

## Market Price Monitor

### Local Equity Markets

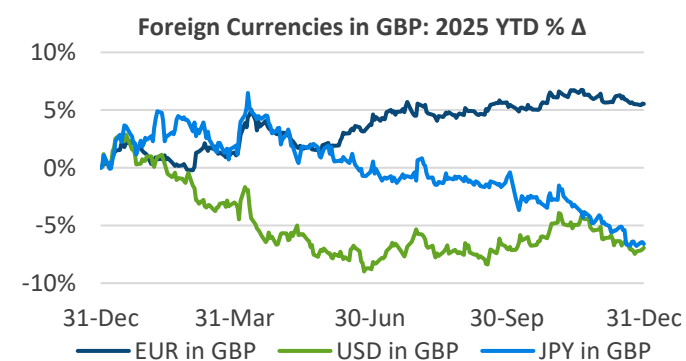
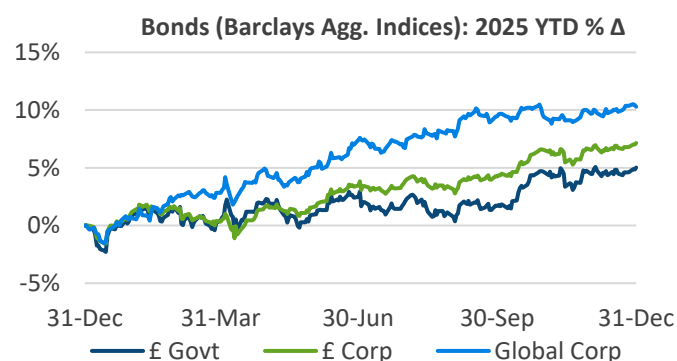
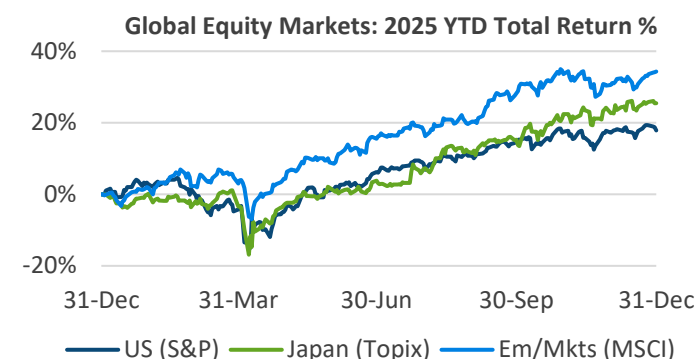
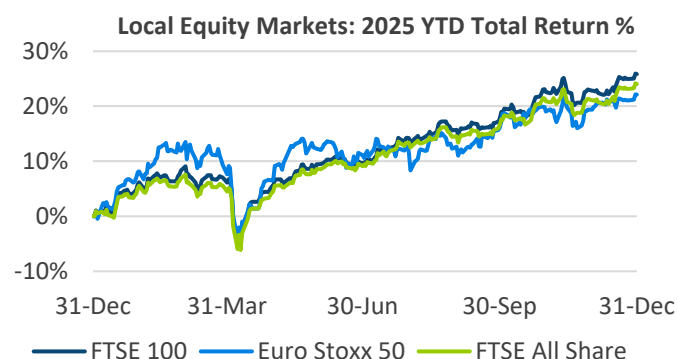
- Global equity markets had a positive performance in December, adding further to their 2025 gains, as the Federal Reserve delivered their third consecutive rate cut of the year.
- The Euro Stoxx 50 ended the month up 2.3%, with total gains of 22.1% for the year.
- The FTSE 100 was up 2.3% in December,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



### Total Returns as of December 31, 2025

	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	2.3%	2.2%	2.3%	0.1%	1.0%	3.0%	0.2%	0.4%	0.3%	-0.5%	-1.6%	-2.0%
3 Month	6.9%	6.4%	5.1%	2.7%	8.8%	4.8%	3.3%	2.8%	0.8%	-0.1%	0.1%	-5.7%
1 Year	25.8%	24.0%	22.1%	17.9%	25.5%	34.4%	5.0%	7.1%	10.3%	5.5%	-6.9%	-6.6%
YTD	25.8%	24.0%	22.1%	17.9%	25.5%	34.4%	5.0%	7.1%	10.3%	5.5%	-6.9%	-6.6%

