The following excerpts are from an MSN.com article published August 12th, 2024, outlining potential lessons for investors from last week's stock market sell-off , as referenced below.

Today's news article looks at the implications, historical context and lessons for investors from last week's stock market sell-off and MSN.com (2024) emphasizes the importance of patience and time in the markets for longer-term value.

The stock market suffers another August scare. Here are the lessons for investors.

MSN.com (2024) reports on the 3% drop for the S&P 500 last Monday, its biggest one-day drop in nearly two years and how some analysts perceive the sell-off as somewhat of a welcome re-set for the markets, amid overly bullish investor expectations :

Beware the vibes of August.

Investors got a reminder that the laziest month of summer can often carry a sting in the form of financial market turbulence. Recall the 1990 invasion of Kuwait by Iraq, setting the stage for the Gulf War; the attempted 1991 coup against Soviet leader Mikhail Gorbachev; or more recently, the 2011 cut to the U.S. credit rating by Standard & Poor's. August wasted no time serving up the volatility, with stocks beginning a three-day skid on the first day of the month that culminated on Monday with a 3% drop for the S&P 500 its biggest one-day drop in nearly two years.

Turnaround Tuesday lived up to its name, though stocks ended the day below where they opened. Wednesday saw the market wobble, giving up early gains. But the S&P 500 then ended the week with its best back-to-back performance of 2024, including its best single-day gain since 2022 on Thursday. By Friday's closing bell, the S&P 500 was virtually flat on the week, while the Dow Jones Industrial Average which dropped over 1,000 points on Monday, was left with a weekly fall of just 240 points, or 0.6%. The Nasdaq Composite saw its weekly decline trimmed to just 0.2%. The S&P 500 remains up by more than 12% in the year to date.

MSN.com (2024)

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Stock-index futures were up slightly Monday morning amid relative calm on global financial markets. The week ahead features a crucial August inflation reading and another round of corporate earnings data. It's too early to dismiss the drop as a summer squall, and the sell-off raises some questions about bullish investors expectations around artificial intelligence, the economic outlook and other considerations. But some investors saw the decline as a welcome, if overdue, development. "I actually think the pullback, though it was only a couple of days, was a pretty constructive reset," Carol Schleif, chief investment officer at BMO Family Office, told MarketWatch on Friday morning. Indeed, for many market veterans, what was truly remarkable wasn't that the S&P 500 fell 3% on Monday, making for a roughly 8.5% drop off its July session high, it's that the market has been so remarkably calm for so long.

MSN.com (2024) reminds us that long periods of calm may make market pull-backs seem more tumultuous than they really are. Experts see a variety of reasons behind recent periods of extended market calm, which help suppress volatility but can make for more exaggerated, periodic snap-backs like we have just witnessed:

Volatility spike.

The Cboe Volatility Index often referred to as Wall Street's fear gauge, more than doubled over three days, rising from 16.4 on Thursday to close at 38.6 on Monday — a move on that scale by the VIX or its precursors — has only been seen four times. During Monday's session it soared above 65 at its intraday high.

Such big moves by the VIX have often been accompanied by big market dislocations — bigger than the drop ultimately suffered by U.S. stocks this time around. To be fair, it was much more frightening in Japan, where the Nikkei 225 plunged more than 12% on Monday for its biggest one-day drop since around the 1987 U.S. stock-market crash. It too, however, roared back to significantly trim losses by the end of the week. The selloff appeared to begin with a run of weak U.S. economic data, including an Institute for Supply Management manufacturing sector activity index reading that fell back into contraction territory on Aug. 1. The selling intensified on Aug. 2 with the release of a weaker-than-expected July jobs report that stoked recession fears, sparked accusations that the Federal Reserve had made a policy mistake by failing to cut interest rates at its July meeting and led panicked rates traders to price in an emergency rate cut and much deeper rate reductions in coming months.

On top of that, a July 31 rate hike by the Bank of Japan was blamed for exacerbating the selloff. The subsequent strengthening of the previously beaten-down Japanese currency accelerated the unwind of the yen carry trade, which consisted of borrowing in cheap yen and using the proceeds to buy higher-yielding assets, such as, perhaps, U.S. tech stocks.

The exact mechanics of how the unwind of the carry trade served to slam U.S. stocks — or whether it was a factor at all—remains up for debate, but it certainly appeared to add to feelings of unease. Remarks by a top Bank of Japan official on Tuesday, promising that policymakers wouldn't raise rates in the midst of financial turmoil, were credited with calming global markets.

MSN.com (2024)

Sounding the all-clear?

And just as weak economic data helped spark the selloff, stronger readings from the ISM services sector index on Monday and, in particular, a fall in first-time weekly jobless benefit claims on Thursday appeared to soothe some of those recession jitters. Expectations for an emergency interest rate cut faded and fed-funds futures traders now price in a less than 50% chance of an outsize 50 basis point, or half a percentage point, rate cut at the Fed's September meeting, down from 74% last Friday, according to the CME FedWatch Tool.

"Balance everything out and it's still a sturdy economy, and that's what markets are coming back to," Schleif said. So is the summer squall over? The rebound was certainly encouraging, but investors caution that volatility spikes usually don't resolve themselves so quickly. Markets can often remain unsettled for weeks, while Monday's lows are now important support on the daily charts and may be subject to a retest.

MSN.com (2024)

According to MSN.com (2024), the recent period of market volatility, while not ruling out the chance of future uncertainty, acts as a timely reminder for investors to refrain from panicking and sticking to their investor timelines.

Panic can be costly.

While future tumult may be possible, the past week's wild swings should offer investors a reminder to avoid hitting the panic button, said Larry Adam, chief investment officer at Raymond James, in a Friday note.

Panic can severely undercut performance because some of the strongest market days often immediately follow the weakest, he noted. Indeed, Monday's 3% drop for the S&P 500 was followed by a 1% gain on Tuesday and a 2.3% gain on Thursday — the strongest since November 2022.

"Our research shows that missing the five or ten best days of performance can significantly weigh on returns. In fact, over the last 50 years, missing the ten best trading days (most of which immediately followed sharp sell-offs), would have reduced your average return by around 1.7% (8.3% vs 6.6%)," he wrote.

BMO's Schleif said the downdraft offered clients with cash on the sideline an opportunity to put it to work, while underscoring admonitions to be prepared to stick to intermediate and long-term plans. The other big lesson is that Treasurys are finally again acting as a cushion when stocks tumble, underscoring their role in portfolios.

She said there were several important lessons that were reinforced in the last week, including the importance of building a "sturdy" portfolio and to not "freak out over a single data point," such as the jobs report.

"Give it a day or two to let things settle out," Schleif said.

MSN.com (2024)

References:

IMSN.com (2024). '*The stock market suffers another August scare. Here are the lessons for investors.*'. MSN.com August 12th . Available at: https://www.investing.com/news/stock-market-news/goldman-sachs-seven-takeaways-from-the-market-selloff-3556136 . (Accessed 12 August 2024).

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