

Market Price Monitor

Local Equity Markets

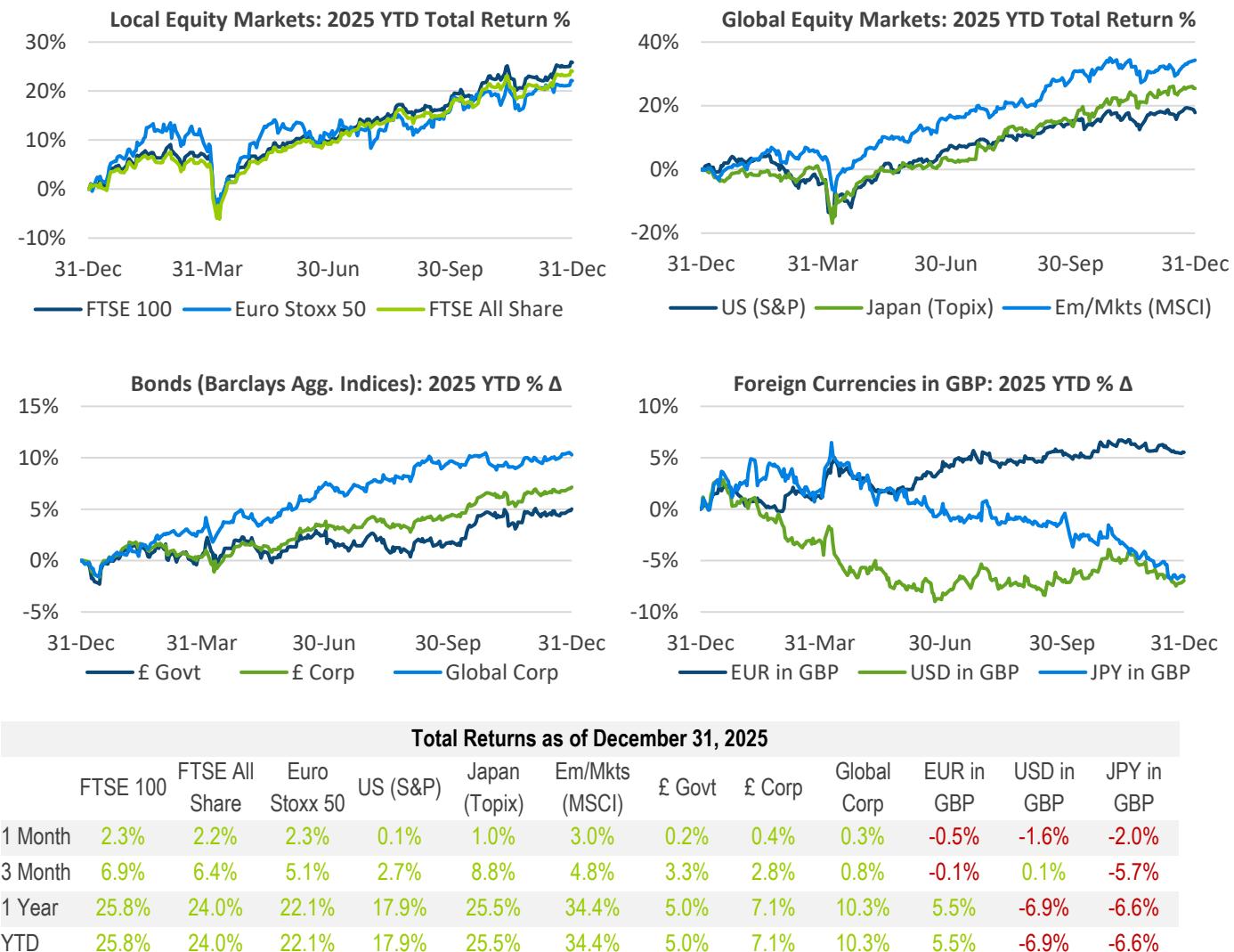
- Global equity markets had a positive performance in December, adding further to their 2025 gains, as the Federal Reserve delivered their third consecutive rate cut of the year.
- The Euro Stoxx 50 ended the month up 2.3%, with total gains of 22.1% for the year.
- The FTSE 100 was up 2.3% in December, bringing its total 2025 returns to 25.8%.

