Forecasters see stock upswing

Interest rates, profits are cited



AP

Andrew O'Connor, second left, works with fellow traders on the floor of the New York Stock Exchange earlier this month.

12-12-10

By Adam Shell
USA TODAY

NEW YORK — An early peek at Wall Street stock market forecasts for 2011 points to more upside for U.S. shares, with strategists at major firms predicting gains ranging from 5 percent to 15 percent.

The bullish predictions for the U.S. market next year coincide with a period in which individuals who invest in mutual funds have all but given up on U.S. stocks. Still haunted by two savage bear markets in the past 10 years, Main Street investors have yanked money out of U.S. stock funds for 31 consecutive weeks. In that time period, net outflows have totaled more than $94 billion, according to data from the Investment Company Institute.

Despite the misgivings about stocks, major indexes such as the Dow Jones industrials, up 9 percent for 2010, and the Standard & Poor's 500, up 10.6 percent, have posted returns in line with long-term averages.

The most bullish of the eight 2011 forecasts reviewed by USA Today comes from Barclays Capital strategist Barry Knapp. His base case for the Standard & Poor's 500 index, a broad market gauge, is for it to hit 1,420 by the end of 2011, which equates to a gain of nearly 15 percent from Friday's close of 1240.40. He did not, however, rule out pullbacks along the way.

"We are more optimistic than we have been at this time in each of the last two years," Knapp wrote in his "Outlook 2011."

His optimism stems from his belief that the economy will continue to improve, corporate earnings will keep growing and the Federal Reserve will stick to its ultra-easy interest rate policy. "We are optimistic about U.S. corporate profits," Knapp wrote. He expects S&P 500 earnings to grow at a 9 percent clip next year.

In the later stages of 2010, stocks have overcome worries about debt problems in Greece and Ireland spreading to other euro-zone countries, concern about the Fed's bold plan to boost the economy, political and policy uncertainty in Washington, and fears that China's economy will slow as its government taps the brakes on growth.

Among the more subdued strategists is PNC's William Stone. His fair value for the S&P 500 in 2011 is 1310, up 6 percent from here.

"We believe the theme of transition from rebound to expansion is appropriate for 2011," Stone said.