U.S. EQUITIES: New year, same conclusion

"For 30 years, investors have gotten used to falling interest rates and easy-money policies. That's not going to be the case in 2016. Our simplest advice for the year: Do the opposite of what worked for you before."

– Savita Subramanian, Head of U.S. Equity and Quantitative Strategy

Our view

Modestly rising: Credit-sensitive investments are 2016's biggest risks, in our view. In contrast, the Standard & Poor's 500 is the ultimate anti-credit play. It's filled with large, liquid companies that have healthy balance sheets and above-average cash balances. We expect the S&P 500 to continue climbing next year. Our year-end target is 2,200, up from about 2,100 now – a rise of 5 percent. Further ahead, we see the S&P 500 hitting 3,500 in 10 years.

Value bounces back: What might catch investors by surprise next year? The return of value investing. We've been agnostic on the large-cap style benchmarks for several years. But when profits accelerate, value wins. Our earnings forecasts imply a five-percentage point uptick in earnings growth in 2016. In similar years, value stocks have beaten growth more than 70 percent of the time and by a healthy seven percentage points, on average.

Beware the bear, watch the bull: So far in this bull market, persistent bearish sentiment has stood in stark contrast to four consecutive years of record S&P 500 earnings and outsized returns. There are lingering bearish risks in the current slow-growth environment. But the possibility of a late-stage bullish surge remains. Going back to 1930, the lowest S&P 500 returns in the last two years of a bull market were 30 percent; the average is 58 percent.

Key calls

We believe investors should focus on investment themes and individual stocks in 2016, not sectors. We recommend choosing:

- Stocks over bonds
- Value over growth
- High quality over low quality
- Large caps over small caps
- Dividend growth over high dividend yield
- Developed markets over emerging markets
- Companies with pricing power over those at risk of disruptive new market entrants