



Introduction to Index Correlation

January 2019

Correlation is commonly defined as the degree to which two or more attributes show a tendency to vary together.

When we say for example, that the FTSE 100 index is highly correlated to the EURO STOXX 50 index – we might expect that, as the FTSE 100 index rises/falls, the EURO STOXX 50 follows suit.

The demonstration below calculates the correlation coefficients of daily log returns for the year 2018 using Bloomberg. In other words, we want to show the extent to which daily movements in the indices have tended to move together in 2018, if at all. A coefficient of 1 means perfect positive correlation (ie. the direction of every daily movement in one index was always matched by the direction of movement in the other index), 0 means no correlation.

	FTSE 100	S&P 500	EURO STOXX 50
FTSE 100	1	0.288	0.845
S&P 500	0.288	1	0.416
EURO STOXX 50	0.845	0.416	1

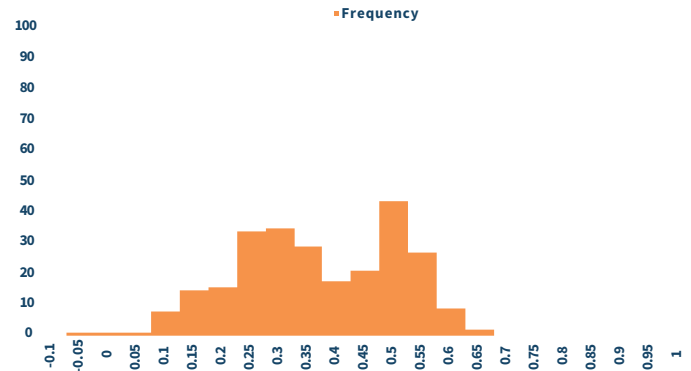
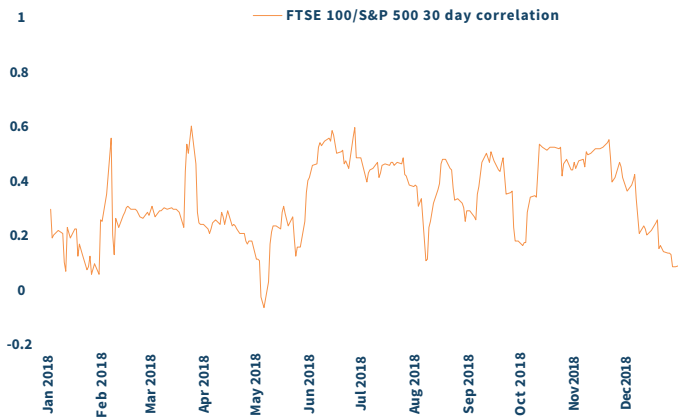
Source: Bloomberg calculations (CORR<GO>) 29 January 2019

The charts overleaf show a 30-day rolling window calculation with log returns over the 2018 period. This tracks how correlation changes over time.

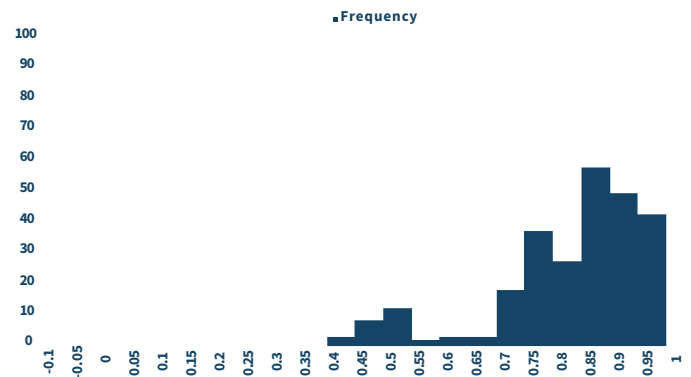
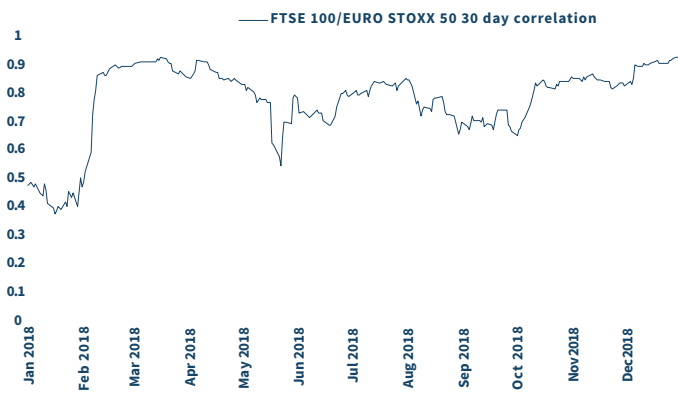
The FTSE 100/EURO STOXX 50 pair maintained a high level of correlation throughout 2018 with some 30-day periods approaching near perfect positive correlation. The FTSE 100/S&P 500 pair, however, experienced only low to middling levels of correlation and during a small part of May, correlation even went very slightly negative.

