Milliman Market Monitor - May 2022

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Market Commentaries

Equities

● Markets around the world had a poor month, largely thanks to the ongoing COVID lockdowns in China that have exacerbated already stressed supply chains, as well as the continuing war conflict in the Ukraine. Inflationary pressure remains a key concern and many central banks including the Reserve Bank of Australia raised their rates (+25bps), with an expectation of more rises to follow.

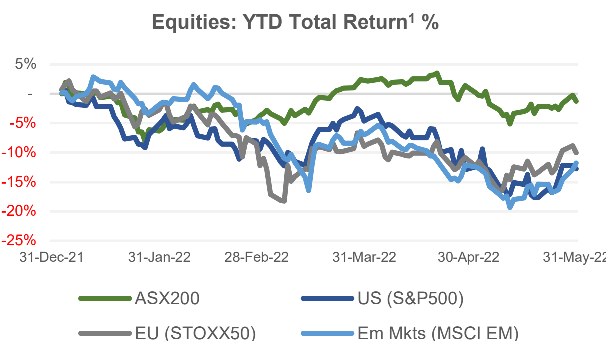
Equity markets sank as investors priced in this expectation, ending the month on a positive note to ultimately form a V-shaped recovery, with investor optimism returning on the back of positive economic data and optimism that the Chinese economy would recover. The ASX 200 fell -2.6% which followed the ongoing Chinese lockdowns reducing commodity prices, while in the US the S&P 500 gained +0.2%.

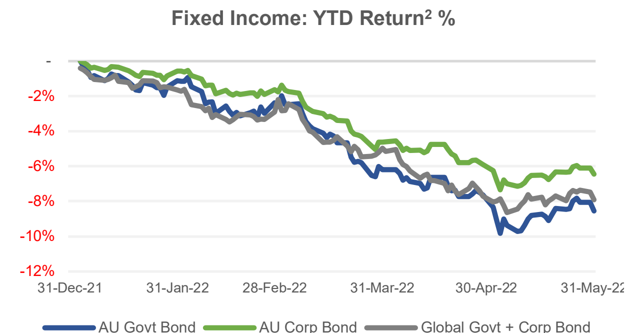
Fixed Income

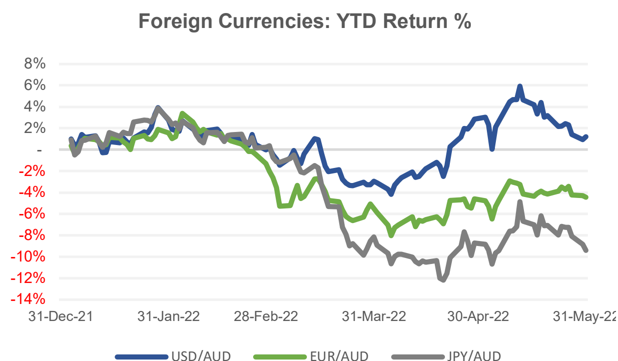
● There continued to be major movement in the Fixed Income markets this past month, as inflation rates kept accelerating, including within Australia. The Australian Government Bond[2] and the Global Bond[2] generated a negative return of -1.0% and -0.2% respectively.

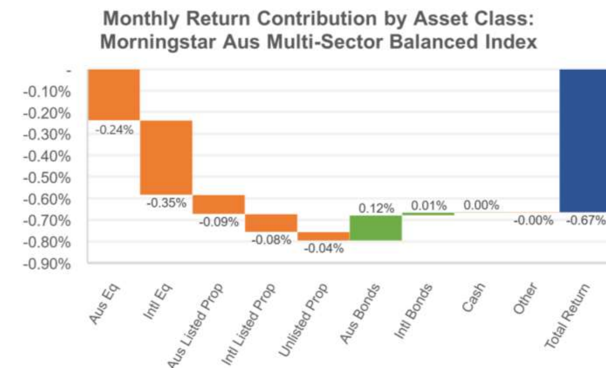
Currencies

● The month of May started with the US dollar continuing last month's slide against the Aussie on the back of lower commodity prices and US Fed rate rises. However, the Aussie Dollar strengthened following the RBA's rate rise and regained lost ground for this month to ultimately close at 71.77 US Cents, a gain of 1.6%.









