Milliman Market Monitor - July 2022

Market Commentaries

Equities

● Equity markets had a strong month, buoyed by solid earnings from big US tech companies, even with major issues still present such as accelerating inflation and the Russia-Ukraine war.

Equity markets had already priced in the probability of a recession in the US, so markets rallied following the positive earnings reports suggesting that major US companies could weather the inflationary storm. The ASX 200 grew +5.7%, while in the US the S&P 500 closed the month up +9.2%.

Fixed Income

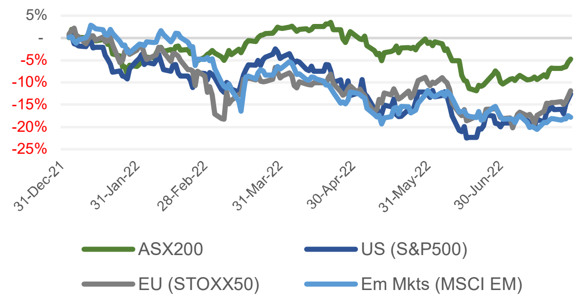
● Fixed Income markets moved in reaction to multiple rate hikes across the globe. Investor expectations were largely met when the US Fed raised rates 75 basis points but were shocked when the ECB announced a 'higher than expected' 50 basis point rise.

In Australia, the RBA raised rates again by 50bp, to 1.35%. The Australian Government Bond[2] and the Global Bond[2] generated a positive return of 3.6% and 2.5% respectively.

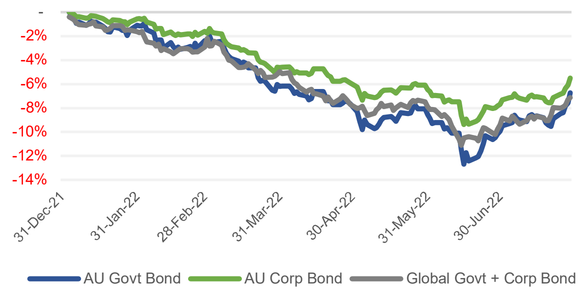
Currencies

● The Australian Dollar strengthened against the US Dollar this month, offsetting some of the large gains made in the US when measured in AUD terms. The Aussie Dollar closed at 69.85 US Cents, a gain of +1.2%.

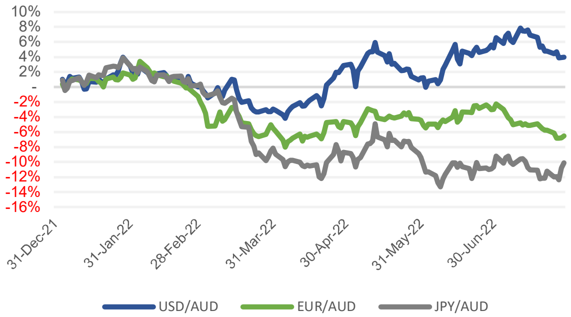
Equities: YTD Total Return[1] %



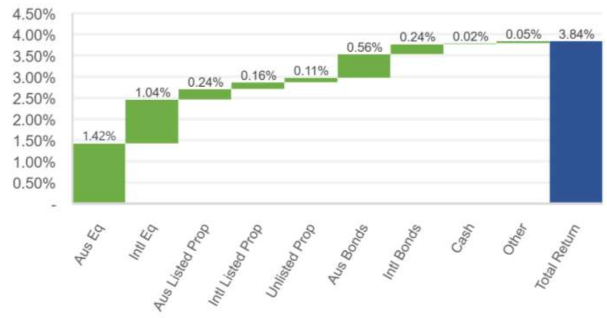
Fixed Income: YTD Return[2] %



Foreign Currencies: YTD Return %



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



Returns ending 29 July 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	5.7%	9.2%	7.4%	-0.2%	3.6%	2.4%	2.5%	-1.2%	-3.6%	0.6%
3 Month	-6.0%	0.4%	-1.1%	-6.5%	1.0%	0.4%	0.6%	1.1%	-2.0%	-1.6%
1 Year	-2.2%	-4.6%	-7.0%	-20.1%	-9.5%	-7.6%	-8.2%	5.1%	-9.5%	-13.5%
CYTD	-4.7%	-12.6%	-11.8%	-17.8%	-6.7%	-5.5%	-7.2%	4.0%	-6.5%	-10.1%

[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.

