S&P Dow Jones Indices

A Division of S&P Global

Index Dashboard: Dispersion, Volatility & Correlation

September 29, 2017

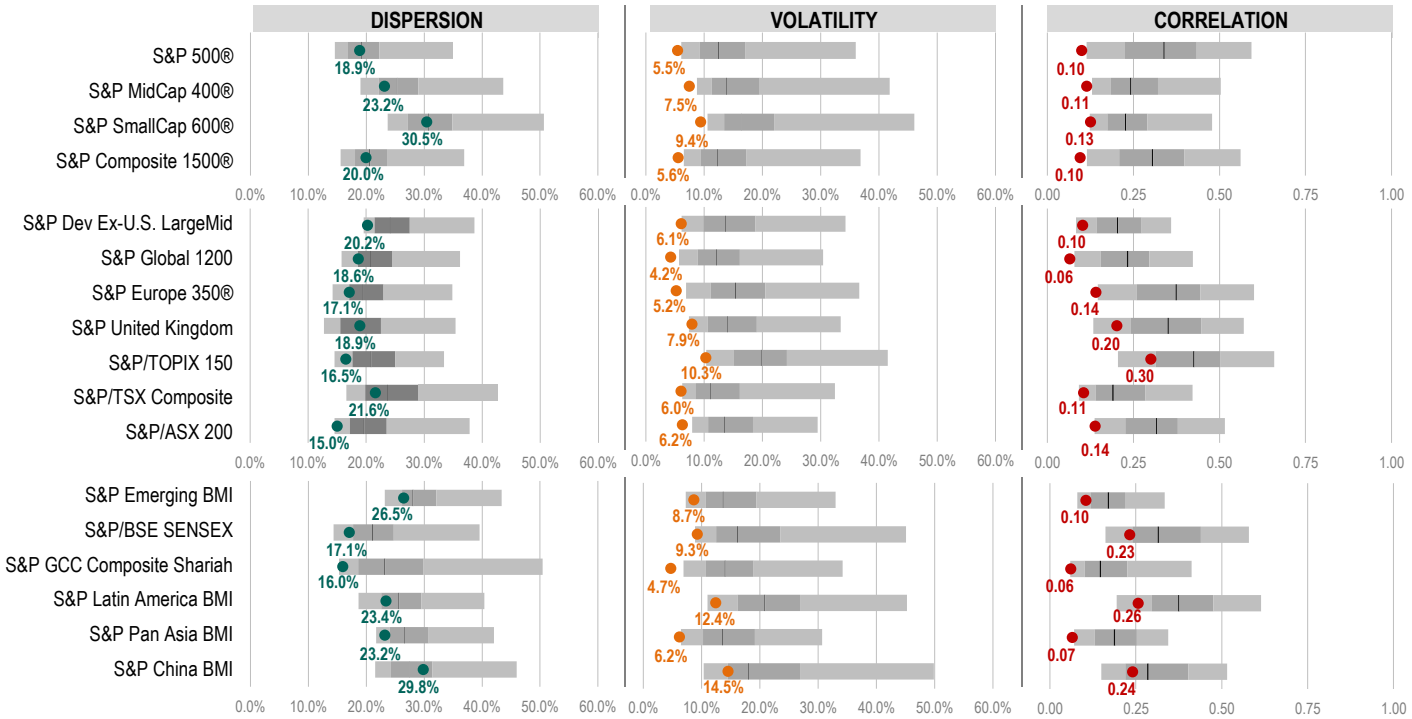
COMMENTARY

September brought near-record lows for benchmark volatility and stock-to-stock correlations in U.S. equity. Meanwhile, dispersion in the broad-based S&P Composite 1500 crept back towards long-term average levels.

While moderate in absolute terms, when considered relative to market volatility, the level of dispersion in developed markets is remarkably high. Typically less than twice the magnitude of market volatility, as correlations have declined the ratio of dispersion to volatility has been increasing. The S&P 500's 18.9% reading for annualized dispersion in September was more than three times index volatility.

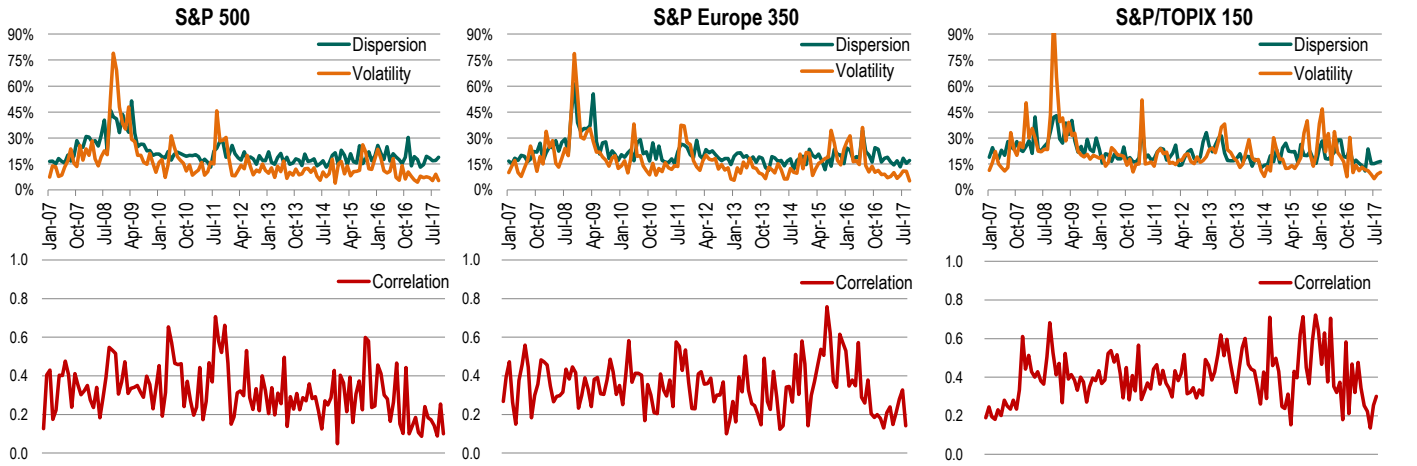
China's equity market provides the exception to the rule in this report, as lingering concerns over a debt bubble helped push correlations - and volatility – higher this month.

