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Headlines

US stocks rolled over Thursday with tech leading the losses as investors turn their focus to a key speech from Fed Chair Jerome Powell on Friday.

The S&P 500 (^GSPC) fell about 0.9% while the tech-heavy Nasdaq Composite (^IXIC) fell almost 1.7%, led by a drop in shares of AI chip giant Nvidia (NVDA). The Dow Jones Industrial Average (^DJI) fell 0.5% after the three indexes closed in the green on Wednesday.

The Fed's Jackson Hole symposium kicked off Thursday with the market on high alert for any shift in tone from the policymakers when Powell speaks at the event on Friday.

Minutes from the Fed's last meeting showed several officials were open to a July rate cut, signaling a pivot is likely in next month's policy decision. Mounting hopes for lower rates have already helped markets recoup losses from an early August rout.

Read more: Fed predictions for 2024: What experts say about the possibility of a rate cut

Early Thursday morning, new data from the Department of Labor released Thursday showed 232,000 initial jobless claims filed in the week ending Aug. 17, up from 228,000 the week prior and in line with economists' expectations.

The data released on Thursday morning was in higher focus given an official revision to payrolls showed the labor market — a key input for policymakers — may have been cooling long before initially thought. Signs of stress could factor into how deeply the Fed cuts rates, with hopes for a 0.5% reduction in play.

S&P 500 (^GSPC)

The technology sector, which had been leading the stock market higher since the most recent market bottom on Aug. 5, led the losses on Thursday falling more than 2.2%.

Inside the Nasdaq 100 (^NDX), as seen below, megacap tech stumbled. Nvidia (NVDA) fell nearly 4% while Amazon (AMZN) and Microsoft (MSFT) were both off more than 2%.

Investors aren't betting on a 50bps cut in September

Market bets on when, and how much, how much the Federal Reserve will cut interest rates this year have been rapidly shifting since investors last heard from Jerome Powell on July 31.

As markets sold off on Aug.5, odds quickly rose for a 50 basis point interest rate cut by the end of the Fed's September meeting.

But after several economic updates showed rising recessions fear may have been overdone in the wake of a weak July jobs report, investors' expectations have scaled back.

And that continued on Thursday after Philadelphia Fed president Patrick Harker told CNBC the Fed should ease rates “methodically and signal well in advance.”

Markets are now pricing in just a 25% chance the Fed cuts by 50 basis points at the end of its September meeting, down from a 38% chance the day prior.

Still, markets are priced for four cuts from the Fed this year. Investors will be closely listening to see if Powell says anything to counteract the market's hopeful tone on Friday morning.

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Megacaps' short-term volatility is 'behind us,' Goldman Sachs says

After a roaring rally over the last two weeks in large-cap tech, the most loved area of the market over the past 18 months has been quieter in the past few trading sessions.

Goldman Sachs equity strategist Ben Snider told Yahoo Finance large-cap tech could now be entering a period of digestion.

"I think most of the short-term volatility in those stocks is behind us," Snider said.

He added, "The trajectory of sales and earnings growth has been resilient, more resilient than a lot of investors feared coming into the second quarter. Valuations are by no means low compared to history, but they're lower than they were several weeks ago, and we won't get another earnings report for a few months now."

Hedge funds trimmed exposure to the "Magnificent Seven" tech stocks, excluding Amazon (AMZN) and Apple (AAPL), for the first time since the start of 2022, according to Snider's recent analysis of securities filings for the end of the second quarter.

Snider said this move "speaks to the anxiety we were hearing from investors heading into the second quarter earnings season."

Snider added investors felt the stocks had performed very well and benefited from the excitement around AI. But they also expressed "some concern that that AI investment boom was coming to an end."

But in August that trade has largely shifted, with megacap tech recently leading the S&P 500 (^GSPC) back near highs.

"In my conversations with investors, including hedge fund clients, there was very clearly excitement at the opportunity to buy some stocks that they already liked at lower valuations given the sell-off," Snider said.

Now, after the snapback in tech stocks, investors aren't as convicted as they were when buying the dip in early August.

"I would call sentiment [around megacap tech] cautiously optimistic," Snider said.

Labor market weakness shows signs of 'leveling off,' keeps Fed on track to cut rates in September

Initial filings for unemployment benefits were roughly flat last week, reflecting a labor market that is cooling but not rapidly deteriorating as the employment outlook remains in focus ahead of Federal Reserve Chair Jerome Powell's Friday speech in Jackson Hole, Wyo.

New data from the Department of Labor released Thursday showed 232,000 initial jobless claims filed in the week ending Aug. 17, up from 228,000 the week prior and in line with economists' expectations.

Continuing jobless claims rose again to 1.86 million, the highest level since November 2021.

"Claims appear to be leveling off on a trend basis," Oxford Economics senior economist Nancy Vanden Houten wrote in a note to clients on Thursday. "There is nothing in the claims data to change our view that, while the labor market is softening, it isn't weak enough to warrant anything more than a 25bps rate cut at the Fed's September meeting."

