# Milliman Market Monitor - March 2022

Milliman

## Market Commentaries

### Equities

● Markets around the world experienced bounce backs from February's losses to varying degrees, despite ongoing uncertainty surrounding the Ukraine-Russian War. Australia experienced a relatively large bounce back, with the ASX200 returning +6.9% in March. US equities also rallied through the month (S&P500 up +3.7%), following the US Federal Reserve raising the Federal Funds rate by 0.25% and signalling 6 more rate hikes for the year. EuroSTOXX were down -0.5% in March, as investors remain concerned about the impact of the war on surging commodity prices and the European markets.

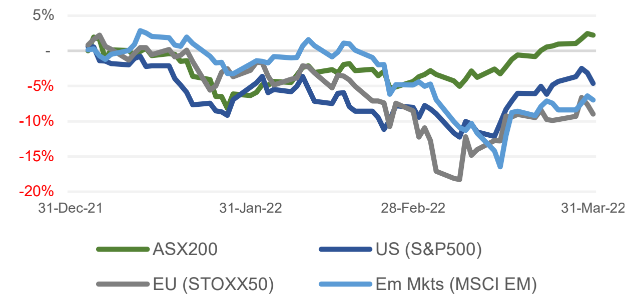
### Fixed Income

● There were major moves to Fixed Income markets this month as the US Federal Reserve raised rates and signalled not only that there would be 6 more hikes but also that the central bank could raise rates by 50 basis points at a time. Toward the end of the month the US yield curve inverted, with the 10 year rate falling below the 2 year rate. The Australian Government Bond[2] and the Global Bond[2] generated a negative return of -3.9% and -2.1% respectively.

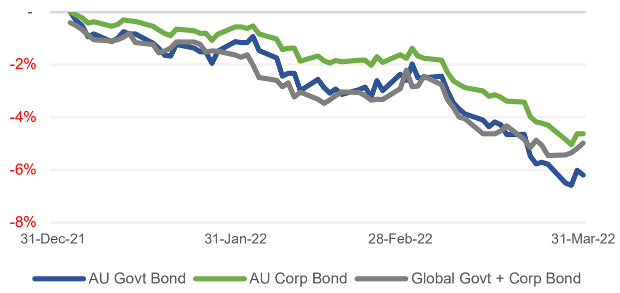
### Currencies

● The Aussie Dollar grew stronger against majors this month partially offsetting the rebound in global equities for domestic unhedged investors.The AUD/USD rate closed at 74.82 US Cents, a gain of 2.9%.

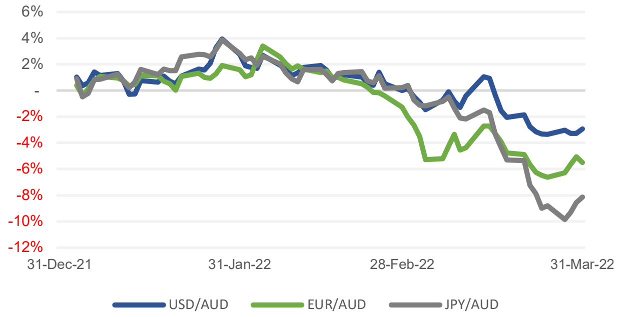
**Equities: YTD Total Return[1] %**



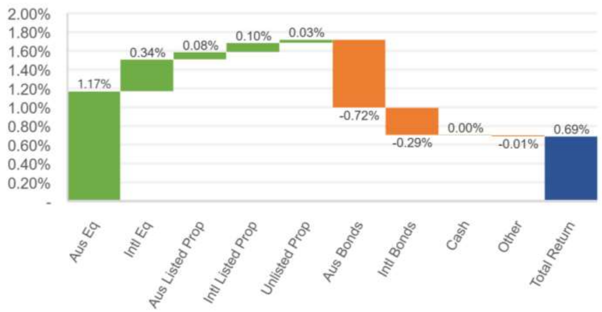

**Fixed Income: YTD Return[2] %**




**Foreign Currencies: YTD Return %**




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




**Returns ending 31 March 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 | 6.9% | 3.7% | -0.5% | -2.3% | -3.9% | -3.0% | -2.1% | -2.9% | -4.3% | -8.3% |
| 3 Month | 2.2% | -4.6% | -9.0% | -7.0% | -6.2% | -4.6% | -5.0% | -2.9% | -5.5% | -8.1% |
| 1 Year | 15.0% | 15.6% | 1.5% | -11.4% | -5.7% | -4.8% | -4.0% | 1.6% | -4.2% | -7.7% |
| CYTD | 2.2% | -4.6% | -9.0% | -7.0% | -6.2% | -4.6% | -5.0% | -2.9% | -5.5% | -8.1% |

