# Milliman Market Monitor - 30 June 2021

## Market Commentaries

### Equities

- Global equities continued to climb higher in June as a result of overall stronger economic news. The US stock market experienced a temporary decline in mid June on the back of rising inflationary expectations, before making a rebound in late June as the Federal Reserve Chair Jerome Powell reassured the market that the recent inflation surge should be transitory. The S&P 500 ultimately gained +2.3% in June.
- Australian equities also started strongly, but the latest Covid lockdowns left the local share market ending on a slightly subdued note, with the ASX200 up +2.3% at the end of June.

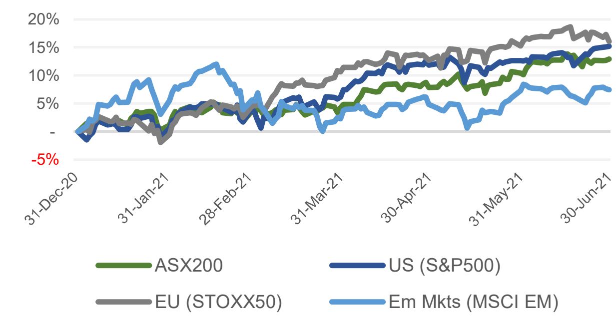
### Fixed Income

- Similar to last month, another strong US CPI print lead to a sell off in US treasuries, especially after St. Louis Fed President Bullard's prediction of a rate rise next year in the US.
- In Australia, local debt markets followed the US as bond yields jumped over tapering concerns.In addition, the RBA signalled it will stop lending banks 3 year money at 0.1% and it will not extend the yield curve control from the April 2024 to November 2024 bond.

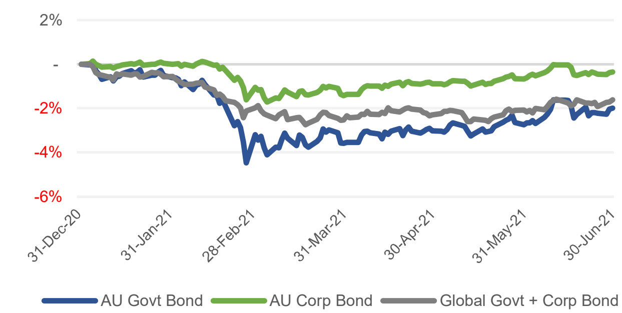
### Currencies

- The Hawkish pivot by the US Federal reserve sent the US Dollar shooting up against the other major currencies. The AUD dropped -3.1% against the USD to close the month at 74.98 US Cents.

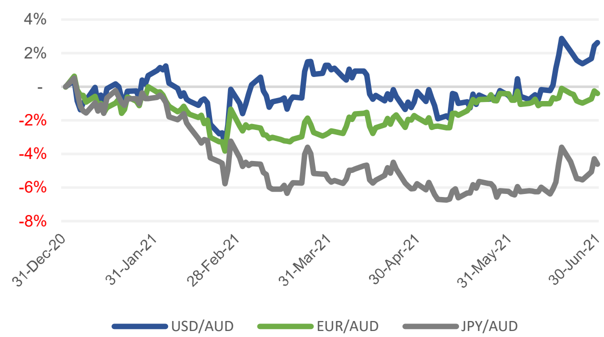
**Equities: YTD Total Return[1] %**



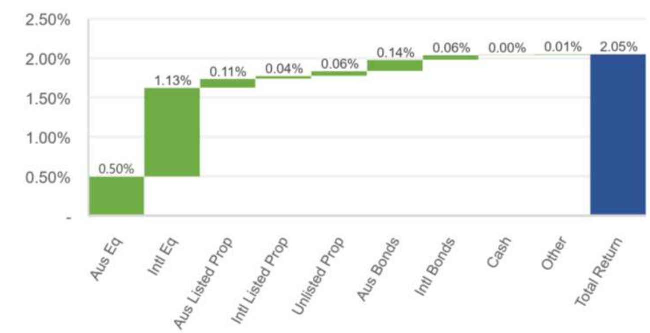

**Fixed Income: YTD Return[2] %**




**Foreign Currencies: YTD Return %**




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




**Returns ending 30 June 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% | 2.3% | 0.7% | 0.2% | 0.8% | 0.3% | 0.5% | 3.1% | 0.0% | 1.7% |
| 3 Month | 8.3% | 8.5% | 4.9% | 5.0% | 1.7% | 1.1% | 0.9% | 1.3% | 2.4% | 0.9% |
| 1 Year | 27.8% | 40.8% | 28.2% | 40.9% | -1.4% | 2.5% | -0.2% | -7.9% | -2.8% | -10.6% |
| CYTD | 12.9% | 15.3% | 16.1% | 7.4% | -2.0% | -0.4% | -1.6% | 2.6% | -0.4% | -4.6% |

[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.

