Milliman Market Monitor - January 2022

Milliman

Market Commentaries

Equities

- Global markets begun 2022 weaker, as investors priced in an increased probability of rate hikes from the US Federal Reserve following continued strong inflation figures. The market dropped sharply and this in turn lead to a spike in implied volatility. The S&P 500 index closed the month down -5.2%, while the EuroStoxx dropped -2.8%.
- Australian equities followed global equities down, with the Q4 2022 CPI print of 3.5% YoY showing that strong inflation is prevalent here in Australia too. The ASX200 closed down -6.4%.

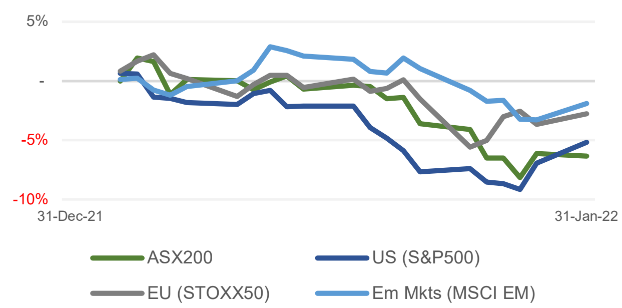
Fixed Income

- Similar to equities, the Australian Government Bond[2] and the Global Bond[2] generated a negative return of -1.1% and -1.6% respectively this month. This was due to yield increases as investors priced in an increased probability of rate hikes (and potentialy brought forward sooner) from central banks both here and overseas.

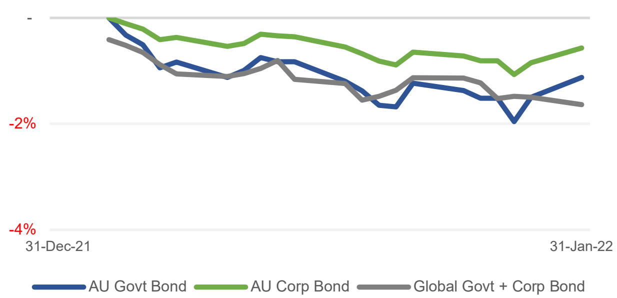
Currencies

- The Aussie Dollar weakened again against the US Dollar this month with the possibility of rate hikes coming soon in the US. The AUD/USD rate closed at 70.67 US Cents, which was a 2.8% drop against the USD. The Aussie Dollar was also weaker against the other major currencies.

