**Milliman Financial Risk Management**
London Market Monitor – 30 June 2025
***Data sources: Bloomberg; Barclays; EIOPA; PRA; ONS; Milliman FRM***

## Market Price Monitor

### Local Equity Markets

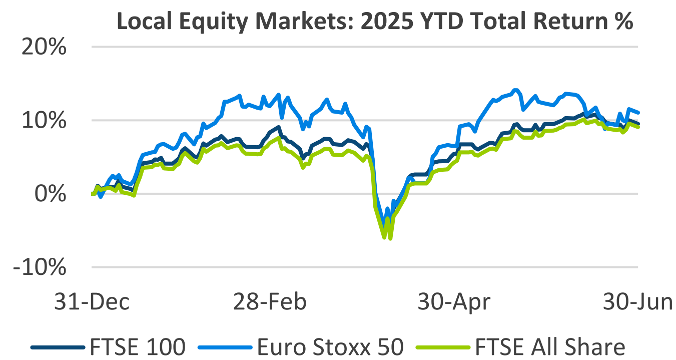
- Global equity markets had a mixed performance in June, as geopolitical volatility increased following the war between Isreal and Iran. The looming tariff deadline of 9 July also weighed on some local markets as countries continued their negotiations with the US administration.
- The Euro Stoxx 50 ended the month down 1.1%.
- The FTSE 100 was flat at month-end.

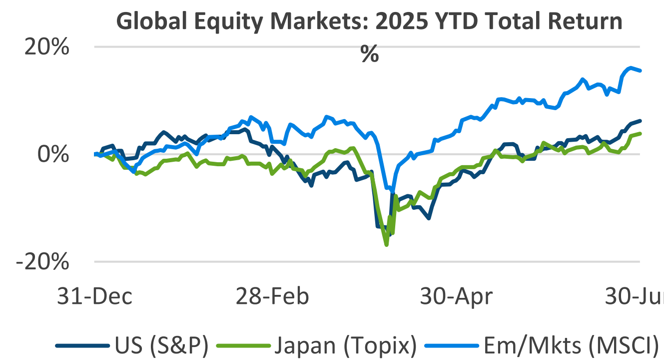
### Global Equity Markets

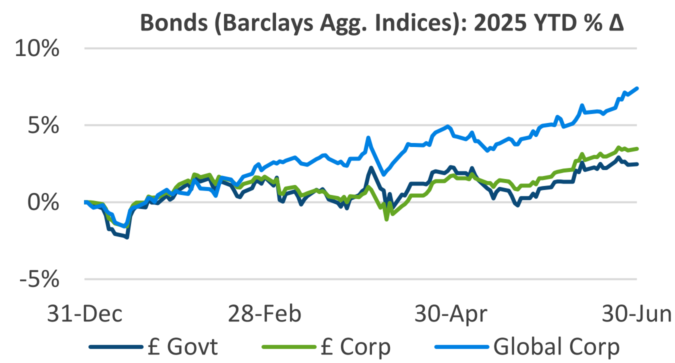
- The S&P 500 ended the month up 5.1%, and the Topix gained 2.0%.
- The MSCI Emerging Markets index returned 6.1%.

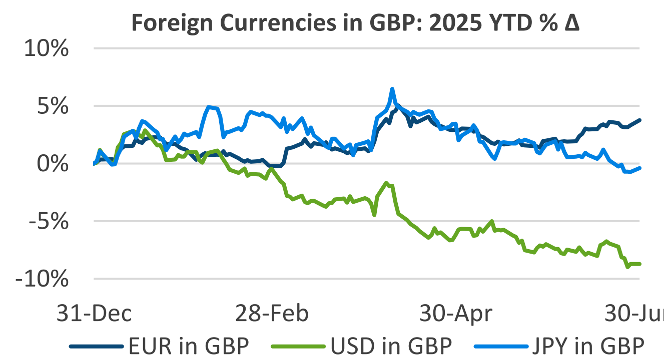
### Bond/FX Markets

- The British government bond index was up 1.5%, and the British corporate bond index gained 2.3% in June.
- The British Pound had a mixed performance in May, gaining 1.9% against the US Dollar, and 2.0% against the Japanese Yen. Meanwhile the Pound weakened by 1.7% against the Euro.




