

**Market Price Monitor**

**Local Equity Markets**

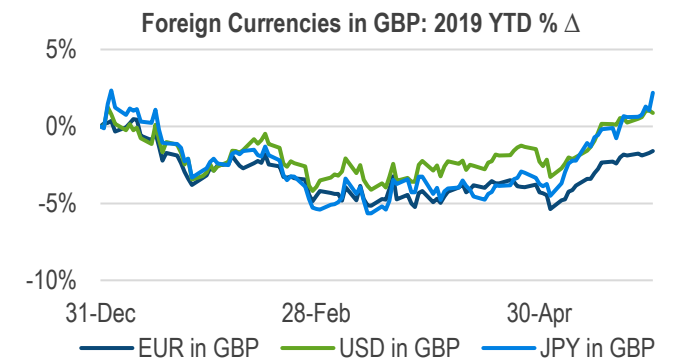
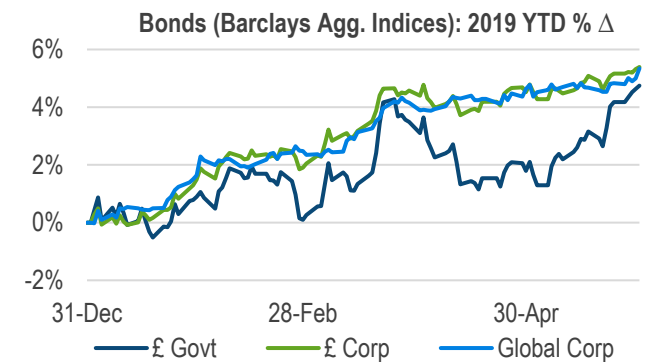
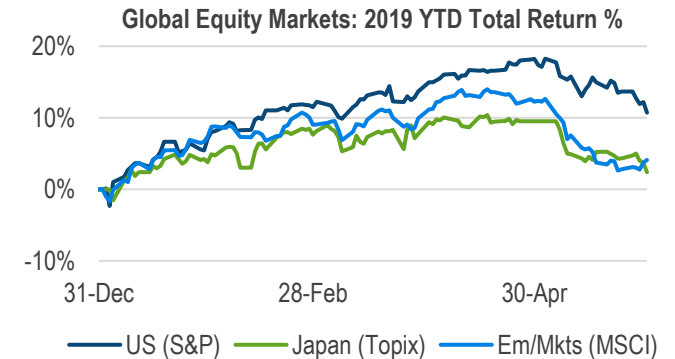
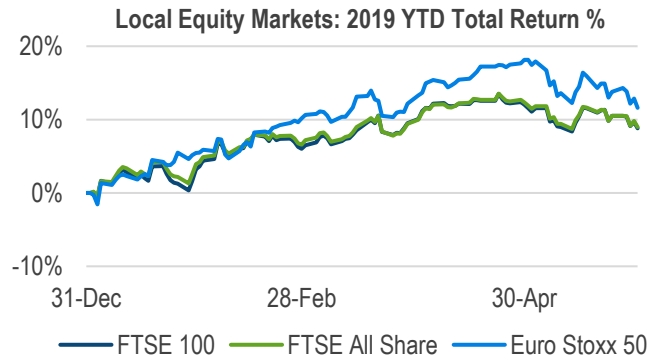
- Equity markets saw material declines and increased volatility in May, with global politics being the main driver, as trade tensions between US and China escalated, and the risk of Brexit without a trade deal increased.
- The FTSE 100 posted a loss of 2.9% as the UK Prime Minister Theresa May announced her resignation after failing to gain support for her proposed plan for Brexit.
- The Euro Stoxx 50 index had a poor performance in May, posting a loss of 5.5%.

**Global Equity Markets**

- Political uncertainties were also felt around the globe, as the US, Japan and the Emerging markets all suffered losses in excess of 6%.
- Year-to-date returns remain positive for 2019 despite the weak performance in May.