Upcoming Key Economic Events & Risk Commentaries

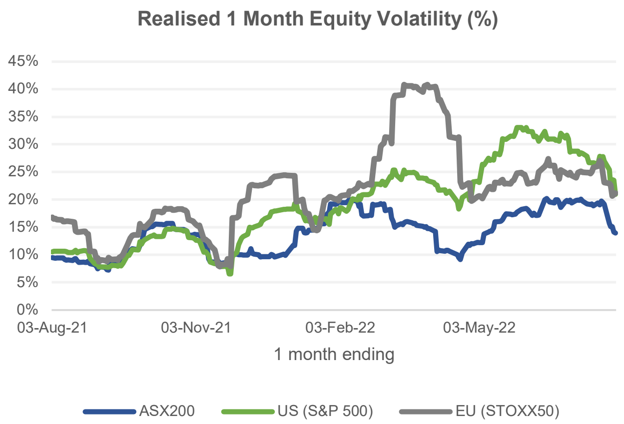
● Implied volatility (often viewed as the market's fear index) has reduced compared to last month, settling at the historical 1 year median level. The implied likelihood of the S&P 500 falling more than 10% and 5% in August is 5% and 15% respectively, which represents a reduction in risk compared to prior month.

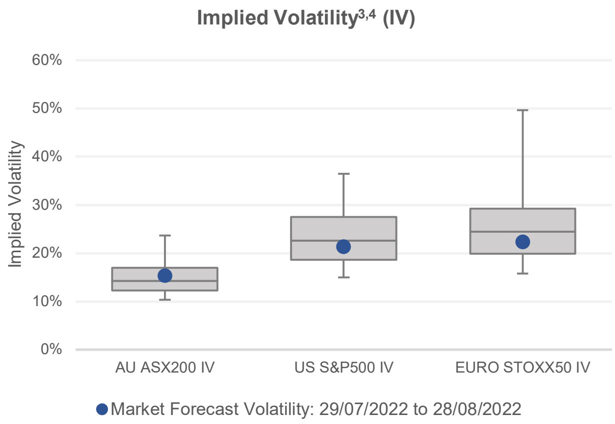
● With signs of slowdown in regional economic activity surveys and lower PMIs, market participants are starting to look through the near-term challenge and see it as an opportunity for a more balanced Fed, lower bond yields and a levelling off in inflation. As a result, risk assets performed and realised equity volatilties have pared back from last month.

● Domestically, we have the monthly RBA meeting on 2 Aug with the market expecting rates to rise by another 50bps in an effort to curb the inflation pressure. A new set of economic forecasts will be released by the RBA on 5 Aug in the Q2 Statement of Monetary Policy. The NAB Business surveys (July) are due on 9 Aug and Labour force data (July) is due on 18 Aug.

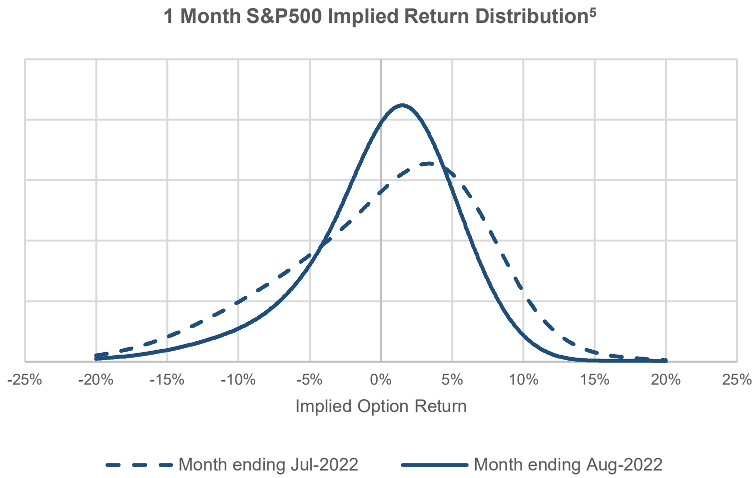
● Offshore in the US, the ISM PMI data is due on 2 Aug. (f/c 52.5) The Non-Farm Payroll data for July is released on 5 Aug (f/c 250k, prior 372k). US CPI (July) is due on 10 Aug (f/c 0.2% m/m headline, 0.5% m/m core). Industrial production (July) is released on 16 Aug and Retail Sales (July) is out on 17 Aug.

● The 2nd reading of US GDP and core PCE for Q2, are due on 25 Aug and in Europe, we get the preliminary Q2 GDP on 17 Aug and PMI data for August will be released on 23 Aug. In China, the PPI and CPI data for July are due on 10 Aug, while Indistrial Production and Retail Sales will be released on 15 Aug. The NBS PMI data (Aug) will be released on 31 Aug.





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 Aug-2022	Month ending Jul-2022
Falling more than 10%	**~ 5%**	~ 10%
Falling more than 5%	**~ 15%**	~ 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.

