Bloomberg Markets

Corporate Highlights:

- Uber Technologies Inc. plans to start offering self-driving Cruise LLC cars to customers on its ride-hailing platform next year.
- Cava Group Inc. raised its full-year outlook after posting second-quarter results that beat expectations, the latest indicator that diners see good value in fast-casual restaurants.
- Urban Outfitters Inc., the Anthropologie and Free People brands, posted quarterly sales growth that came in below Wall Street's expectations.
- Carlyle Group Inc. is acquiring Advance Auto Parts Inc.'s Worldpac unit for $1.5 billion, striking the first major industrial investment for the firm in more than two years.
- Starboard Value LP urged Autodesk Inc.'s board to evaluate whether Chief Executive Officer Andrew Anagnost is the right person to lead the company following recent accounting issues.

Key events this week:

- Japan CPI, Friday
- BOJ's Kazuo Ueda to attend special session at Japan's parliament to discuss July hike, Friday
- US new home sales, Friday
- Jerome Powell speaks in Jackson Hole, Friday

Some of the main moves in markets:

Stocks

- The S&P 500 fell 0.9% as of 4 p.m. New York time
- The Nasdaq 100 fell 1.7%
- The Dow Jones Industrial Average fell 0.4%
- The MSCI World Index fell 0.6%
- Bloomberg Magnificent 7 Total Return Index fell 2.4%
- The Russell 2000 Index fell 0.9%

Currencies

- The Bloomberg Dollar Spot Index rose 0.4%
- The euro fell 0.4% to $1.1108
- The British pound was little changed at $1.3085
- The Japanese yen fell 0.8% to 146.31 per dollar

Cryptocurrencies

- Bitcoin fell 1.5% to $60,314.55
- Ether fell 0.9% to $2,607.87

Bonds

- The yield on 10-year Treasuries advanced six basis points to 3.86%
- Germany's 10-year yield advanced five basis points to 2.24%
- Britain's 10-year yield advanced seven basis points to 3.96%

Commodities

- West Texas Intermediate crude rose 1.4% to $72.93 a barrel
- Spot gold fell 1.2% to $2,483.12 an ounce

As president, Donald J. Trump continually took credit for a rising stock market, citing it as evidence that his economic policies were enriching Americans.

Now, Mr. Trump is again using the stock market as a barometer — attributing its rise earlier this year to excitement about his candidacy and blaming his rival, Vice President Kamala Harris, when stocks recently wobbled.

As the S&P 500 nears another record high, the stock market could be featured further as a talking point on the campaign trail. Although President Biden has been less emphatic in his stock market proclamations, he, too, has cited it as a sign of a healthy economy under his watch.

The reality of what drives Wall Street is much more complicated. Stocks, like the economy, ebb and flow for many reasons. While the outlook for White House policy can be one of them, big and sustained moves in the overall market have historically had more to do with other things, from the Federal Reserve's decisions to the potential for new corporate innovation like artificial intelligence.

"I think markets are politically agnostic," said Kristina Hooper, chief global market strategist at Invesco. "With good reason, because it doesn't really matter."

Both Mr. Biden and Mr. Trump have enjoyed healthy stock rallies under their watches. The S&P 500 has risen roughly 67 percent since Mr. Biden won the last election, compared with just under 60 percent for the same period under Mr. Trump. The index rose 65 percent from when Mr. Trump was elected in 2016 through to the 2020 election.

The S&P 500's 15 percent rise over the first half of the year has been widely attributed to the rally in a handful of stocks deemed to be beneficiaries of the boom in artificial intelligence, not to Mr. Trump's chances of regaining the White House. The index's brief sell-off from mid-July through early August arose in part from divergent monetary policy between Japan and the United States and the rapid unwinding of trades that were no longer as profitable, not from Ms. Harris's entry into the presidential race.

A sharp stock market recovery this month is seen as predominantly a reaction to the increasing likelihood, after favorable economic data, that the Fed will cut interest rates in September.

While the attempted assassination of Mr. Trump and Mr. Biden's decision on July 21 to leave the presidential race did register with investors, "I don't think it's what's driving the market right now," said George Goncalves, head of U.S. macro strategy at MUFG Securities.

This is not to say politics has no bearing on the stock market at all. White House policy has the potential to influence the economy. The economy helps to drive corporate profits. The stock market is, in theory, a reflection of how profitable investors think public companies will be.

Last Friday, Ms. Harris outlined her broad economic plans in Raleigh, N.C., focusing on middle-class families that have struggled as the cost of living has risen, homing in on the need to bring down the cost of housing.

Many analysts caution that presidential policy rarely rises to the top of the list of priorities for stock investors; policy is often watered down by the time it becomes legislation, its influence is often fleeting, and even when effects are expected they can be counterintuitive. While specific companies and sectors of the market can be seen to react more directly to policy and new legislation, the broader market is more insulated from the intent of any president.

There are moments, however, when the significance of politics is greater than others.