## 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

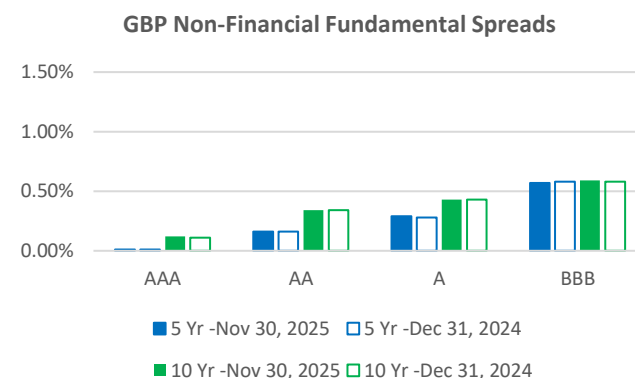
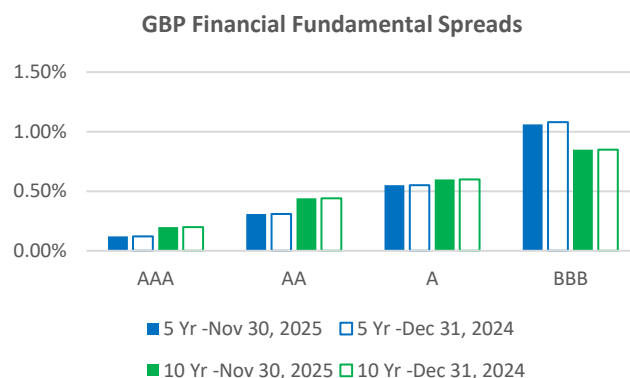
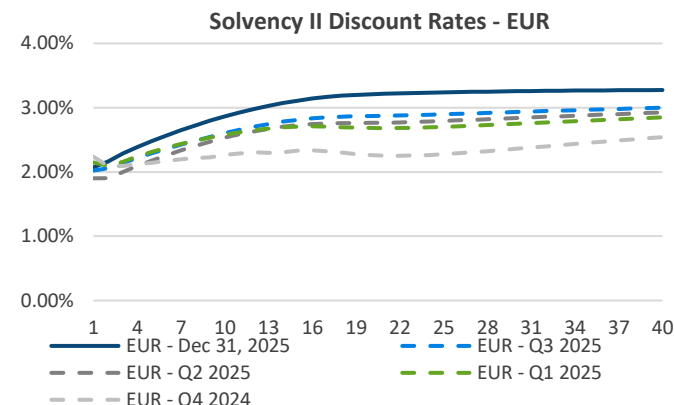
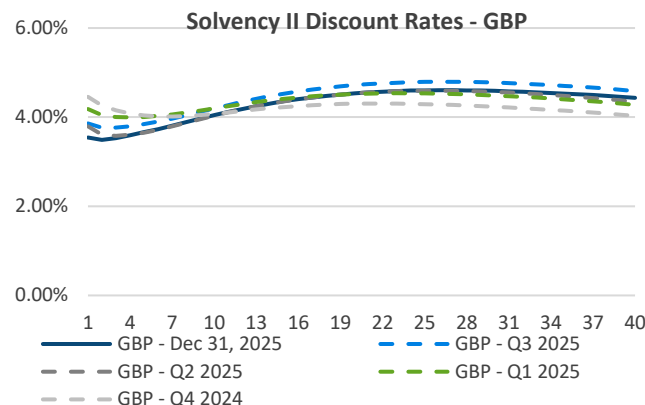
The **Solvency II risk-free discount rates** are calculated independently based on applying the Smith-Wilson Extrapolation to swap rates sourced from Bloomberg and applying the Credit Risk Adjustment as defined in the Technical Specs. For the official published curves please refer to [EIOPA](#) and [PRA](#)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



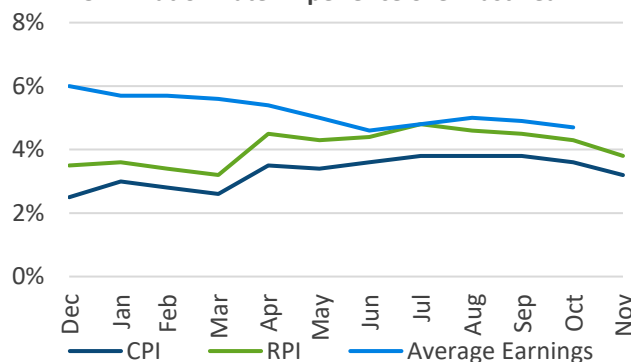
	Change in GBP Discount Rates (bps)				
	1Y	Y5	Y10	Y20	Y30
Since Q3 2025	-31	-18	-15	-18	-19
Since Q2 2025	-25	1	2	0	2
Since Q1 2025	-64	-34	-15	2	10
Since Q4 2024	-91	-38	-3	23	36

	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

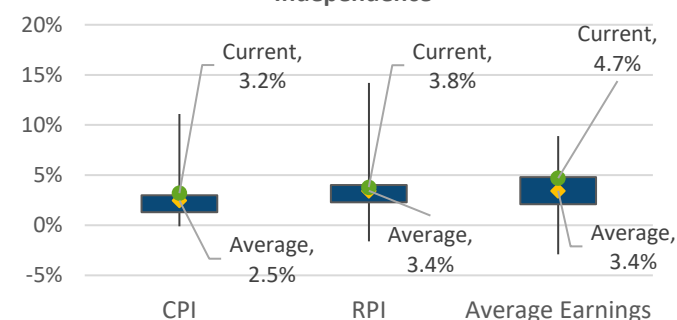
## UK Inflation Monitor

- 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.

