Milliman Market Monitor - August 2025

Market Commentaries

Equities

● U.S. equities maintained their upward momentum in August, with the S&P 500 gaining 2.0% for the month. The rally in U.S. stocks extended into Asian markets, as signs of a cooling labor market reinforced expectations that the Federal Reserve will cut interest rates in September.

● European equities saw moderate gains, with the EuroStoxx 50 returning 0.60% for the month. UK equities posted a similar return of 0.60%.

● In Japan, the Nikkei was up 4.01% and the Topix rose 4.49%. Chinese and Hong Kong stocks also advanced, with the CSI 300 rallied 10.33%, and the Hang Seng was up 1.23%.

●Australian equities were also up, with the ASX 200 rising 3.1%. The materials and consumer discretionary sectors were the top performers, gaining 5.74% and 5.47%, respectively. The health sector was the weakest, declining 13.53%.

Fixed Income

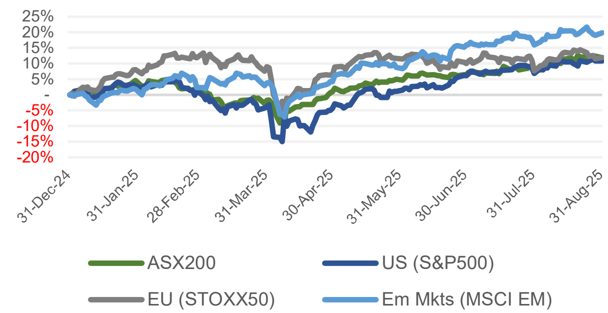
● Fixed income markets were mixed throughout the month. Overall, Australian bonds returned 0.3%, and global bonds returned 0.5%, as measured by their Bloomberg Aggregate Indices. The Japanese 10-year government bond was also soft, down 0.38%.

● The RBA cut rates to 3.6% in a unanimous decision. This move boosted stocks to a fresh record, with the S&P/ASX 200 Index rising 0.4% to close at an all-time high.

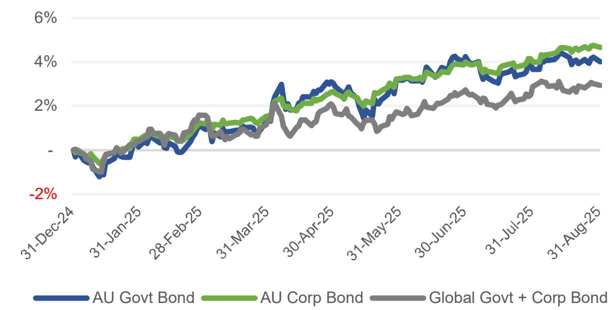
Currencies

● The Australian dollar strengthened against the US dollar, with the AUD/USD rate gaining 1.8% to close at 65.40 US cents. The USD/CNY fix was slightly weaker than the previous month, declining by 0.96% to 7.1307. The yen also lost ground against the dollar, falling 1.98% to close at 147.05.

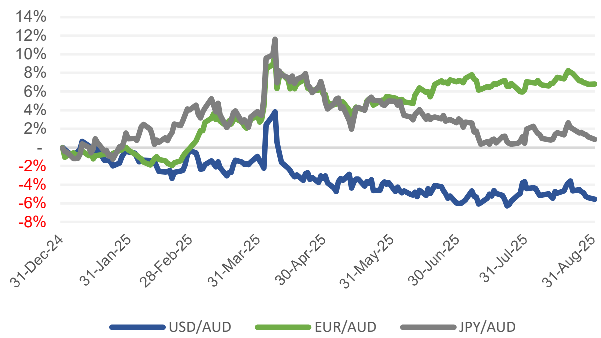
Equities: YTD Total Return[1] %



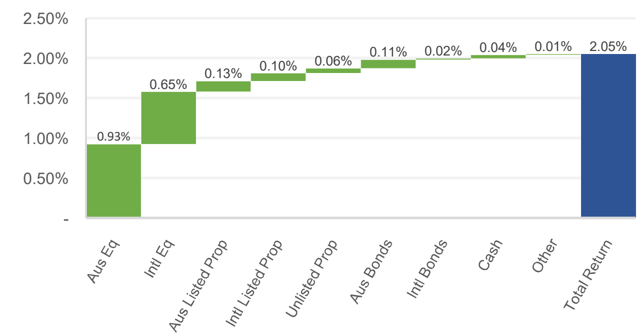
Fixed Income: YTD Return[2] %



Foreign Currencies: YTD Return %



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



Returns ending 31 August 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	3.1%	2.0%	0.6%	1.3%	0.3%	0.6%	0.5%	-1.8%	0.6%	0.7%
3 Month	7.0%	9.6%	-0.1%	9.5%	1.0%	1.5%	1.3%	-1.7%	1.3%	-3.7%
1 Year	14.7%	15.9%	10.5%	16.8%	4.0%	6.0%	2.8%	3.4%	9.4%	2.8%
CYTD	12.3%	10.8%	11.6%	19.0%	4.2%	4.8%	3.0%	-5.4%	6.8%	1.1%