**Bond/FX Markets**

- While equity markets performed poorly in May, the bond markets saw better returns as investors opted for safer investments.
- UK government bonds posted a gain of 2.9% and Sterling corporate bonds gained 0.8%.
- GBP performed poorly against all its major counterparts, losing 6.2% against the Japanese Yen. Whilst USD and EUR gained 3.2% and 2.8% against the British currency.



	Total Returns as of May 31, 2019											
	FTSE 100	FTSE All Share	Euro Stoxx 50	US (S&P)	Japan (Topix)	Em/Mkts (MSCI)	£ Govt	£ Corp	Global Corp	EUR in GBP	USD in GBP	JPY in GBP
1 Month	-2.9%	-3.0%	-5.5%	-6.4%	-6.5%	-7.3%	2.9%	0.8%	0.7%	2.8%	3.2%	6.2%
3 Month	2.7%	2.3%	1.3%	-0.7%	-4.9%	-4.5%	4.6%	3.4%	2.8%	3.0%	5.0%	8.0%
1 Year	-2.5%	-3.2%	-1.0%	3.8%	-11.4%	-8.7%	4.4%	4.5%	4.4%	0.7%	5.2%	5.7%
YTD	8.8%	9.0%	11.6%	10.7%	2.4%	4.1%	4.7%	5.4%	5.3%	-1.6%	0.9%	2.2%

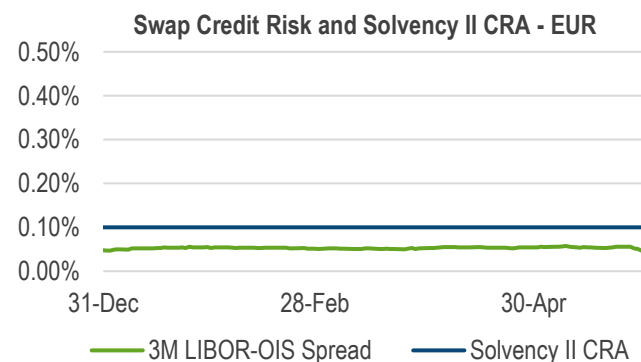
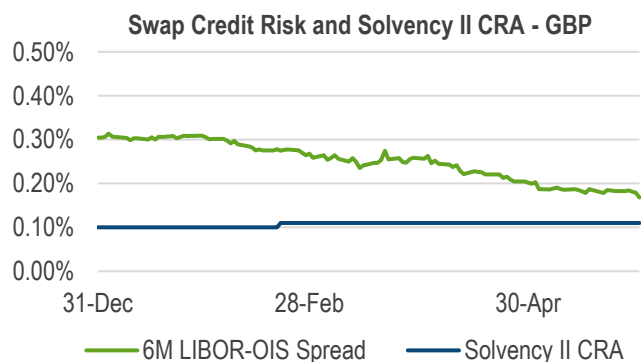
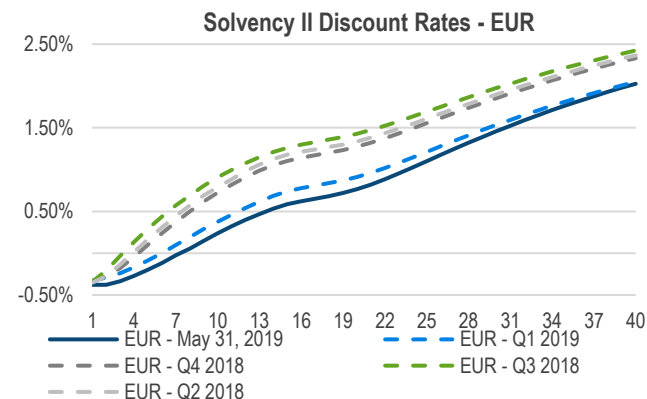
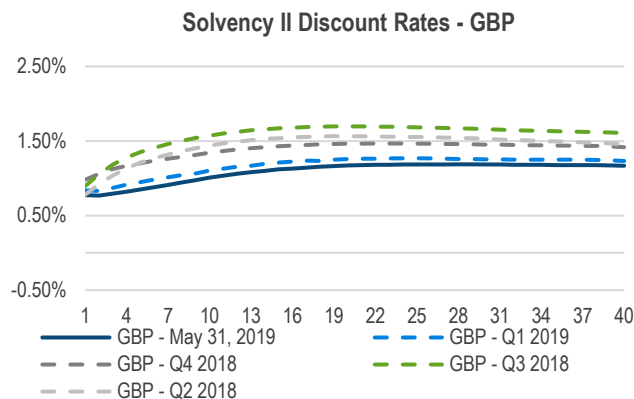
### Solvency II Monitor - Rates

