The Age of Free Money Is Over. But There Are Still Plenty of Opportunities, Barron's Roundtable Pros Say.

Bullish or bearish, our 10 panelists help make sense of increasingly complicated market dynamics. Plus: nine stock picks.

By Lauren R. Rublin
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So it goes with investors, too, including the 10 on this year's *Barron's* Roundtable. Some consider last year's steep losses in stocks and bonds a necessary cleansing that set the stage for renewed rallies and lofty returns. Others simply see it as the first leg down in a protracted bear market.

Rarely in modern times has the group been so split in its investment outlook. But even

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to its name, offering ample income and a viable alternative to stocks. Regardless of the economic backdrop—and few see a deep or lengthy recession in 2023—bulls and bears alike should find plenty to entice them amid the rubble of 2022. Prospective winners include, among many others, broken IPOs, dividend payers, international issues, even the shares of tech companies getting religion on costs.

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Sonal Desai: I'll make four points. One, markets are still too optimistic about inflation. They underestimate an important shift in central banks. Macro policies are still pretty weak. The economy is still pretty strong, in that supply shocks are fading. Inflation has peaked, but it is still closer to 7% than to 2% or 3%. Fiscal policy is still pretty loose, and the unemployment rate is around 3.5%. Looking below the surface, Social Security payments, which go out to nearly 30% of the adult population in the U.S., will rise by close to 9% this year, as they are indexed to inflation. That is baking in additional inflation-push factors. And, the Fed's balance sheet is still large. It is shrinking, but slowly.

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Todd Ahlsten: Well said. I worry about overextrapolating trends. That's a theme I thought about coming into this meeting. In 2021, we had an epic peaking in conditions, such as zero to negative interest rates and ample liquidity, that made things perfect for the overextrapolation of secular growth. Now we may be over-extrapolating inflation

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Today, liquidity is being reduced at the same time that the Fed has been raising rates at the most rapid rate in generations, so we are going to have an economic cycle. Like Scott, we see inflation coming down, although it will be a nonlinear decline. At the end of the year, we could see the 10-year Treasury yield below 3%, maybe as low as 2%.

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Investors often mistake the cyclical for the secular, and vice versa. In 2021, they often priced cyclical growth as secular growth, and now there is a tendency to price secular growth as cyclical. The question is: How do you price it? The S&P 500 **SPX 0.40% ▲** is trading for 17 times forward earnings, down from 21 times, which looks attractive. We see 60/40 odds that inflation is defeated and the economy has a soft landing or mild recession, as opposed to a hard landing. This is the year the Fed pivots. Rates probably peak in March.

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Ahlsten: The first half of the year could be challenging. We are not out of the woods yet. But inflation is coming down, and the S&P 500 could be up 10% or more on the year. Looking to 2024, we'll have a presidential election. Don't rule out the possibility of more stimulus or the Fed pivoting to a looser monetary policy. You've got to fasten your seatbelt for the next three to six months, but the S&P 500 could end the year above 4300.

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Desai: I'm not an equity person, but based on my macro outlook, I expect the S&P 500, and equity markets generally, to be flat this year. The current market volatility is less about the data and more about everyone trying to second-guess what the Fed's reaction will be. An unemployment rate of 5% isn't massively recessionary. Interest rates of 5% aren't massively contractionary. We just happened to have a 15-year period in which interest rates were close to zero. That isn't normal.

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