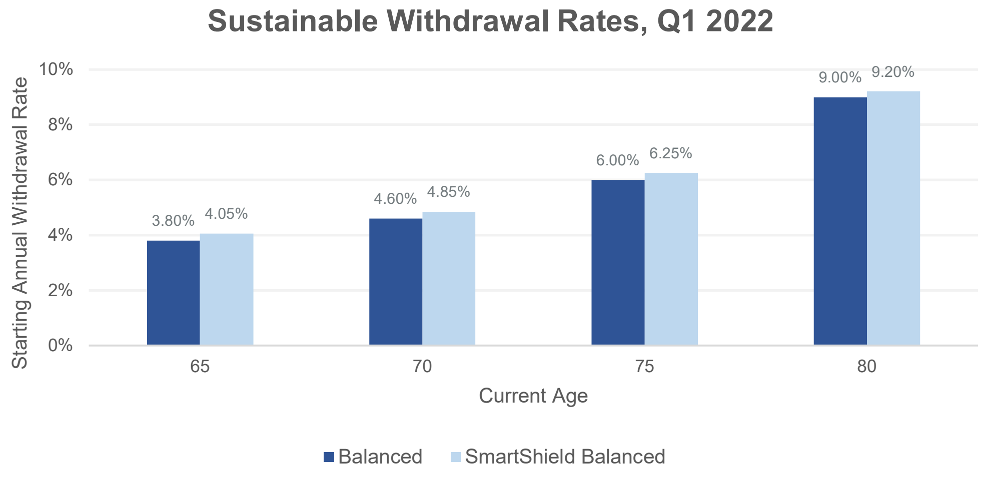
Observations on Sustainable Withdrawal Rates

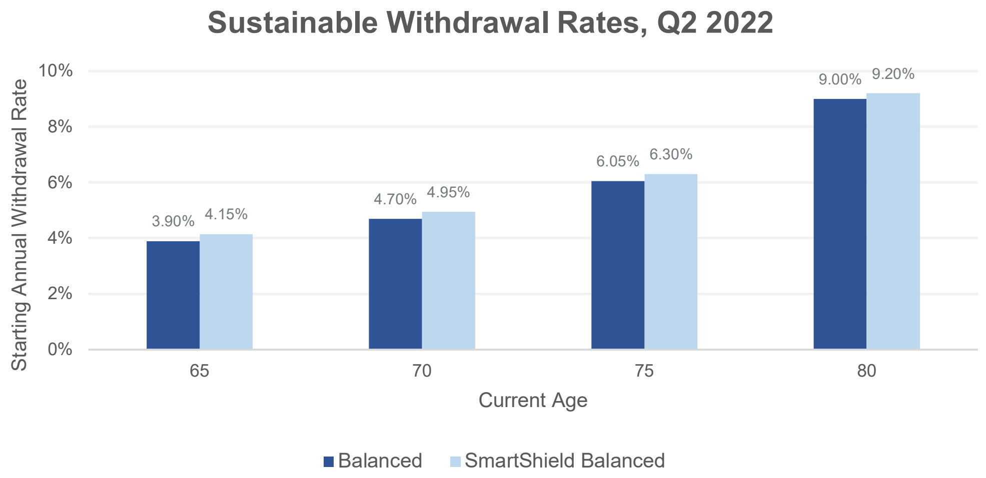
We observe that sustainable withdrawal rates at the end of Q2 2022 are higher compared to Q1 2021.

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.

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.





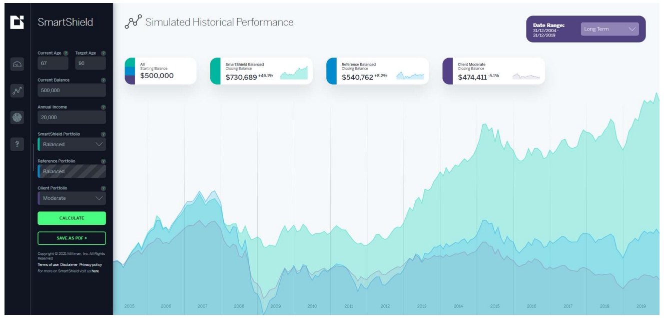
Sustainable Withdrawal Rate is defined as the maximum amount that can be withdrawn from a portfolio each year with a 90% certainty that this rate can be sustainably withdrawn (adjusted for inflation) until the target age of 90. An additional constraint introduced is for the potential shortfall to be 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 CLICK THIS LINK: https://smartshield.millimandigital.com/Identity/Account/Register

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

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