# Milliman Market Monitor - 30 June 2021

## Upcoming Key Economic Events

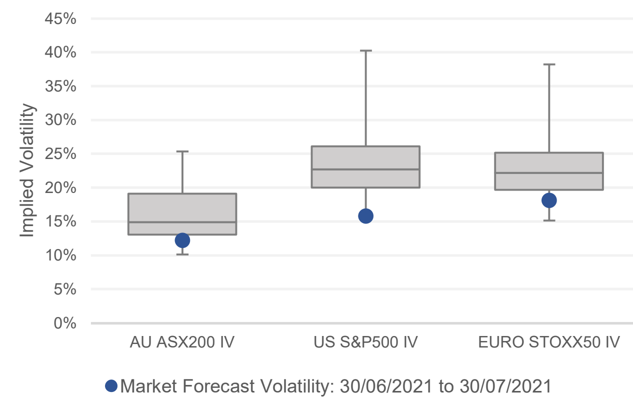
- In the month of July, key domestic events include the RBA Monetary Meeting on 6 July, where the expectation is for no rate change but with the delivery of RBA's stance on the future of the yield target and Quantitative Easing. Domestically we will also get Q2 CPI on the 28th of July here in Australia. Non-farm payroll in US on 2 July will be important too, as a major upside surprise in jobs gained/average hourly earnings may spark QE tapering discussion again.

- Key risks to watch out for this month will continue to be development of the Delta variant COVID-19 virus in Asia and Europe, in particular the risk of a third outbreak in India, given the latest discovery of Delta-plus variant (a 50% more transmissiable variant than Delta). In addition, Fed speaker's comments will be important as the recent June FOMC's dot plots showed higher median value of Fed Funds rate anticipated in 2022 and 2023.

- Inflation continues to be the hot topic of discussion, on whether the high inflation print as a result of supply shortage is transitory or not. In the recent FOMC meeting, Chairman Powell mentioned his confidence that the recent strong price gain is temporary. the fall in lumber price and recent less-than-expected core US PCE inflation in May as well as price gauge in regional US surveys seems to tentatively support this view for now.

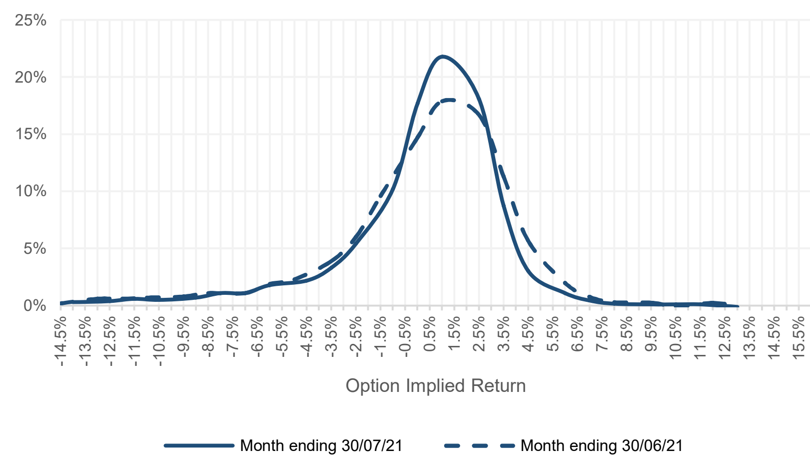
**Realised 1 Month Equity Volatility (%)**


**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 30/07/21 | Month ending 30/06/21 |
|---|---|---|
| Falling more than 10% | ~ 2% | ~ 2% |
| Falling more than 5% | ~ 5% | ~ 6% |

[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.