**Total Returns as of June 30, 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 | 0.0% | 0.5% | -1.1% | 5.1% | 2.0% | 6.1% | 1.5% | 1.9% | 2.3% | 1.7% | -1.9% | -2.0% |
| 3 Month | 3.2% | 4.4% | 3.2% | 10.9% | 7.5% | 12.2% | 2.0% | 3.1% | 4.4% | 2.4% | -5.9% | -2.2% |
| 1 Year | 11.3% | 11.2% | 11.8% | 15.2% | 4.1% | 16.0% | 1.3% | 5.6% | 9.6% | 1.2% | -7.8% | 2.9% |
| YTD | 9.5% | 9.1% | 11.0% | 6.2% | 3.8% | 15.6% | 2.5% | 3.5% | 7.4% | 3.8% | -8.7% | -0.4% |

## Insurance Monitor

### Solvency II Risk Free Rates

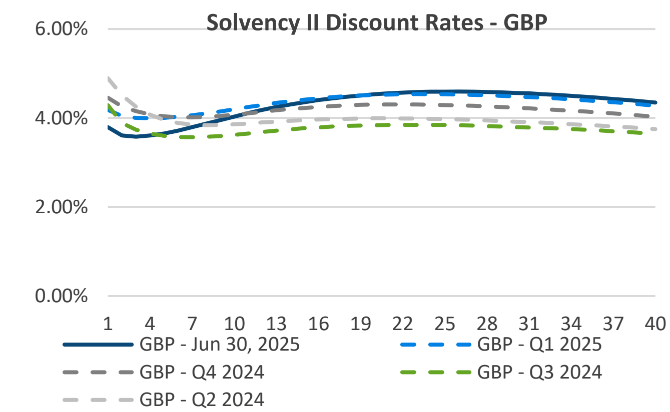
- GBP risk-free rates declined at all terms in June, with the moves more pronounced at the short end.
- The 1 and 5-year GBP risk-free rates fell by 21 and 20 basis points, respectively.
- EUR risk-free rates rose at all terms in June, with the increases more pronounced at the long end.
- Both the 20 and 30-year EUR rates increased by 16 basis points.
- The EUR CRA was unchanged and remains floored at 10 basis points

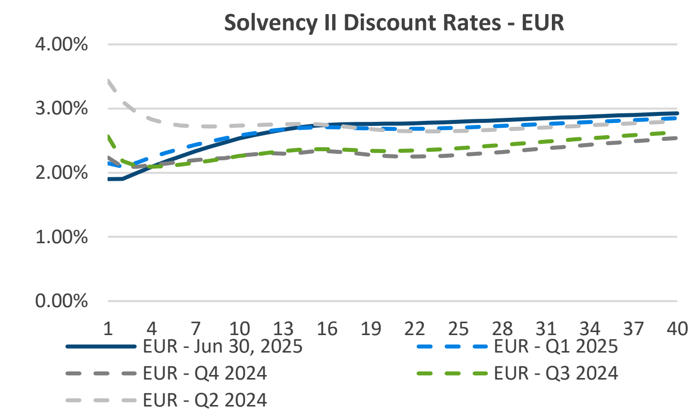
The **Solvency II risk-free discount rates** are calculated independently based on applying the Smith-Wilson Extrapolation to swap rates sourced from Bloomberg and applying the Credit Risk Adjustment as defined in the Technical Specs. For the official published curves please refer to EIOPA and PRA websites.

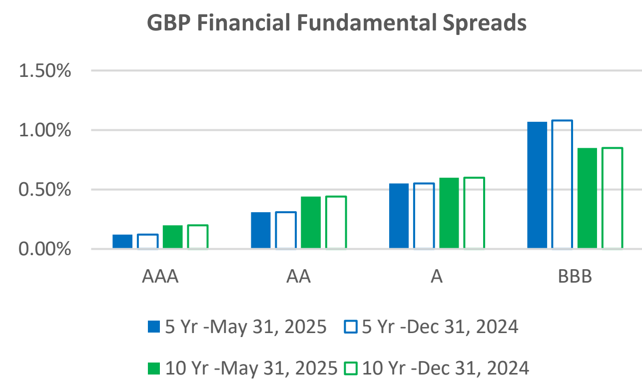
### Solvency II Fundamental Spreads

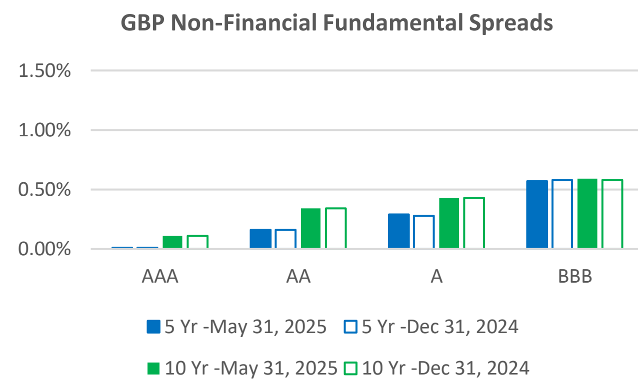
- There were no material changes since the start of the year.

