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Here's What 14 Top Wall Street Strategists Are Predicting For The Stock Market In 2014

STEVEN PERLBERG
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Even the more bullish analysts on Wall Street undershot the big rally in 2013. So they're likely determined to not miss what 2014 has in store for this market.

Bloomberg TV

Tom Lee sees 2,075!

We thumbed through hundreds of pages of Wall Street's 2014 outlook notes and compiled the thoughts of 14 top stock market forecasters.

For 2014, the average call is for the S&P 500 to hit 1,955, with the median prediction at 1,950. For EPS, the mean call is $117.20 with a median of $116.75.

Here are Wall Street's top strategists with their S&P 500 and EPS calls (from lowest to highest), with their commentary on why. From bullish to most bullish:

David Bianco, Deutsche Bank: S&P: 1,850: EPS: $119.00

> In June, we introduced 2014 & 2015 yearend S&P targets of 1850 and 2000. We argued the S&P PE would climb to its normal trailing PE of 16x (<15x then) as

healthy EPS growth continued within a long lasting expansionary cycle of moderate growth. We also argued that if real long-term risk free interest rates stayed below historical norms when QE stopped, then a PE over 16x trailing EPS would be fair. The PE is back to normal, a bit earlier than expected, but the Fed has yet to taper. Thus, we think it prudent not to assume any further PE upside until we get more clarity on where 10yr yields likely settle post QE.

Brian Belski, BMO: S&P 1,900, EPS: $116.00

We enter 2014 less optimistic than we have been in the past few years. Our models suggest mid-single-digit gains in 2014 based on slightly lower risk premiums, better revision trends and dividend increases, but macro conditions remain an obstacle. Given performance trends to date, we believe this the prudent approach. While valuation is by no means grossly overvalued, current levels suggest it may be more difficult for the market to continue its impressive run without equally impressive earnings growth. In addition, we believe investors will be acutely focused on Fed actions, since market performance has been significantly better during Fed bond buying programs. Therefore, we expect stocks to perform strongly during 1H, but fade during 2H as investors grapple with the removal of QE stimulus. Nonetheless, any Fed induced weakness should not be view as the end of this bull market. Instead investors with slightly longer investment horizons should use it a buying opportunity, particularly considering that several secular trends suggest that there are many more years of life in this cycle.

Barry Knapp, Barclays: S&P: 1,900, EPS: $119.00

At the time of writing, attitudes toward stocks are very bullish, perhaps overly so. Although sentiment is easy to measure – several organisations do it – its relationship with market returns is ephemeral. Sentiment extremes often exist only briefly ahead of market turning points and disappear quickly as prices adjust, or even pause. Periods of persistent bullish or bearish sentiment are usually confirmed by excessively high or low valuations, which is not the case at present. Stocks have displayed an unusually tight relationship with sentiment since 2009. Thus, while establishing our core views for the coming year, we are holding some capacity with which to raise the risk of our portfolio further in case of a sentiment-led near-term sell-off.

David Kostin, Goldman Sachs: S&P: 1,900, EPS: $116.00

The linchpin of our market forecast is growth – in the economy, sales, and earnings. We expect 3.6% global economic growth. The US will advance at a 3% pace while inflation remains contained at 1.4%. China, Japan, and even Europe will all grow, expanding GDP by 7.8%, 1.6%, and 1.5%, respectively....However, we expect no growth in margins and multiple in 2014. Recurring net margins have remained at a record-high plateau of roughly 8.7% since 2011. Firms have struggled to maintain profitability at current levels. We estimate flat margins for next several years. Client inquiries about the appropriate P/E multiple to assign US stocks routinely ignore

that margins are extremely high on a historical basis and have been stagnant for several years. Valuation is the biggest wildcard in our market outlook.

Michael Kurtz, Nomura: S&P: 1,925, EPS: $112.50

Our S&P 500 upside outlook for the year ahead is *not* predicated on comparatively optimistic earnings expectations. Rather, our own top-down forecast for 2014 S&P 500 EPS is "just" $112.50/shr., or 5.6% higher than our 2013 top-down forecast of 106.50. *Margins*, as discussed, are the critical consideration: Against the highly optimistic (in our view) consensus forecast for 2014 U.S. Net Income and EBIT Margins to reach unprecedented levels of 10.8% and 15.7% respectively… we *conservatively assume 2014 S&P Net Income Margin will no more than maintain the 2012-2013 two year average (i.e., 9.3%).*

Sean Darby, Jefferies: S&P: 1,950, EPS: $121.00

We expect the S&P 500 to deliver modest returns with the index rising to 1,950 by the end of 2014. We believe the equity market is becoming fully valued and active investment strategies towards domestic growth and small caps ought to deliver better returns than multinationals and large caps. With sentiment indicators buoyant, margin debt close to historic levels and indices trading close to their 2 standard deviation based on forward PE over five years, investors need to be mindful that a correction can easily unfold. We don't expect 2014 to be a smooth ride. Likewise earnings visibility will need to improve to maintain the recent fund flow momentum away from fixed income.