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FTSE 100/S&P 500



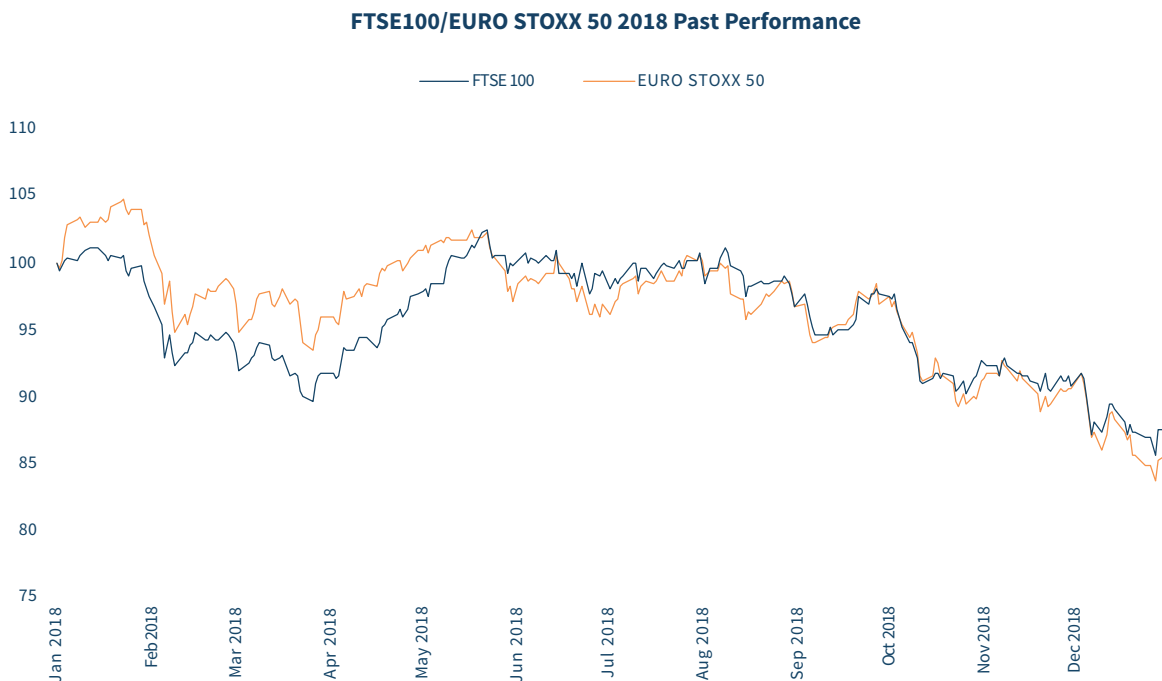
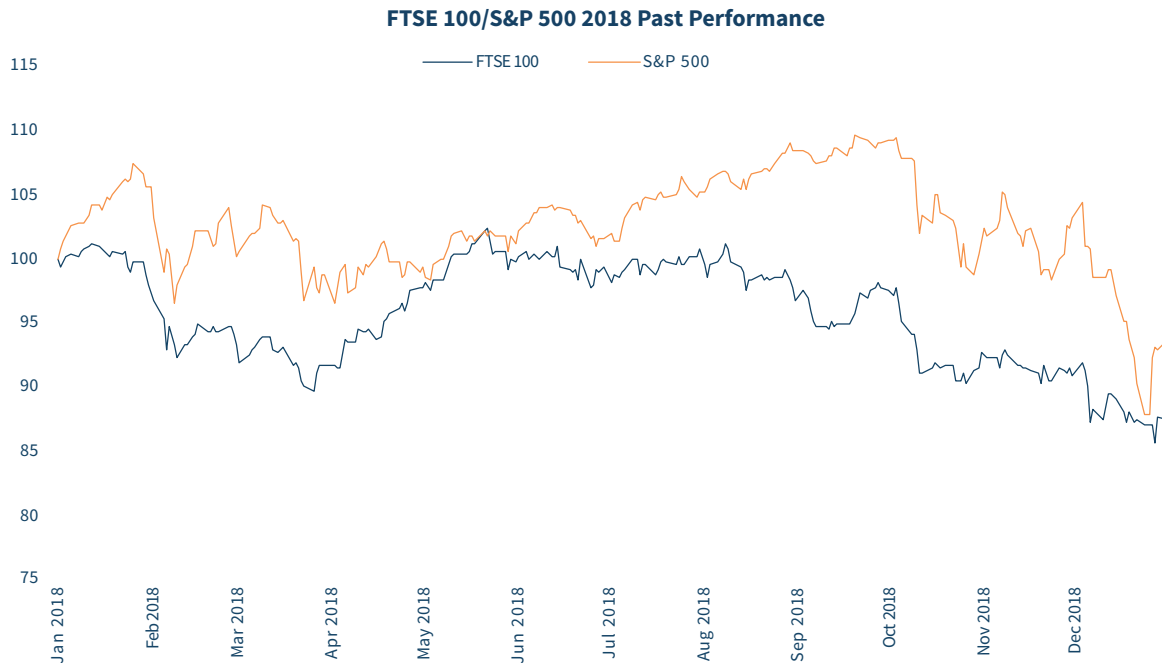
FTSE 100/EURO STOXX 50



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The below charts show the rebased performance of the indices from the beginning of 2018.



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M00664_4 February 2019



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