**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 Q1 2025 | -39 | -35 | -17 | 1 | 8 |
| Since Q4 2024 | -66 | -38 | -4 | 23 | 33 |
| Since Q3 2024 | -49 | 5 | 41 | 69 | 77 |
| Since Q2 2024 | -110 | -31 | 17 | 54 | 65 |

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

| | 1Y | Y5 | Y10 | Y20 | Y30 | CRA |
|---|---|---|---|---|---|---|
| Since Q1 2025 | -25 | -14 | -5 | 8 | 9 | 0 |
| Since Q4 2024 | -33 | 4 | 27 | 50 | 48 | 0 |
| Since Q3 2024 | -67 | 7 | 27 | 42 | 37 | 0 |
| Since Q2 2024 | -153 | -60 | -20 | 10 | 14 | 0 |

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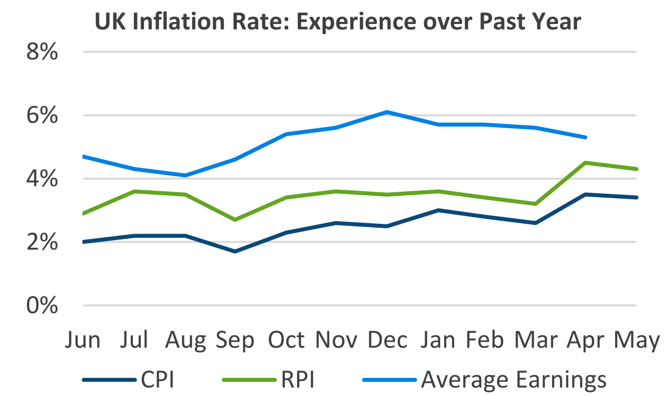
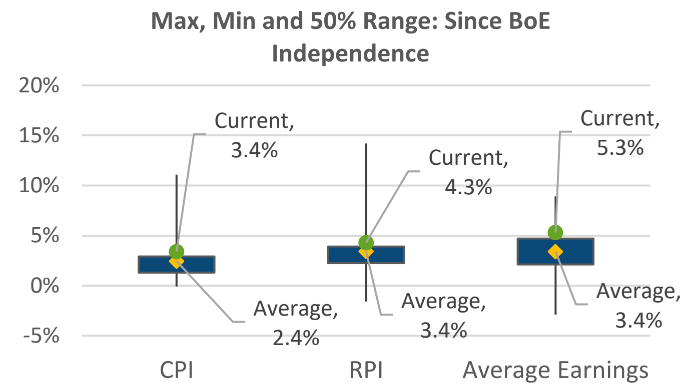
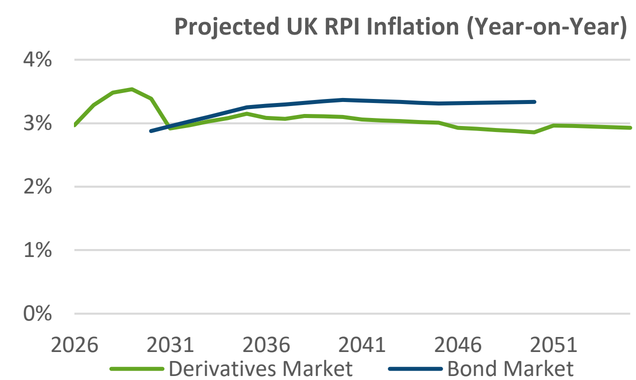
## UK Inflation Monitor

- UK's CPI fell by 10 basis points to 3.4% in May.
- UK's RPI measure decreased by 20 basis points to 4.3% in May.
- According to the ONS: "*The largest downward contribution came from transport; the largest, partially offsetting, upward contributions came from food, and furniture and household goods.*"
- Average earnings fell by 30 basis points to 5.3% in April, after the previous months figure was revised higher by 10 basis points.








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.

