

S&P Dow Jones Indices

A Division of **S&P Global**

Index Dashboard: Dispersion, Volatility & Correlation

July 31, 2020

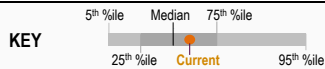
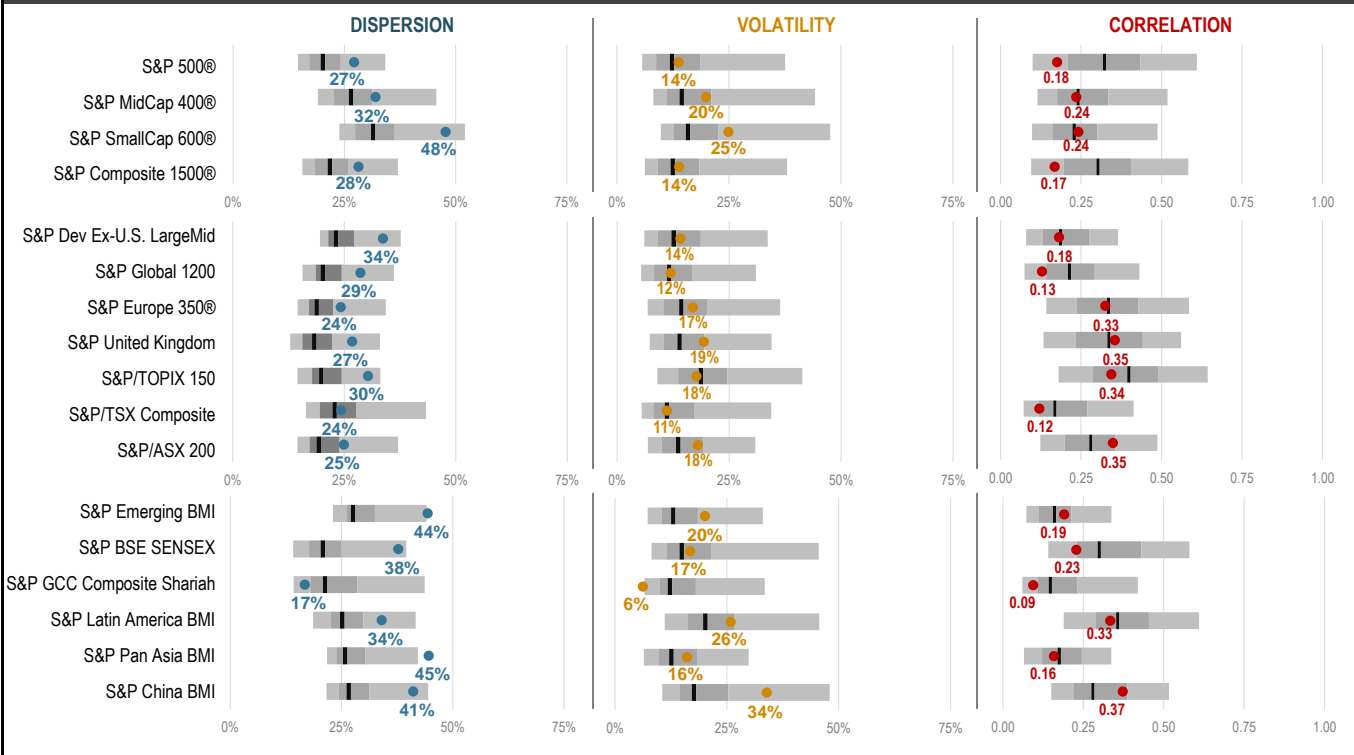
COMMENTARY

Accompanied as they were by news of incremental advances towards an effective vaccine and discussions of further fiscal stimulus in the States, the steady increase in globally reported COVID-19 diagnoses did not overly trouble equity markets in July; index volatility declined in most of our reported benchmarks.

Second-quarter earnings announcements contained an unusually wide range of surprises, both positive and negative, which kept equity dispersion high. In tandem, correlations declined rapidly, with average correlations between the daily returns of S&P 500 constituents collapsing to the lowest reading this year, coming in at a well below-average 0.18 for July.

