Oracles of Wall Street: 13 economists, strategists, and analysts who nailed their calls this year — and their highest-conviction predictions for 2024

Stefano Madrigali/Getty, Alphotographic/Getty, Egan James/Morgan Stanley, EllenZentner/Morgan Stanley, Neil Dutta/Renaissance, Phillip Colmar/MRB Partners, Marko Papic/Clocktower Group, Tyler Le/BI

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2023 was the year of the unexpected for financial markets and the US economy.

A widely anticipated recession never came. Regional banks failed, seemingly out of nowhere. The S&P 500 has so far rallied an impressive 23%, beating almost all forecasts following a 20%

rout in 2022. The Dow hit a record high. And home prices remained resilient in the face of rising mortgage rates.

While these and other outcomes weren't always consensus views, some economists, strategists, analysts, and money managers still forecasted them in impressive fashion. And for their bold calls, they've earned spots on our 2023 Oracles of Wall Street list.

When compiling the list, we considered calls that were both accurate and generally against consensus via submissions and internal nominations. Many of those on the list made their calls at the end of 2022 or early 2023, and some came later.

While our list cannot include everyone who made a correct forecast this year, it seeks to highlight some of the most outstanding predictions. This list also doesn't suggest that the outcomes of these calls are finalized, as the economic and market landscapes are ever evolving. But these forecasts have proven accurate as of December 2023.

Below is the full list, broken down by major market events and who called them. Outlooks for 2024 from the Oracles are also included.

Regional bank failures

One of the biggest stories of 2023 was the failure of a few regional banks between March and May. Silicon Valley Bank and Signature Bank were the first to go, followed by First Republic Bank. The banks had too much exposure to long-term, held-to-maturity securities that had suffered huge losses from rising rates, and their depositors became nervous that they wouldn't have access to funds as word of their liquidity problems got out.

At least two market observers expressed fears about the sector:

Bill Martin, founder of Raging Capital Ventures

Martin became concerned about Silicon Valley Bank's future after hearing about troubles the tech sector faced in 2022 through his venture capital contacts in the San Francisco Bay Area.

"I knew how bad it was and could kind of see that firsthand through my network and the companies I was involved with there," Martin told Business Insider. "And so that informed the short-seller in me, which was, 'Hey there's got to be a way to play this in the public markets over and beyond just shorting a tech stock.'"

He continued: "Just like when oil prices collapse, what's the first thing you do? You look for small banks in Texas that have a lot of exposure."

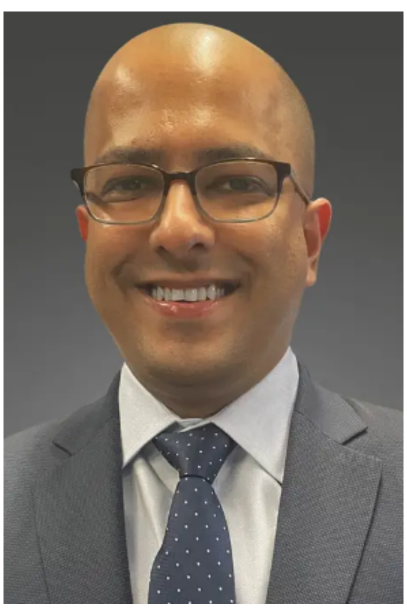
Once Silicon Valley Bank's exposure to the embattled tech sector drew his attention, he noticed in the bank's quarterly financial statements that it had taken significant losses on held-to-maturity securities, posing a liquidity problem.

So, he shorted the stock in January 2023 and began voicing his views about the bank on X, formerly Twitter. Weeks later, the bank's stock crashed from $267 to under $1 per share.

Martin said the short was a small part of his family's portfolio, but that the profit was meaningful.

Going forward, Martin said parts of the banking sector aren't out of the woods yet as the economy likely still must go through a credit default cycle. He also said the S&P 500 is expensive, but that there are opportunities in small-cap stocks that have gotten "thrown out with the bath water" as small caps generally have underperformed.

Manan Gosalia, midcap banks analyst at Morgan Stanley



Gosalia was the only Wall Street analyst with a bearish rating on Silicon Valley Bank, First Republic Bank, and Silvergate Bank before their collapse. He assigned them all "Underweight" ratings back in December 2022 as his analysis showed their net interest margins would contract due to rising interest rates.

But going forward, Gosalia said the greatest risks to the banking sector have dissipated.