The stock market rally that accompanied Mr. Trump's White House win was predicated on the expectation that he would lower corporate taxes.

When he was taking credit for the stock market rally at the start of the year, there was "no validity to that at all," said Seema Shah, chief global strategist at Principal Asset Management. But the tax cuts in Mr. Trump's first term "did fundamentally change the outlook for growth," she said. "It's fair to say he did have an impact on the equity market trajectory."

Even then, the boost to corporate earnings growth lasted only a year, while profits were still being compared with the prior year, when taxes were higher. After that, earnings levels were higher than they otherwise would have been, but not necessarily growing more quickly.

The onset of the pandemic in 2020 sent stocks tumbling sharply lower. The swift market recovery that followed was largely attributed to the Fed's decision to unleash its financial firepower to prop up investments and the economy. The government also poured trillions of dollars of relief money into the economy under both Mr. Trump and Mr. Biden.

That helped to avert panic in markets and meant that the economy bounced back swiftly from its temporary shutdown, but it also helped to fuel demand and contributed to rapid inflation.

Given that, the policies affected markets in complicated ways over time, analysts said. That underscores that market performance is often more about expectations for growth and inflation than about pure politics.

"It's not that elections don't matter, but for investors the focus on growth and inflation does a better job at explaining what the potential outcome may be," said Thomas Hainlin, global investment strategist at U.S. Bank, who has studied the statistical relationship between presidents and the stock market.

"Is there any definitive correlation between presidents and the stock market? We found it has been fairly weak," he said.

Typically, the S&P 500 falls before an election and rises afterward. Mr. Biden's win in 2020 was preceded by two months of losses for the index, before a bumper 10 percent rally in November that coincided with advancements in Covid vaccine developments. In 2016, the S&P 500 nudged lower for three months before rallying a little over 3 percent after Mr. Trump won the election.

Analysts attribute this dynamic to the frequent refrain that investors dislike uncertainty, with a rally kicking in once the election outcome is known, rather than its being specific to any one candidate or party. Over the longer term, who is in the White House has mattered less.

Going back to Dwight D. Eisenhower's first term, which began in 1953, only three presidential terms have resulted in negative returns for the S&P 500 — Richard M. Nixon's second term, which Gerald R. Ford finished, and both of George W. Bush's terms.

In fact, the stock market may do better when the government is divided — with the House or Senate able to block legislation — precisely because money managers have greater certainty over the policy backdrop they are investing against. Less is likely to change if Congress can't agree to anything.

Bank of America's monthly survey of fund managers listed a U.S. election "sweep" — where one party controls the White House and Congress — as one of its tail risks for the market, though it was deemed far less important than a recession, geopolitical conflict or inflation, among others.

Even when policy is clear, it can have unexpected outcomes. The stock prices of traditional energy companies have done better under Mr. Biden than under Mr. Trump, even though Mr. Trump's policies are friendlier to the fossil fuel industry. And clean energy stocks surged under Mr. Trump but languished under Mr. Biden, even though Mr. Biden passed a sweeping green energy investment package.

Looking ahead, investors think that a red wave — giving Republicans control of both the White House and Congress — could pave the way for potentially inflationary policies like tax cuts that could increase the deficit. That could in turn push government borrowing costs higher.

But such policies may arrive as the Fed is cutting interest rates, pulling government borrowing costs lower and making the direction of financial markets harder to predict.

Chris Krueger, managing director of the Washington research group at TD Cowen, pointed to trade, immigration and labor market policies as other areas where a presidential administration could shift policy and drive the direction of both markets and the economy.

"They're hugely consequential," he said, though he added, "I think presidents probably get too much credit when markets go up, and too much blame when markets go down."

Mr. Krueger said he wasn't sure exactly how a Trump win, should one happen, would affect the stock market.

"It's inflationary — it's probably more of a rates trade, as opposed to equities, but higher rates historically have not been a great thing for stocks," he said. The upshot is that "2024 isn't as linear as 2016 was."

Continuing what's long been an end-of-summer rite for investors, economists and central bankers, Federal Reserve Chair Jerome Powell's Friday speech at an annual economic symposium in Jackson Hole, Wyo., is being met with high anticipation.

This time around, investors are eager for confirmation that the Fed is on track to begin cutting interest rates in September. More important, perhaps, will be any clues on the pace, size and scope of further rate cuts beyond next month's policy meeting.

MarketWatch Live: Key Fed conference kicks off with market focused on rate-cut talk

What does history say about how the stock market has reacted to past Powell appearances at the event? The chart below from BNY shows that stocks have tended to put in a firmly positive but not overly exuberant performance on the day of Powell's speech. But the two exceptions, in 2019 and 2022, have been doozies.

As the chart shows, the S&P 500

has seen a median rise of 0.4% on speech days going back to 2018. The average move, however, is a fall of 0.6%. That's thanks to 2019, when it fell 2.6%, and 2022, when it suffered a 3.4% decline. (Widening the frame, the S&P 500 has averaged a 0.9% return over the two-week period around Jackson Hole since 2010, DataTrek Research noted earlier this week.)

