

S&P Dow Jones Indices

A Division of **S&P Global**

Index Dashboard: Dispersion, Volatility & Correlation

April 30, 2020

COMMENTARY

Volatility and dispersion declined from the extremes of March this month, but abundant opportunities for stock selection continued; dispersion continued at well above-average levels in all of our reported indices. Dispersion was particularly high in U.S. small- and mid-sized equities, with S&P SmallCap 600 monthly dispersion achieving its third-highest reading ever.

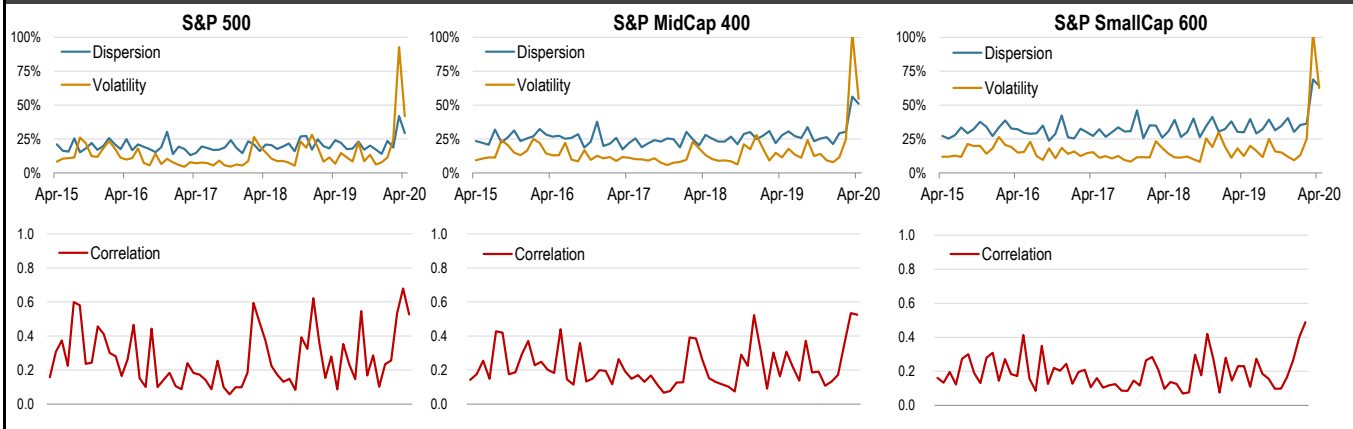
Volatility in our U.S. equity benchmarks, and in the S&P Global 1200, remained in the top 5% of monthly observations since 2007. Volatility in every reported index except the S&P China BMI remained in the top quartile, although for a range of global indices - including the S&P Europe 350 and S&P Emerging BMI - index volatility declined towards more typical levels.

We introduce a new measure for the S&P 500, based on research previously published in "[The Active Manager's Conundrum](#)". This metric gauges the likelihood that concentrated stock positions will generate returns high enough to justify their incremental volatility, relative to the benchmark. Higher values indicate an environment which active managers will find particularly challenging; the past 12 months' below-average reading suggests that *successful* stock pickers have been well-rewarded.

GLOBAL DASHBOARD



MAJOR BENCHMARKS - PAST FIVE YEARS



Source: S&P Dow Jones Indices as of April 30, 2020. * See "Notes" for explanations and definitions.