[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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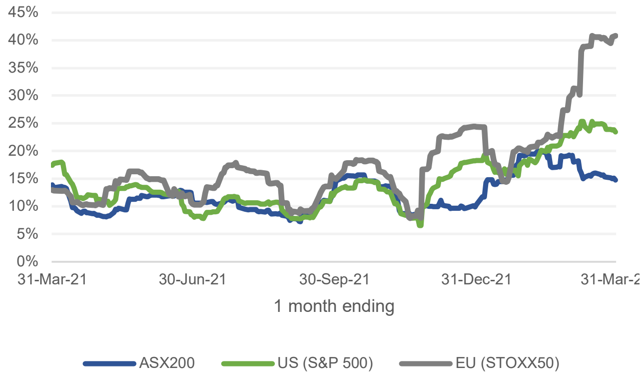
### Upcoming Key Economic Events & Risk Commentaries

● Apart from Europe, other major developed markets have shown some signs of stablisation in the one-month realised equity volatility, despite fast rising bond yields and ongoing geopolitical conflicts.

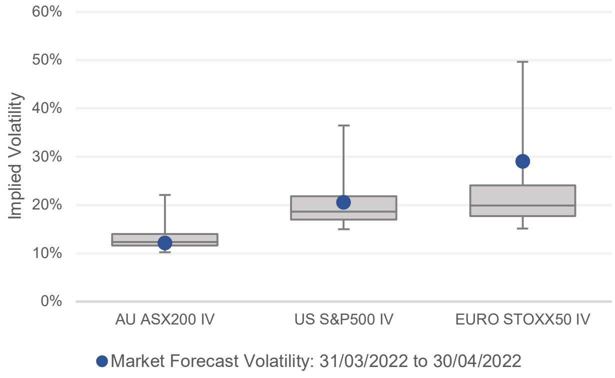
● Domestically, the monthly RBA meeting takes place on 5 April. No stance change is expected but any assessment on the state of the domestic labour markets and wages will be closely watched. The quarterly Financial Stability Review will be released on 8 April, where it will make an assessment of the resilience of bank and household balance sheets in terms of borrowing. Also, the Q1 2022 CPI will be released on 27 April.

● Offshore in the US, most economists expect the change in non-farm payrolls on 1 April to show a rise in employment of 490,000 and for the unemployment rate to improve further to 3.7%. ISM Manufacturing PMI for March on 2 April is expected to show a modest improvement from 58.6 to 59. The March US CPI is released on 12 April. In Europe, ECB holds its meeting on 14 April with no change in policy rate expected after its hawkish surprise to reduce its monthly Net Assets Purchase program to 20 Billion Euro by end Q2 2022. In China, Q1 GDP is released on 18 April.

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

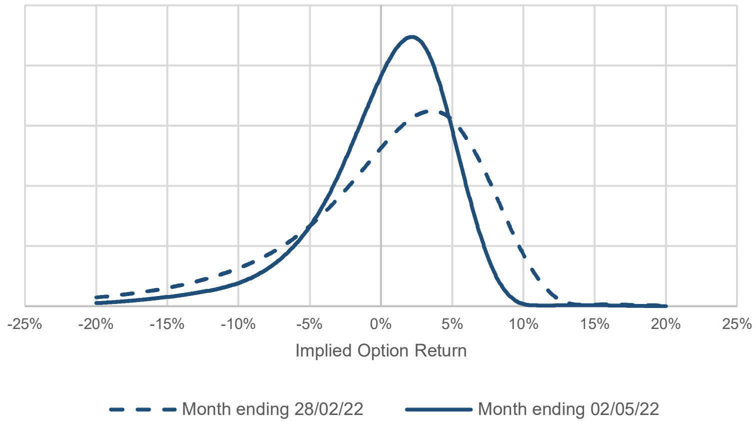



**Implied Volatility[3,4] (IV)**




*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.*

**1 Month S&P500 Implied Return Distribution[5]**




| Implied likelihood[5] of S&P 500: | Month ending 29/04/22 | Month ending 31/03/22 |
|---|---|---|
| Falling more than 10% | ~ 5% | ~ 7% |
| Falling more than 5% | ~ 13% | ~ 16% |

[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.

