Milliman Market Monitor - 31 May 2021

Market Commentaries

Equities

- Global equities endured a rocky May, with the US S&P 500 dropping almost 3% mid-way through the month as a stronger than expected US CPI figure reignited inflationary fears in the market. The market recovered as multiple members of the FOMC stressed their view that any inflationary pressures were transitory and the S&P 500 was up 0.5% in May.
- Aussie equities largely followed the US through May, but mining stocks at the back-end of the month lead the ASX200 to end May up 2.3%.

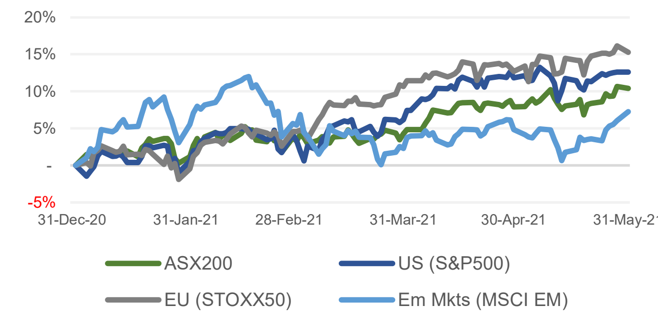
Fixed Income

- The stronger-than-anticipated US CPI data triggered another sell off in US treasuries, however the market recovered to end the month flat.
- In Australia, local debt markets also reacted to the US inflation data, however toward the end of the month yields receded, with the 10-year Govt bond yield closing down 5 basis points (at 1.7%).

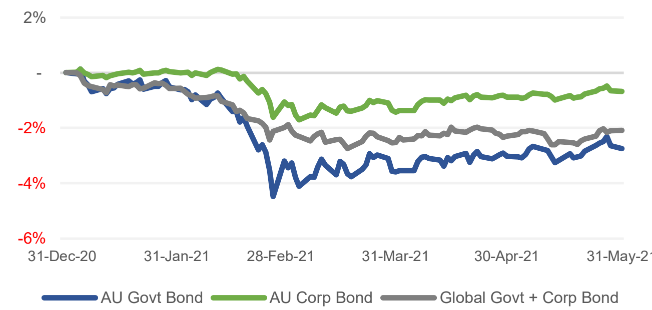
Currencies

- Iron ore prices hit a peak before softening to end the month lower, which weakened the Aussie Dollar. AUD appreciated +0.2% against the USD to close at 77.34 US Cents.

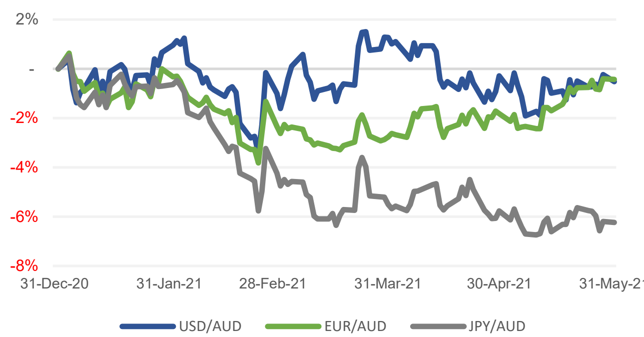
Equities: YTD Total Return[1] %



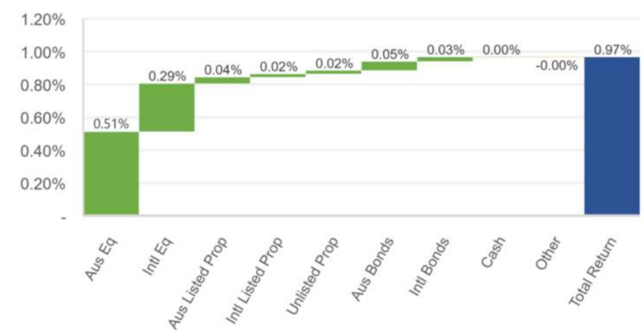
Fixed Income: YTD Return[2] %



Foreign Currencies: YTD Return %



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



Returns as of 31 May 2021

	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	2.3%	0.7%	2.3%	2.3%	0.3%	0.2%	0.2%	-0.2%	1.4%	-0.5%
3 Month	8.5%	10.7%	12.4%	3.3%	1.8%	1.0%	0.0%	-0.4%	0.9%	-3.1%
1 Year	28.2%	40.3%	35.5%	51.0%	-1.9%	2.9%	-0.2%	-13.8%	-5.0%	-15.1%
CYTD	10.4%	12.6%	15.3%	7.3%	-2.8%	-0.7%	-2.1%	-0.5%	-0.4%	-6.2%

