Fearlessly Awful Forecasts

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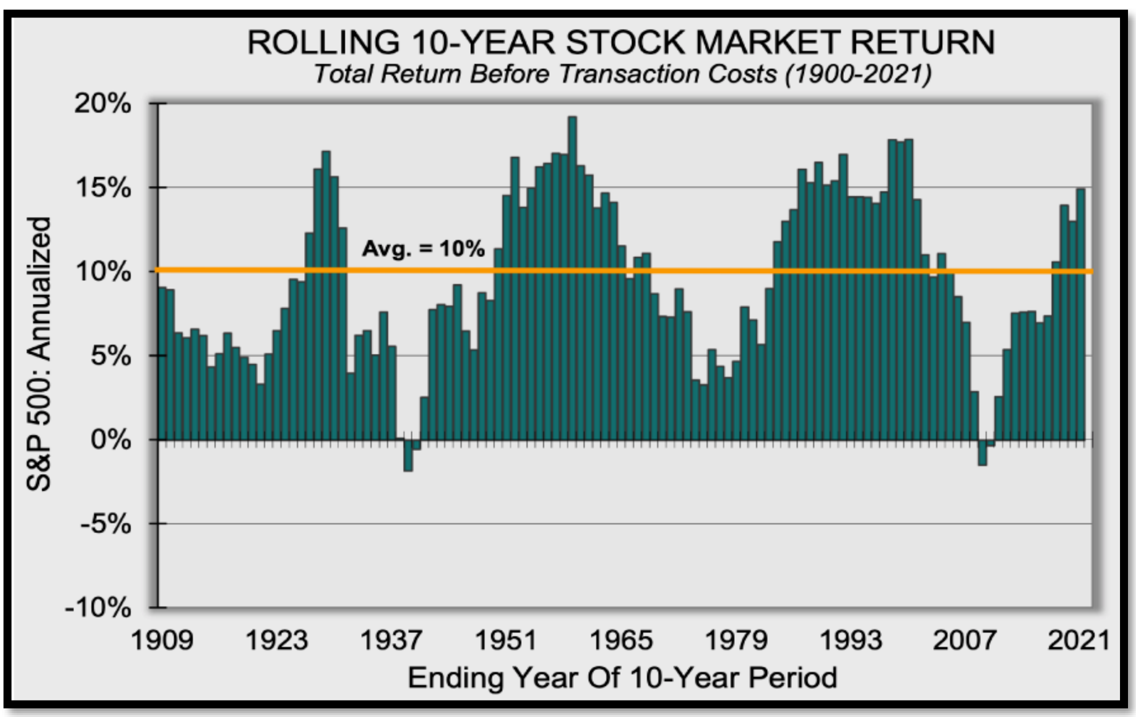
Every year, right before January 1, you read a flurry of economic predictions for the coming year, published by the large investment banks and brokerage firms. These confident forecasts make it seem easy for people who are smart enough, with enough data and advanced degrees, to predict the future.

But when you look back on some of these confident, informed predictions, you see that there is a bit of a gap between what was forecast and what actually happened in the subsequent year. Take, for example, the J.P. Morgan 2022 Market Outlook, published December 15, 2021. The "key economic and market forecasts for 2022, from J.P. Morgan Global Research" tells us that the authors anticipate a bright future for investors in 2022, 'with expectations of further equity market upside and above-potential growth.' Earnings growth would be better than expected, according to the brokerage firm's economists, and overall, we would experience 'a strong cyclical recovery… within a backdrop of still-easy monetary policy.' The last part of that sentence bears noticing, since in actual fact the Federal Reserve has raised its Fed Funds rate fairly dramatically four times this year, 0.50% on May 5, and 0.75% on June 16, July 27 and September 21.



The breezy predictions included an above-average 3.7% GDP growth rate for the U.S. in 2022 (we are actually on track for negative growth overall for the year), and 'market upside' for stocks. The report predicts that the S&P 500 will reach 5050 by the end of the year (compared with roughly 3,500 currently), with 20+% returns—while, as most of us know, the markets are actually down more than 20% across the board.

Maybe it's unfair to pick on just one brokerage organization, so let's turn to the Merrill Lynch investment outlook published at the end of 2021, entitled 'The Great New Dawn.' Among other things, Merrill's crack economic team predicted 'above-trend' economic growth' and a 'budding Equity culture' which will drive 'the secular bull market for years to come.' U.S. stocks, Merrill customers were told in the report, will provide 'a combination of growth, quality and yield characteristics. Profit margins,' the report continues, 'should also remain elevated for U.S. Equities.' The report concludes that 'the macroeconomic backdrop should remain supportive of equities.'

Around the same time as these reports were coming out, the forecasters at Citigroup published their 'Outlook 2022' white paper, entitled 'The Expansion Will Endure: Seeking Sustained Returns.' The brokerage firm's sunny report predicts 'continuing economic growth' and (ahem) 'moderating inflation.' Later, in a slight elaboration, we are told that 'global GDP growth will be solid,' and 'inflation is likely to retreat to tolerable levels in 2022.' We know now that interest rates have exploded this year, so it looks almost silly to read Citi's prediction that 'interest rates will remain low or negative.' Given the market downturn in 2022, what are we to make of Citigroup's conclusive advice: 'we believe the world economy and equity markets have not peaked and have room to grow'?

None of these economic teams foresaw a nasty bear market decline in the U.S. and global markets, the dramatic rise in interest rates or the economic slowdown we are experiencing now. Perhaps, in the future, whenever we read an economic report issued by the large brokerage firms, there should be a picture on the front of an economist wearing a wizard's hat and robe decorated with half-moons, staring into a crystal ball or checking the patterns in the cracks of a burned tortoise shell.

Showing them reading the entrails of an animal sacrifice would be too messy.

Sources:

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