

Market Price Monitor

Local Equity Markets

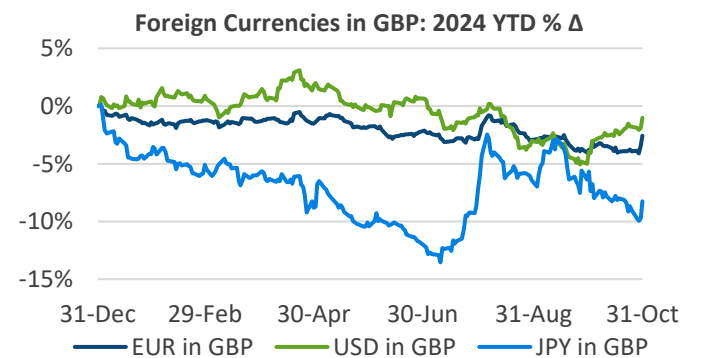
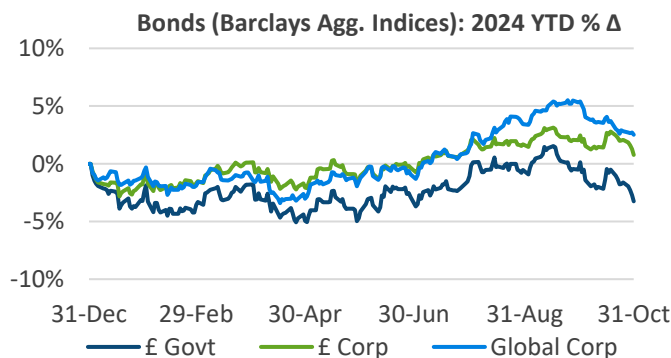
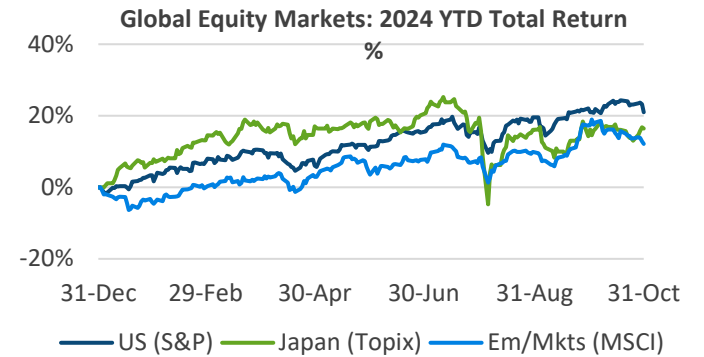
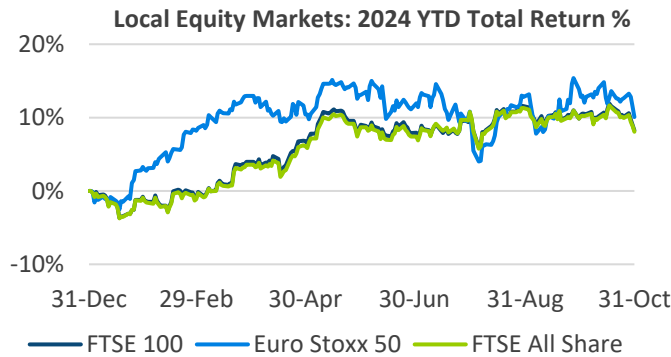
- Most major global equity markets suffered losses in October as global growth outlook and uncertainty surrounding the upcoming US presidential elections weighed on risk sentiment.
- The Euro Stoxx 50 lost 3.3% in October.
- The FTSE 100 ended the month down 1.4%.

Global Equity Markets

- The S&P 500 fell 0.9%, whilst the Japanese Topix outperformed gaining 1.9%.
- The MSCI Emerging Markets index was down 4.3%.

Bond/FX Markets

- Both the British government and corporate bond indices fell in October. The former was down 2.8% and the latter lost 1.2%, as the October budget announcement resulted in heightened volatility in the UK bond and rates markets.
- The British Pound had a mixed performance in October, strengthening against the Japanese Yen by 2.0%. However, the British Pound weakened against the US Dollar and the Euro by 4.2% and 1.5%, respectively.