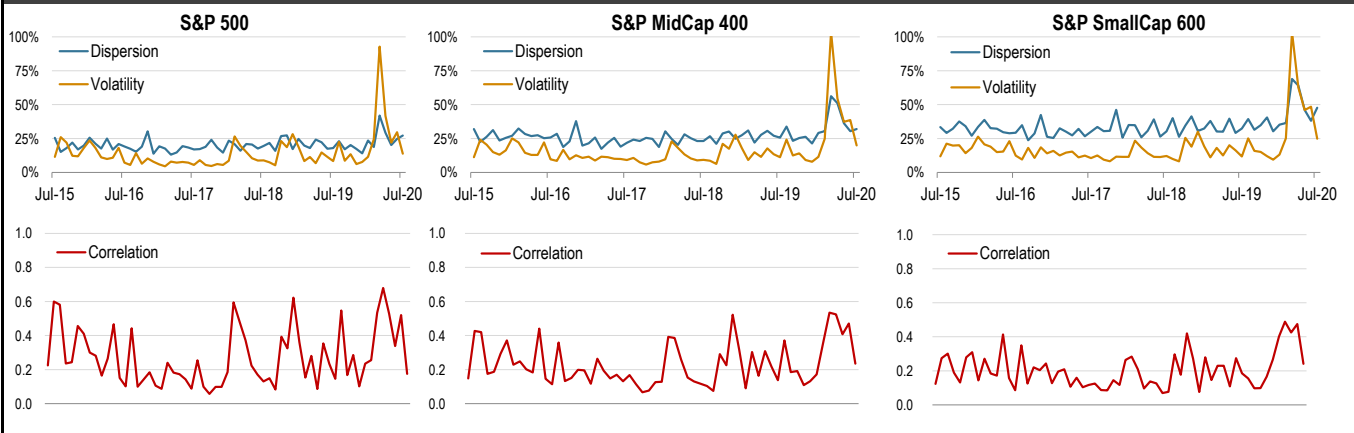
A similar story of declining volatility and even faster-falling correlations held for most of our equity benchmarks this month. China, however, was a notable exception: inspired by the announcement of a new bull market in a government-controlled newspaper, July began with a precipitous double-digit rise in the S&P China BMI, followed by high volatility, dispersion and correlation as the market struggled to hold on to the gains.

GLOBAL DASHBOARD



Dispersion, correlation and volatility shown in relation to the median and 5th, 25th, 75th and 95th percentile of monthly values (over the period Jan 2007 to date). Dispersion and volatility are annualized, correlation is the absolute level during the past month.