[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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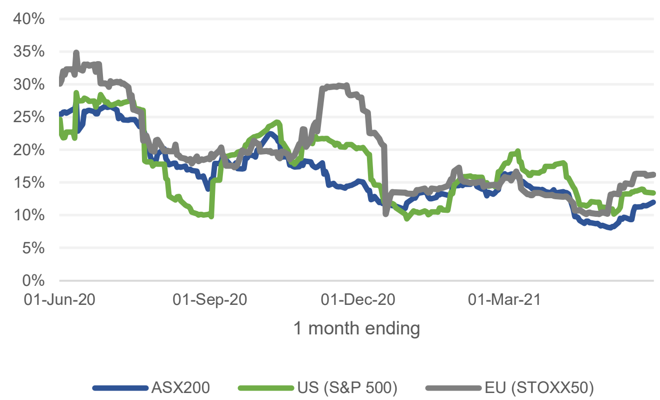
Upcoming Key Economic Events

- In the month of June, key domestic events include the release of Q1 Australian GDP, with a current market consensus indicating another strong rise (1.1% quarterly gain) in GDP as the economy grows from strong consumption and housing construction, if this indication plays out, it can take the annual growth rate back into positive territory for the first time since Q2 last year. Central banks around the world appear to be acknowledging the effects of quantitative easing and are to a certain extent showing a willingness to consider the appropriateness of a "tapering discussion". The ECB meeting on 10 June will be another important one to watch as they discuss their stance of whether to keep the significantly faster pace (85 billion Euro/month) of Pandemic Emergency Purchase Programme. Likewise for the FOMC meeting on 16 June.

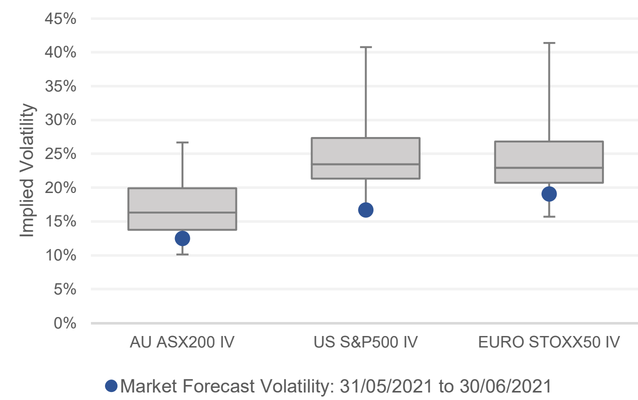
- A couple of the key risks to watch out for this month will continue to be COVID-19 virus development in EM countries given the mutation variants and vaccine roll-out rate. In addition, central banks' stances on the easiness of their monetary policies should also be closely watched.

- Markets seem to have behaved in an orderly fashion despite the higher CPI prints in the US, and countries like China are taking steps to curb higher commodity prices. However, the new fiscal stimulus of US$6Trillion may give rise to a new catalyst for the increase in inflationary expectation.

Realised 1 Month Equity Volatility (%)

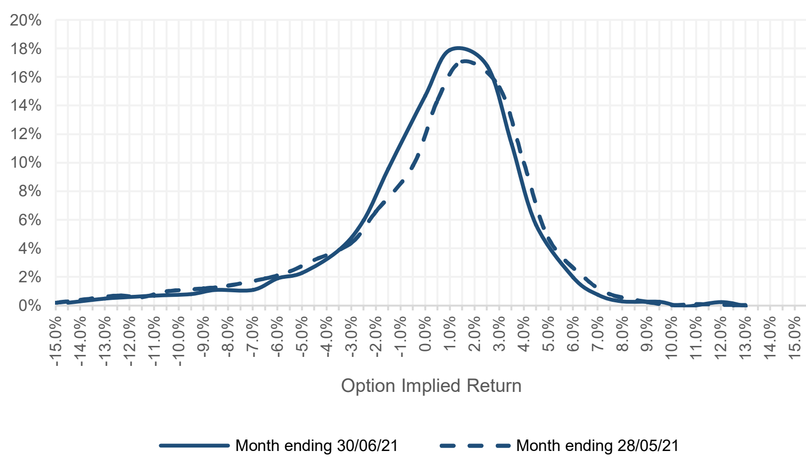


Implied Volatility[3,4] (IV)



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.