Oliver Allen, senior economist at Pantheon Macroeconomics, added in a client note on Thursday: "Underlying claims have plateaued, and will probably slip back in the near term."

As of Thursday afternoon, markets were fully pricing in an interest rate cut from the Fed by the end of September, with a roughly 25% chance the Fed cuts interest rates by 50 basis points, per the CME FedWatch Tool.

Deutsche Bank senior US economist Brett Ryan reasoned the case for a 50 basis point interest rate cut is more likely to be settled when the August jobs report is released on Sept. 6, not during Powell's Friday speech.

"The committee wants to be very much data dependent and doesn't feel that it wants to outline a preset course here," Ryan argued. "So there isn't much he could say."

Mortgage rates fall again, bolstering the case for lower rates ahead

Mortgage rates dipped again this week, a positive move for potential house hunters.

The average rate on the 30-year fixed-rate mortgage fell to 6.46% from 6.49% last week, Freddie Mac reported on Thursday. A year ago, the average rate on a 30-year fixed-rate loan was 7.23%.

Separately, the average rate for the 15-year fixed mortgage was 5.62%, down from 5.66% a week prior. The rate on a 15-year loan was 6.55% a year ago.

“Although mortgage rates have stayed relatively flat over the past couple of weeks, softer incoming economic data suggest rates will gently slope downward through the end of the year,” Sam Khater, Freddie Mac’s chief economist, wrote in a statement.

That expectation seems to have the market in a holding pattern.

“Earlier this month, rates plunged and are now lingering just under 6.5 percent, which has not been enough to motivate potential homebuyers. We expect rates likely will need to decline another percentage point to generate buyer demand," the economist added.

Over the past several weeks, the housing market has been buoyed by expectations the Fed will start cutting interest rates at its next meeting in September. Cooling inflation readings and a slowdown in the labor market have also bolstered the case for lower rates

Nasdaq drops 1% as stocks hit session lows, Nvidia turns negative

Stocks touched session lows mid-trading Thursday. The S&P 500 (^GSPC) slipped 0.5% while the tech-heavy Nasdaq Composite (IXIC) dropped roughly 1%, erasing early morning gains.

The Dow Jones Industrial Average (^DJI) slipped 0.4%.

The tech sector led the declines as shares of AI chip heavyweight Nvidia (NVDA) dropped more than 2%.

U.S. stock futures advanced on Friday after a Thursday selloff as investors awaited a key speech from Jerome Powell at the Jackson Hole Economic Symposium, with the Federal Reserve Reserve chairman expected to give insights on the timing and pace of interest-rate cuts.

Futures for the Dow Jones Industrial Average were rising 84 points, or 0.2%. Those on the S&P 500 were up 0.4%, while the Nasdaq Composite was rising 0.6% in premarket trading.

Stocks dropped on Thursday as investors fretted over just how much the Fed may cut interest rates over the coming months. Positive economic data this week boosted confidence in the U.S. economic outlook, but simultaneously raised the possibility that the Fed won’t have to act as fast to cut interest rates in response to a slowing economy.

“Markets saw a sizeable pullback over the last 24 hours, with the S&P 500 posting its worst daily performance in over two weeks,” said Deutsche Bank analyst Henry Allen.

“The moves came as investors grew more skeptical about the chances of [a half percentage point of] rate cuts this year, thanks to more positive data and comments from Fed officials yesterday," Allen added.

"For investors, the big question is to what extent Powell validates expectations for a September rate cut, and whether he offers any indication of how big any rate cut might be."

Artificial intelligence isn't the only stock market catalyst to have caught Wall Street's attention.

Recently filed Forms 13F show that two high-profile hedge fund managers sold shares of **Nvidia** during the second quarter while reallocating capital to the **iShares Bitcoin Trust (IBIT -2.22%)**, an exchange-traded fund (ETF) that tracks **Bitcoin (BTC 0.37%)**.

- David Shaw at D.E. Shaw sold 12.1 million shares of Nvidia, trimming his position by 52%. Meanwhile, he bought 2.4 million shares of the iShares Bitcoin Trust, increasing his position by 1,658%.
- Steven Cohen at Point72 Asset Management sold 409,042 shares of Nvidia, trimming his position by 16%. He bought 1.6 million shares of the iShares Bitcoin Trust, diversifying into cryptocurrency for the first time.

The trades made by Shaw and Cohen are noteworthy because both fund managers have credentials beyond their status as billionaires. D.E. Shaw and Point72 rank second and 13th, respectively, among the 20 best-performing hedge funds in history, according to LCH Investments.

That said, investors shouldn't interpret their trades to mean Nvidia is a bad investment, but rather, that portfolio diversification is important. Artificial intelligence (AI) stocks like Nvidia could create substantial wealth over time, but the same is true of cryptocurrencies like Bitcoin. Some Wall Street experts think Bitcoin (and consequently, the iShares Bitcoin Trust) could surge 83,000%.

