Milliman Financial Risk Management
London Market Monitor – 29 August 2025
Data sources: Bloomberg; Barclays; EIOPA; PRA; ONS; Milliman FRM

Market Price Monitor

Local Equity Markets

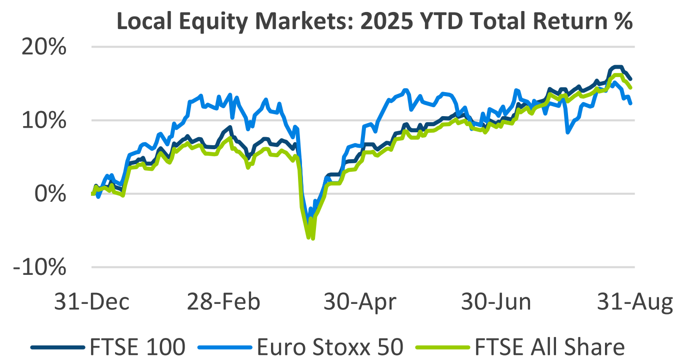
- Equity markets had a positive performance in August as data pointed to a resilient global economy, while corporate earnings generally beat expectations.
- The Euro Stoxx 50 gained 0.6%.
- The FTSE 100 was up 1.2%.

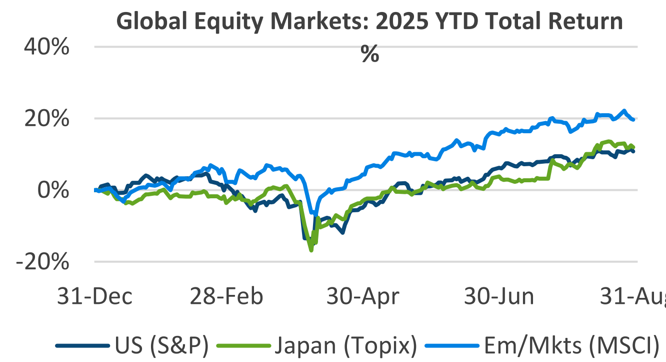
Global Equity Markets

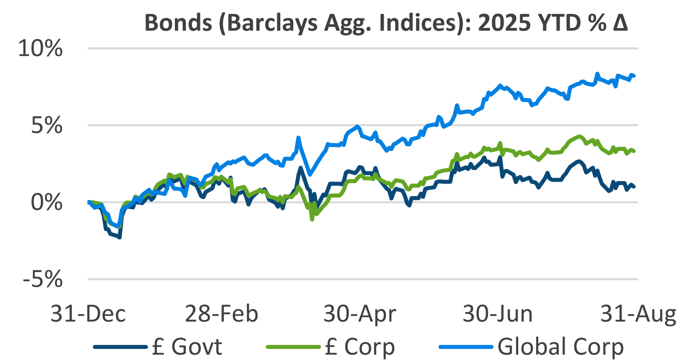
- The S&P 500 was up 2.0% and the Japanese Topix returned 4.5%.
- The MSCI Emerging Markets index ended the month up 1.5%.

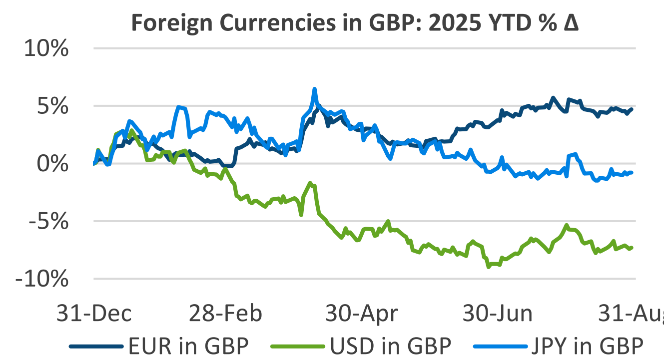
Bond/FX Markets

- The British government bond index ended the month down 1.1%, and the British corporate bond index fell 0.5%.
- The British Pound had a mixed performance in August, gaining 2.1% against the US Dollar, but remaining relatively flat against the Euro and the Japanese Yen.









