

Market Commentaries

Equities

• Despite ongoing tariff-related trade tensions and macroeconomic uncertainty affecting markets, U.S. equities maintained their upward momentum in July, with the S&P 500 gaining 2.2% for the month.

• European equities were moderate, with the EuroStoxx 50 returning 0.4% for the month. UK equities posted a 4.2% return, outperforming the EuroStoxx Index.

• In Japan, the Nikkei rose 1.4% and the Topix gained 3.2%. Chinese and Hong Kong stocks also advanced, with the Hang Seng up 2.9%.

• Aussie Equities were also up, with the ASX 200 up 2.4%. Most sectors made gains this month, the communication service and consumer discretionary are the top two, 16.56%, 12.39%, respectively.

Fixed Income

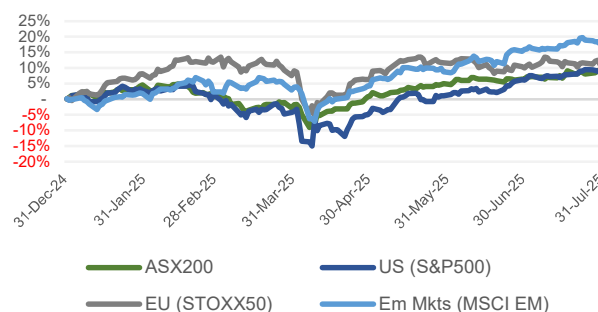
• Fixed income markets were mixed throughout the month, with AusBond yields down 0.04%—marking the first negative return since October 2024. Japanese government bonds softened, tracking losses in U.S. Treasuries.

• The RBA chose to keep rates unchanged in July despite easing inflation and weak retail sales. Although job growth has been below target, labor market conditions remain tight. In August, RBA lowered the official cash rate by 25 basis points to 3.60%, highlighting that the economy is at or near full employment and showing signs of increased momentum in areas such as household spending and services activity.

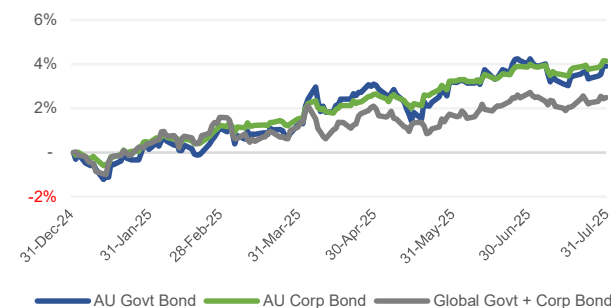
Currencies

• The Australian dollar weakened against the US dollar, with the AUD/USD rate falling 2.4% to close at 64.25 US cents. Another week saw a new year-to-date high for the USD/CNY, which gained 0.51% to reach 7.2. Meanwhile, the yen advanced against the dollar, supported by growing expectations of a US rate cut weighing on the greenback.

