Since both measure the magnitude of movements in index constituents, dispersion and volatility typically rise and fall in tandem. In May, however, driven by rising correlations, S&P 500 volatility rose while dispersion fell.

The rising correlations reflected the market’s increased concerns of a global economic slowdown. That neither correlations nor benchmark volatility rose much above average was indicative of the month’s other major theme: the escalating trade war between the U.S. and China has created both winners and losers among countries and sectors. Diversification provided a degree of shelter from the trade winds.

Dispersion was unusually high in the S&P SmallCap 600 and the S&P Emerging BMI this month, and dispersion was above average in most of our reported indices. Volatility levels were close to average in a majority of indices, while the month provided a wide mix of correlations: low in Japan, Australia and Canada, moderately high in the U.S., India and China.
MAJOR BENCHMARKS JAN 2007 TO DATE (cont’d)

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.

Historical Measurement Periods

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).

Source: S&P Dow Jones Indices as of May 31, 2019
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