Total Returns as of August 29, 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	1.2%	0.9%	0.6%	2.0%	4.5%	1.5%	-1.1%	-0.5%	1.4%	0.2%	-2.1%	0.3%
3 Month	5.6%	5.4%	0.0%	9.6%	9.9%	9.9%	0.1%	1.7%	3.1%	2.7%	-0.3%	-2.4%
1 Year	13.6%	12.6%	11.3%	15.9%	16.2%	17.7%	-2.5%	3.3%	5.8%	2.9%	-2.8%	-3.4%
YTD	15.6%	14.5%	12.3%	10.8%	12.0%	19.6%	1.0%	3.3%	8.2%	4.7%	-7.3%	-0.8%

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Insurance Monitor

Solvency II Risk Free Rates

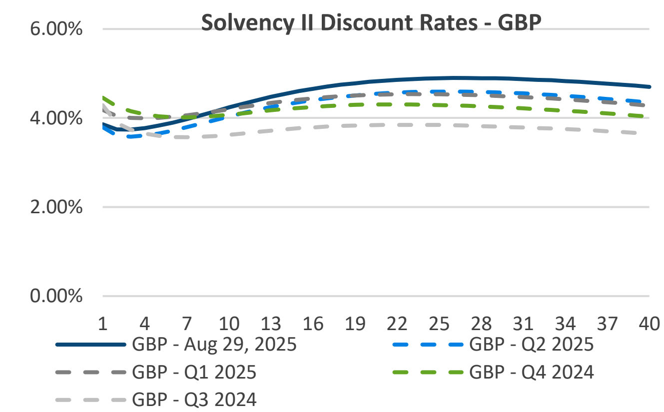
- GBP risk-free rates increased at all terms in August, with the moves more pronounced at the long-end.
- The 20 and 30-year GBP risk-free rates rose by 18 and 22 basis points, respectively.
- EUR risk-free rates fell at the short-end but rose at the longer tenors.
- The 5-year EUR risk-free rate declined by 5 basis points, while the 30-year rate increased by 8 basis points.
- The EUR CRA was unchanged and remains floored at 10 basis points

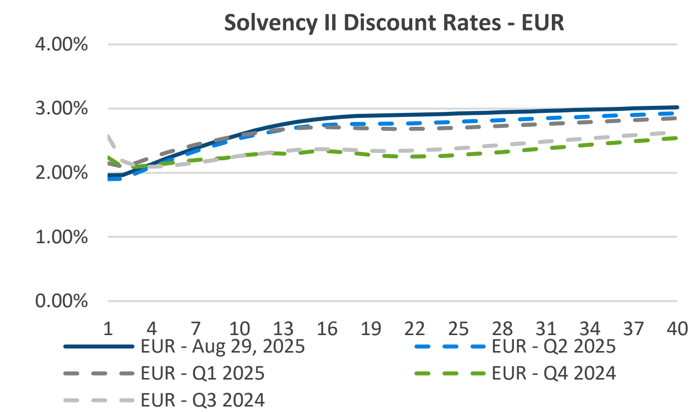
The **Solvency II risk-free discount rates** are calculated independently based on applying the Smith-Wilson Extrapolation to swap rates sourced from Bloomberg and applying the Credit Risk Adjustment as defined in the Technical Specs. For the official published curves please refer to EIOPA and PRA websites.

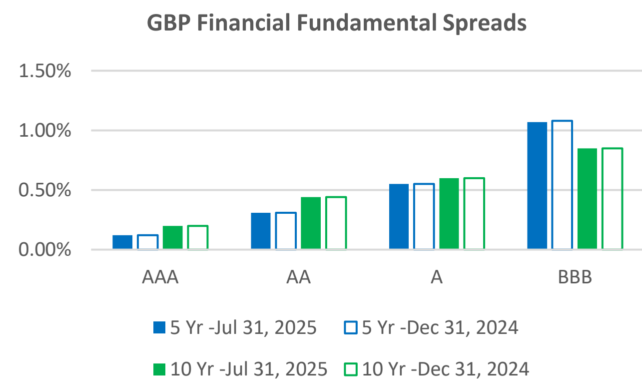
Solvency II Fundamental Spreads

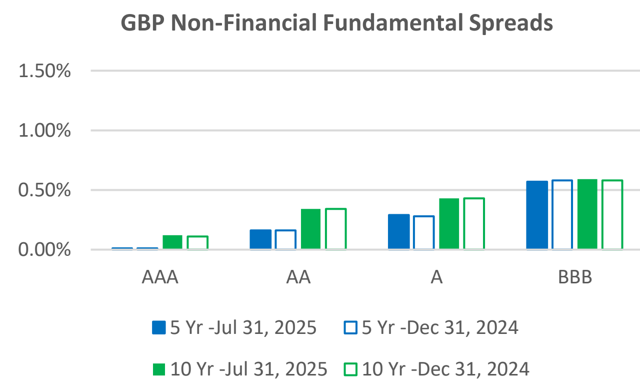
- There were no material changes since the start of the year.

