Opinion
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After a Misjudged First Half, Strategists Face a Short Squeeze

Few of the big firms foresaw the bull stampede driving the S&P 500 to such levels. Welcome to the second half.

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July 21, 2023 at 12:49 AM EDT
Updated on July 21, 2023 at 10:06 AM EDT

The Great Strategist Short Squeeze

The year has barely passed its midpoint, and yet the market has barreled through most estimates for where Wall Street thought the S&P 500 would be at the end of the year. In the process, it defied the gloom accompanied by recession risks, soaring inflation and aggressive monetary tightening. And it's left the strategists who made those estimates with a dilemma.

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That squeeze has forced strategist after strategist to revise their year-end call upwards, with Piper Sandler's Michael Kantrowitz becoming the latest to do so on Thursday. The most bearish strategist in the poll conducted by Bloomberg's Lu Wang in January, Kantrowitz raised his initial target of 3,225 to a range of between 3,600 and 3,800. Going with the lower end of the forecast, that implies a drop of as much as 20%, the most popular definition of a "bear market," over the next five months.

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New information has emerged over the last six months, and events have moved the market. They might well justify a higher year-end index value than seemed likely Jan. 1. And the move in the market itself is relevant. So there's nothing necessarily shameful in a market strategist raising a target. To borrow the famous quote from Keynes, if the facts change then you should be prepared to change your opinion.

But now the complexity or what George Soros would call the "reflexivity" of the market takes a role. Markets can create their own reality. As the index rises, and influential investment houses raise their targets for it, so that adds to the momentum upwards in the share price. As in a short squeeze, the further the market rises, the harder it is for strategists to hold a line that is now looking increasingly bearish.