Returns ending 31 May 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	-2.6%	0.2%	0.9%	0.4%	-1.0%	-0.6%	-0.2%	-1.6%	0.1%	-0.8%
3 Month	3.2%	-5.2%	-1.7%	-7.3%	-6.3%	-4.9%	-5.1%	1.2%	-3.2%	-9.6%
1 Year	4.8%	-0.3%	-3.8%	-19.8%	-8.9%	-7.4%	-7.4%	7.8%	-5.4%	-8.2%
CYTD	-1.3%	-12.8%	-10.1%	-11.8%	-8.6%	-6.5%	-7.9%	1.2%	-4.4%	-9.4%

[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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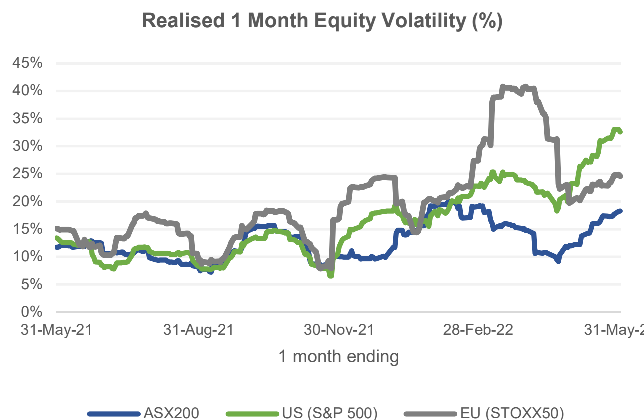
Upcoming Key Economic Events & Risk Commentaries

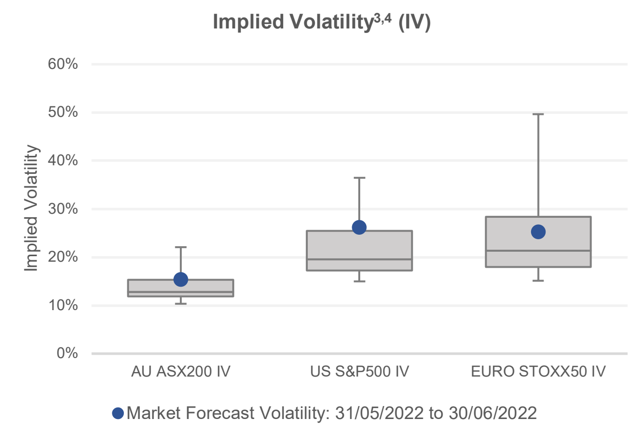
● Continued lockdowns in China, alongside worries that the rate hikes in the US are beginning to put too much of a brake on the economy have led to risk-off moves and higher realised equity volatility across markets.

● Domestically, we have the Q1 GDP on 1 June with the consensus being a forecast rate of 0.6% QoQ. Possible downside risks to the forecast are the knock-on effects from the Omicron wave in Q1 and the La Nina weather pattern. The monthly RBA meeting follows on 7 June with the market expecting the RBA to raise rates by another 35bps — this is in line with the consensus forecast from economists. The NAB Business surveys (May) are due on 14 June and Labour force data (May) is due on 16 June.

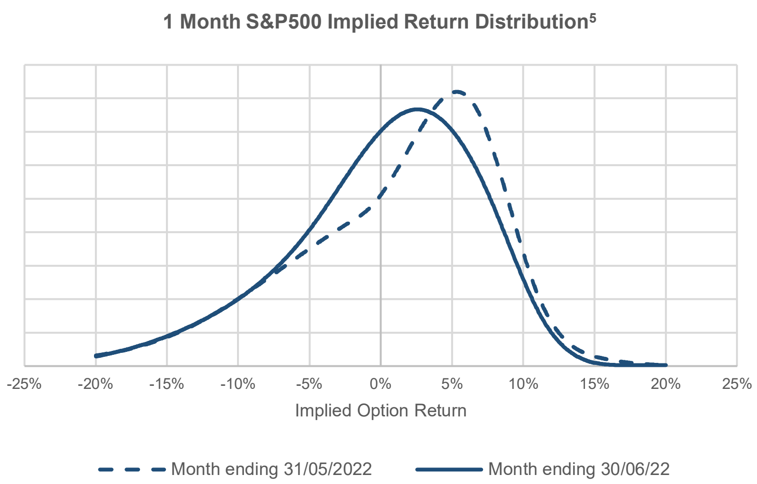
● Offshore in the US, the Non-Farm Payroll data for May will be released on 3 June (f/c 325k, prior 428k). US CPI (May) is due on 10 June (f/c 0.7% q/q headline). The June FOMC rate decision is due on 16 June and the consensus is for a back-to-back 50bps hike.