"Deposit balances for the midcap banks in our coverage grew relative to the prior quarter and the pace of increases in funding costs decelerated," Gosalia said in an email. "Combined with the liquidity facilities the Fed has made available through the Bank Term Funding Program (BTFP), banks have ample liquidity in today's environment."

Gosalia said his highest conviction call for 2024 is an "Overweight" rating on M&T Bank (MTB), as investors should look to banks with ample liquidity.

"M&T, with their best-in-class levels of liquidity and excess capital, have a lot of optionality in this uncertain macro backdrop," he said.

No recession in 2023

By mid 2022, the consensus on Wall Street was that a recession would come at some point in 2023 as the Fed hiked rates aggressively. The view was so pervasive that it became known as the "most forecasted recession ever."

But just weeks from the end of the year, while some indications of weakening are present, there's arguably no sign that a recession is underway or imminent. The unemployment rate is up to 3.7% from its 3.4% low and job gains have slowed, but payroll growth is not yet negative. Consumer spending is also positive, helping the US economy to post a massive 4.9% GDP growth in Q3. Inflation is also down to 3.2% year-over-year, and the Fed is likely done raising interest rates for the time being.

While it's too early to say whether the Fed has achieved a soft landing as rate hikes continue to work their way into the economy, a tip of the cap is due to those who went against the consensus.

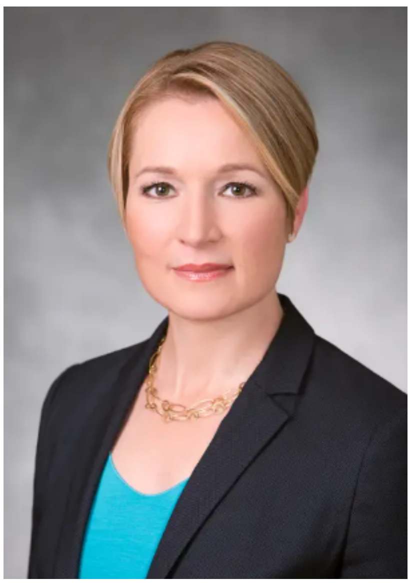
Jan Hatzius, chief US economist at Goldman Sachs

In November 2022, Hatzius placed the probability of a recession at 35% compared to a Wall Street Journal survey median of 65%. Hatzius cited three things supporting his soft-landing outlook: a cooling labor market and cooling wage growth would allow the Fed to back off; inflation was slowing; and long-term inflation expectations were still low.

Looking ahead, Hatzius sees 2.1% GDP growth in 2024, and still expects the US economy to skirt a downturn, placing his recession probability at 15%.

"The reasons for our greater confidence are that 1) real disposable income is growing at a solid pace, 2) the biggest drag from higher interest rates is now well behind us, and 3) with inflation lower, the Fed could deliver insurance cuts if an unanticipated growth shock were to occur," he told Business Insider in an email.

Ellen Zentner, chief US economist at Morgan Stanley



Zentner was another big-name economist who went against the consensus. She made her soft-landing call as early as March 2022, and said again last December that cooling inflation and a slower pace of rate hikes would allow the US economy to avoid a recession this year.

In the year ahead, Zentner believes the economy will remain resilient. She said spending from lower-income groups has already suffered its worst after the inflation episode, and with real wage gains positive again, their spending will stabilize.

"The low-income consumer has gone through a recession," Zentner told Business Insider. "They've been pulling back on spending for some time now. The wealthy households are still spending, and the dollar amounts that they spend — the sheer dollars — means that you can have a very strong aggregate number."

However, economic growth, overall spending, and the labor market will all cool in 2024 and 2025, she said in a November 17 episode of Morgan Stanley's "Thoughts On the Market" podcast.

Neil Dutta, head of economics at Renaissance Macro Research

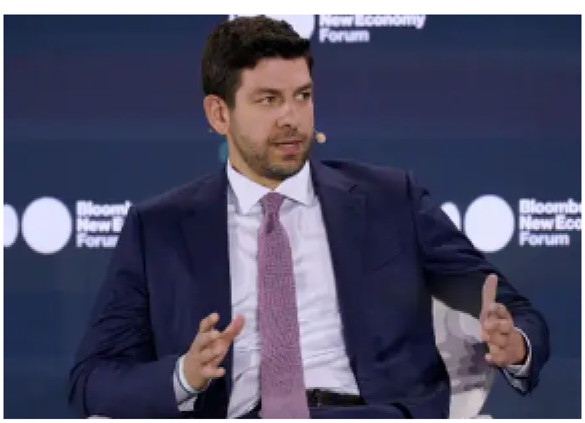
In February, Dutta slammed bearish forecasters who he believed were guilty of "shoddy" economic analysis. He argued bears were relying too much on common recession indicators, like The Conference Board's Leading Economic Index, despite other data showing the labor market and consumer spending would be fine.