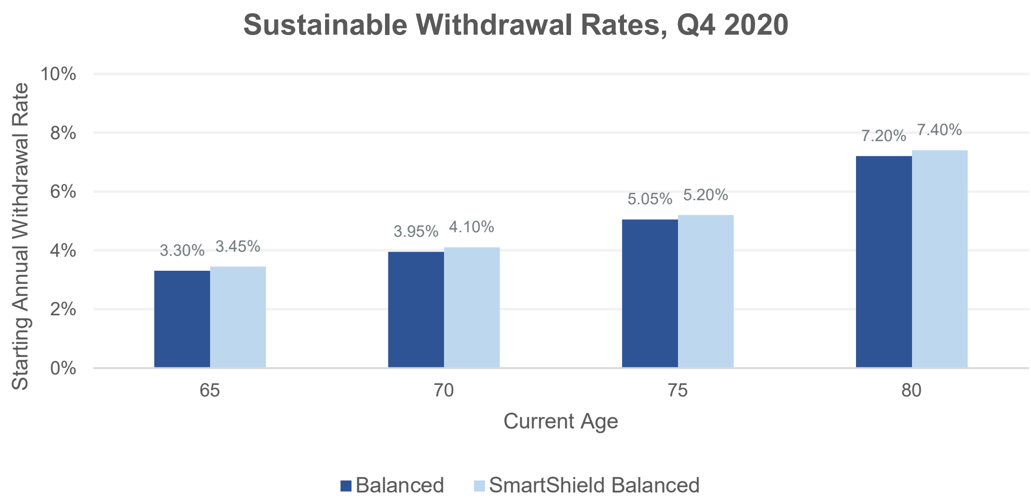
# Milliman Market Monitor - 30 June 2021

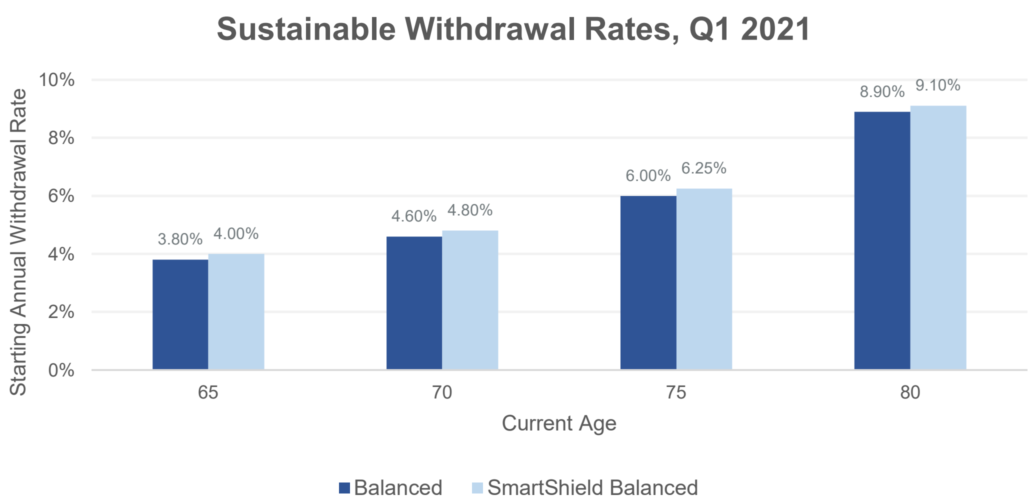
## Observations on Sustainable Withdrawal Rates

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.



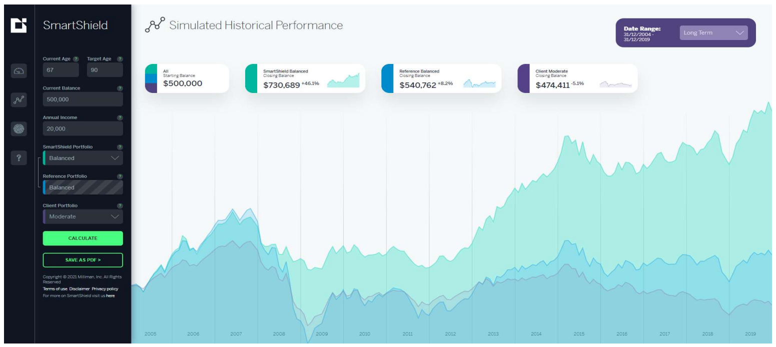

**Sustainable Withdrawal Rate** is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 92. An additional constraint introduced is for the potential shortfall to 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).

## SMARTSHIELD SIMULATOR – FREE ACCESS FOR ADVISERS

Built for financial advisers and complementary to Milliman's SmartShield portfolios, the Simulator helps strengthen your client conversation through:

- Calculating the likelihood of meeting retirement goals
- Illustrating the impact of experiencing a market crash scenario e.g. Covid-19





Simple to sign-up and FREE to access - Visit https://advice.milliman.com

If you would like more information on the content in this report, or more information about our investment solutions for financial advisers and their clients please call or visit us at: +61 2 8090 9100 | au.milliman.com

### LIMITATIONS & DISCLAIMERS