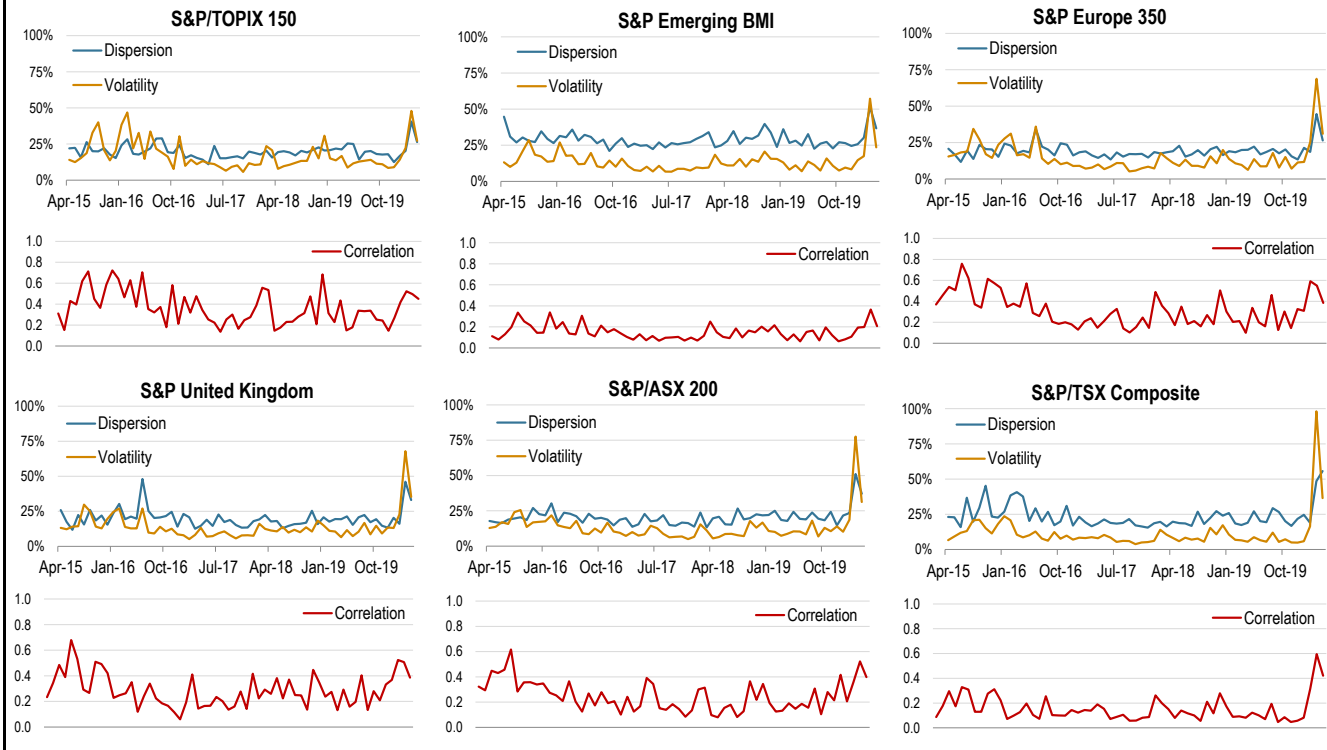
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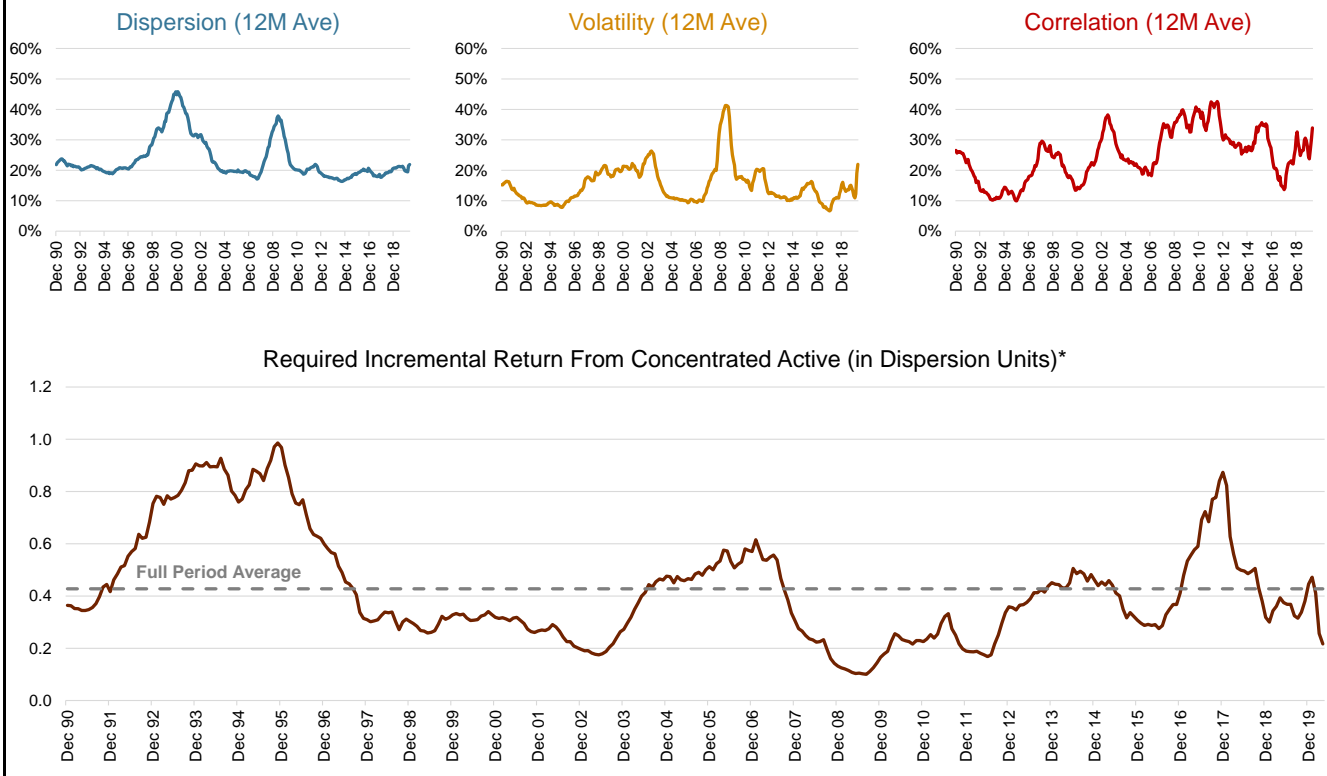
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MAJOR BENCHMARKS - PAST FIVE YEARS (cont'd)



S&P 500 - 12M TRAILING AVERAGES & ACTIVE RETURN DIFFICULTY



Source: S&P Dow Jones Indices as of April 30, 2020. * See "Notes" for explanations and definitions.

NOTES

Definitions

Dispersion for each index is the annualized, index-weighted standard deviation of the index constituents' full-month total returns. See "[Dispersion: Measuring Market Opportunity](#)" for a formal definition of dispersion and more information on its uses.

Correlation for each index measures the correlation among the daily returns of the index constituents during the month, calculated via the ratio of index variance to the index-weighted average constituent variance. See "[At the Intersection of Diversification, Volatility and Correlation](#)" for a more detailed explanation of the calculation.

Volatility for each index is the annualized standard deviation of daily index price returns during the month. See "[The Landscape of Risk](#)" for details on the relationship of correlation, volatility and dispersion.

Required Incremental Return From Concentrated Active (in Dispersion Units) provides the excess return, in multiples of 12M trailing average dispersion, required from a concentrated position in a single index constituent with 12M trailing volatility equal to the index-weighted average, such that the ratio of return to volatility of the position matches that of an investment with volatility matching the index's trailing 12M volatility, and an annual return of 10%. For further details, see "[The Active Manager's Conundrum](#)".

Measurement Periods For Historical Ranges (p1)

The time period over which the median and percentiles of dispersion and correlation are measured begins with January, 2007 and ends with the current month except in the case of the S&P GCC Composite Shariah (which has a history to April, 2007).

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