Milliman Market Monitor - 30 July 2021

Market Commentaries

Equities

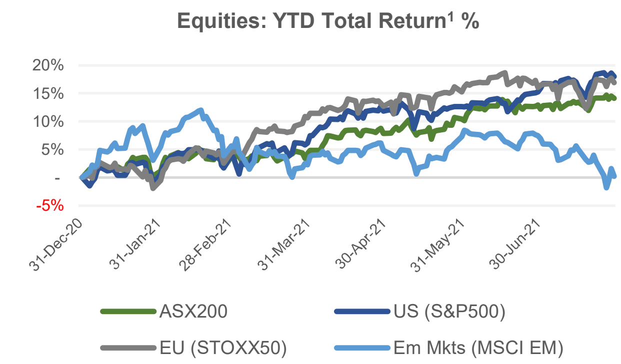
- Overall, global equities continued to gain ground in July as a result of stronger economic news. Release of higher CPI numbers in the US during mid July caused some inflationary concerns, which resulted in a temporary market sell-off, before bouncing back in late July. The S&P 500 index ultimately ended the month with a +2.4% gain.
- Australian equities also made gains, however the ongoing lockdown and climbing new COVID cases in NSW has weighed down the local market, with the ASX200 up +1.1% at the end of July.

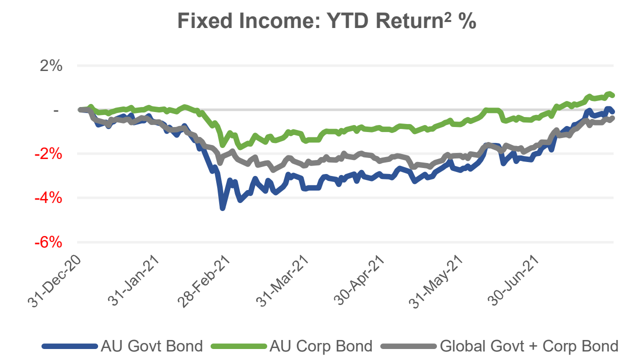
Fixed Income

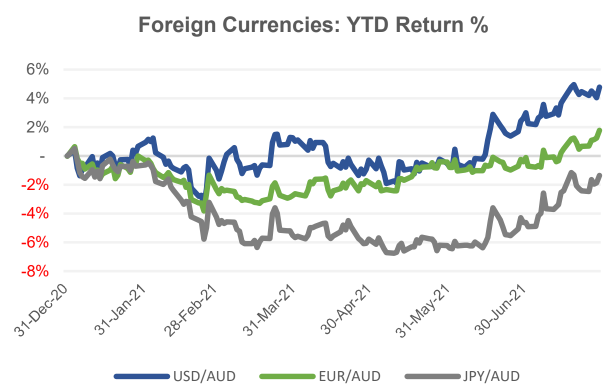
- Bond yields across developed markets (including Australia) have reduced this month despite some near term inflationary concerns. Australian Government Bond (represented by Bloomberg AusBond Govt 0+ Yr Index) and Global Bond (represented by Barclays Global Aggregate Index) returned +1.9% and +1.3% respectively for the month of July.

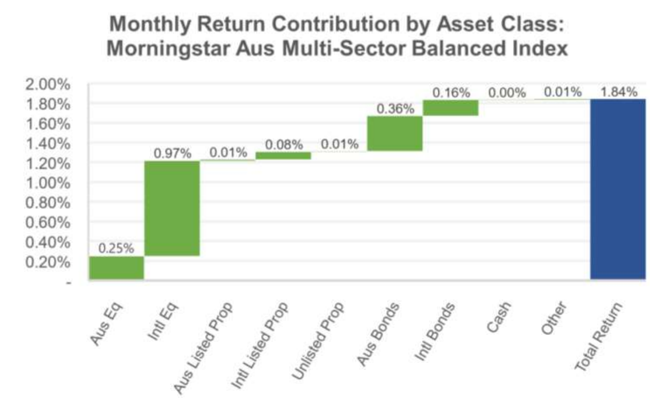
Currencies

- The other major currencies including the US Dollar continued to grow stronger against the Aussie Dollar over July. This was due to a combination of stronger economic conditions overseas following each country's reopening and the impact of the extended NSW lockdown. The AUD/USD rate closed at 73.44 US Cents, a -2.1% drop.