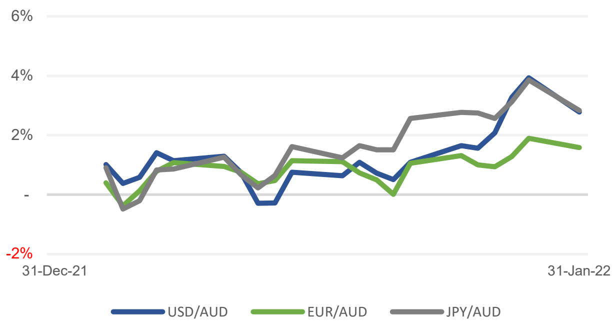
Equities: YTD Total Return[1] %



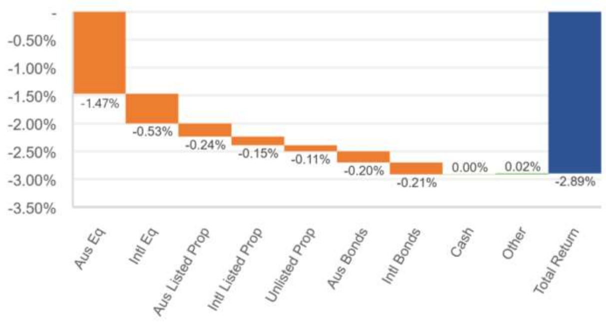
Fixed Income: YTD Return[2] %



Foreign Currencies: YTD Return %



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



Returns ending 31 January 2022

	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	-6.4%	-5.2%	-2.8%	-1.9%	-1.1%	-0.6%	-1.6%	2.8%	1.6%	2.8%
3 Month	-4.3%	-1.6%	-1.6%	-4.1%	1.2%	0.7%	-1.3%	6.4%	3.4%	5.4%
1 Year	9.4%	23.3%	22.2%	-7.2%	-3.7%	-2.2%	-2.6%	8.2%	0.1%	-1.7%
CYTD	-6.4%	-5.2%	-2.8%	-1.9%	-1.1%	-0.6%	-1.6%	2.8%	1.6%	2.8%

[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.

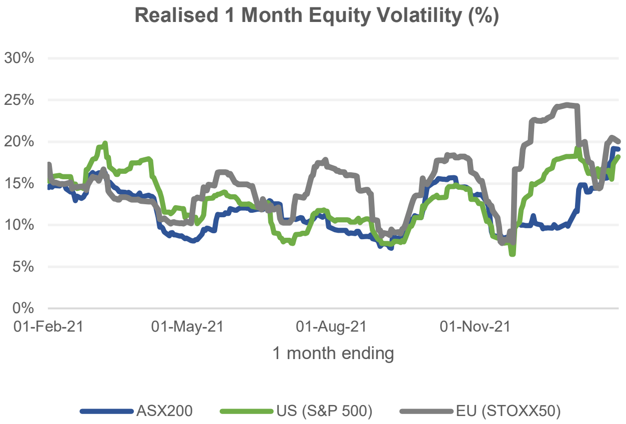
Milliman Market Monitor - January 2022

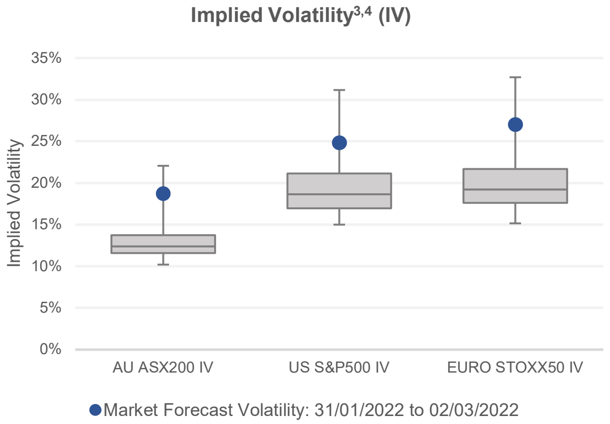
Upcoming Key Economic Events & Risk Commentaries

- The hawkish stance from the Fed FOMC in January surprised the market and has resulted in higher realised volatility across all equity markets, particularly in the Tech sector.The implied likelihood of the S&P 500 falling more than 10% and 5% in February is 7% and 16% respectively (as estimated from option pricing). This represents a significant increase in risk in January.

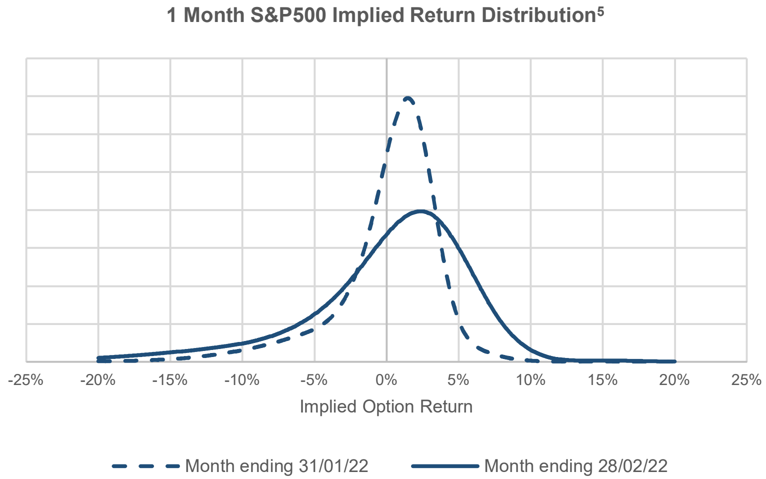
- We get the first RBA meeting for 2022 on 1 February and there are expectations that the RBA will announce the end of the QE program. They will also release updated economic forecasts, just prior to the release of the Statement of Monetary Policy on 4 Feb. The employment data is out on 17 Feb and 2021 Q4 Wage Price Index will be out on 23 Feb. Given the current low unemployment rate and core inflation above 2.5%, a high reading here will be likely to weigh on the RBA in terms of whether to bring forward potential rate hikes in 2022. Business surveys have also shown labour-cost pressure building.