#### Risk Free Rates

- The Solvency II GBP risk free rates saw material declines in May at all terms. The 5, 10, 20 and 30-year GBP rates decreased by more than 20 basis points by the end of the month. The rates are now lower than those observed in the last four quarter-ends.
- The EUR risk free rates also saw similar decreases especially in the medium terms, as the 10-year and 20-year rates decreased by 18 and 20 basis points, respectively.
- EUR long-term rates are approaching the record low levels seen in 2016.

#### Credit Risk Adjustment

- Both GBP and EUR CRAs remained the same as April, at 11 and 10 basis points respectively.



Change in GBP Discount and CRA (bps)						
	1Y	Y5	Y10	Y20	Y30	CRA
Since Q1 2019	-7	-10	-10	-9	-7	0
Since Q4 2018	-21	-35	-34	-29	-27	1
Since Q3 2018	-12	-50	-57	-53	-47	1
Since Q2 2018	-1	-36	-43	-39	-34	1

Change in EUR Discount and CRA (bps)						
	1Y	Y5	Y10	Y20	Y30	CRA
Since Q1 2019	-5	-11	-14	-15	-8	0
Since Q4 2018	-5	-30	-49	-51	-40	0
Since Q3 2018	-4	-49	-67	-66	-52	0
Since Q2 2018	-3	-36	-55	-57	-44	0

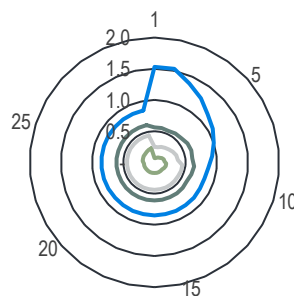
Solvency II Monitor - Spreads

Fundamental Spreads

- The fundamental spread data shown is for end of April.
- There were no material changes compared to the end March.

Fundamental Spreads %

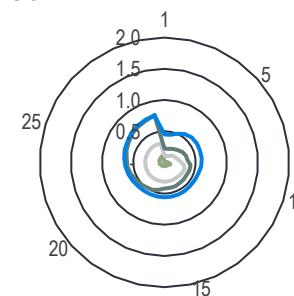
GBP - Financial



— AAA — AA — A — BBB

GBP Financial Fundamental Spread %					
	1Y	Y5	Y10	Y20	Y30
AAA	0.07	0.11	0.19	0.17	0.23
AA	0.25	0.31	0.45	0.44	0.44
A	0.56	0.58	0.62	0.61	0.61
BBB	1.53	1.15	0.84	0.85	0.85
GBP Financial 'Before Floor' %					
	1Y	Y5	Y10	Y20	Y30
AAA	0.00	0.04	0.08	0.16	0.23
AA	0.04	0.06	0.11	0.19	0.27
A	0.06	0.13	0.21	0.35	0.47
BBB	0.16	0.27	0.37	0.54	0.65

GBP - Non-Financial



— AAA — AA — A — BBB

GBP Non-Financial Fundamental Spread %					
	1Y	Y5	Y10	Y20	Y30
AAA	0.00	0.01	0.10	0.07	0.11
AA	0.11	0.16	0.34	0.31	0.31
A	0.22	0.29	0.42	0.52	0.77
BBB	0.45	0.59	0.57	0.57	0.77
GBP Non-Financial 'Before Floor' %					
	1Y	Y5	Y10	Y20	Y30
AAA	0.00	0.01	0.04	0.07	0.11
AA	0.00	0.04	0.08	0.17	0.25
A	0.04	0.15	0.27	0.52	0.77
BBB	0.11	0.22	0.35	0.57	0.77

The **Solvency II risk-free discount rates** are based on applying the Smith-Wilson Extrapolation to LIBOR swap rates sourced from Bloomberg (current curve is for 31/05/19) and applying the Credit Risk Adjustment as defined in the Technical Specs.