S&P500 Implied Return Distribution[5]



Implied likelihood[5] of S&P 500:	Month ending 30/06/21	Month ending 28/05/21
Falling more than 10%	~ 2%	~ 3%
Falling more than 5%	~ 6%	~ 8%

[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 volaility 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.

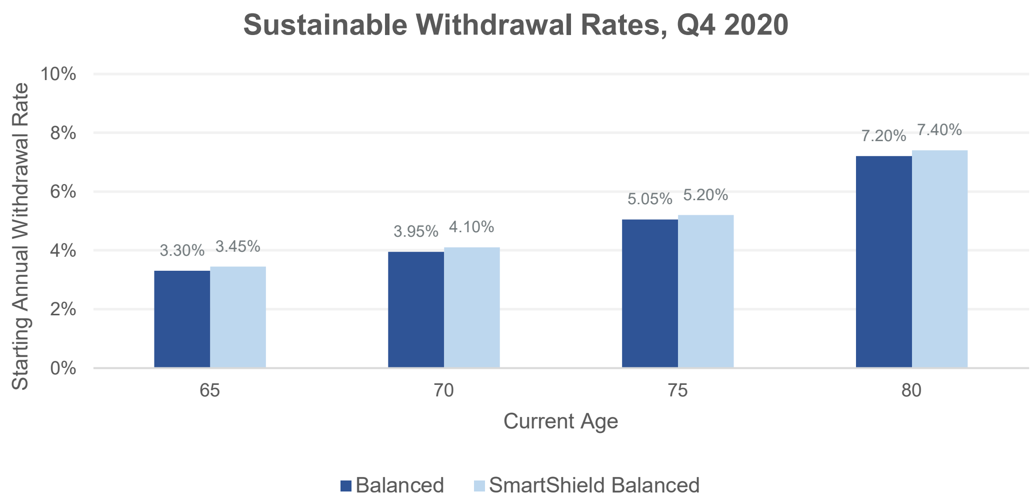
[5]**Implied Return Distribution / Implied Likelihood r**epresents the forecasted return (and its likelihood) of the index over the next 30 days (starting from the effective date of this report), as implied from the market prices of index options traded on the exchange.

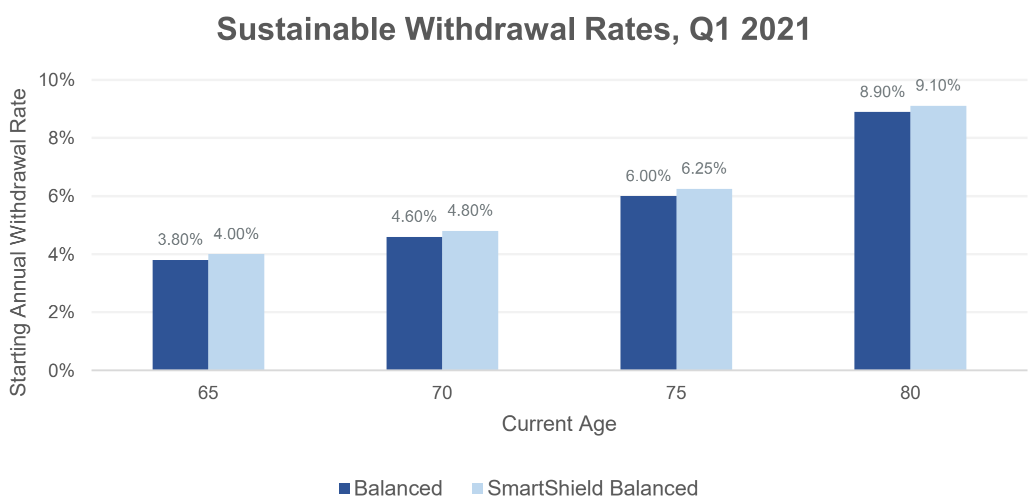
Observations on Sustainable Withdrawal Rates

We observe that sustainable withdrawal rates at the end of Q1 2021 are higher compared to Q4 2020.

This was mainly driven by the change in interest rate levels over the period with 10 year government bond yields increasing by approximately 80bps. Leading to higher simulated returns from all asset classes.

We have also illustrated the additional sustainable withdrawal rates that can be achieved by adding risk management into the portfolio using the SmartShield series of portfolios as an example. By controlling the level of volatility, and reducing the impact of sustained market drawdowns, risk management strategies can reduce the exposure to sequencing risk, and result in higher sustainable withdrawal rates for retirees.





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 92. 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 withdrawal $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).

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