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 JAN 2007 TO DATE



Source: S&P Dow Jones Indices as of September 30, 2017

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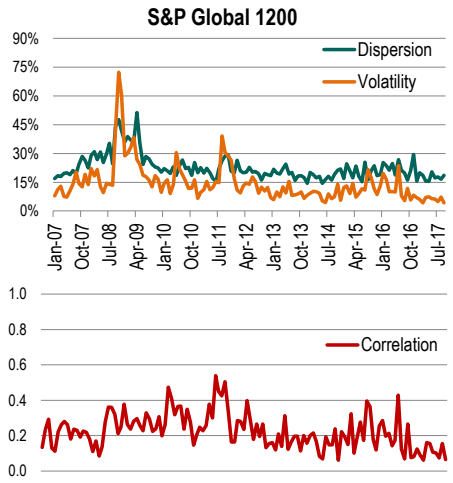
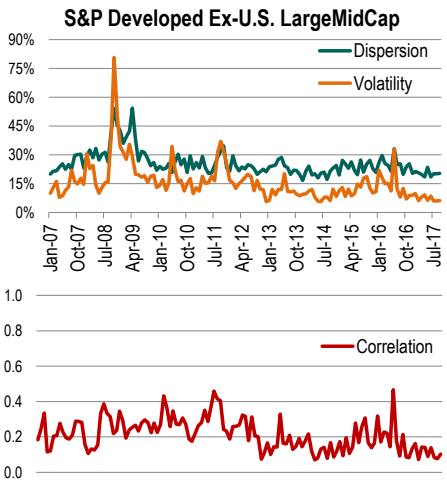
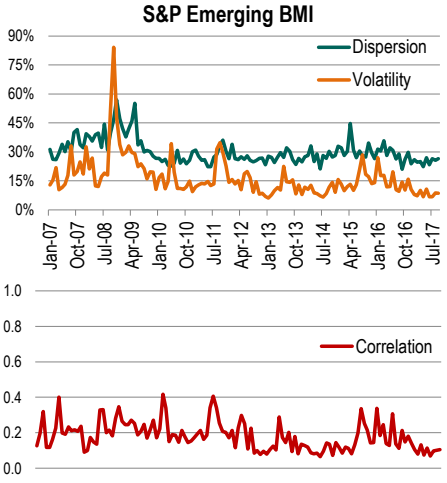
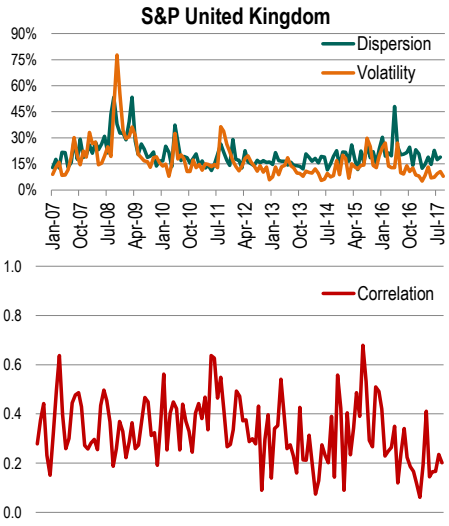
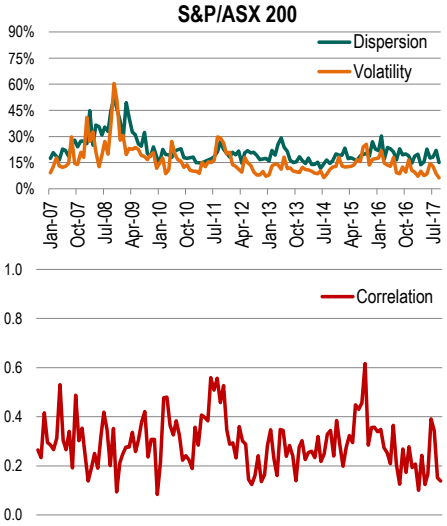
MAJOR BENCHMARKS JAN 2007 TO DATE (cont'd)

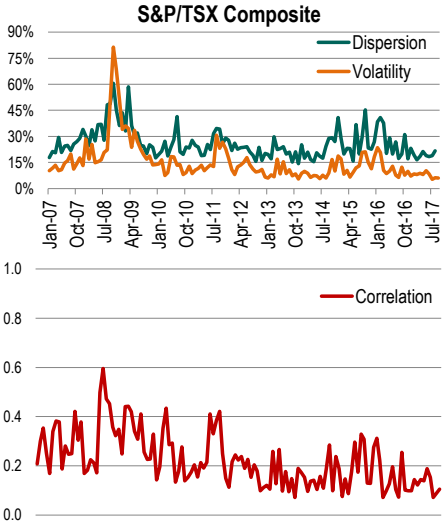












NOTES

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 September 30, 2017

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Charts and graphs are provided for illustrative purposes. Past performance is not an indication or guarantee of future results. The charts and graphs may reflect hypothetical historical performance. All information presented prior to the launch date is back-tested. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index(es) was officially launched. However, it should be noted that the historic calculations of an Economic Index may change from month to month based on revisions to the underlying economic data used in the calculation of the index. Complete index methodology details are available at www.spdji.com. It is not possible to invest directly in any index.

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