Returns ending 30 July 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	1.1%	2.4%	0.7%	-6.7%	1.9%	1.0%	1.3%	2.1%	2.2%	3.4%
3 Month	5.8%	5.5%	3.7%	-4.4%	3.0%	1.6%	2.0%	5.1%	3.7%	4.7%
1 Year	28.6%	36.4%	31.2%	20.6%	0.3%	2.6%	0.1%	-2.7%	-2.0%	-6.2%
CYTD	14.1%	18.0%	16.9%	0.2%	-0.1%	0.6%	-0.4%	4.8%	1.8%	-1.4%

[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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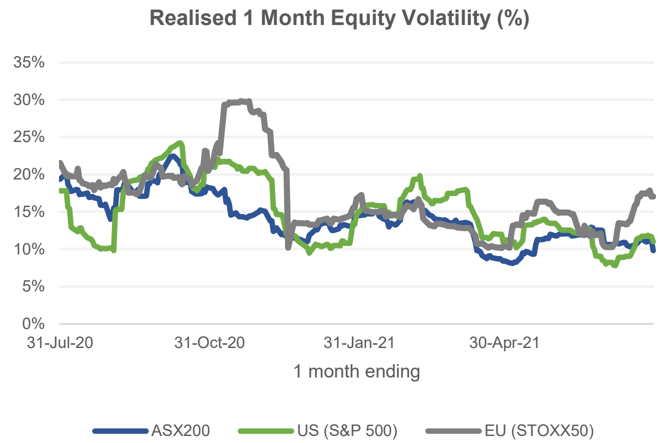
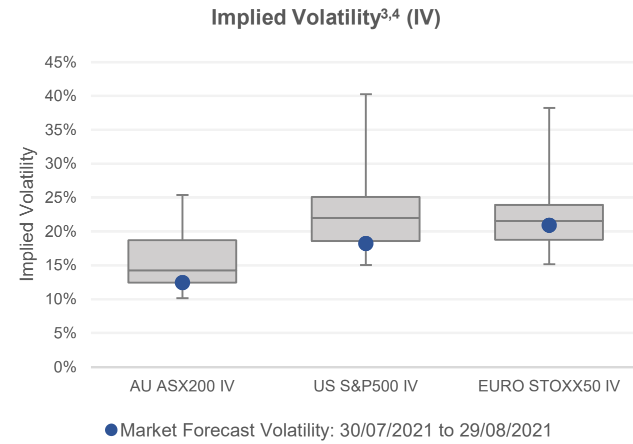
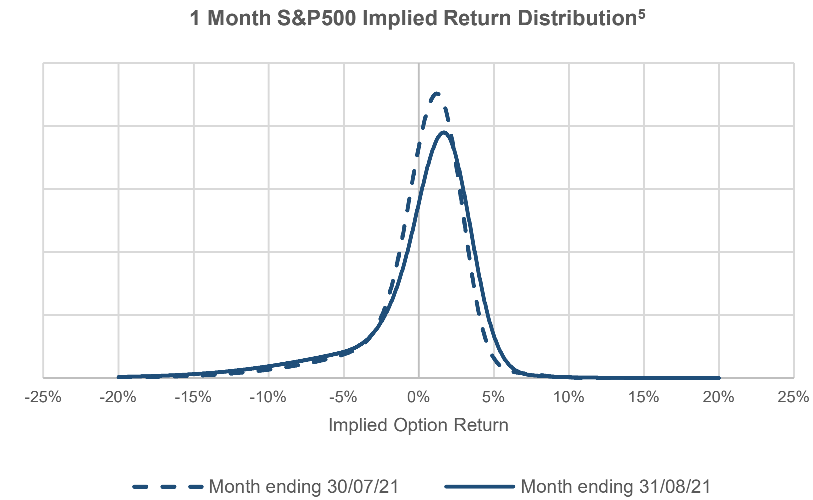
Upcoming Key Economic Events

- In the month of August, key domestic events include the monthly RBA meeting on 3 Aug and the release of Statement of Monetary Policy on the 6 Aug, where the RBA will look to update its forecast on various important economic indicators.
- Domestically, it will be earnings season for many companies on the ASX, where H1 results will be released. Year to date, we have seen a consistently positive uplift in EPS revision that is likely to echo the strong earning season we are seeing in the US (~70% reported so far. Of those reported, actual earnings beat expectation by 17% on average).
- Non-farm payroll in US on 6 Aug will be important to watch for as unemployment benefits are ending by early Sep. Eurozone GDP for Q2 is also releasing this month.
- Key risks to watch out for this month will continue to be the development of the Delta variant COVID-19 virus. Infection rates have continued to rise and spread worldwide, with developed countries now also reporting rising cases since July despite the high vaccination rate. Similar trends are also observed in China. Market consensus is now for Australia to experience a contraction in Q3 GDP due to the extended lockdown.
- Recent global inflation prints in the US, UK and Australia on headline level have all been quite strong and have continued to signal near term inflation pressure in areas that are "reopening-sensitive". In the recent FOMC meeting, Chairman Powell reiterated that they "will continue to assess progress in coming meetings".





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 31/08/21	Month ending 30/07/21
Falling more than 10%	~ 4%	~ 3%
Falling more than 5%	~ 11%	~ 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 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.

