A Reminder on the Big Moves: It's the Percent (Not the Points) That Counts

February 2020

- The MSCI World Index fell by 72 points on February 24, its fourth-largest ever daily point decline.
- From a percentage perspective, that equates to about a 3.0% move—notable but not extraordinary.
- While large moves are often unsettling for investors, history shows us that such periods of uncertainty are not unusual.

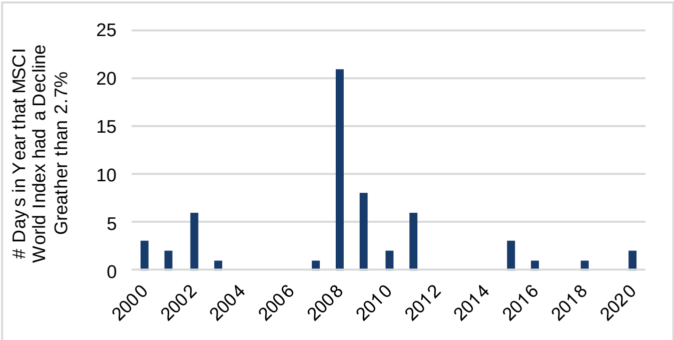
The MSCI World Index dropped by 72 points on February 24, the fourth-largest ever daily point decline for the widely followed global equity benchmark.[1] A 61-point fall the next day was its tenth-largest move down.

In the US, the Dow Jones Industrial Average saw a 1000-point decline followed by an almost 900-point fall over the same period. Rising fears about the ultimate effects of the coronavirus and its impact on the global economy have investors worried.

But a 72-point move on the MSCI World Index at today's values equates to a drop in value of about 3.0%. While nobody wants to lose 3.0% of their investments (especially in a single day), a headline that shows a 3.0% loss looks far less alarming than one that screams about the fourth-largest-ever point drop. The 61-point decline on February 25 was equivalent to about 2.7%.

While the two large moves in the MSCI World Index rank with the top 1% in terms of percent declines over the last 20 years[2], such moves have occurred once or twice a year, on average, during that time. (Exhibit 1).

Exhibit 1: Big Drops are not Uncommon



Source: Bloomberg, SEI
Data as at 25/2/2020

It's also notable that the MSCI World Index's one-year gain through 25 February 2020 is 11.3%—even with the recent drops. For comparison, the index averaged a 10.2% annual gain over the past decade (through February 25, 2020).

The same goes for the Dow Jones Industrial Average, where 1000 points is about 3.5%, based on current values. For the same one-year period, the US index gained 6.3% and has averaged 12.9% over the last 10 years.

Our View

We expect the steady flow of coronavirus-related uncertainty to cause volatility (and anxiety) to ratchet up in the near term. The angst is easy to understand. Nobody likes to see the value of their investments fall. Yet, episodes of stock-market volatility have always been part of the investment landscape.

In times like these, the value of long-term planning can show its merits. While it's human nature to want to avoid losses, the reality is that it's extremely difficult to time markets, both to avoid losses and then to re-enter so one can reap the long-term potential gains.

Now is not the time to panic. If you're thinking about selling equities to avoid losses, it's already too late. Further, if you do sell now, you'll eventually have to make a decision to buy back into the market. Our research shows the decision to get back in can be just as difficult to make as the decision to get out, and investors can be notoriously bad at both.

[1] Source: Bloomberg
[2] Source: Bloomberg

All references to performance are in US dollar terms unless otherwise noted.
For Professional Client Use Only – Not for Distribution to Retail Clients

Important Information

The opinions and views in this commentary are of SEI only and are subject to change. They should not be construed as investment advice.

Investments in SEI Funds are generally medium- to long-term investments. The value of an investment and any income from it can go down as well as up. Investors may get back less than the original amount invested. Returns may increase or decrease as a result of currency fluctuations. Past performance is not a reliable indicator of future results. Additionally, this investment may not be suitable for everyone. If you should have any doubt whether it is suitable for you, you should obtain expert advice.

The SEI Global Assets Fund Plc, SEI Global Investments Fund Plc, and SEI Global Master Fund Plc (the "SEI Funds") are structured as open-ended collective investment schemes and are authorised in Ireland by the Central Bank as a UCITS pursuant to the UCITS Regulations. The SEI Funds are managed by SEI Investments, Global Ltd ("SIGL"). SIGL has appointed SEI Investments (Europe) Ltd ("SIEL"), an affiliate of SIGL, (together "SEI") to provide general distribution services in relation to the SEI Funds either directly or through the appointment of other sub-distributors. The SEI Funds may not be marketed to the general public except in jurisdictions where the funds have been registered by the relevant regulator. The matrix of the SEI fund registrations can be found here seic.com/GlobalFundRegistrations.

No offer of any security is made hereby. Recipients of this information who intend to apply for shares in any SEI Fund are reminded that any such application may be made solely on the basis of the information contained in the Prospectus. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the funds or any stock in particular, nor should it be construed as a recommendation to purchase or sell a security, including futures contracts.

In addition to the normal risks associated with equity investing, international investments may involve risk of capital loss from unfavourable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Bonds and bond funds are subject to interest rate risk and will decline in value as interest rates rise. High yield bonds involve greater risks of default or downgrade and are more volatile than investment grade securities, due to the speculative nature of their investments. Narrowly focused investments and smaller companies typically exhibit higher volatility. SEI Funds may use derivative instruments such as futures, forwards, options, swaps, contracts for differences, credit derivatives, caps, floors and currency forward contracts. These instruments may be used for hedging purposes and/or investment purposes.

While considerable care has been taken to ensure the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information and no liability is accepted for any errors or omissions in such information or any action taken on the basis of this information.

This information is issued by SEI Investments (Europe) Limited, 1st Floor, Alphabeta, 14-18 Finsbury Square, London EC2A 1BR which is authorised and regulated by the Financial Conduct Authority. Please refer to our latest Full Prospectus (which includes information in relation to the use of derivatives and the risks associated with the use of derivative instruments), Key Investor Information Documents and latest Annual or Semi-Annual Reports for more information on our funds. This information can be obtained by contacting your Financial Adviser or using the contact details shown above. SEI sources data directly from FactSet, Lipper, and BlackRock, unless otherwise stated.