The **Credit Risk Adjustment** is a component of the risk-free discount curve defined by EIOPA. It is calculated from actual experience in the 'LIBOR-OIS' spread (3 months for EUR, 6 months for GBP), and is bounded between 0.10 and 0.35. We show actual LIBOR-OIS spread levels and the defined CRA, for both GBP and EUR.

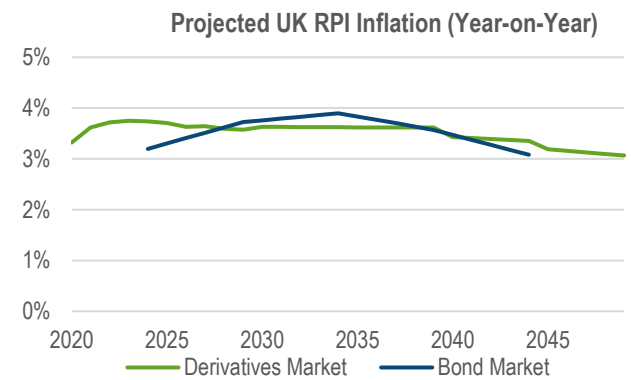
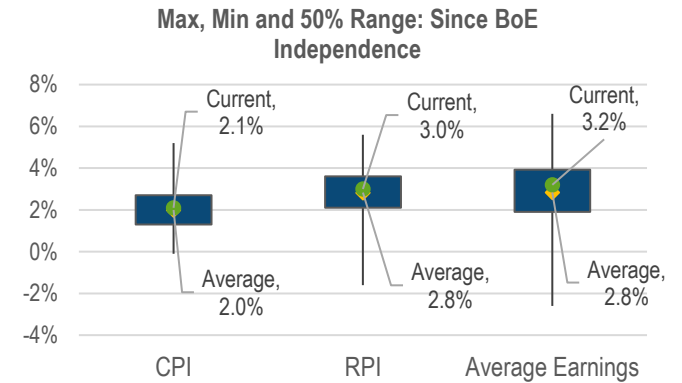
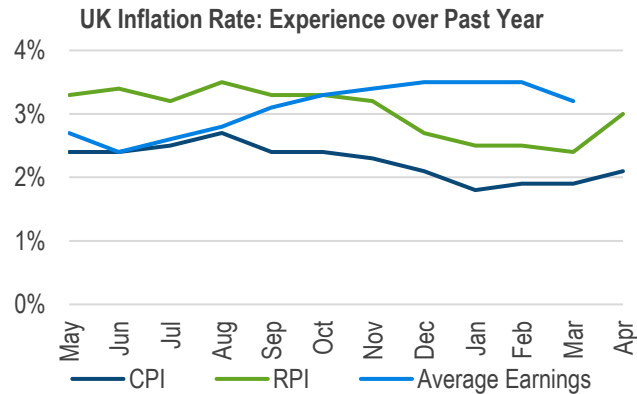
**EIOPA fundamental spreads** show the credit spread corresponding to the risk of default or downgrading of an asset. This is shown here across financial and non-financial assets, credit quality steps 0-3 and durations of 1-30 years. The data is provided by EIOPA and as of 30/04/19. **Fundamental spread** = maximum (probability of default + cost of downgrade; 35% of long-term average spread). In the tables we show the 'before floor' measure = probability of default + cost of downgrade.