- Offshore, in the US, most economists expect the change in non-farm payrolls on 5 Feb to show a rise in employment by 150k and for the unemployment rate to remain steady at 3.9%. Jan CPI is released on 11 Feb and is expected to show a 0.5% rise. The core PCE, consumption and second reading of GDP for Q4 in the US will be released on 25 Feb. In Europe, we get the ECB meeting on 3 Feb and GDP data on 15 Feb.





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 28/02/22	Month ending 31/01/22
Falling more than 10%	~ 7%	~ 3%
Falling more than 5%	~ 16%	~ 10%

[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.

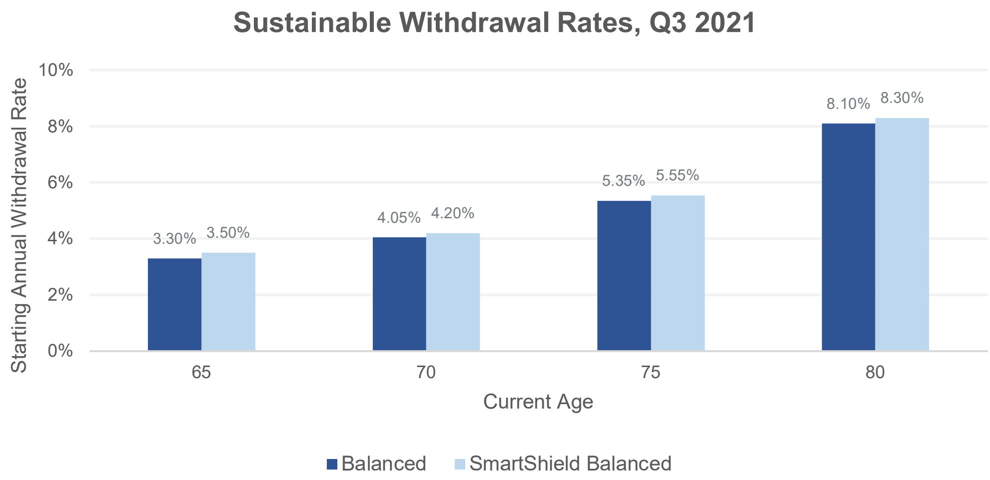
[5]**Implied Return Distribution / Implied Likelihood r**epresents the forecasted return (and its likelihood) of the index over the next 30 days (starting from the effective date of this report), as implied from the market prices of index options traded on the exchange.