UK Inflation Rate: Experience over Past Year



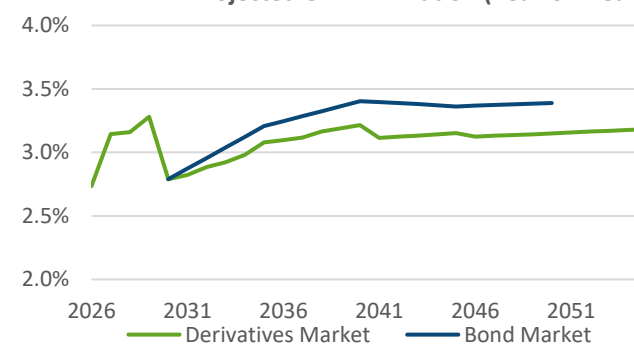
Max, Min and 50% Range: Since BoE Independence



Historical UK GDP Growth (Year-on-Year)



Projected UK RPI Inflation (Year-on-Year)



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

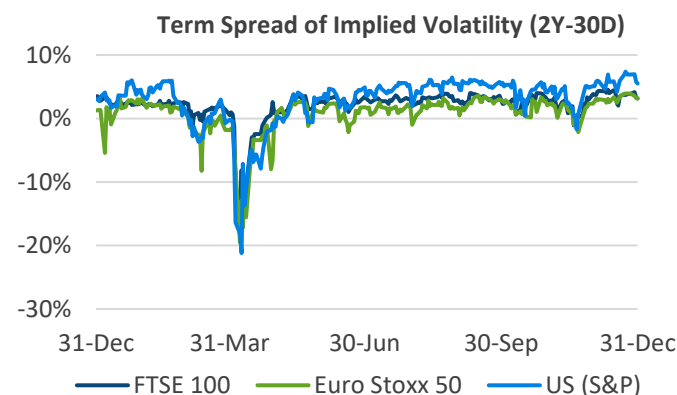
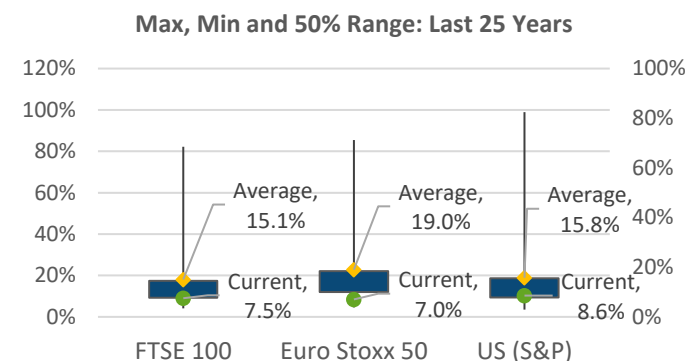
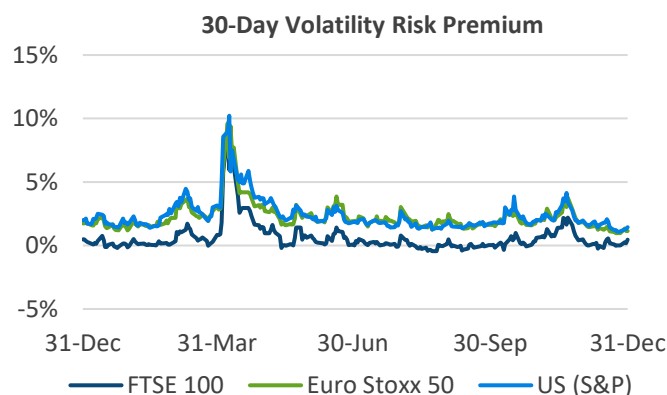
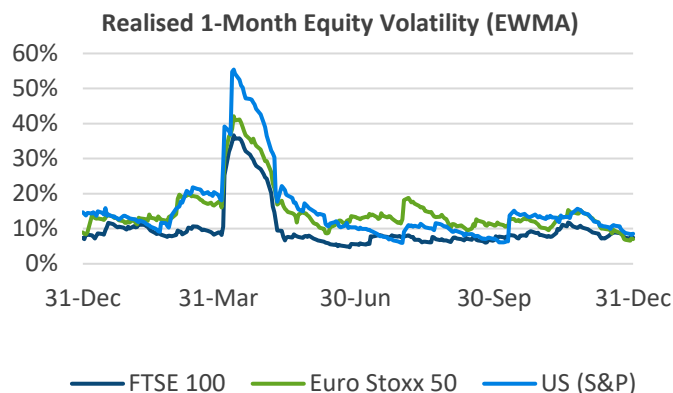
- **Consumer Price Index (CPI)** – measuring the monthly price of a basket of consumer goods and services
- **Retail Price Index (RPI)** – similar to CPI, but the main difference is due to the addition of mortgage payments, council tax and other housing costs
- **Average Earnings** – measuring the average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



**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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#### Chicago

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

#### London

Eastcheap Court  
11 Philpot Lane  
London  
EC3M 8AA  
UK  
+44 0 20 7847 1557

#### Sydney

Level 5, 60-62 Clarence St  
Sydney, NSW 2000  
Australia  
+610 2 8090 9100

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