### UK Inflation Monitor

- Both CPI and RPI inflation measures for the UK saw an increase in April.
- CPI increased by 20 basis points to 2.1%, whereas RPI had a 60 basis point increase to 3%.
- According to the ONS: “Rising energy prices and air fares, which were influenced by the timing of Easter, produced the largest upward contributions... The largest, offsetting, downward contribution came from across a range of recreational and cultural items”.
- Average Earnings in March declined to 3.2% from their previous reading of 3.5%.
- The market implied projected RPI remains largely unchanged.
- The UK GDP (YoY) in the first quarter increased by 40 basis points to 1.8%.

### House of Lords’ Report

- There has been no further correspondents from the UK government and UK Statistics Authority on the matter since the last report.



Historical year-on-year inflation rate is assessed by the % change on:

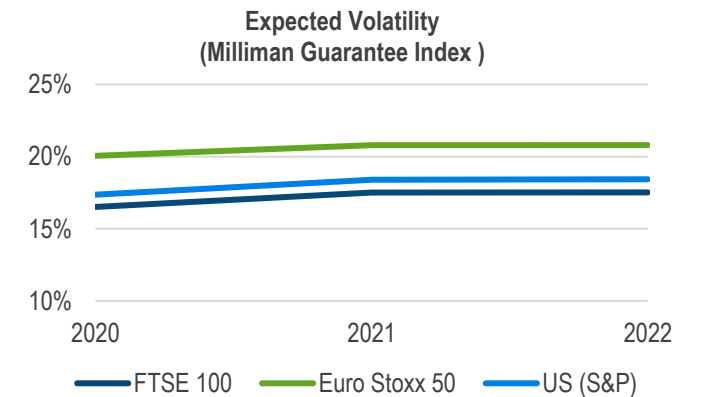
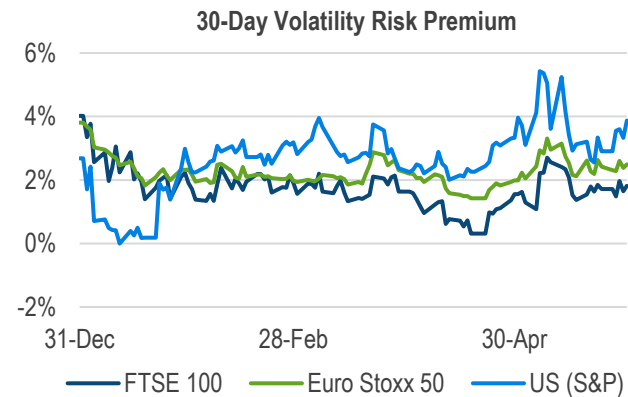
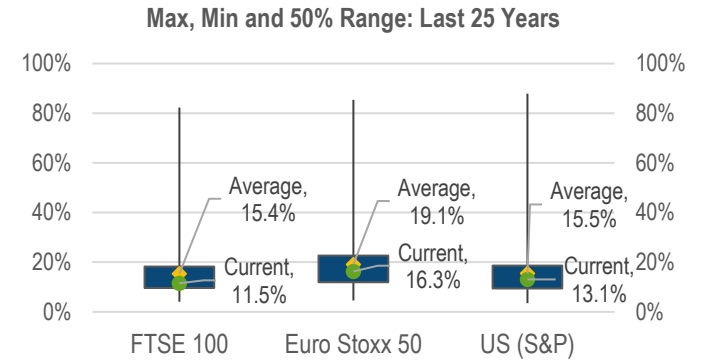
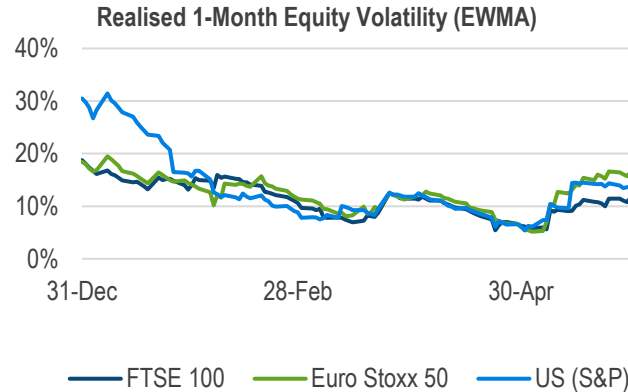
- **Consumer Price Index (CPI)** – measuring the monthly price of a basket of consumer goods and services
- **Retail Price Index (RPI)** – similar to CPI, but the main difference due the addition of mortgage payments, council tax and other housing costs
- **Average Earnings** – measuring the average total weekly employee remuneration over the previous 3 months.

