-year yield approaching 5.15%.

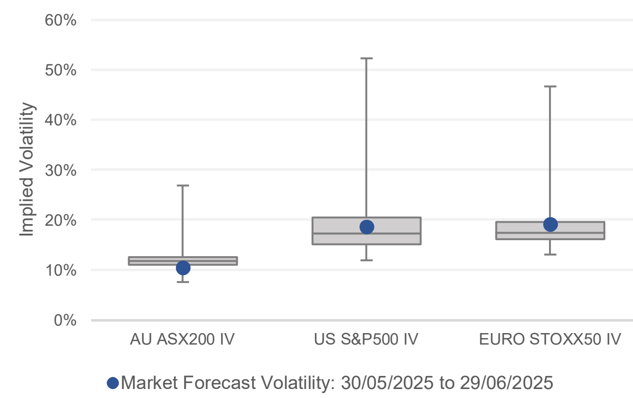
● The domestic wage growth surpassing expectations at 3.4% annualized in Q1 and a significant job gain of 89,000, though the unemployment rate remained steady at 4.1% in April. Despite these developments, the RBA cut the cash rate by 25bps as anticipated but also delivered a dovish outlook, emphasizing uncertainties in global trade policies and their potential impact on domestic growth and employment, shifting focus away from inflation concerns to support domestic growth and jobs.

● The Australian headline inflation figures released this month were slightly higher than expected, but they did not alter the anticipation of future rate cuts.

Realised 1 Month Equity Volatility (%)

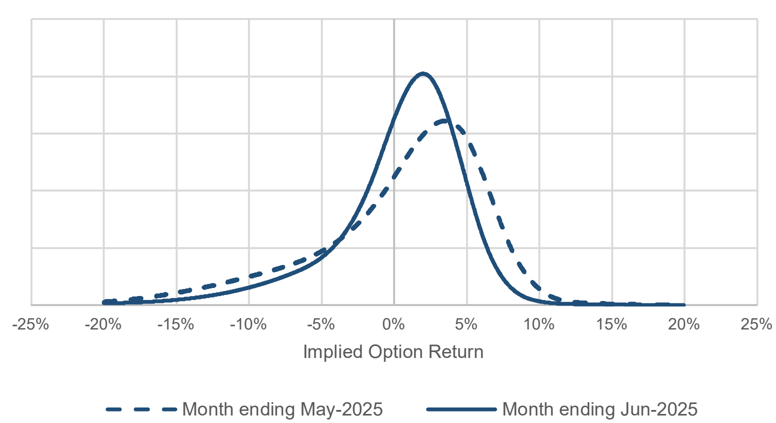


Implied Volatility[3,4] (IV)



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 Jun-2025	Month ending May-2025
Falling more than 10%	**~ 4%**	~ 8%
Falling more than 5%	**~ 12%**	~ 17%

[3] **Implied Volatility (VIX)** represents 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** represents 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

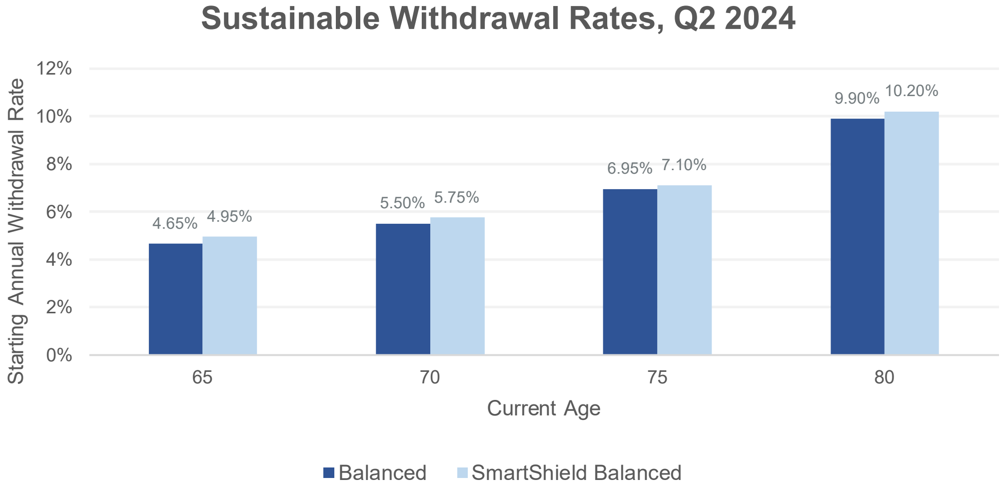
We observe that sustainable withdrawal rates at the end of Q4 2024, are higer compared to Q2 2024.

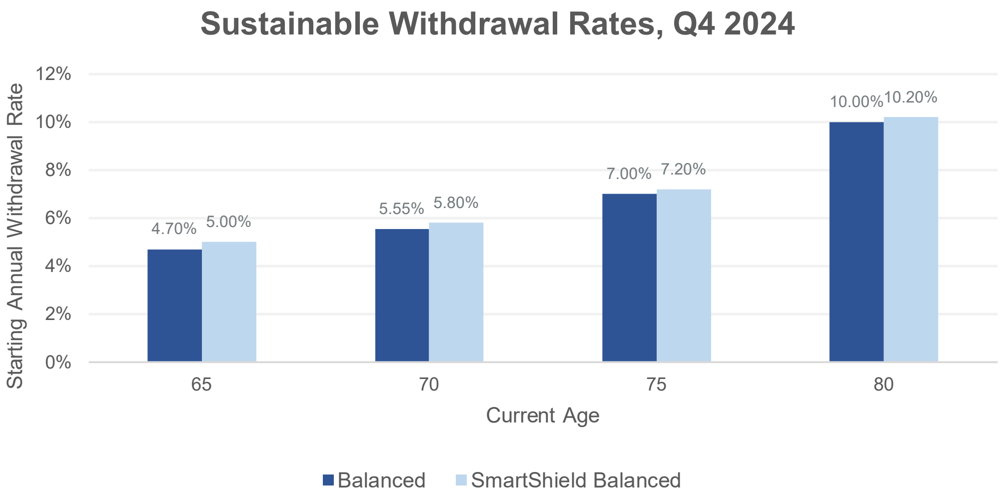
This is primarily driven by the change in interest rate levels over the period of 10 year government bond yields increasing by approximaterly 7bps, leading to higher simulated returns from all asset classes.

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 May, Milliman's SmartShield portfolios maintained an average hedge level of approximately 16% for both Australian equities and 14% global equities.



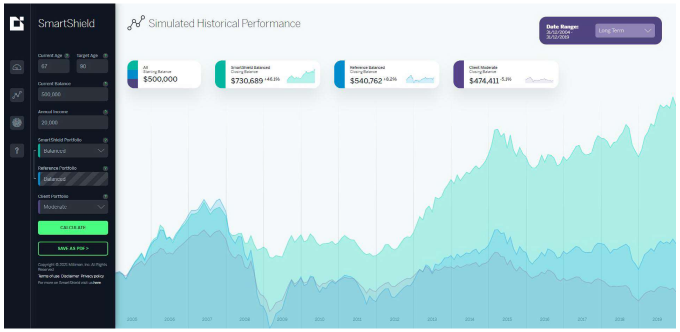


Sustainable Withdrawal Rate is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to be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