Global Equity Markets

- The S&P 500 was relatively flat in December, having returned 17.9% over the year.
- The Topix index ended the month up 1.0%.
- The MSCI Emerging Markets index gained 3.0%, with the index being the outperformer in 2025, up 34.4%.

Bond/FX Markets

- Both British government and corporate bond indices ended the month up by 0.2% and 0.4%, respectively.
- The British Pound had a positive performance in December, gaining 2.0% against the Japanese Yen, 1.6% against the US Dollar, and 0.5% against the Euro.



Insurance Monitor

Solvency II Risk Free Rates

- GBP risk-free rates rose at most terms, except for the 1-year rate which fell by 4 basis points, as the Bank of England cut the UK base rate by 25 basis points.
- The 10-year GBP risk-free rate rose by 5 basis points.
- EUR risk-free rates rose at all tenors in December.
- Both the 10 and 20-year EUR risk-free rates rose by 18 basis points.
- The EUR CRA was unchanged and remains floored at 10 basis points

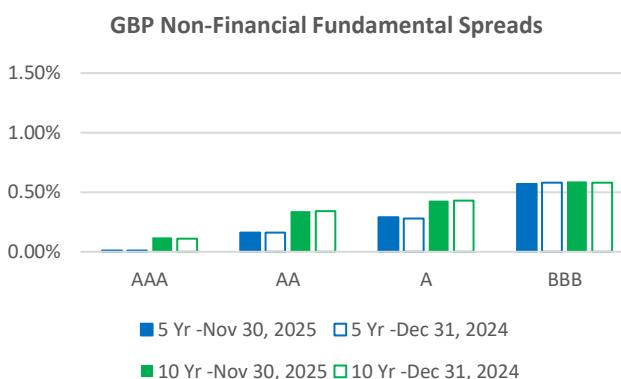
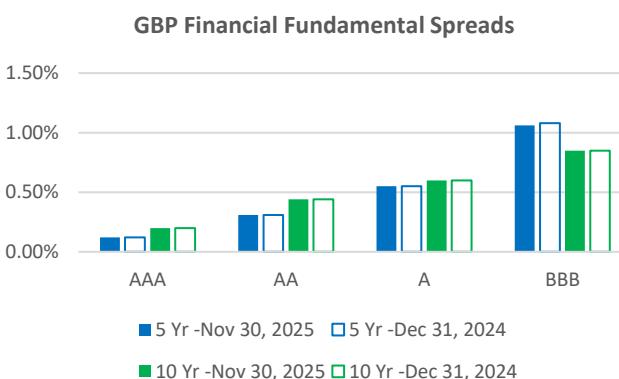
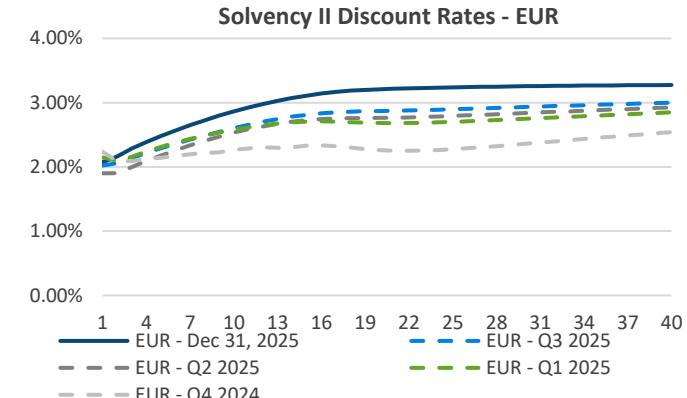
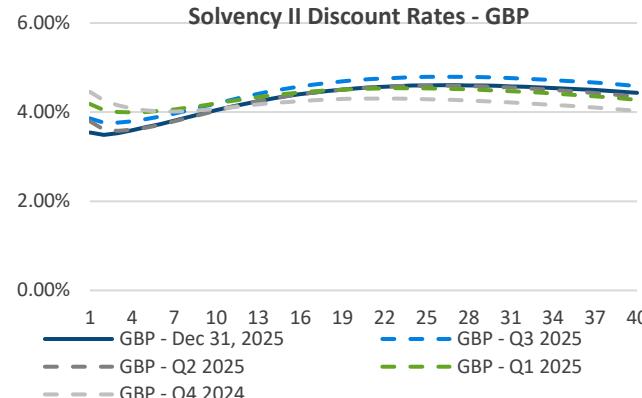
The **Solvency II risk-free discount rates** are calculated independently based on applying the Smith-Wilson Extrapolation to swap rates sourced from Bloomberg and applying the Credit Risk Adjustment as defined in the Technical Specs. For the official published curves please refer to [EIOPA](#) and [PRA](#)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

