

S&P Dow Jones Indices

A Division of **S&P Global**

Index Dashboard: Dispersion, Volatility & Correlation

May 31, 2020

COMMENTARY

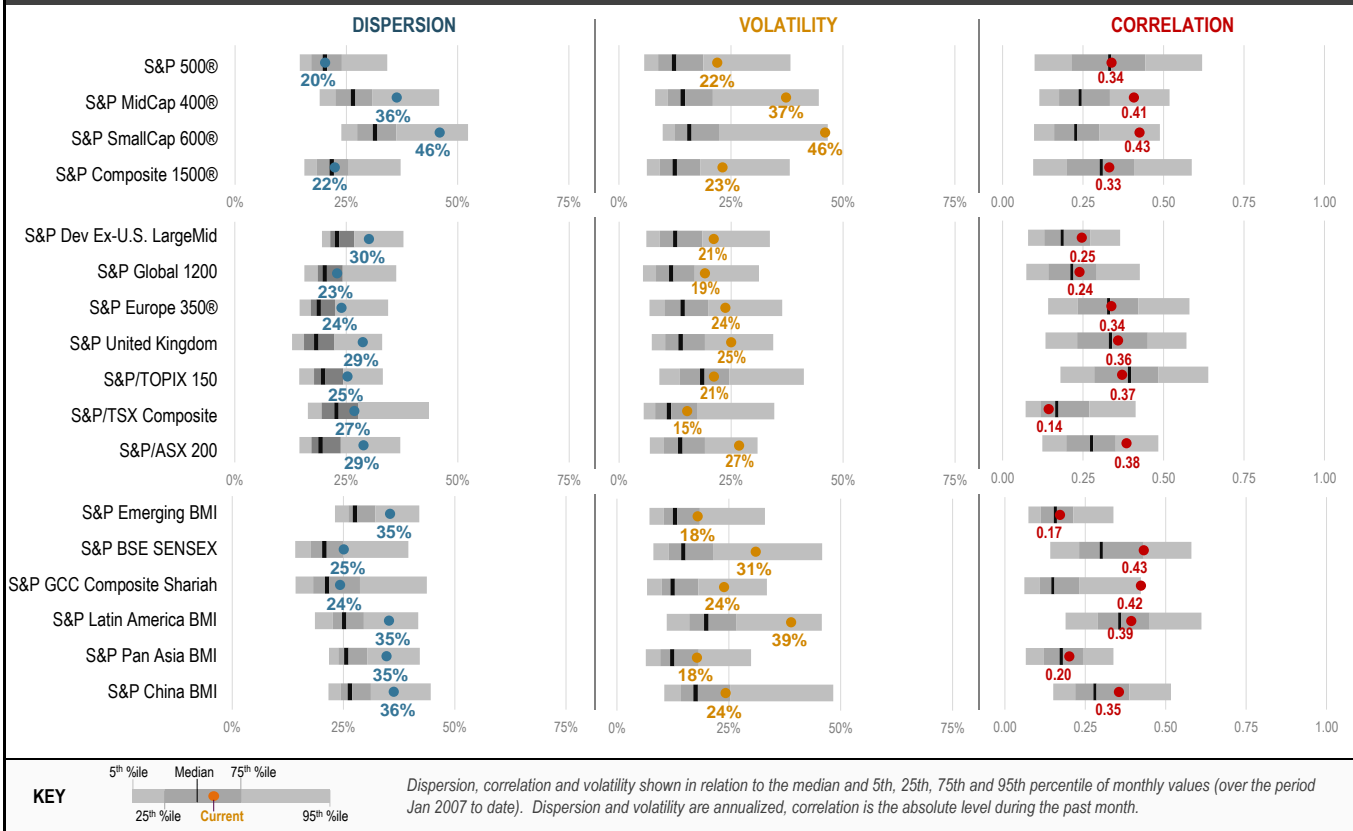
Most worldwide equity markets gained this month, as lockdowns eased while central banks dialed up their stimulus efforts. Risk levels receded: volatility, dispersion and correlation declined in all but one of our reported benchmarks, and overall followed a global trend back towards more normal market conditions.

The risk profiles of U.S. large and small caps have diverged. Dispersion and correlation in the S&P 500 returned to their historical averages in May, and while volatility remained elevated, it continued to creep back towards more typical levels. However, S&P SmallCap 600 dispersion continued to be high – May's reading was 46% - while index volatility continued in the 95th percentile.

