As the global economy continued to inch back towards normality and equity markets recovered ground, most of our reported risk indicators declined in August. The realized volatility of the S&P 500, S&P Composite 1500, S&P Developed Ex-U.S. BMI and S&P Emerging BMI fell to the lowest monthly levels since January, with readings below the long-term average for each.

Although equity index volatilities have largely returned to earth, dispersion has declined at a much slower rate from its March highs, and remains well above average in most markets. Sectoral effects have played their part: a hefty 11% separated the best- and worst-performing sectors of the S&P Global 1200 this month. Average pairwise correlations in most indices have fallen to very low levels.

Dispersion in the S&P SmallCap 600 and S&P Emerging BMI continues to be remarkably high. This continues a trend that has been developing for several months, suggesting that dispersion in smaller companies and emerging market stocks may remain higher for longer.
MAJOR BENCHMARKS - PAST FIVE YEARS (cont’d)

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

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

Required Incremental Return From Concentrated Active (in Dispersion Units)*

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