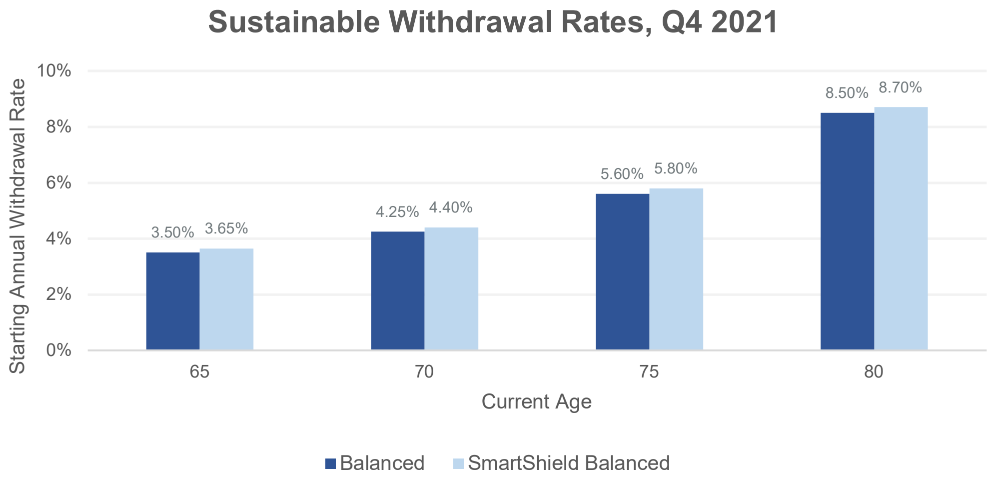
Observations on Sustainable Withdrawal Rates

We observe that sustainable withdrawal rates at the end of Q4 2021 are higher compared to Q3 2021.

This was mainly driven by the change in interest rate levels over the period with 10 year government bond yields increasing by approximately 20bps, leading to higher 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, risk management strategies can reduce the exposure to sequencing risk, resulting 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/.

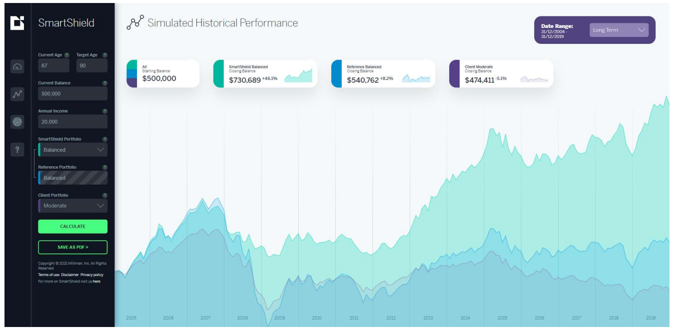
For example, a 4% sustainable withdrawal rate for a 70 year old retiree with $500k balance means the retiree can withdraw $20k in the first year. And for each subsequent years, the amount the retiree can withdraw is $20k plus any increase due to projected inflation (CPI).

Milliman

SMARTSHIELD™ SIMULATOR – FREE ACCESS FOR FINANCIAL ADVISERS

Built for financial advisers and complementary to Milliman's SmartShield portfolios, the Simulator strengthens 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 - https://smartshield.millimandigital.com

If you would like more information on the content in this report, or more information about our SmartShield Managed Account solution, please call us on +61 (0)2 8090 9100 | or visit advice.milliman.com

Favourable
SQM RESEARCH

LIMITATIONS & DISCLAIMERS

Milliman Pty Ltd ABN 51 093 828 418 AFSL 340679 (Milliman AU) for provision to Australian financial services (AFS) licensees and their representatives, [and for other persons who are wholesale clients under section 761G of the Corporations Act]. Not for public use or distribution.

Past performance is not indicative of future results. Recipients must make their own independent decisions regarding any strategies or securities or financial instruments mentioned herein.

Milliman Pty Ltd does not make any representations that products or services described or referenced herein are suitable or appropriate for the recipient. Many of the products and services described or referenced herein involve significant risks, and the recipient should not make any decision or enter into any transaction unless the recipient has fully understood all such risks and has independently determined that such decisions or transactions are appropriate for the recipient.

Any discussion of risks contained herein with respect to any product or service should not be considered to be a disclosure of all risks or a complete discussion of the risks involved.

The recipient should not construe any of the material contained herein as investment, hedging, trading, legal, regulatory, tax, accounting or other advice. The recipient should not act on any information in this document without consulting its investment, hedging, trading, legal, regulatory, tax, accounting and other advisors.

Milliman Pty Ltd does not ensure a profit or guarantee against loss.