● The third reading of US GDP and core PCE for Q1, are due on 29 June and in Europe, we get the final reading of Q1 GDP on 8 June and ECB rate decision on 9 June (No rate change is expected). In China, the PPI and CPI data for April are due on 10 June, while retail sales are released on 15 June.





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 30/06/22	Month ending 31/05/22
Falling more than 10%	~ 9%	~ 11%
Falling more than 5%	~ 21%	~ 23%

[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.

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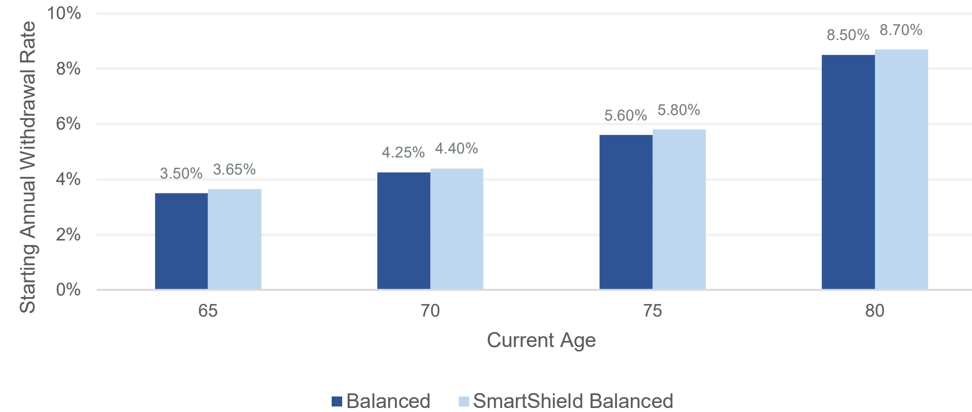
Observations on Sustainable Withdrawal Rates

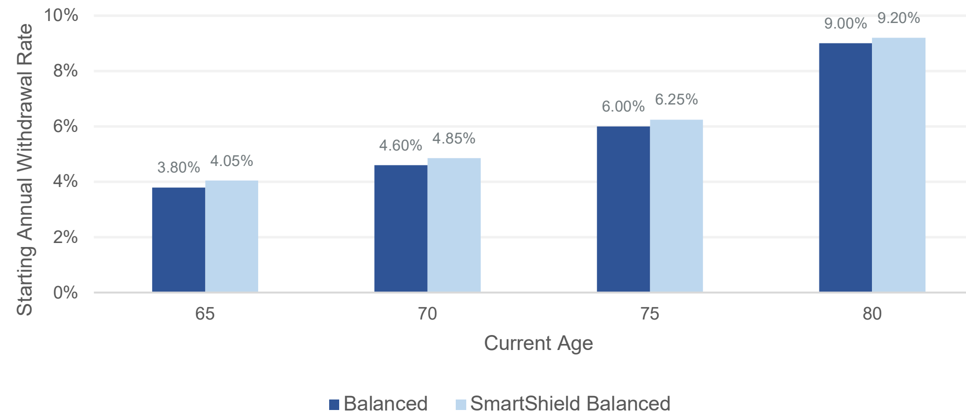
We observe that sustainable withdrawal rates at the end of Q1 2022 are higher compared to Q4 2021.

This was mainly driven by the change in interest rate levels over the period with 10 year government bond yields increasing by approximately 110bps, 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.





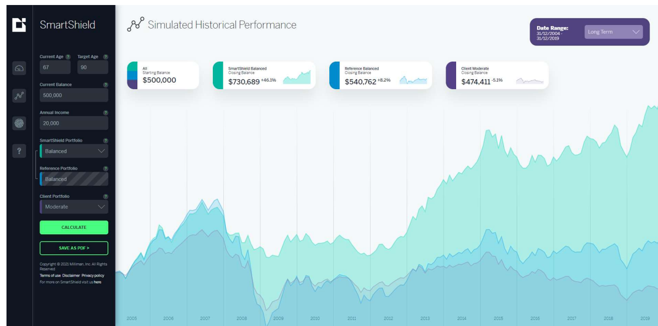
Sustainable Withdrawal Rate is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to be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

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