Select Wall Street experts are forecasting colossal gains for Bitcoin holders

Bitcoin entered the year at full steam. Its price had more than doubled in 2023, and the gains accelerated in early 2024 when the U.S. Securities and Exchange Commission (SEC) approved the trading of spot Bitcoin ETFs on U.S. stock exchanges. Excitement surrounding the April halving event also contributed to the upward momentum.

Bitcoin hit a record high above $73,000 in March before stumbling when investors lost their appetites for risk. Economic uncertainty caused the sentiment reversal. Investors entered the year thinking the Federal Reserve would cut its benchmark interest rate by June, but policymakers have kept rates at their highest level in two decades.

The situation changed from bad to worse in early August. Recession fears resurfaced when a weak jobs report raised questions about whether the Federal Reserve was moving too slowly. That concern caused the stock market to plunge, and the cryptocurrency market suffered its worst sell-off since FTX collapsed in 2022.

Bitcoin currently trades at $59,000, about 20% below its March peak. But these Wall Street experts remain exceedingly bullish on the cryptocurrency.

- Bernstein analysts Gautam Chhugani and Mahika Sapra think Bitcoin will trade at $200,000 by 2025, $500,000 by 2029, and $1 million by 2033 as spot Bitcoin ETFs unlock demand from retail and institutional investors. The high end of that forecast implies 1,595% upside.
- Ark Invest published a valuation model in 2023 that priced Bitcoin at $1.5 million per coin by 2030. But CEO Cathie Wood revised that figure to $3.8 million at a Bitcoin conference in March, based on the idea that institutional investors will allocate about 5% of their assets to Bitcoin in the future. That forecast implies 6,440% upside.
- **MicroStrategy** executive chairman Michael Saylor recently delivered a keynote speech at a Bitcoin conference that included an ultra-bullish price target. "It could be a $3 million bear case, it could be a $49 million bull case," he said. The low end of his predicted range implies 5,085% upside, and the high end implies 83,000% upside.

Spot Bitcoin ETFs could unlock demand for Bitcoin from retail and institutional investors

Bitcoin's price is a function of supply and demand. However, Bitcoin supply is limited to 21 million coins, meaning demand is the most consequential variable.

That's where spot Bitcoin ETFs could make a big difference. Those new funds eliminate traditional sources of friction by letting investors add Bitcoin exposure to existing brokerage accounts.

In other words, investors no longer need a separate account with a cryptocurrency exchange or have to pay exorbitant fees for each transaction. Several spot Bitcoin ETFs bear relatively low expense ratios. For instance, the iShares Bitcoin Trust charges an annual fee of 0.25%, so investors will pay $25 for every $10,000 invested in the fund.

By reducing friction, spot Bitcoin ETFs are bringing more retail and institutional investors to the market. For instance, the iShares Bitcoin Trust accumulated more assets during its first 50 trading days than any ETF in history, according to Eric Balchunas at Bloomberg. The fund also reached $10 billion in assets faster than any ETF on record, according to *The Wall Street Journal*.

That said, spot Bitcoin ETFs have a ways to go before reaching 5% of institutional assets under management (AUM), which is what Cathie Wood expects over time. Institutional AUM totaled $120 trillion last year, and 5% of that figure is roughly $6 trillion. Collectively, spot Bitcoin ETFs have less than $60 billion in assets right now.

History says Bitcoin will hit a new high between April 2025 and October 2025

Bitcoin miners earn block subsidies (newly minted Bitcoin) for solving the cryptographic puzzles required to verify transactions. But the payout is reduced by 50% every time 210,000 blocks are added to the blockchain. Those so-called halving events happen about once every four years, and the most recent one took place in April.

That is significant for two reasons. First, the halving event means miners will be minting less Bitcoin over the next four years, which will reduce one source of selling pressure simply because they have less Bitcoin to sell. Second, Bitcoin has gone through three halving cycles previously, and its price has always peaked 12 to 18 months later, as shown in the chart below.

In short, history says Bitcoin will reach a new record high sometime between April 2025 and October 2025.

A word of caution for prospective investors

Past performance is never a guarantee of future returns, and investors shouldn't take the forecasts I've discussed for granted. I find the price target of $49 million (which implies an upside of 83,000%) absurd.

Additionally, Bitcoin is a relatively new asset class, so there's limited data available to make predictions about how it may perform in different economic climates. Bitcoin has also been very volatile throughout its short history. The cryptocurrency has declined more than 50% on several occasions and similar drawdowns are likely in the future.

Risk-tolerant investors comfortable with that possibility should consider investing a small percentage of their portfolios in Bitcoin, either by purchasing the cryptocurrency directly or through a spot Bitcoin ETF. I think investors should limit their exposure to 5% of invested assets.