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 Q2 2025	7	17	21	28	32
Since Q1 2025	-32	-18	4	29	40
Since Q4 2024	-59	-21	16	51	65
Since Q3 2024	-43	23	62	97	108

Change in EUR Discount Rates (bps)

	1Y	Y5	Y10	Y20	Y30	CRA
Since Q2 2025	6	4	6	13	12	0
Since Q1 2025	-19	-9	1	21	21	0
Since Q4 2024	-28	8	33	64	60	0
Since Q3 2024	-61	12	33	56	49	0

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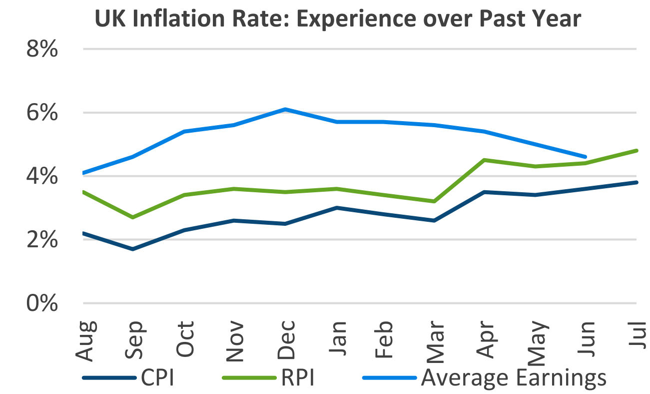
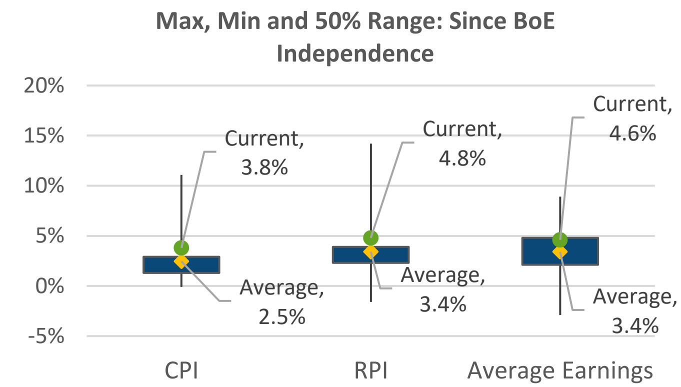
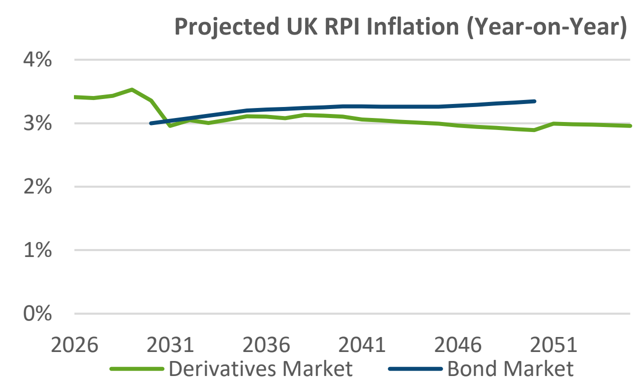
UK Inflation Monitor

- UK's CPI rose by 20 basis points to 3.8% in July.
- UK's RPI measure increased by 40 basis points to 4.8% in July.
- According to the ONS: "*Transport, particularly air fares, made the largest upward contribution to the monthly change; housing and household services, particularly owner occupiers' housing costs, made a large, partially offsetting, downward contribution.*"
- Average earnings fell by 40 basis points to 4.6% in June.