Read: Here's how U.S. stocks historically perform around the Fed's Jackson Hole gathering

BNY analysts noted that the 2019 drop appeared to have more to do with escalating U.S.-China trade tensions than what Powell had to say.

But 2022 may be etched more firmly in investors' memories. Powell used the event to deliver a terse and blunt message about the Fed's resolve to continue raising rates forcefully in its bid to bring down surging inflation. He emphasized the effort would be painful, likely requiring an extended stretch of below-trend economic growth.

Fast forward to 2024 and the Fed appears almost certain to begin cutting rates. Powell indicated after the central bank's July meeting that a September cut was a strong possibility if data continued on its recent path. A weak July jobs report and other data pointing to a softening of the economy and falling inflation have reinforced that expectation, as did the minutes of the July policy meeting released on Wednesday.

As for the Jackson Hole event itself, analysts at Bank of America last week explained why it's come to be seen as something of a crucible for Fed policy and the markets.

Fed chairs, they noted, speak at Jackson Hole almost every year. The Kansas City Fed began the conference in 1982 and former Chair Alan Greenspan delivered opening remarks for 14 years, which appeared, intentionally or not, to set a precedent. Chairs have skipped it on occasion, including Ben Bernanke in 2013 and Janet Yellen in 2015.

The BofA analysts noted that the Fed, for its part, has tended to play down the importance of the event in regard to near-term policy. After all, it isn't a venue for policymaking decisions and any Fed chair that makes news about the outlook risks front-running the rest of the central bank's policy committee.

"That said, the Fed seems to find ways to make the event noteworthy when needed," the analysts wrote.

Bond yields climbed and stocks got hit, with Wall Street traders betting Jerome Powell will throw cold water on market expectations for aggressive interest-rate cuts.

In the run-up to Powell's Jackson Hole speech, Treasuries tumbled across the US curve, with the move led by shorter maturities. The dollar gained the most in over a month. The S&P 500 lost steam after getting close to its all-time high. Tech megacaps sold off. The swap market has cemented wagers the Federal Reserve will ease policy by about one percentage point this year.

“Will Powell allude to a slow walk down the monetary policy stairs or a speedy elevator ride down to the basement?” said Jose Torres at Interactive Brokers. “Powell is likely to choose the stairwell rather than the elevator.”

Investors waded through a raft of remarks from US policymakers, with Fed Bank of Kansas City President Jeffrey Schmid saying he wants to see more data before supporting cuts. His Boston counterpart Susan Collins says “a gradual, methodical pace” is likely to be appropriate. Her comments were echoed by Philadelphia Fed President Patrick Harker in a CNBC interview.

“The script is clear — the Fed is going to ease in September, but no one is portraying a desire to ease 50 basis points at this time,” said Andrew Brenner at NatAlliance Securities.

Traders are overplaying the prospects of an aggressive series of Fed cuts before the end of the year, according to Mohamed El-Erian.

“It is problematic in my mind that the market is pricing in so many rate cuts right now,” El-Erian, the president of Queens’ College, Cambridge, told Bloomberg Television on Thursday. “The market is overdoing it.”

Treasury 10-year yields advanced six basis points to 3.86%. The S&P 500 dropped 0.9%. The Nasdaq 100 fell 1.7%, with Nvidia Corp. leading losses in big tech. Intel Corp. tumbled 6.1%. Banks climbed and energy shares joined oil higher. Peloton Interactive Inc. surged 35% after the fitness company reported earnings that beat estimates.

“We are now once again not debating if they will cut, but by how much they will cut and how many times they will cut before year end,” said Kenny Polcari at SlateStone Wealth. “I am in the 25 basis-point and three-times camp. The US economy is not circling the drain – so there is no need to suggest that it is.”

Chris Senyek at Wolfe Research says his sense is that Powell will signal an easing cycle starting in September. However, contrary to what the market is pricing in for the remainder of 2024, he doesn’t believe the Fed Chair will signal a cut larger than 25 basis points.

Sam Stovall at CFRA also bets the next Fed-easing cycle will be initiated in a “more measured fashion” with a 25 basis-point cut.

“This ‘slower to lower’ approach will likely be intended to signal that the Fed is not behind the curve, but will allow it to ensure that the embers of inflation have been fully extinguished before concluding that its mission has been completed,” he noted.

On the economic front, the latest figures were more of a “mixed bag.” Jobless claims data showed the labor market is cooling only gradually — rather than rapidly slowing amid elevated rates. US manufacturing activity shrank at the fastest pace this year. And existing-home sales increased for the first time in five months.

“The US economy overall has, thus far, been robust enough to take an extended Fed rate pause,” said Don Rissmiller at Strategas. “But there’s a clear case for rate cuts soon.”