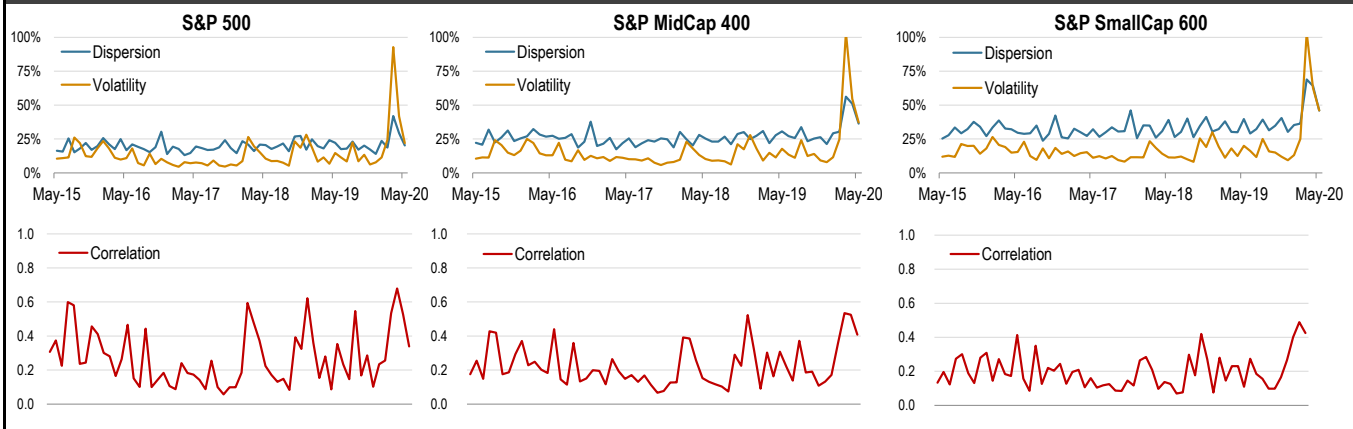
The exception to the general rule for declining risk was the S&P China BMI, where volatility and dispersion increased after Chinese authorities announced a new law that will allow security forces to clamp down harder on the protests in Hong Kong. The U.S. administration responded with steps to remove Hong Kong's current exclusion from the tariffs imposed on China.

The 12-month trailing average S&P 500 index volatility continued to climb and finished May at an eight-year high; our measure for the "difficulty" of achieving strong risk-adjusted returns from active, concentrated stock-picking in S&P 500 continued at an eight-year low.

GLOBAL DASHBOARD



MAJOR BENCHMARKS - PAST FIVE YEARS



Source: S&P Dow Jones Indices as of May 31, 2020. * See "Notes" for explanations and definitions.