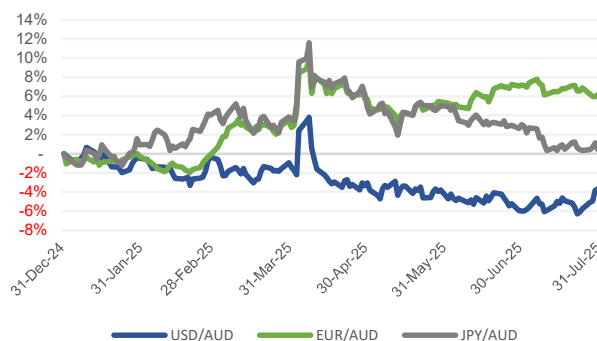
Equities: YTD Total Return¹ %



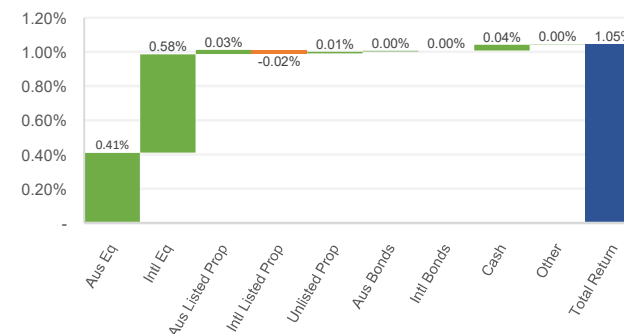
Fixed Income: YTD Return² %



Foreign Currencies: YTD Return %



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



Returns ending 31 July 2025

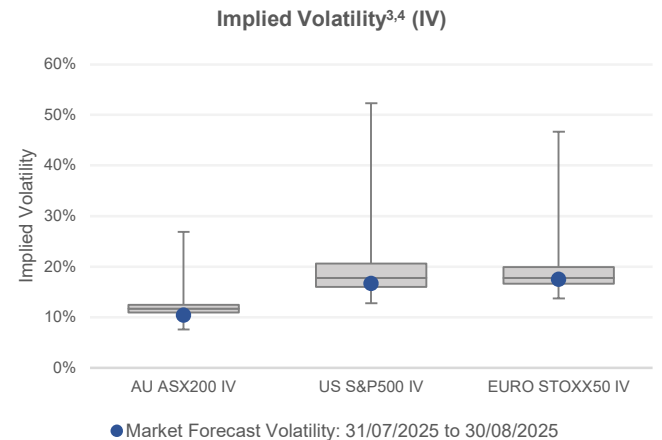
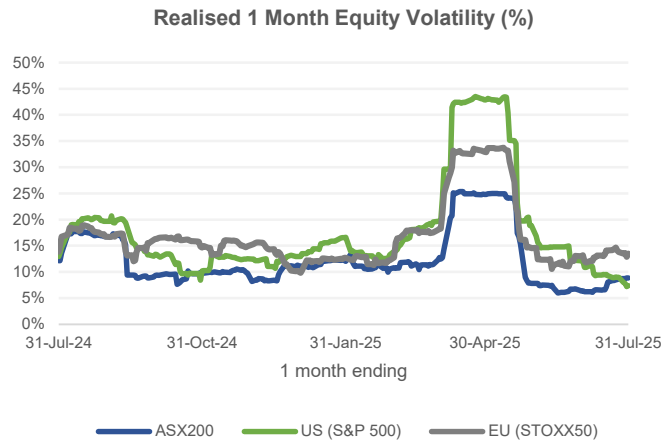
	ASX200	US (S&P500)	EU (STOXX)	EM Mkts (MSCI)	AU Govt Bond	AU Corp Bond	Global Bond	USD/AUD	EUR/AUD	JPY/AUD
1 Month	2.4%	2.2%	0.4%	1.9%	-0.1%	0.3%	-0.2%	2.4%	-0.8%	-2.1%
3 Month	8.2%	14.2%	4.3%	12.7%	0.8%	1.5%	0.4%	-0.4%	0.4%	-5.4%
1 Year	11.8%	16.3%	11.8%	17.2%	5.0%	6.4%	3.3%	1.8%	7.4%	1.3%
CYTD	8.9%	8.6%	10.9%	17.5%	3.9%	4.1%	2.5%	-3.7%	6.2%	0.4%

¹Equities returns captures both the capital gains as well as any cash distributions, such as company dividends.

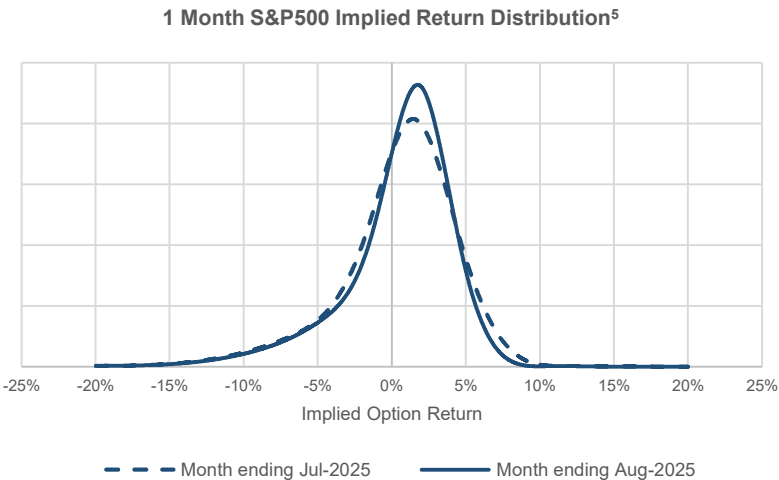
²AU Govt Bond uses the Bloomberg AusBond Govt 0+ Yr Index, which measures the return of Australian Treasury and Semi-government bonds maturing in 0+ years. AU Corp Bond uses the Bloomberg AusBond Credit 0+ Yr Index, which measures the return of Australian corporate/credit securities maturing in 0+ years. 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.