[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

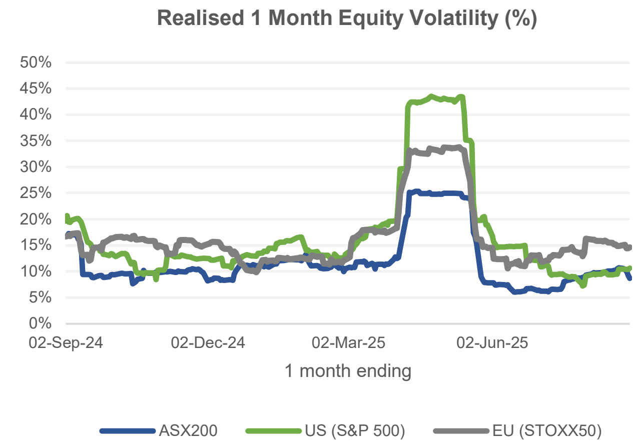
● Implied volatility, often regarded as the market's fear index, has decreased for both the ASX 200 and S&P 500, while implied volatility for the Stoxx 50 remains above the 25th percentile over the past year. The implied probability of the S&P 500 declining by more than 10% or 5% in September has also decreased from last month, now standing at 2% and 8%, respectively.

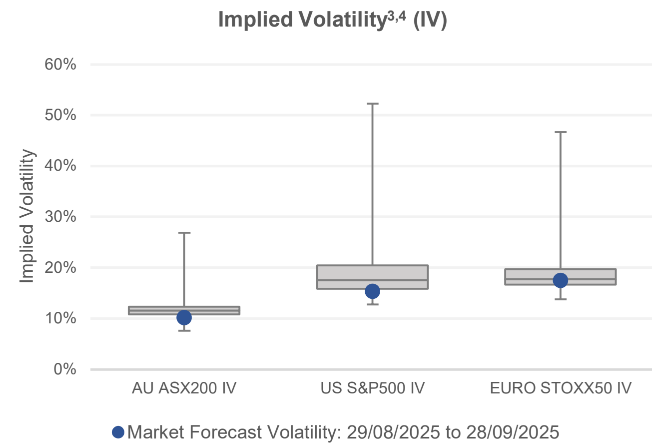
● At the start of August, President Trump's executive order raised tariffs on several countries, causing concerns about global economic growth. However, markets reacted calmly, viewing the tariffs as temporary and as a bargaining tool. Trump also extended the deadline for higher tariffs on China by 90 days. U.S. Treasury yields fell due to a weaker-than-expected jobs report and soft manufacturing data. This increased expectations for Federal Reserve interest rate cuts, which helped U.S. equities rebound and reach record highs.

● U.S. Treasury yields reversed earlier declines after higher-than-expected producer price inflation and strong retail sales data were reported for July, leading traders to reduce their expectations for a September rate cut. The trend reversed again in the last week of the month after Fed Chair Powell signaled openness to rate cuts in his Jackson Hole speech. The yield curve steepened further amid concerns about political interference in Fed policy following Trump's comments about a Fed official. U.S. 2-year and 10-year yields finished the month around 32 basis points and 14 basis points lower, respectively.

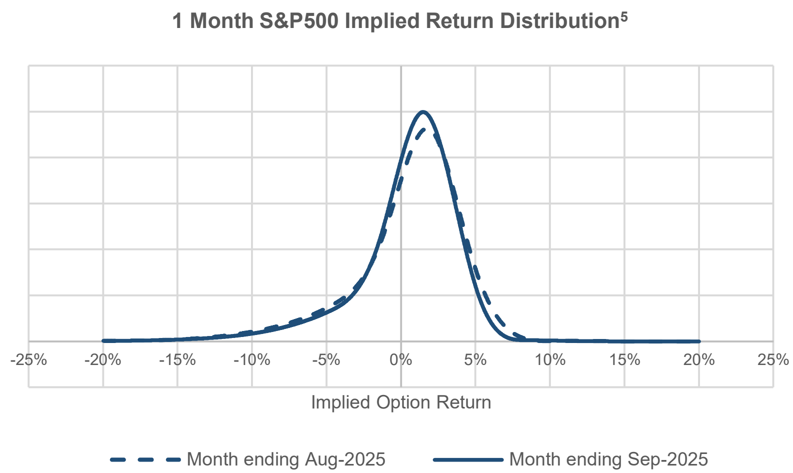
● The Australian dollar rose almost 2%, driven by a higher-than-expected trade surplus and an increased probability of a Fed rate cut next month. July ABS employment data showed 25,000 new jobs and a drop in unemployment to 4.2%, suggesting the labor market is still healthy. Despite core inflation at 2.7%, the tight labor market means there is limited urgency for further easing after the RBA's rate cut this month. However, the board has shifted its focus from worrying mostly about inflation to concerns about unemployment.

