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For Stock Forecasters, 2015 Was a Hard Year to Get Right

Some popular wagers didn't pan out in the U.S., as oil kept sliding and Fed waited to raise rates

Despite saving on gasoline costs this year, U.S. consumers haven't spent as much at retailers as expected. Here, a shopper on Black Friday at a Target store in Chicago. *PHOTO: REUTERS*

By **DAN STRUMPF**
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This year, popular stock-market predictions didn't always pay.

Oil prices were supposed to fall—but not by this much. Low energy prices were supposed to be a windfall for U.S. consumers and the companies that sell to them—but consumers didn't spend as investors expected. The Federal Reserve was supposed to raise rates and lift the fortunes of bank shares—but the Fed didn't act until the end of the year, and financial stocks languished.

Portfolio managers found themselves thwarted by these and other widely touted trades that failed to work out this year. Much of the year's gains were concentrated in a small number of individual stocks, while popular macro-level bets were dashed.

Last week's volatile trading continued to upend the forecasts. A renewed fall in oil prices pushed battered energy stocks lower, while the broader Dow Jones Industrial Average had its worst two-day point decline since late August.

Every year brings its share of missed calls and unexpected market turns. For years, investors have been forced to dial back expectations for the pace of rate increases. And this year, not every popular bet went bust. Investors were rewarded by the technology, health-care and biotechnology sectors, popular bets that have been paying off for years.

But many investors agree that this year was hard to get right.

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"It's been a very tough year," said Yana Barton, portfolio manager at Eaton Vance Corp. , which has $311 billion in assets under management. Ms. Barton said the slump in oil prices could continue and she has been avoiding shares of energy companies.

Many strategists at large investment banks predicted stronger gains for stocks this year. Going into January, last year's 46% fall in oil prices had left many forecasters optimistic that consumers would spend their extra cash in droves. Some investors expected a bottom in oil prices and looked for a rebound in energy stocks.

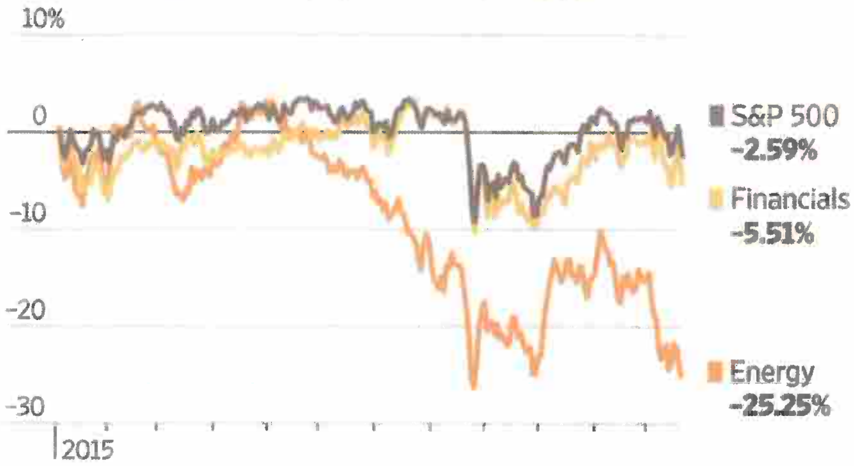
"A stronger U.S. consumer should provide a lift to the equity market," wrote Dubravko Lakos-Bujas, head of U.S. equity strategy at J.P. Morgan Chase & Co., in a report on Dec. 11, 2014. Weeks earlier, a team including Savita Subramanian, head equity and quant strategist at Bank of America Merrill Lynch, recommended an overweight position in energy stocks. "We still expect a recovery in both the global economy and oil prices," they wrote.

The forecasts didn't work out as planned. U.S. oil prices fell further, slumping another 35% in 2015. The rout in energy stocks has shown no sign of letting up. The S&P 500 energy-sector index is down 25% this year.

Maybe Next Year?

The financial and energy sectors of the S&P 500 have been laggards in 2015.

S&P 500 index and sector performance this year



Source: FactSet

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And while the consumer-discretionary sector has been a top performer—rising 7.4%—those gains were carried in large part by highflying Internet companies such as Netflix Inc., Amazon.com Inc. and Expedia Inc. Consumer spending hasn't risen as much as expected, and shares of many brick-and-mortar retailers and other traditional consumer companies fell. The $693 million SPDR S&P Retail exchange-traded fund has lost 11% this year.

