WHERE WILL MARKETS GO?

Quite a few of these analysts began in the agricultural and other derivatives. Their distinct ability to think in terms of 'confluences' of factors, and develop scenarios rather than rely on pure statistical analysis is a major advantage. That's how they develop somewhat more well-founded aggressive projections than the 'name' experts simply looking to promote on the mainstream financial media. More on spotty 'expert' predictions in February MODERN TRADER Forecast issue (pgs. 18-21.)

Making market projections can be a bit scary especially going out a full year and particularly 2016. Not only is it an election year, but there are numerous global economic headwinds and geopolitical hot spots that could create huge market dislocations.

We commend all participants for stepping up.

The folks in this group who I know personally are true professionals. They have a commitment to in-depth analysis and extremely rigorous risk control. Analytic skills developed in derivatives with very low margins is a high form of intensive psychological training as well as technical expertise.

Participants

Neil Azous:	Rareview Macro LLC, Founder & Managing Member
Al Brooks:	Brooks Trading Course
Alan Bush:	ADM Investor Services, Senior Financial Economist
Rod David:	If, Then... Market Timing
Jay Feuerstein:	Manning & Napier, Managing Director of Alternative Strategies
Christopher Gersch:	Bell Curve Capital, Director of Strategy
Dan Gramza:	Gramza Capital Management
Carl Larry:	Frost and Sullivan
Luke Powell:	Elan Alternative Group
Bluford Putnam:	CME Group, Chief Economist
Alan Rohrbach:	Rohr International
Ellen R. Wald:	Ph.D., ellenrwald.com
Matt Weller:	FOREX.com, Senior Market Analyst
Matt Wittenstein:	The Castlewood Select Funds, LLC

Highlights & annotations by Rohr

Forecast where the U.S. Fed Funds rate will be at the end of 2016

Our analysts provide a broad spectrum of what they say the Federal Reserve will do in 2016. Forecasts range from nothing to 125 basis points.

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Rohrbach: 0-25 basis points (bps). That's right, back where it is right now even if the Fed bumps it up in December or January. The U.S. and global economic situation and the savings glut make it hard to justify a higher rate until 2017.

Bush: 50 bps.

Gersch: 50 bps. The stronger dollar is putting a serious cramp on multinationals. The strong dollar, once thought as the staple of a strong economy, is going to challenge GDP growth in 2016.

Wald: 50 bps.

Weller: 75-100 bps. With the rest of the world struggling with deflation and correspondingly easy monetary policy, I doubt the Federal Reserve will be able to raise interest rates as aggressively as it hopes.

Wittenstein: 75 bps.

Powell: 75 bps.

Feuerstein: 100 bps. Based on current conditions in the U.S. economy, including tightening labor markets.

Larry: 100 bps. As much as it seems that the first one will be the last for some time, we're going to show enough of the same tepid strength to warrant a few more minimal hikes in 2016.

Putnam: 100 bps.

Gramza: 100 bps. It appears the Fed is sensitized to any mention of rate change as it creates reverberations throughout the entire global market. The Fed has emphasized that any rate changes will be "gradual." Since 1999, the smallest increment of change for the Fed Funds rate has been 25 basis points.

Azous: 150 bps.

Brooks: The exact level is irrelevant. All that matters is how rapidly the Fed will raise rates, and it is likely they will be very slow.

We queried an impressive list of market analysts and asked them to make a call on various markets and events.

Will 2016 be a positive year for U.S. equities (S&P 500), yes or no?

We have already broken fresh ground here as just as many respondents had a negative outlook on the market as a positive one. Those forecasting a drop were a little more bold as well, with four people predicting a decrease of greater than 10% for the year, while the bulls were a little more cautious.

No

Azous: S&P 500 at 1950
The Federal Reserve will embark on a rate hiking cycle. Regardless of whether it is "gradual"—shallow in length and scope—the equity market will react negatively after the second hike, some time in the second quarter. The market will begin to price in two things as the third quarter comes to a close: yield curve inversion and a 2017 recession. The yield curve by far is the best predictor of economic growth and it will be a signal that there is trouble ahead for the equity markets.

Weller: S&P 500 at 1950
Forecasting single-year returns for any asset class is notoriously difficult, but when it comes to U.S. equities in 2016, it's clear that most of the bullish catalysts that drove the rally off the 2009 lows are petering out. Most importantly, the Federal Reserve is looking to raise interest rates for the first time in a decade, removing a big tailwind from U.S. equities. Meanwhile, valuations are stretched and labor costs are on the rise as companies are forced to pay up to attract talent. These headwinds suggesting risks are weighted to the downside in 2016.