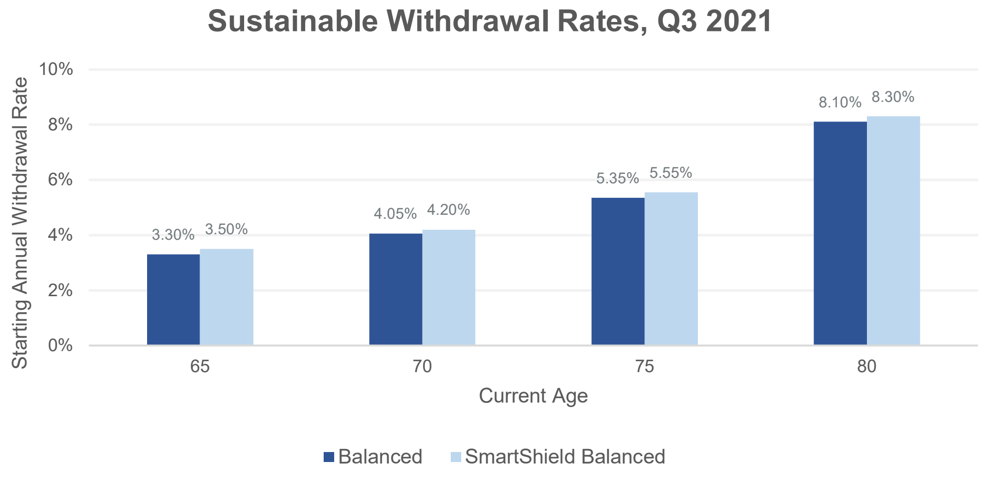
## Observations on Sustainable Withdrawal Rates

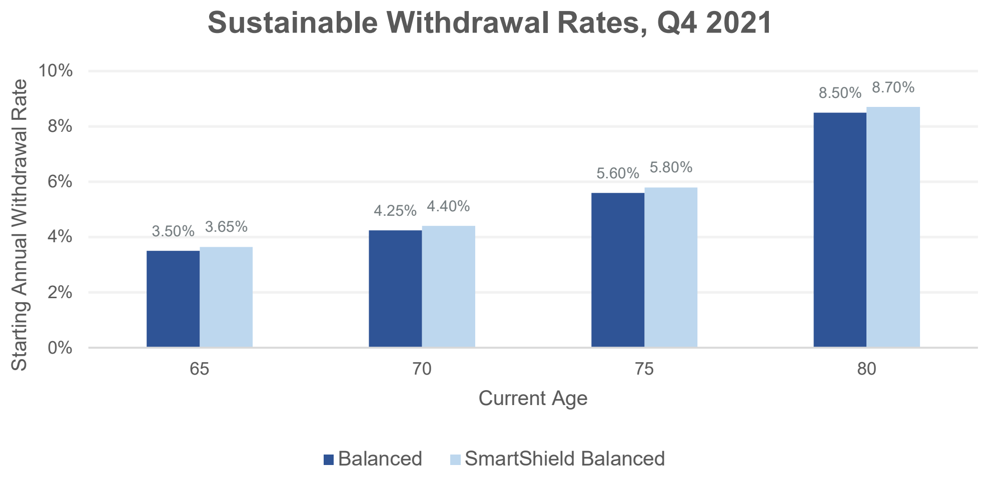
We observe that sustainable withdrawal rates at the end of Q4 2021 are higher compared to Q3 2021.

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, solutions such as the SmartShield portfolios that employ a risk management strategy, can reduce the exposure to sequencing risk, resulting in higher sustainable withdrawal rates for retirees.



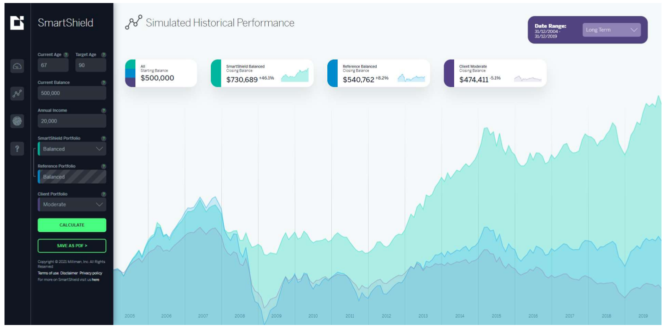

**Sustainable Withdrawal Rate** is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to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

## 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](https://smartshield.millimandigital.com)

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