	Total Returns as of October 31, 2024											
	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	-1.4%	-1.6%	-3.3%	-0.9%	1.9%	-4.3%	-2.8%	-1.2%	-2.7%	1.5%	4.2%	-2.0%
3 Month	-2.1%	-2.5%	-0.7%	3.7%	-2.6%	3.8%	-2.2%	-0.7%	1.0%	0.3%	-0.2%	-1.2%
1 Year	15.0%	16.3%	22.8%	38.0%	22.4%	25.9%	5.5%	9.6%	13.0%	-3.0%	-5.5%	-5.9%
YTD	8.3%	8.1%	10.1%	21.0%	16.4%	12.2%	-3.3%	0.8%	2.5%	-2.6%	-1.0%	-8.2%

Milliman Financial Risk Management

London Market Monitor – 31 October 2024

Data sources: Bloomberg; Barclays; EIOPA; PRA; ONS; Milliman FRM

Insurance Monitor

Solvency II Risk Free Rates

- GBP risk-free rates increased sharply in October.
- The 5 and 10-year GBP risk-free rates increased by 44 and 38 basis points, respectively.
- EUR risk-free rates fell at the 1-year term and past the 20-year point, whilst the belly of the curve rose.
- The 1 and 30-year EUR risk-free rates fell by 8 and 7 basis points, respectively. Meanwhile, the 5-year risk-free rate increased by 15 basis points.
- The EUR CRA was unchanged and remains floored at 10 basis points.

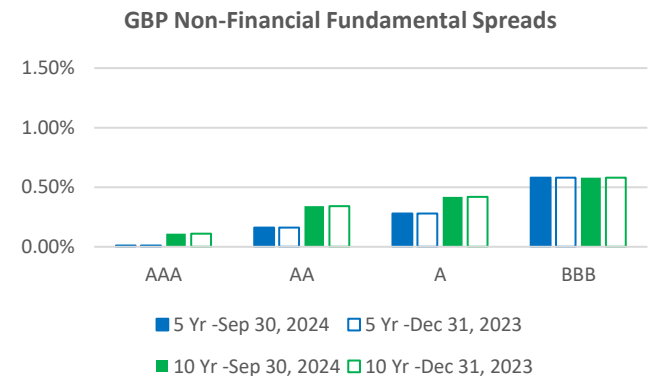
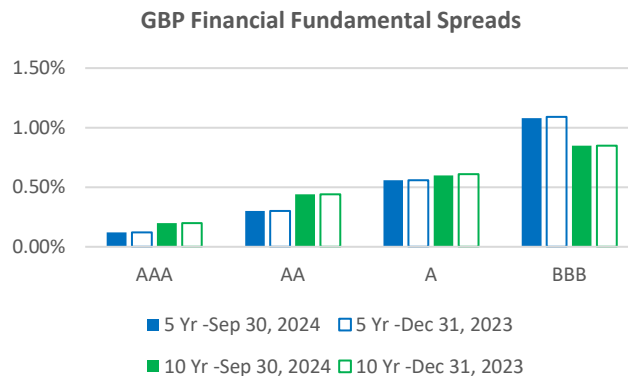
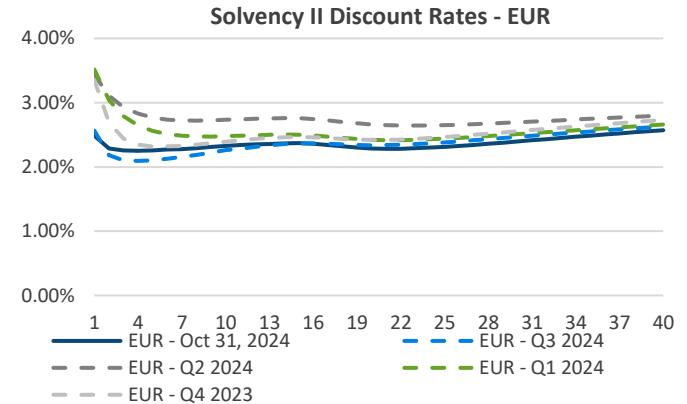
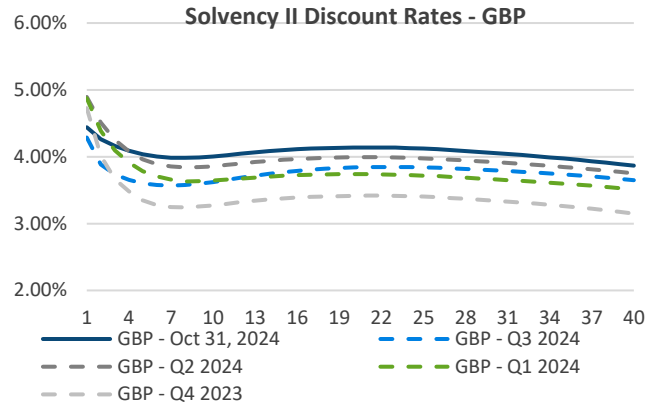
The **Solvency II risk-free discount rates** are calculated independently based on applying the Smith-Wilson Extrapolation to swap rates sourced from Bloomberg and applying the Credit Risk Adjustment as defined in the Technical Specs. For the official published curves please refer to [EIOPA](#) and [PRA](#) websites.