MAJOR BENCHMARKS - PAST FIVE YEARS



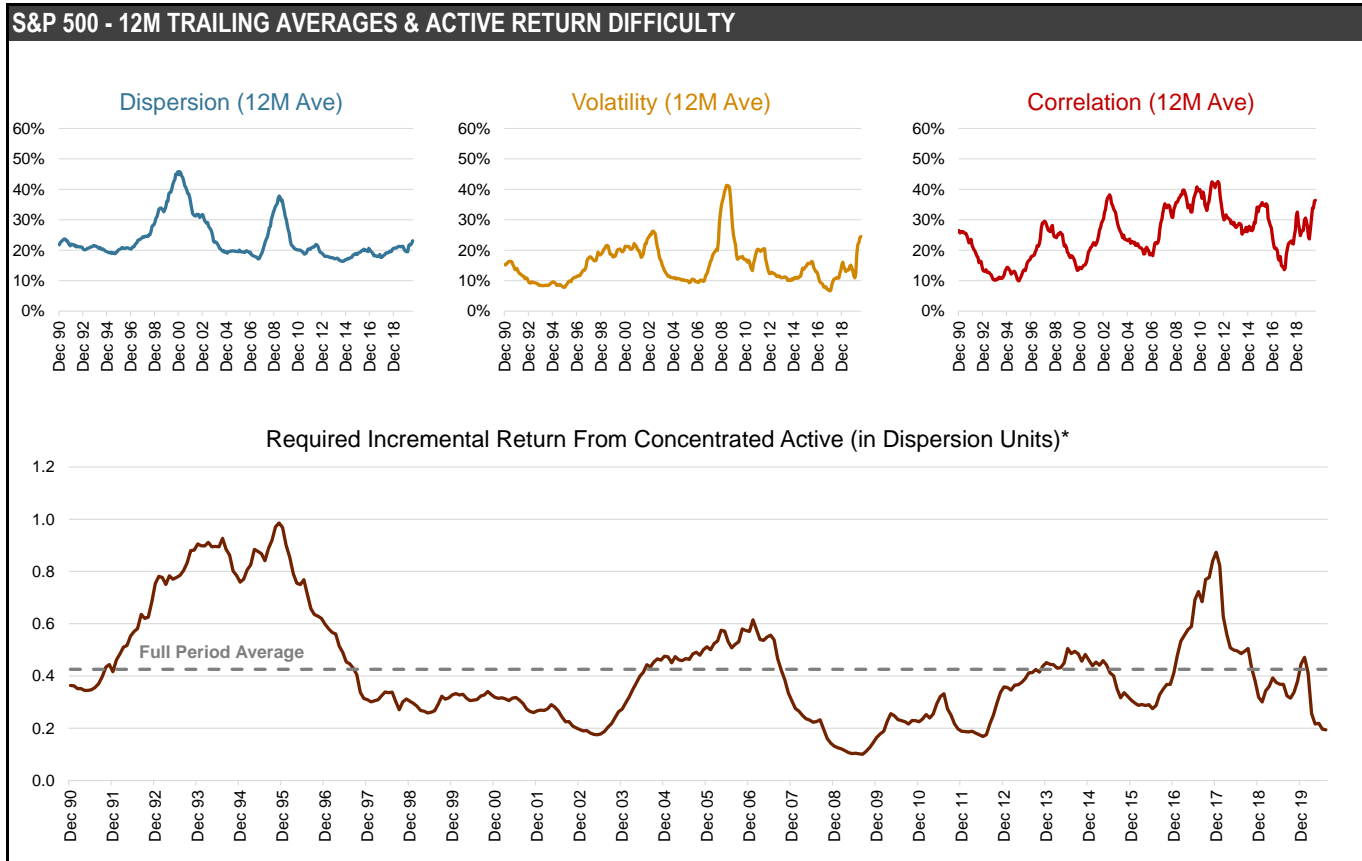
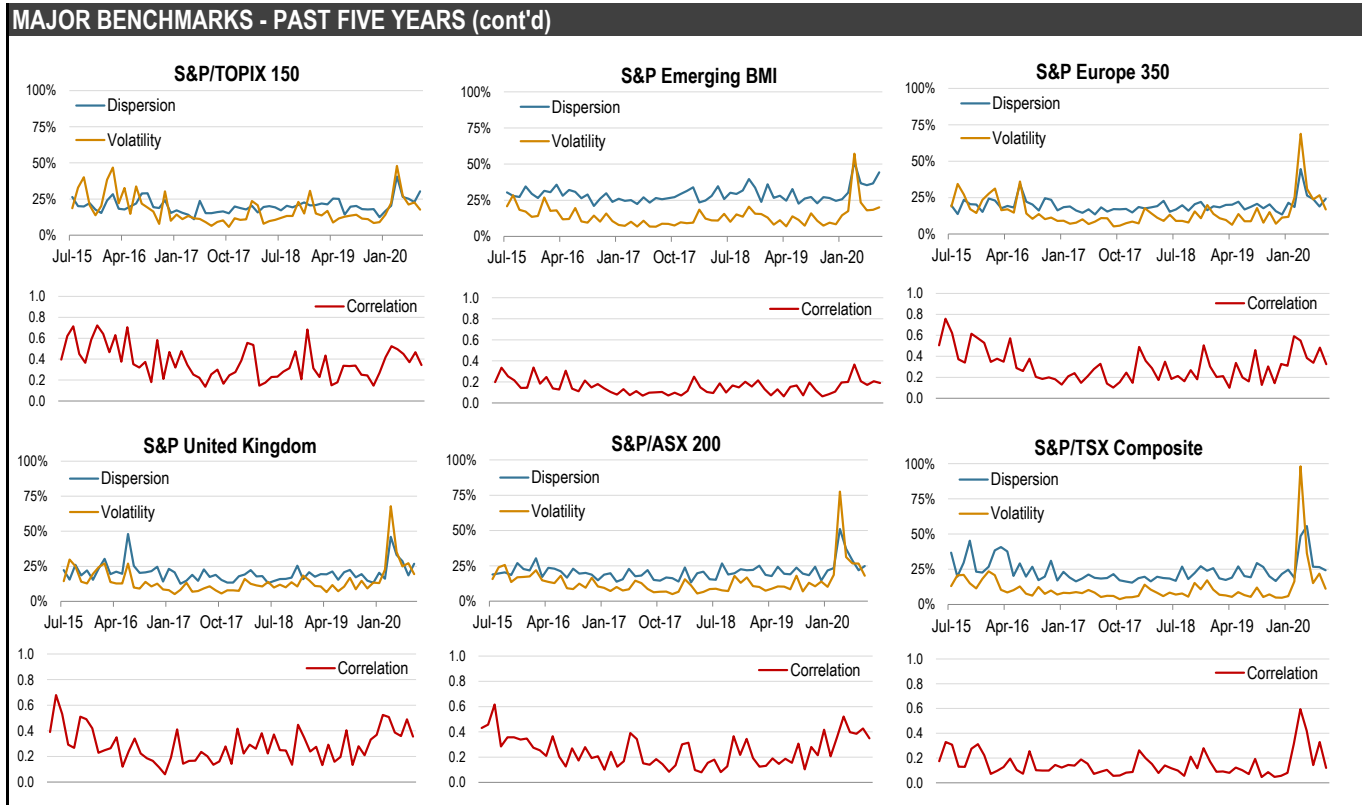
Source: S&P Dow Jones Indices as of Jul 31, 2020 * See "Notes" for explanations and definitions.

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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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