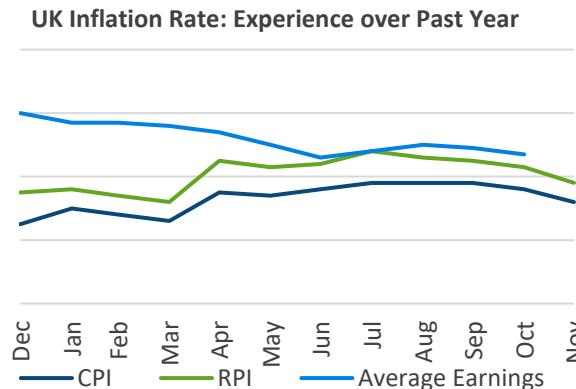
	1Y	Y5	Y10	Y20	Y30
Since Q3 2025	-31	-18	-15	-18	-19
Since Q2 2025	-25	1	2	0	2
Since Q1 2025	-64	-34	-15	2	10
Since Q4 2024	-91	-38	-3	23	36

Change in EUR Discount Rates (bps)

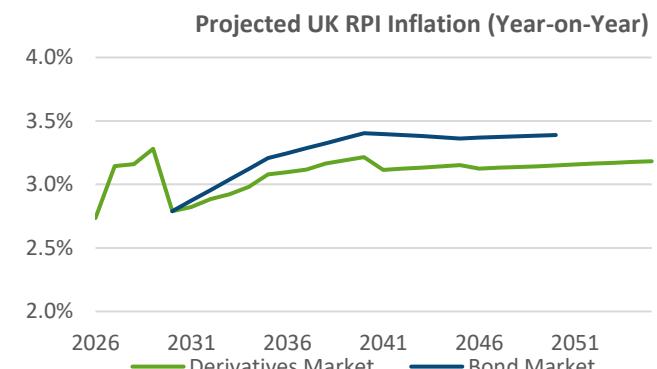
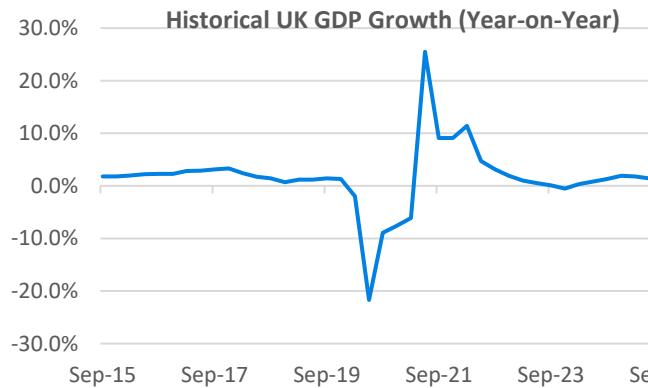
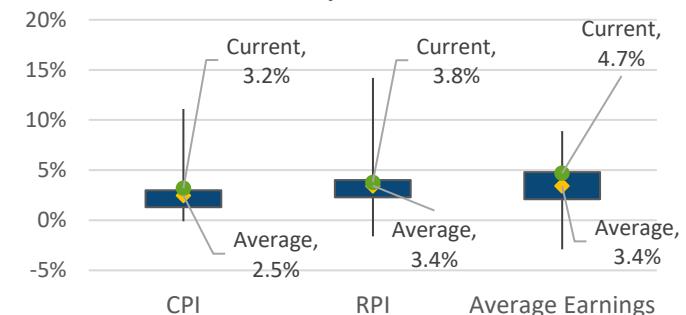
	1Y	Y5	Y10	Y20	Y30	CRA
Since Q3 2025	5	19	26	34	32	0
Since Q2 2025	17	30	33	45	42	0
Since Q1 2025	-7	17	28	53	51	0
Since Q4 2024	-16	34	60	95	90	0