Upcoming Key Economic Events & Risk Commentaries

- Implied volatility, often regarded as the market’s fear index, has decreased for the ASX 200, S&P 500, and Stoxx 50. However, implied volatility for the S&P 500 and Stoxx 50 remains above the 25th percentile over the past year. The implied probability of the S&P 500 declining by more than 10% or 5% in August has also decreased from last month, now standing at 3% and 9%, respectively.
- In early July, U.S. Treasury yields moved higher as markets responded to a series of positive developments: a better-than-expected U.S. nonfarm payroll report, a decline in the unemployment rate, and a new trade agreement with Vietnam. The upward momentum continued as headline CPI surprised to the upside at 2.7% year-on-year—above the Fed’s 2% target—causing traders to doubt the likelihood of imminent rate cuts. Inflationary pressures appeared to be linked to higher import prices, likely resulting from recently proposed tariffs
- The increase in yields partially reversed over the latter half of the month as the market shifted towards risk-off positioning in response to weaker-than-expected U.S. job openings, a narrowing trade deficit, and new U.S. trade deals with Japan and the EU. U.S. 2-year and 10-year yields finished the month 24 basis points and 15 basis points higher, respectively.
- July was another solid month for global equities, with both developed and emerging markets posting gains. U.S. equities reached new all-time highs, driven by Trump’s pro-technology bill and new trade deals with Vietnam and Japan that benefited U.S. companies. The tech sector outperformed other sectors, supported by strong retail sales and robust earnings that exceeded expectations. Optimism persisted as markets anticipated key trade talks with the EU, overall pushing the Fear (VIX) index lower.
- The RBA chose to keep rates unchanged in July despite easing inflation and weak retail sales. While job growth has been below target, labor market conditions remain tight. Governor Bullock emphasized that the low unemployment rate was a key concern for the RBA and was a major factor preventing further rate cuts. However, she noted that conditions are easing in line with expectations. The ASX 200 reached a new record high this month, fueled by expectations of imminent RBA rate cuts. Sentiment was also boosted by better-than-expected Chinese growth and recent U.S. trade deals. However, risks remain to the downside, given record equity valuations and low implied volatility, especially if global central banks choose to hold rates higher for longer.



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.



Implied likelihood ⁵ of S&P 500:	Month ending Aug-2025	Month ending Jul-2025
Falling more than 10%	~ 3%	~ 3%
Falling more than 5%	~ 9%	~ 10%

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.

Observations on Sustainable Withdrawal Rates

We observe that sustainable withdrawal rates at the end of Q1 2025, are higher compared to Q4 2024.

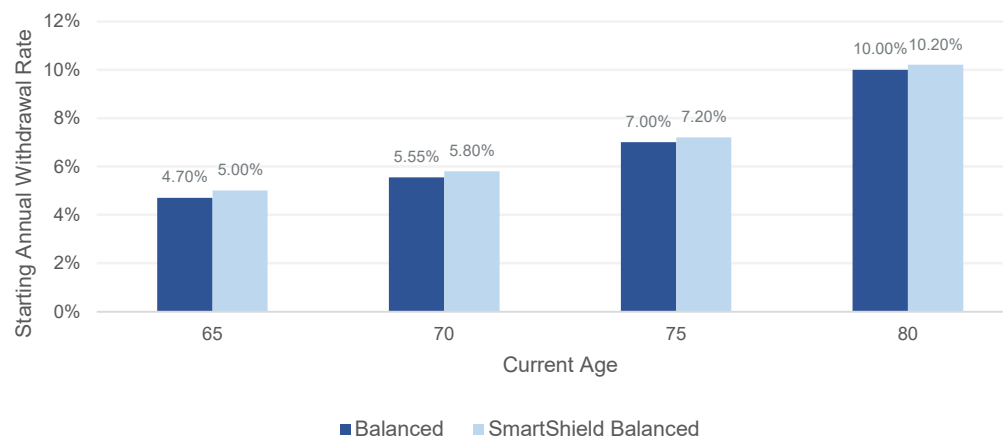
This is primarily driven by the change in interest rate levels over the period of 10 year government bond yields increasing by approximately 3bps, leading to higher simulated returns from all asset classes.

