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# Steep U.S. Stock Correlations Show Virus's Impact on Markets

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2 minutes

U.S. stocks continue to move in tandem at extreme levels.

The S&P 500 Index's three-month realized correlation has steadied around the 0.8 level, its highest in about eight years, even though other gauges of market stress such as the Cboe Volatility Index have retreated toward normal levels. The divergence suggests investors continue to focus on just one main driver -- the global coronavirus pandemic -- making it harder for active fund managers to beat their benchmarks.

## All Together Now

**S&P 500 three-month realized correlation elevated despite VIX slump**



Source: Bloomberg

From beginning the year with a correlation of 0.19, the gauge of how closely the top stocks in the S&P 500 move in relation to one another spiked to 0.85 in mid-March, toward the peak of the coronavirus sell-off before leveling off around 0.8. A maximum possible correlation of 1.0 would signify all stocks are moving in lockstep.

Higher correlations spell trouble for active managers looking to beat indexes through stock picking. If most equities are moving in the same direction, it's difficult to choose one that stands out from the crowd.