"There's no question there's been a lot of disappointment among the restaurants and retailers," said Craig Hodges, chief executive of Hodges Capital Management. "It's a little bit of a head-scratcher—what are [consumers] doing with their money?"

Mr. Hodges, who helps run the $1.8 billion Hodges Small Cap fund, placed bets on a smattering of consumer stocks. One big winner: Mohawk Industries Inc., a maker of rugs and carpets whose stock has gained 21% this year. Shares have benefited from the improving housing market, he said.

But he also owned shares of Lululemon Athletica Inc., the maker of athletic wear, whose shares have lost 9.9%. Another holding, restaurant chain Brinker International Inc., fell 23%.

After notching more than 10 new record highs early in 2015, the S&P 500 has been rocked by wide swings in the second half and is down 2.6% this year. Last week's Fed rate announcement initially propelled stocks higher, but a late-week selloff left the S&P 500 down 0.3% for the week at 2005.55. The Dow Jones Industrial Average fell 0.8% last week to 17128.55.

Many strategists and investors expect some improvement next year. Mr. Lakos-Bujas of J.P. Morgan issued a price target for the S&P 500 of 2200 by the end of 2016 on the back

Win Some, Lose Some

Popular 2015 forecasts around oil prices and U.S. interest rates were among those that didn't pan out for investors.

BANK	SOME CALLS FOR 2015	ACTUAL*
Deutsche Bank	Bullish on health care	+3.0%†
	Bullish on technology	+2.6%†
	Bullish on financials	-5.5%†
J.P. Morgan Chase	Bullish on consumer discretionary	+7.4%†
	Bullish on technology	+2.6%†
	Federal Reserve interest-rate rise in June	December
Bank of America Merrill Lynch	Bullish on technology	+2.6%†
	Bullish on energy	-25.0%†
	U.S. oil prices average $90/barrel	$49.15/barrel
Wells Fargo	Bullish on health care	+3.0%†
	Bullish on technology	+2.6%†
	S&P 500 earning per share growth of 7%	-0.3%‡
Credit Suisse	Second-half correction**	August
	S&P 500 ends at 2200	2005.55
	Four Fed interest-rate increases	One increase

*As of Dec. 18 †Based on S&P 500 sector ‡Includes estimated 4Q earnings
**Commonly defined as a 10% fall from a recent peak
Sources: The banks (forecasts); FactSet (sector and S&P 500 performance, EPS change); WSJ Market Data Group (average oil price) THE WALL STREET JOURNAL.

of a rebound in corporate earnings. Ms. Subramanian issued the same target, but cautioned investors against sector-level bets for next year.

Some of their 2015 forecasts paid off. Ms. Subramanian recommended investors buy shares of technology companies. The S&P 500 information-technology sector has risen 2.6% this year. J.P. Morgan suggested consumer-discretionary and tech stocks.

"We've had simultaneous bull and bear markets in the same year in different stocks and sectors—more than I can remember in quite some time," said Richard Freeman, portfolio manager at the $104 billion fund firm ClearBridge Investments.

Mr. Freeman, who runs the $13.4 billion ClearBridge Aggressive Growth Fund with co-manager Evan Bauman, owned health-care stocks including Allergan PLC, up 19%. But it also has a long-standing bet on oil driller Anadarko Petroleum Corp. , which is down 45% this year. The fund has outpaced the S&P 500 on an annualized basis over the last five years, but it was down 5.2% this year as of Thursday, according to Morningstar Inc.

"My one-year number will look terrible," Mr. Freeman said.

Elsewhere, investors had expected rate increases from the Federal Reserve sooner in the year because several top Fed officials had said they expected to start lifting rates around the middle of 2015. Investors placed big bets on banks, insurers and other financial stocks. Banks typically benefit from rising rates because that tends to widen the spread between the interest banks charge on loans and what they pay for deposits, boosting earnings.

Instead, the Fed waited until its final meeting of the year last week to raise rates. The yield on the 10-year Treasury note has risen less than many investors anticipated, to 2.197% Friday from 2.173% at the end of last year. Financial companies in the S&P 500 are down 5.5% this year.

Jason Ware, chief investment officer of Albion Financial Group, which manages about $1 billion, said he bought shares of several banks in the last year, including Bank of America Corp. and KeyCorp, expecting them to benefit alongside rising rates. Yet both stocks are in negative territory for the year. He is hanging on, anticipating a quicker pickup in rates next year.

"We've had to question that thesis and we've had to remain steadfast," he said. "Sometimes you're early."

Write to Dan Strumpf at daniel.strumpf@wsj.com