Gersch: S&P 500 at 1825-1875
The year 2016 will be a negative year for equities as the strong dollar and a slowdown in China continue to put a headwind on major S&P multinationals. Stock buybacks will not hold the levy of short sellers as hedge funds lock in profits from a half decade of buying.

Brooks: S&P 500 at 1800
The monthly chart is in a buy climax from the 2009 low, and the odds favor a TBLT (10 bars, two legs) sideways to down move, which is about a year of pulling back. It never tested the breakout above the 2000 and 2007 double top. There is a 60% chance of a breakout below the October 2014 and 2015 double bottom, whether or not there is a new high first. If there is a bear breakout, the double bottom, which has been support, will become resistance. Support and resistance are magnets. The market tends to spend time near magnets. Because the double bottom is around 1800 and it is a magnet, the market will probably spend a lot of time there. It is therefore the one price that we will see the most, and the one price that is the most likely at any time next year, including Dec. 31, 2016.

Powell: S&P 500 at 1650
Too much uncertainty with the election and a potential Republican win has historically created increased volatility after an election.

David: S&P 500 at 1593
The market will move to a risk-off stance while several ongoing geopolitical trends reach a nexus: Populist U.S. President, Eurozone border enforcement, terrorism growth and wage growth demands.

Rohrbach: 1500 (+/-100)
The United States is already in an earnings recession. In spite of the massive quantitative easing programs of so many central banks, the lack of structural reform will continue to weigh on the global economy. Check comments from ECB President Mario Draghi's press conferences this year. The U.S. administration and Congress are the worst offenders for ignoring any credible reform effort.

Yes

Putnam: No Estimate
The Fed liftoff on raising rates is a positive signal that the Fed has confidence in the economy.

Wald: No Estimate
2016 will be a positive year for U.S. equities because it is an election year and it is in the interests of both the White House (held by Democrats) and the Congress (held by Republicans) to keep Wall Street optimistic.

Wittenstein: S&P 500 at 2150
With negative growth in corporate earnings, a stronger dollar and probable tightening by the Fed, there are serious headwinds ahead for corporations, making it difficult to justify expanding valuations. This should allow the S&P to trade in a wide range given continued expected volatility, once again managing a small positive return.

> "The yield curve by far is the best predictor of economic growth."
>
> — Neil Azous

Feuerstein: S&P 500 at 2200
The year 2016 will likely be a positive year for U.S. equities, although volatility is inevitable.

Bush: S&P 500 at 2240
The bull market for stock index futures will continue in 2016 because of the increasing likelihood of a new wave of overseas central bank accommodation. This will overpower the bearish influence of the ongoing geopolitical pressures and reduced corporate earnings.

Larry: S&P 500 at 2280
We're going to see a boost in the U.S. stock market in 2016 simply because "This is Sparta." Basically, there isn't anyone that can do it better. As much as the rest of the world will hate to admit it, only America can rally capitalism. We're the most stable, most advanced and most ambitious country out there. We've always known how to be the best consumers; now we're the best consumers that know how to save money too. Watch out.

Gramza: S&P 500 at 2295
U.S. equities will have a positive year in 2016. The U.S. economy will continue to grind along and corporate earnings, a key pillar to the stock market, will continue to provide a foundation for the positive stock market upward movement, even though an expected stronger U.S. dollar will dampen the rate of earnings growth. This also would assume that no geopolitical event would be large enough to offset U.S. equity growth. The year 2016 is a presidential election year, and typically during the fourth year of the presidential cycle the stock market rallies.

What will be the biggest fundamental factors affecting markets in 2016?

Azous: The policy divergence between the U.S. Federal Reserve, which is tightening, and every other major central bank, who are easing. The effect on interest rate differentials, including negative yields and currency strength/weakness is at the heart of all discussions.

Bush: The biggest fundamental factor that will affect markets in 2016 will be the slow transition from the deflationary pressures that we have seen during the past few years to the first hints of global inflation that are likely to become more evident in the second half of 2016.

David: Terrorism on or near U.S. soil, demotivating investment exposure.

Feuerstein: Inflation and interest rates will be two likely drivers for markets in 2016.

Gersch: A strong dollar will lead economic conversations in 2016.

