Is Passive Investing Responsible for the Higher Volatility?

Passive investors don’t buy more of a stock if it becomes cheaper, or less as it becomes more expensive. When there’s less information in the market, there’s less aggressive trading, less accurate prices—and more volatility results. This is according to a Financial Times article prompted by recent academic research that’s concluded that passive investing has made markets less efficient.

In a review of trades by institutional investors, the study found that the rise in passive investors’ share of the market over the past 20 years “has led to substantially more inelastic aggregate demand curves for individual stocks, by 15%.” Passive investors have a “demand elasticity” of zero; an increase in the share of passive investment thus pushes the market’s aggregate elasticity down.

“Passive money is not paying attention to any information. Efficient market hypothesis proponents say it’s not a big deal because others will come in, but not enough people are showing up to trade,” according to the article.

Economic Releases vs. Consensus (Previous Week)

Existing Home Sales: 5.41M vs. 5.4M
New Home Sales: 0.696M vs. 0.588M

Economic Releases this Week

Durable Goods Orders (6/27)
Personal Income (6/30)
Personal Spending (6/30)

WEEKLY HEADLINES

MARKET PULSE

MONTH-TO-DATE

VALUE CORE GROWTH

As of 6/24/2022

YEAR-TO-DATE

VALUE CORE GROWTH

-6.49 -5.15 -3.71 LARGE -10.71 -18.16 -24.78
-8.53 -6.85 -3.05 MID -13.91 -18.85 -27.70
-7.20 -5.18 -2.76 SMALL -14.85 -20.88 -26.87

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The S&P 500 Index is considered generally representative of the US equity market. The MSCI World Index is considered generally representative of the market for developed market equities. The MSCI Emerging Markets Index is a free float adjusted market capitalization index cited as a measure of the performance of emerging market equities. The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The Russell 3000 Index measures the performance of 3,000 publicly held US companies based on total market capitalization, which represents approximately 98% of the investable US equity market. The Russell 2000 Index measures the performance of the small-cap segment of the US equity universe and includes approximately 2000 of the smallest securities based on a combination of market cap and current index membership. The Russell 1000 Index measures the performance of the large-cap segment of the US equity universe and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell Midcap Index measures the performance of the mid-cap segment of the US equity universe and includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The ICE BofA US High Yield Master II Index tracks the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market. The Bloomberg Capital US Aggregate Bond Index covers the US-denominated, investment-grade, fixed-rate, taxable bond market of SEC registered securities. The Bloomberg US Government/Credit Index is comprised of long-term government and investment-grade corporate debt securities and is considered generally representative of the performance of the broad US bond market. The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. The ICE BofA Global 300 Cv Index (VG00) is a SUS/Local-denominated unmanaged index generally indicative of the overall global convertible market. The ICE BofA All US Convertibles Index (VXA0) is comprised of approximately 700 issues of only convertible bonds and prefers of all qualities. Source ICE Data Indices, LLC, used with permission. ICE permits use of the ICE BofA Indices and related data on an ‘as is’ basis, makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE BofA Indices or data included in, related to, or derived therefrom, assumes no liability in connection with the use of the foregoing and does not sponsor, endorse or recommend Calamos Advisors LLC or any of its products or services. Oil - West Texas Intermediate (WTI - Cushing): A crude stream produced in Texas and southern Oklahoma which serves as a reference or “marker” for pricing a number of other crude streams and which is traded in the domestic spot market at Cushing, Oklahoma. Gasoline: Weighted average based on sampling of approximately 900 retail outlets, 8:00AM Monday. The price represents self-service unless only full-service is available and includes all taxes. Gold - Gold Fixings Price: The Fixings are an open process at which market participants can transact business on the basis of a single quoted price. Orders can be changed throughout the proceedings as the price is moved higher and lower until such time as buyers' and sellers' orders are satisfied and the price is said to be 'fixed'. Orders executed at the fixings are conducted as principal-to-principal transactions between the client and the dealer through whom the order is placed.