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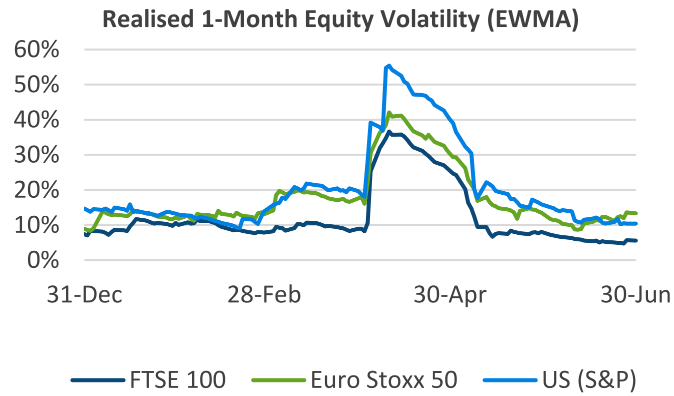
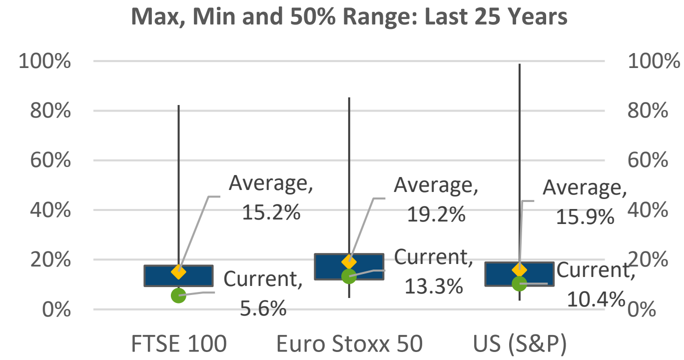
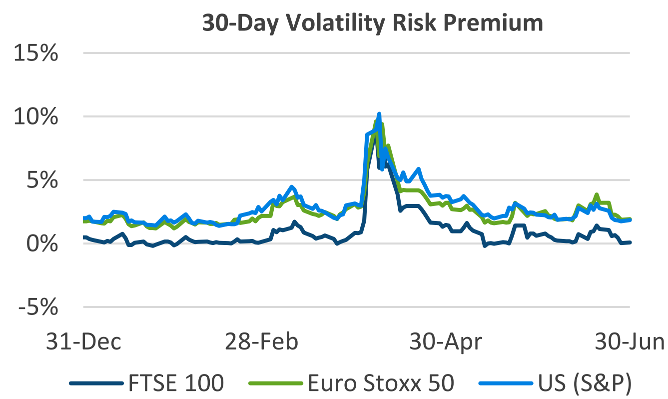
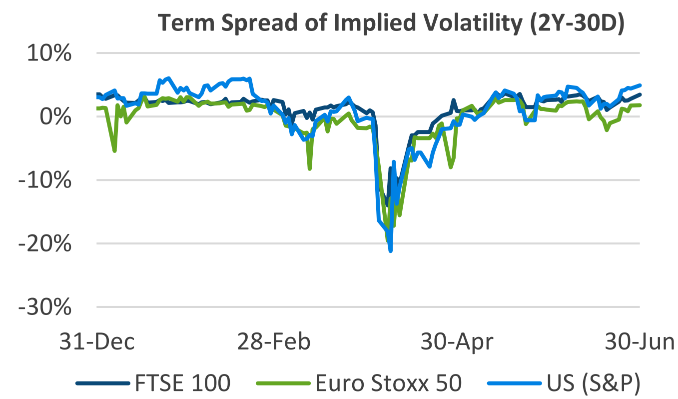
### Volatility and Hedging Cost Monitor

- Realised volatilities on major indices declined and remained well below historical averages.
- The FTSE 100 ended the month with a realised volatility of 5.6%. The same measure stood at 13.3% and 10.4% 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 0.1% at month-end. The volatility risk premium on both the Euro Stoxx 50 and S&P 500 was 1.9%.
- The spread between implied volatility of 2-year and 30-day at-the-money options was in positive territory for 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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## Creating transformational improvement in the retirement savings industry.

Milliman Financial Risk Management LLC / Milliman Financial Strategies Ltd. is a global leader in financial risk management to the retirement savings industry. Milliman FRM provides investment advisory, hedging, and consulting services on approximately $176.1 billion USD in global assets (31 December 2021).

Established in 1998, the practice includes professionals operating from three trading platforms around the world (Chicago, London and Sydney).

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

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