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.

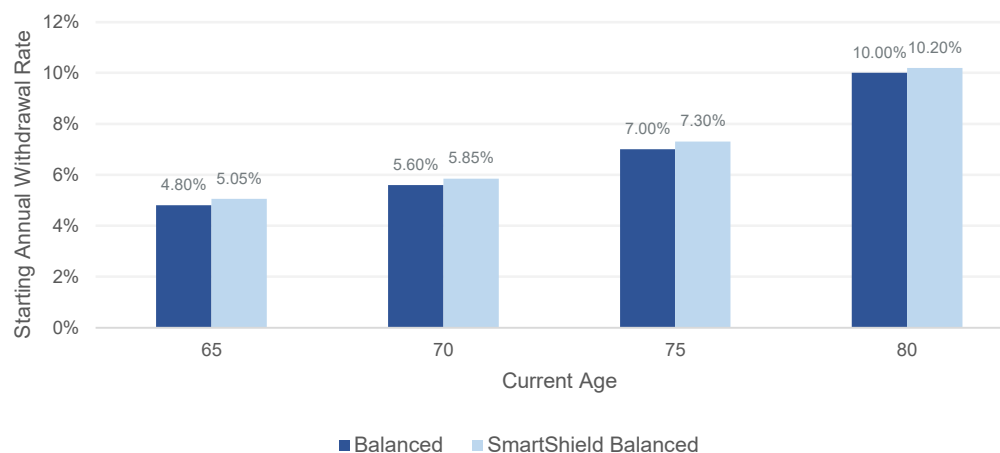
By controlling the level of volatility and reducing the impact of sustained market drawdowns, solutions such as the SmartShield portfolios which employ a risk management strategy, can reduce the exposure to sequencing risk and result in higher sustainable withdrawal rates for retirees.

In July, Milliman's SmartShield portfolios maintained an average hedge level of approximately 6% for Australian equities and 0% global equities.

Sustainable Withdrawal Rates, Q4 2024



Sustainable Withdrawal Rates, Q1 2025



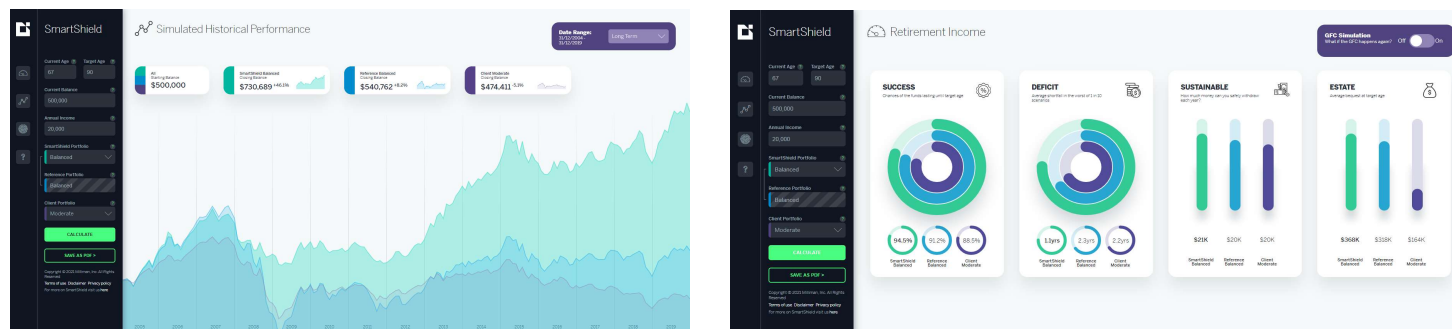
Sustainable Withdrawal Rate is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to be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