UK Inflation Monitor

- UK's CPI fell by 40 basis points to 3.2% in November.
- UK's RPI measure declined by 50 basis points to 3.8% in November.
- According to the ONS: "Food and non-alcoholic beverages, and alcohol and tobacco made the largest downward contributions to the monthly change."
- Average earnings fell by 20 basis points to 4.7% in October, after the previous months' figure was revised higher by 10 basis points.
- The projected RPI curve fell at the short-term but rose at the medium and longer tenors.



Max, Min and 50% Range: Since BoE Independence



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 is due to 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.

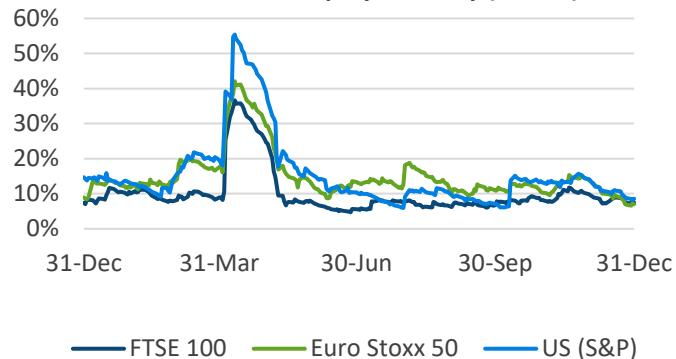
Projection year-on-year inflation rate is the forward rate calculated from market data:

- **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.

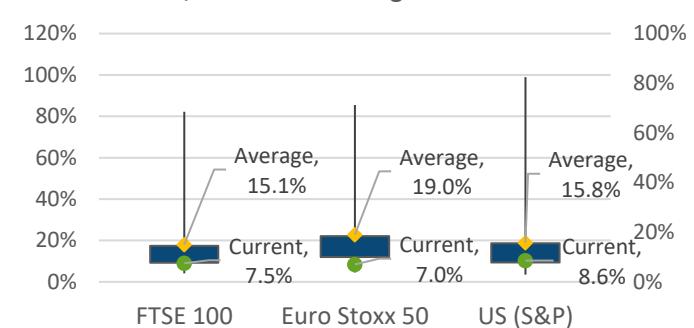
Volatility and Hedging Cost Monitor

- Realised volatilities on major indices declined in December.
- The FTSE 100 ended the month with a realised volatility of 7.5%. The same measure stood at 7.0% and 8.6% on the Euro Stoxx 50 and the S&P 500, respectively.
- Similarly, volatility risk premiums on major indices decreased. The FTSE 100 had a volatility risk premium of 0.5% at month-end. The volatility risk premiums on the Euro Stoxx 50 and S&P 500 were 1.1% and 1.4%, respectively.
- The spread between implied volatility on 2-year and 30-day at-the-money options remained in positive territory for major indices.

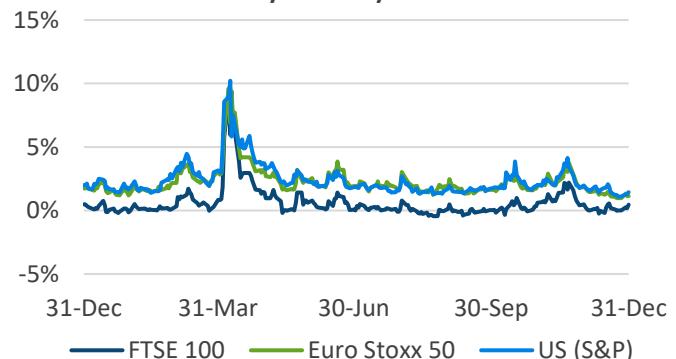
Realised 1-Month Equity Volatility (EWMA)



Max, Min and 50% Range: Last 25 Years



30-Day Volatility Risk Premium



Term Spread of Implied Volatility (2Y-30D)



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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