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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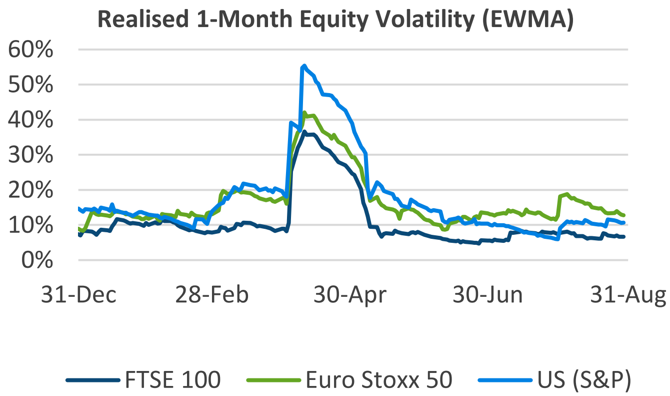
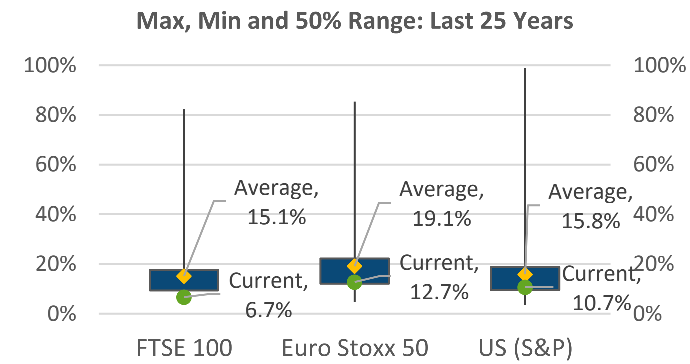
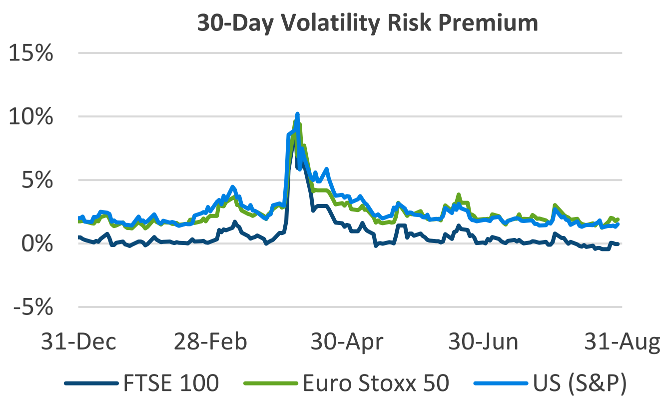
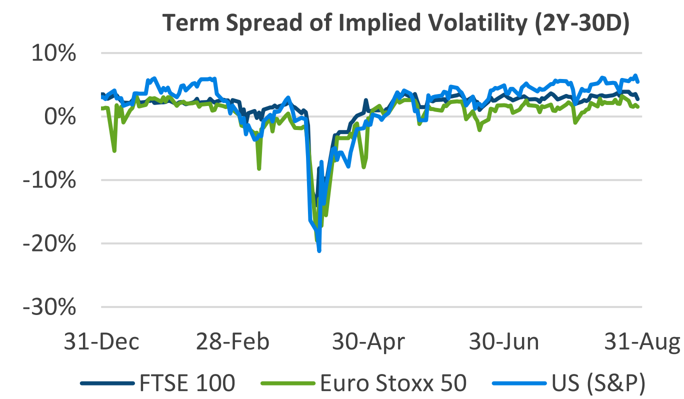
Volatility and Hedging Cost Monitor

- Realised volatilities on major indices increased at the start of the month on the back of the tariffs announcement, however subsidised quickly and remain well below historical averages,
- The FTSE 100 ended the month with a realised volatility of 6.7%. The same measure stood at 12.7% and 10.7% on the Euro Stoxx 50 and the S&P 500, respectively.
- Volatility risk premiums on major indices were relatively unchanged. The FTSE 100 had a volatility risk premium of 0.0% at month-end. The volatility risk premium on the Euro Stoxx 50 and S&P 500 was 1.9% and 1.5%, respectively.
- 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.

Milliman
FINANCIAL RISK MANAGEMENT

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).

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MILLIMAN.COM/FRM

Chicago

71 South Wacker Drive
Chicago, IL 60606
+1 855 645 5462

London

Eastcheap Court
11 Philpot Lane
London
EC3M 8AA
UK
+44 0 20 7847 1557

Sydney

Level 5, 60-62 Clarence St
Sydney, NSW 2000
Australia
+610 2 8090 9100