Jonathan Golub, RBC: S&P: 1,950, EPS: $119.00

Such strong [2013] performance might lead investors to assume that the recovery has matured. We believe that a close look at the data suggests that we are just now entering the middle innings. As a result of the weak recovery, the economy has lots of spare capacity, interest rates and valuations are well below historical averages, and corporate managements are exercising extreme risk-averse behavior. We believe these factors are likely to provide a supportive environment for stocks for three key reasons: 1. Slack in the economy will keep the Fed from disruptively removing accommodation 2. Risk-averse corporate behavior will drive EPS higher 3. Valuations should renormalize, closing the gap between earnings yields and interest rates.

Julian Emanuel, UBS: S&P: 1,950, EPS: $116.00

Although our projected S&P 500 trailing valuation appears expensive on a recent historical basis, the much broader view of history strongly suggests that at some point in the current bull market cycle, valuations will indeed exceed 17x or more. In fact, in all but three of the post World War II bull markets, the multiple exceeded 17x on a trailing basis. Thus through the combination of strong corporate balance sheets, an accommodative Fed, and solid GDP growth fueling increased revenues in a high operating margin environment do we forecast an expanding multiple which yields

our 2014 Year End S&P 500 price target of 1,950.

Andrew Garthwaite, Credit Suisse: S&P: 1,960, EPS: $115.90

Ultimately, we believe that the equity market is set to be on an uptrend until equities become clearly expensive against bonds, QE ends or risk appetite is clearly in euphoria zone (as opposed to neutral now). We have not seen a 10% correction for 25 months – but in the 1980's, 1990's and 2000's we had three-year, seven-year and 41⁄2- year bull markets in equities without such a correction. Very near-term we see the risk of consolidation, with some of the tactical indicators extended (such as the bull/bear ratio for financial advisors, while net corporate buying is low) and we expect the Fed to start tapering in January. However, the tactical indicators are less extreme than was the case a month ago.

Tobias Levkovich, Citigroup: S&P: 1,975, EPS: $117.50

The good news from credit conditions, hiring intentions and capital spending plans on the economy and likely earnings growth can provide upside appreciation potential while sentiment, intra-stock correlation and even valuation suggest concern... Overall, we can get to a 1,975 kind of outcome, but we may also see choppier markets and early indicators on volatility also intimate reasons to be worried. [Updated from his previous call of 1,900]

Savita Subramanian, Bank of America: S&P: 2,000, EPS: $118.00

We believe the Standard and Poor's 500 Index will rise to 2,000 by the end of 2014, which implies a price return of about 11%... While that gain would be less than in 2013, our view is still higher than the consensus view on Wall Street... Take note that allocations to equities (53%) are lower than the benchmark (65%). As for the Federal Reserve, we believe tapering, accompanied by a growing economy, would actually benefit cyclical stocks.

Adam Parker, Morgan Stanley: S&P: 2,014, EPS: $116.00

Since last March, we have been sanguine on US equities. Our logic has been driven more by lack of a bear case than the strength of the base case. We have seen 3 turns (12.0x to 15.1x) of multiple expansion in the last 2 years, only the 4th period with this level of expansion over the last 40+ years. Obviously, a sample size of three isn't statistically significant, but the prior three periods were all followed by a continuation of the rally for another 12-24 months, as momentum typically persists. The only thing people are worried about is that no one is worried about anything. That isn't a real worry.

John Stoltzfus, Oppenheimer: S&P: 2,014, EPS: $115.00

The 2014 target reflects our expectation that the stock market will have opportunity to move higher over the course of next year, and turn in yet another double-digit increase— albeit around half the size of this year's rally to date. Our price target is set

using the mid-point between our dividend discount model and a price/earnings model. We expect these valuation projections to be supported by improving fundamentals. We continue to believe that US economic growth has in effect been “primed” by the Federal Reserve’s Quantitative Easing (QE) programs. Recent improvements in the tone of US economic data suggest to us that prospects are good for investors to see a continuation of the economic recovery that could drive earnings higher in the year ahead.

Tom Lee, JP Morgan: S&P: 2,075, EPS: $120.00

For several years now we have advanced the idea that the current bull market could prove to be one of the longest in history. However, what we believe many investors have yet to fully appreciate is how this market is indeed behaving like a classic bull market...we believe this is a classic bull market and the 6th year is typically strong. Historically, bull markets lasting at least 4 years (since 1897) have only ended with a recession—that is, they typically do not end just because "everyone is too bullish."

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