Solvency II Fundamental Spreads

- There were no material changes since the start of the year.

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.

Fundamental spread = maximum (probability of default + cost of downgrade; 35% of long-term average spread). For fundamental spreads on other tenors please refer to the [EIOPA](#) website.

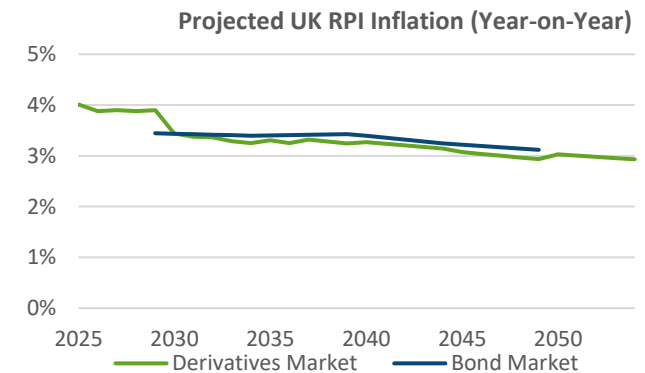
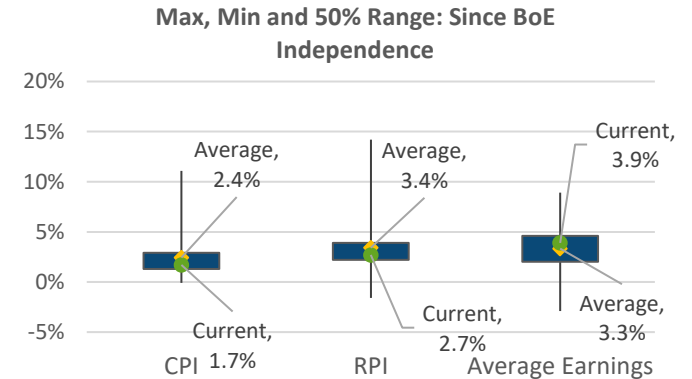
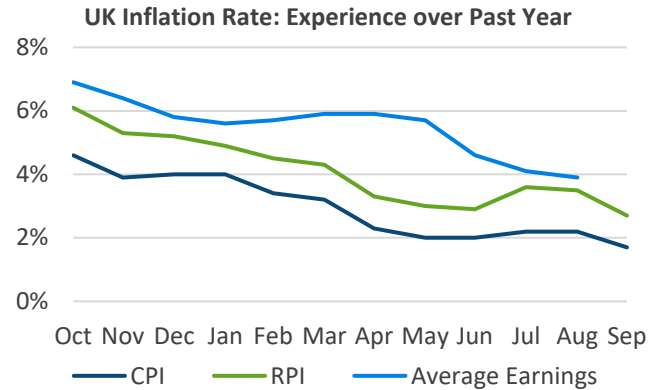


	Change in GBP Discount Rates (bps)				
	1Y	Y5	Y10	Y20	Y30
Since Q3 2024	15	44	38	30	26
Since Q2 2024	-45	8	15	14	14
Since Q1 2024	-43	25	36	40	39
Since Q4 2023	-29	69	73	72	71

	Change in EUR Discount Rates (bps)					
	1Y	Y5	Y10	Y20	Y30	CRA
Since Q3 2024	-8	15	6	-5	-7	0
Since Q2 2024	-95	-52	-41	-37	-30	0
Since Q1 2024	-103	-31	-16	-13	-11	0
Since Q4 2023	-87	-6	-7	-13	-16	0

UK Inflation Monitor

- UK's CPI was declined by 50 basis points to 1.7% in September.
- UK's RPI measure fell by 80 basis points to 2.7% in September.
- According to the ONS: *“The largest downward contribution came from transport, with larger negative contributions from air fares and motor fuels; the largest offsetting upward contribution came from food and non-alcoholic beverages.”*
- Average earnings fell by 20 basis points to 3.9% in August, after the previous month's figure was revised higher by 10 basis points.
- The projected RPI curve was marginally higher from the previous month.



