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Market Facts

VIX' Impact On Equity Groups

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The recent downturn in global equity markets had the predictable effect of increasing volatility; we detailed some of the conditions affecting volatility in a December 2004 Commentary and the relationship between volatility and inflation in an April 2005 Commentary.

The Chicago Board of Options Exchange's Volatility Index (VIX) jumped from under 12 on May 10th to more than 19 on May 22nd. The table below details which industry groups in the S&P 500 are helped or hurt by a rising VIX using a methodology discussed in a March 2005 Special Report.

Higher volatility increases the premium investors are willing to pay for safety. As we discussed in our most recent Commentary, the financial landscape is shifting, at least for the near-term future, to one wherein risk will be shunned.

While high-growth assets, such as the oil-related groups, are not synonymous with high-risk assets, they will be treated the same for the duration. During market downturns and realignments we often sell what we **can** as much as what we **should** to lower risk and raise cash.

Discussion And Conclusion

The groups whose performance relative to the S&P 500 will be affected most negatively by a rising VIX (red betas, left-hand column above) include many of the recent strong performers in the market. These include the oil-related groups, members of the Basic Materials sector such as Steel, Diversified Metals & Mining and members of the Technology sector such as Semiconductors and Internet Software. These are stocks whose total return has depended more on price appreciation than on yield.

The groups whose performance relative to the S&P 500 will be affected most positively by a rising VIX (black betas, right-hand column) are concentrated in the Consumer Staples, Healthcare and Utilities sectors. These are issues whose total return is linked more to yield and to steady, predictable earnings as opposed to flashy growth.

S&P 500 Industry Group Relative Performance Beta To Volatility Index

Group	Beta	Group	Beta
Hurt By Rising Volatility		**Helped By Rising Volatility**	
Steel	(0.127)	Movies & Entertainment	0.011
Homebuilding	(0.091)	Multiline Utilities	0.011
Div. Metals & Mining	(0.090)	Housewares & Specialty Stores	0.012
Employment Services	(0.072)	Broadcast & Cable TV	0.012
Internet Software	(0.051)	Diversified Banks	0.013
Tires & Rubber	(0.050)	Environmental Services	0.014
Semiconductor Equipment	(0.049)	Footwear	0.014
Communications Equipment	(0.041)	Consumer Finance	0.014
Construction & Farm Machinery	(0.040)	Tobacco	0.016
Internet Retailers	(0.040)	Electric Utilities	0.019
Trading Companies	(0.037)	REITs	0.020
Computer Storage & Peripherals	(0.037)	Gas Utilities	0.021
Computers & Electronics	(0.036)	Food Retailers	0.021
Semiconductors	(0.036)	Data Processing & Outsourcing	0.022
Construction Materials	(0.036)	Household Products	0.025
Electrical Manufacturing Services	(0.036)	Integrated Telecommunications	0.025
Motorcycle Manufacturing	(0.035)	Advertising	0.027
Electric Equipment Manufacturing	(0.033)	Publishing & Printing	0.027
Oil & Gas Drilling	(0.033)	Pharmaceuticals	0.027
Industrial Gases	(0.033)	Photographic Products	0.027
Fertilizers & Agricultural Chemicals	(0.033)	Hypercenters & Superstores	0.028
Oil & Gas Refining	(0.031)	Healthcare Equipment	0.029
Home Entertainment Software	(0.030)	Agricultural Products	0.030
Applications Software	(0.030)	Commercial Printing	0.031
Electrical Components & Equipment	(0.028)	Food Distributors	0.032
Investment Banking & Brokerage	(0.028)	Distillers & Vintners	0.037
Oil & Gas Exploration	(0.028)	Soft Drinks	0.039
Aluminum	(0.027)	Packaged Foods	0.041
Industrial Machinery	(0.025)	Brewers	0.042
Construction & Engineering	(0.025)	Healthcare Facilities	0.045
Integrated Oil & Gas	(0.023)		
Oil & Gas Equipment	(0.022)		
Home Improvement Retailers	(0.022)		
Railroads	(0.021)		
Asset Management & Custodian Services	(0.021)		
Biotech	(0.020)		
Building Products	(0.020)		
Forest Products	(0.018)		
Department Stores	(0.018)		
Paper Packaging	(0.018)		
Paper Products	(0.018)		
Diversified Chemicals	(0.016)		
Specialty Stores	(0.014)		

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