Gramza: In the United States, the market's acceptance of a change in the Federal Reserve interest rate policy will not be detrimental to the strengthening of the stock market and the U.S. economy, provided that the increases in interest rates are indeed gradual as stated by the Fed. The market reacts instantly to a change in interest rates but it takes six to nine months for the U.S. economy to absorb that interest rate change.

Larry: The International Monetary Fund has lost a lot of followers and faith from the world and the EU is still as uncommitted as ever to each other's economies. Greece was an ongoing drama and it's likely to once again pop up in 2016. Asia hasn't seen a Japanese recovery since the 1990s and it's unlikely to make it up and over in the next year. China eventually might come around to understanding that money rules the world and that area is better off supporting its own. Latin America will be an important wild card; between Brazil, Venezuela, Argentina and Columbia owning all of those oil leases in the U.S. Gulf, it makes for a volatile mix right under America's nose. As for the Middle East, it's going to be tricky. OPEC is about to fall apart and as one country comes out ahead of a terrorist state, another one falls back. If there is some solidarity, it could be worse for the wear.

Powell: The presidential election, because the Republican nominee will beat Hillary Clinton in an upset victory.

Putnam: There will be three: A significant drop in U.S. oil production, a slow path of Fed rate rises and a shift in weather from El Niño to La Niña.

Rohrbach: The realization that massive central bank QE will not bring about healthy growth without complementary structural reforms will continue to restrain economic growth in a way that will likely backlash into equity markets.

Wald: The biggest short-term factor impacting the market in 2016 will be the U.S. Presidential election. The most important long-term fundamental factor impacting markets in 2016 will be the growing U.S. debt.

Wittenstein: Continued decline in growth of earnings. Corporate profit margins peaking. Companies will begin to adjust to higher borrowing costs and look to M&A for growth.

What will be the WTI oil price on Dec. 1, 2016?

Gramza: $45

Rohrbach: $45, after trading down into $32-$35 range.

Wittenstein: $45

Putnam: $45 to $55

Bush: $49.50

Brooks: $50

Powell: $50

Weller: $50

Gersch: $52

Wald: $58, rising after a decline below $40.

Feuerstein: $60 to $65

Larry: $64

Azous: $65

David: $83

> "Copper will trade down to historical lows at 1.75 in 2016."
>
> **— Christopher Gersch**

Any special predictions you would like to make on a stock, commodity, sector, currency or country?

Azous: During the next two years the U.S. energy equity sector will be the top performing asset: +50%.

Brooks: There is a 60% chance of a move below the October low in the S&P 500, whether or not there is a new all-time high first. There currently is about a 30% chance of a move below 1700.

David: Health insurance stocks slide as the Affordable Care Act repeal becomes real and the free ride ends.

Feuerstein: What if 2016 is the year the unthinkable happens: inflation? The growth in U.S. tax receipts will keep government yields relatively in check, but the cost of private borrowing may rise. Credit spreads could widen not because of risk, but because of relative levels of interest rates. The growth in tax receipts plus the demand for dollars could keep a strong relative bid in the Treasury market, while private issuance may hit record levels. The dearth of investment banks and the rise in inflation would make the rise in corporate yields extremely volatile. These are the types of risk scenarios we need to monitor.

Gersch: Copper will trade down to historical lows at 1.75 in 2016.

Larry: The United States is due to come back full circle to the 1980s. I don't remember them all that well, but I remember learning about Reaganomics and it was my first foray into understanding the way this country worked. For what it's worth, we are going to come back and be the country of choice. We're going to once again be looked up to, to lead the world in financial strength and be the king of the mountain, without doubt, once again.

Rohrbach: U.S. equities remain in a secular bull market, and that is why the current and future earnings recession have not created any more weakness at present. However, 2016 will be far more fraught if earnings continue to suffer, with the potential for the S&P 500 to trade down as low as 1400 prior to resuming the bull market. However, that bull market presumption also will be contingent upon the United States electing a more free-market administration in 2016 to work with Congress on the necessary structural reforms that have been lacking for the past six years.

Wald: We will see crude oil prices tumble into the mid-$30s at some point during 2016 before we finally witness a gradual upward trend by the end of the year. The nadir will likely coincide with introduction of Iranian oil to the global market. Iran will be unable to convince the Saudis to change OPEC's current oil policies and therefore will attempt to influence the Saudis geopolitically. This will result in a series of price spikes that will inflate the price of oil artificially and temporarily.

As the markets proceed through 2016, we will go back to our forecasters to assess the performance of their projections and ask whether any events have led them to alter their expectations for 2016.