● Global equities had a strong August, with both developed and emerging markets performing well. U.S. and Australian stocks reached new highs, supported by RBA rate cuts, expected Fed easing, a shift in monetary policy focus, and solid corporate earnings. Valuations are above the 10-year average, and the low VIX index signals increased vulnerability to negative events. Key concerns include stretched valuations, rising U.S. inflation, uncertainties surrounding the Russia-Ukraine conflict, and the historical weakness of equities during August and September.





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 Sep-2025	Month ending Aug-2025
Falling more than 10%	**~ 2%**	~ 3%
Falling more than 5%	**~ 8%**	~ 9%

[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.

Observations on Sustainable Withdrawal Rates

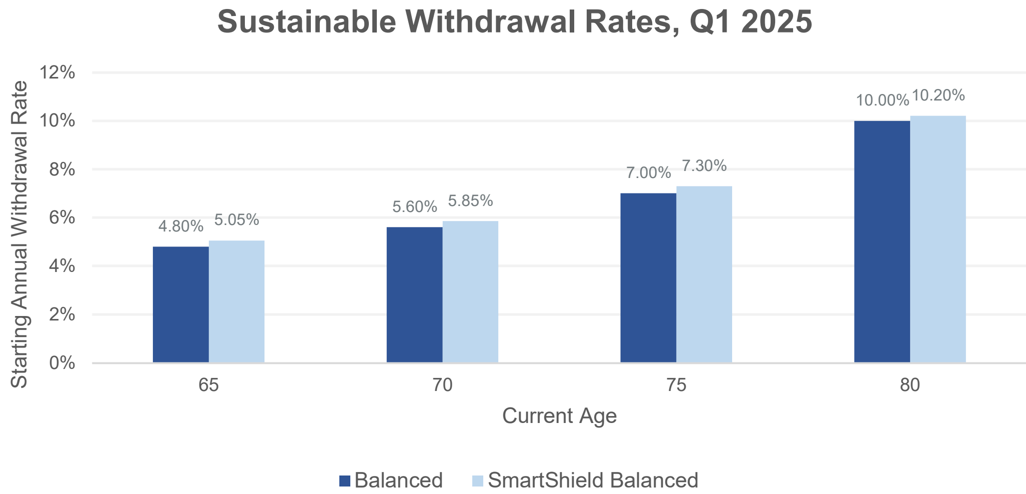
We observe that sustainable withdrawal rates at the end of Q2 2025, are lower compared to Q1 2025.

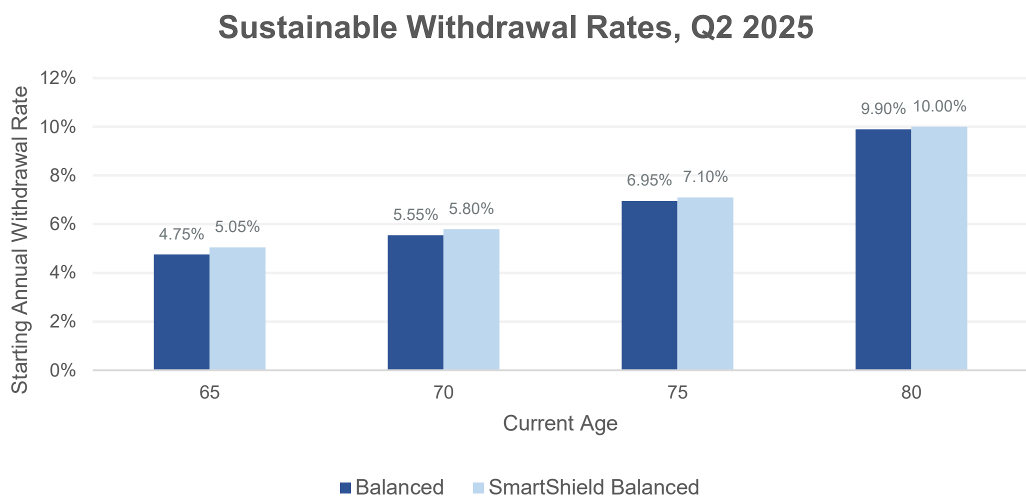
This is primarily driven by the change in interest rate levels over the period of 10 year government bond yields decreasing by approximaterly 23bps, leading to lower simulated returns from all asset classes.

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 August, Milliman's SmartShield portfolios maintained an average hedge level of approximately 1% for Australian equities and 0% global equities.



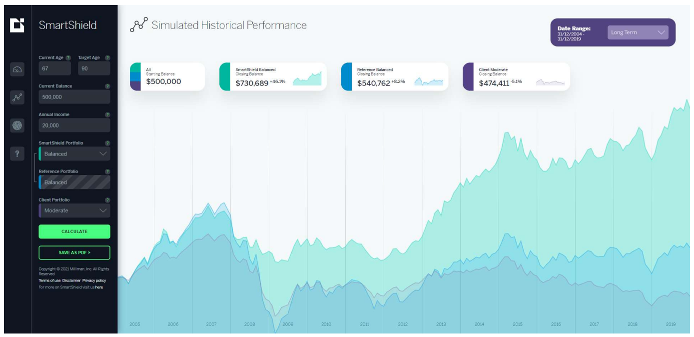


Sustainable Withdrawal Rate is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to be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