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

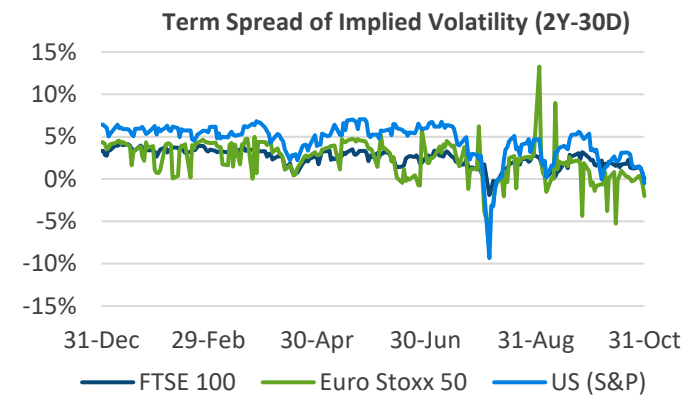
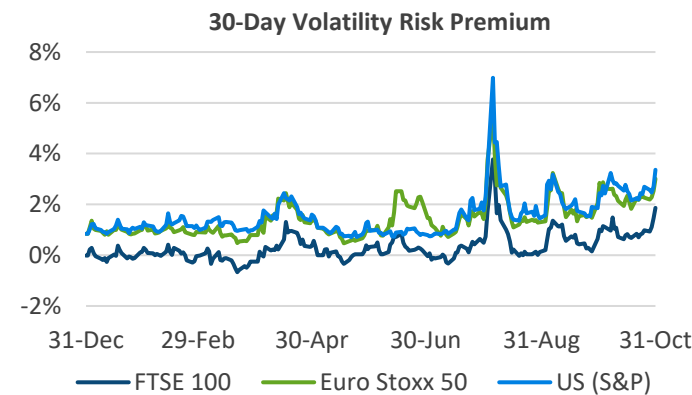
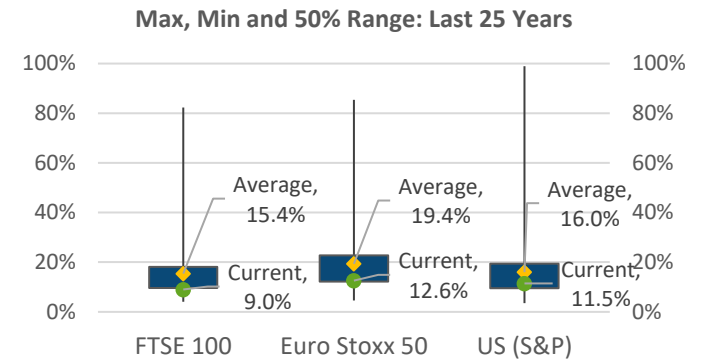
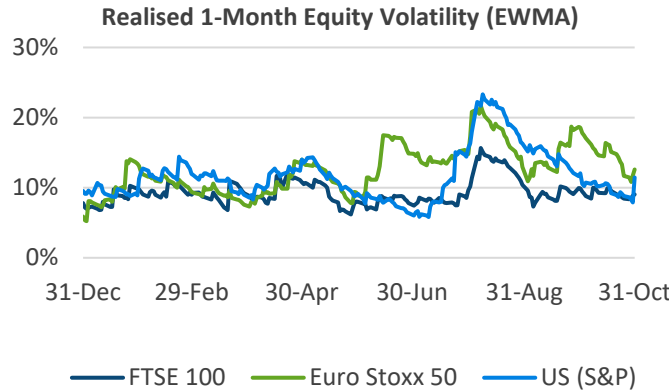
- **Consumer Price Index (CPI)** – measuring the monthly price of a basket of consumer goods and services
- **Retail Price Index (RPI)** – similar to CPI, but the main difference due the addition of mortgage payments, council tax and other housing costs
- **Average Earnings** – measuring the average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

- Realised volatilities on major equity indices declined in October.
- The FTSE 100 ended the month with a realised volatility of 9.0%. The same measure stood at 12.6% and 11.5% on the Euro Stoxx 50 and the S&P 500, respectively.
- In contrast, volatility risk premiums on major indices increased. The FTSE 100 had a volatility risk premium of 1.9% at month-end. The volatility risk premium on the Euro Stoxx 50 was 3.0%, and 3.4% on the S&P 500.
- The spread between implied volatility of 2-year and 30-day at-the-money options was negative at month-end for the Euro Stoxx 50 and the S&P 500, highlighting increased demand for short-term protection.



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. 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).

Volatility Term Premium is calculated as the difference between the implied volatility of an at-the-money 2-year maturity option and the implied volatility of an at-the-money 30-day option. This gives an indication of market demand for protection over the longer term, relative to demand for protection in the shorter-term. Bloomberg as the source of the data interpolates between listed options to provide implied volatility data for these fixed terms.

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