Projection year-on-year inflation rate is the forward rate calculated from market data:

- **Derivatives Market View** – constructed from zero coupon inflation par swap rates against the RPI index at various tenors
- **Bond Market View** – constructed from the difference between the nominal rates implied by the conventional gilts and the real rates implied by the index-linked (RPI) gilts.

**Volatility and Hedging Cost Monitor**

- Volatility increased during May across all developed markets, on the back of political uncertainties.
- The realised volatility went back above 10% for UK, European and US equities.
- FTSE 100 and Euro Stoxx 50 posted a realised volatility of 11.5% and 16.3% at month-end, respectively.
- Similarly, volatility risk premiums for European, UK and US equities increased in May. The premiums spiked at the start of the month and ended the month at 2.5% and 1.8% for Euro Stoxx 50 and FTSE100.
- S&P 500 volatility risk premium reached 5.4% at the start of the month and ended the month at 3.9%.



**Actual realised equity volatility** is measured by the weighted standard deviation of 1 month daily index change. The Exponentially Weighted Moving Average (EWMA) methodology places more importance to the recent returns in the calculation of the volatility.

**Volatility Risk Premium** is estimated as the difference between 30-day implied volatility and projected realised volatility (on data from the Oxford-Man Institute). This reflects the additional cost of hedging from purchasing a basket of options, in comparison to managing a dynamic delta hedge with futures (ignoring rolling transaction costs).

**Expected realised volatility** is an intermediate result from the [Milliman Guarantee Index™ \(MGI\)](#), which provides volatility parameters for variable annuity guarantee (VA) valuation and risk management. The levels shown are on an expected basis, and do not reflect any risk adjustment.



## Creating transformational improvement in the retirement savings industry.

Milliman Financial Risk Management LLC / Milliman Financial Strategies Ltd. is a global leader in financial risk management to the retirement savings industry. Milliman FRM provides investment advisory, hedging, and consulting services on \$147.6 billion in global assets (as of March 31, 2019).

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

Established in 1998, the practice includes professionals operating from three trading platforms around the world (Chicago, London, and Sydney).

### [MILLIMAN.COM/FRM](http://MILLIMAN.COM/FRM)

#### Chicago

71 South Wacker Drive  
Chicago, IL 60606  
+1 855 645 5462

#### London

11 Old Jewry  
London  
EC2R 8DU  
UK  
+44 0 20 7847 1557

#### Sydney

32 Walker Street  
North Sydney, NSW 2060  
Australia  
+610 2 8090 9100

Recipients must make their own independent decisions regarding any strategies or securities or financial instruments mentioned herein.

The products or services described or referenced herein may not be 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.

Past performance is not indicative of future results. Index performance information is for illustrative purpose only, does not represent the performance of any actual investment or portfolio, and should not be viewed as a recommendation to buy/sell. It is not possible to invest directly in an index. Any hypothetical, backtested data illustrated herein is for illustrative purposes only, and is not representative of any investment or product.

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.

The materials in this document represent the opinion of the authors and are not representative of the views of Milliman, Inc. Milliman does not certify the information, nor does it guarantee the accuracy and completeness of such information. Use of such information is voluntary and should not be relied upon unless an independent review of its accuracy and completeness has been performed. Materials may not be reproduced without the express consent of Milliman.

Milliman Financial Strategies Ltd. is authorised and regulated by the Financial Conduct Authority. Firm Registration Number 539399