GLOBAL INVESTMENT STRATEGY: Main Street tops Wall Street

"We're coming out of a disappointing year, with muted growth, low rates, deflation, inequality, volatility and flat returns. What's ahead? More expansion. And Main Street outperforming Wall Street."

– Michael Hartnett, Chief Investment Strategist

Our view

Developed versus emerging markets: It's sizing up to be a stronger year in established nations than in developing ones. The coming year looks much more promising for stocks over bonds, with Japan (strength across the board), Europe (banks) and the United States (high-quality cyclicals) among the standouts.

Stocks stand (relatively) tall: Global stocks are our top call, rising by 4 percent to 7 percent in the next year as the world economy expands by 3.4 percent. Elsewhere, the pickings seem slimmer. For example, U.S. home prices may rise by just 1 percent, Treasuries should be down by 1 percent, and commodities might be flat to as much as 3 percent lower.

Higher rates, stronger buck: By the end of 2016, after a nine-year delay, we expect the U.S. Federal Reserve will have raised interest rates to 1 percent. Along the way, 10-year U.S. Treasuries could reach 2.65 percent. The dollar may rise by 4 percent to 6 percent. As a result, the euro could weaken against it by about 10 percent, and the greenback should strengthen to 7 Chinese yuan, up from about 6.4 today.

Risk of the bear…: As always, there are dangers at both ends of the spectrum. On the bearish side, there's a risk of the dollar spiking amid divergences in monetary policy, or on currency devaluations by China or Saudi Arabia. A resulting market slump or recession could lead to government policy interventions.

…and the bull: While this strays far from our base case, too much growth would lead to an age of inequality, an iBubble. What would this look like? Excess liquidity, a tech-driven disruption and hyper-valuations of uber-growth stocks.

Key calls

We remain positive on stocks and the American dollar. In other asset classes, we're guarded. Here's where we stand:

- **Stocks:** Generally, we're bullish. We especially favor equities of companies based in North America, the eurozone and Japan. Be careful with emerging markets, however.

- **Bonds:** Overall, we're bearish, particularly on government and high-yield bonds. The category's one real bright spot: investment-grade issues.
- **Commodities:** We're down on metals – both the industrial and precious varieties. On energy, we're neutral.
- **Currencies:** Conditions still favor the U.S. dollar, in our view.