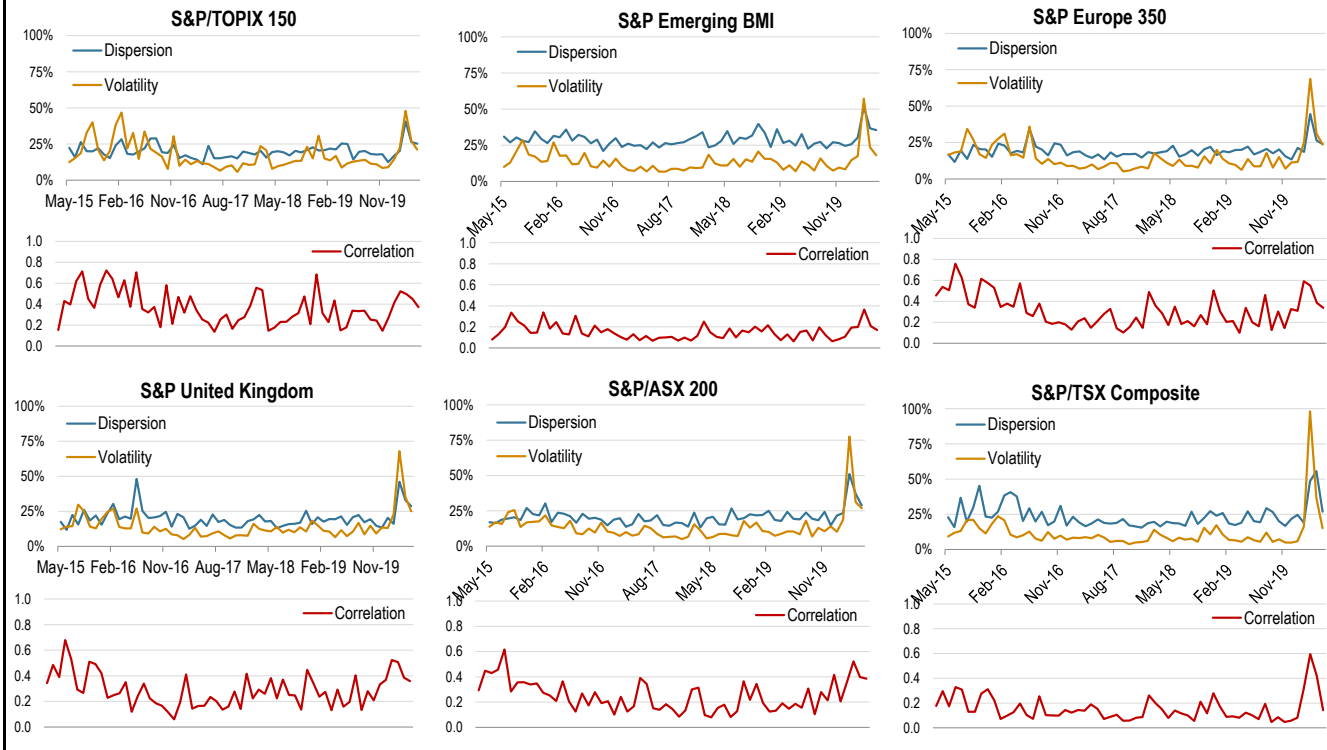
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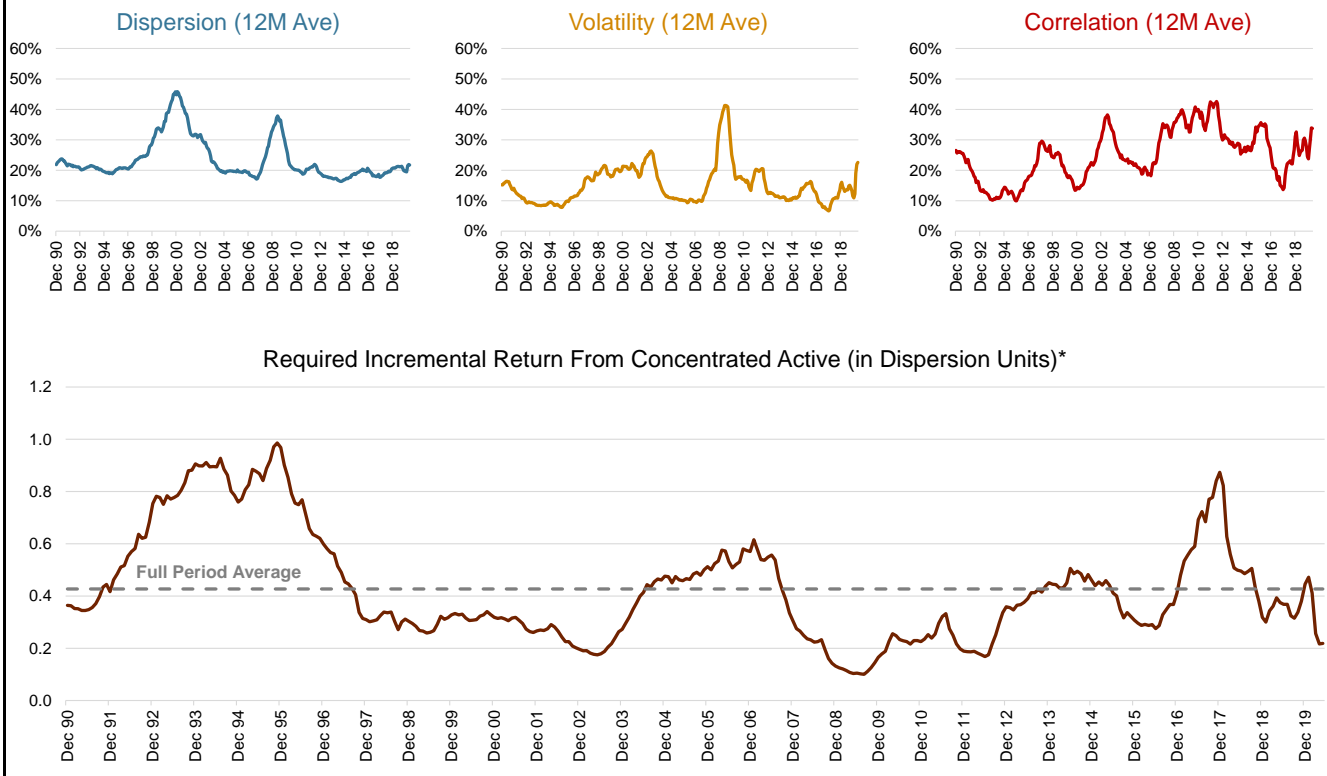
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MAJOR BENCHMARKS - PAST FIVE YEARS (cont'd)



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



Source: S&P Dow Jones Indices as of May 31, 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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