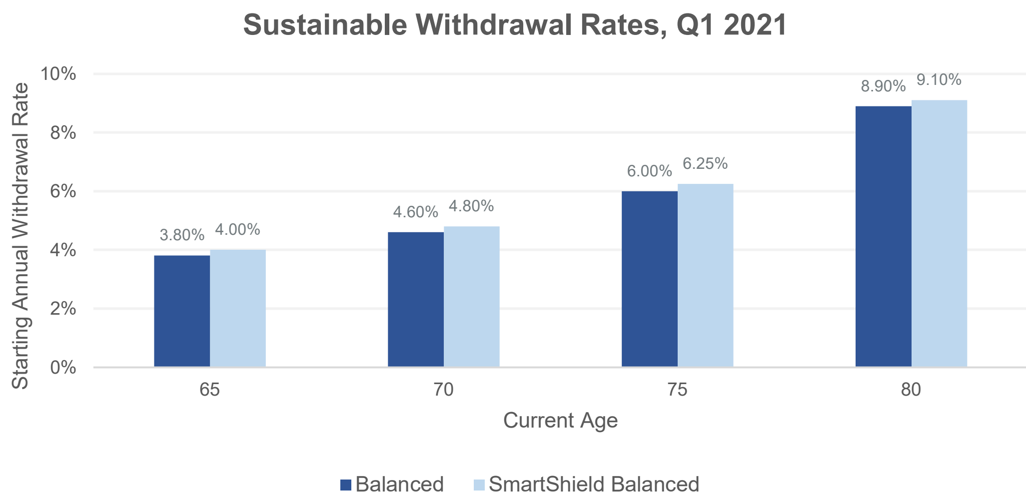
[5]**Implied Return Distribution / Implied Likelihood r**epresents the forecasted return (and its likelihood) of the index over the next 30 days (starting from the effective date of this report), as implied from the market prices of index options traded on the exchange.

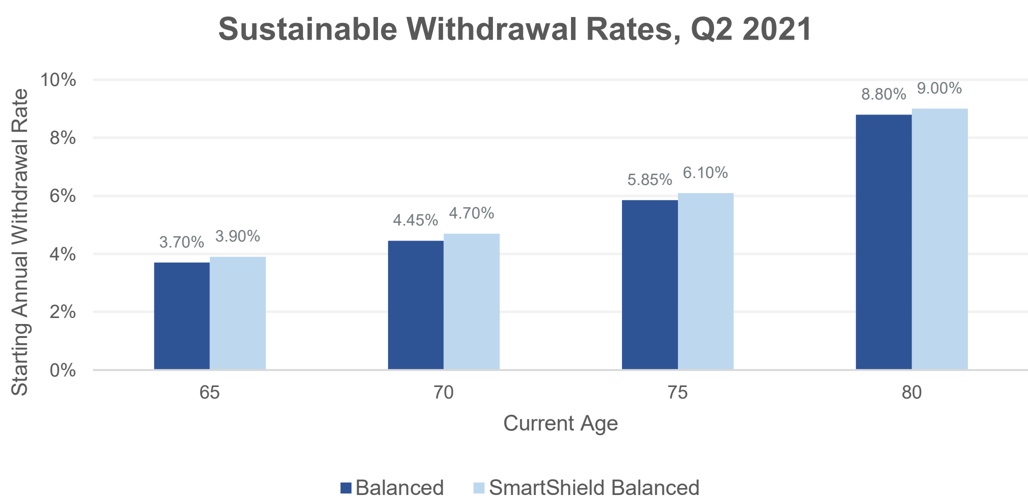
Observations on Sustainable Withdrawal Rates

We observe that sustainable withdrawal rates at the end of Q2 2021 are slightly lower compared to Q1 2021.

This was mainly driven by the change in interest rate levels over the period with 10 year government bond yields decreasing by approximately 30bps, leading to lower 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.





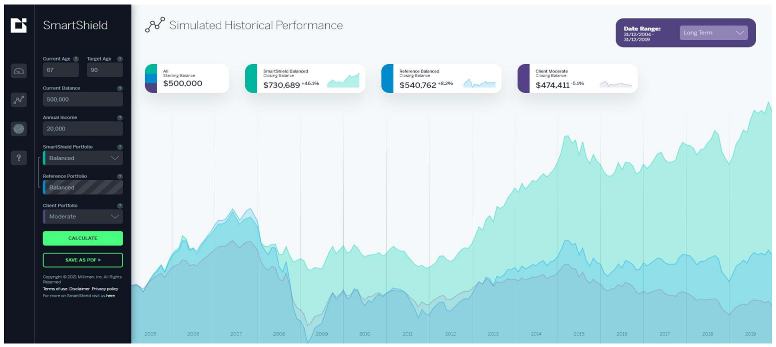
Sustainable Withdrawal Rate is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to be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



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