With the economy still hanging on today, Dutta's criticisms look correct.

"I very much don't believe in this notion of indicator macro," Dutta told Business Insider. "The primary flaw in that sort of analysis is that you just assume that economic relationships are stable from one cycle to the next, and that's not the case. Things change. The economy changes. So, the ISM Manufacturing PMI, why would that be as useful of an indicator now compared to 50 years ago with the manufacturing sector a lot smaller share of the economy than it was 50 years ago?"

Dutta continues to count a soft-landing as his base-case scenario, and said one reason for this is that he expects the Fed to cut rates early in 2024.

Marko Papic, founder of Clocktower Group



Papic predicted that the US economy would avoid a recession in 2023 partly due to strong household balance sheets that were bolstered by pandemic stimulus. He also said that falling inflation would lead to higher real income growth and support spending, which proved true.

"Investors remain tactically bearish while professional forecasters agree – more than ever – that a recession is afoot. We take the other side of that view," Papic said in a January note. "We struggle to find what part of the GDP equation is going to stumble. Fiscal thrust will be far less of a headwind, net exports should do fine, consumption is likely to improve, and investment is somehow magically holding. "

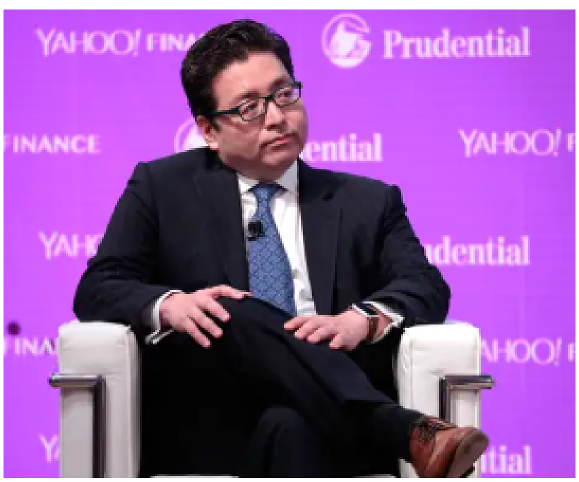
But looking to 2024, Papic thinks a recession could happen early in the year as high interest rates weigh on business capex, but if one does arrive, it will be shallow.

He also believes the Fed is going to cut rates by more than 3% with inflation down and the presidential election in November.

S&P 500 outperformance

The S&P 500 has had a stellar year. As of December 14, the index was up almost 23% since January. That's been a relief for investors, many of whom were preparing for a recession to hurt stocks this year on the heels of a 20% decline in 2022.

Tom Lee, chief US equity strategist at Fundstrat



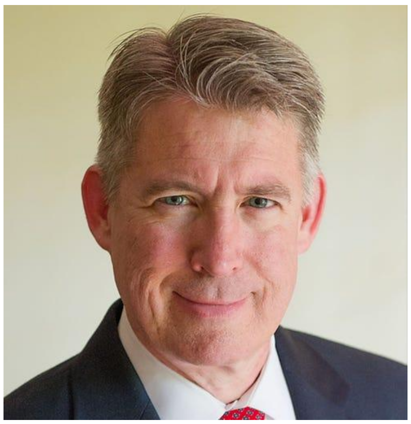
Coming into the year, Lee had a year-end price target of 4,750 on the S&P 500 — the highest on Wall Street. Lee is seemingly perpetually bullish, and this year his Pollyanna outlook was spot on. With the index at 4,630 as of Tuesday, Lee has the most accurate target among his peers at major institutions.

Lee believed a resilient economy and less hawkish Fed amid falling inflation would help to lift stocks. He also said a soft-landing scenario was the most probable outcome.

Next year, Lee sees the [S&P 500 rising another 13% to 5,200] because the Fed could slash rates by as much as 2%.

"The Fed is no longer fighting an inflation war, but really shifting towards managing the business cycle — huge change," he told CNBC.

Barry Bannister, chief US equity strategist at Stifel



Bannister came into the year with a 4,300 price target for April due to his view that the economy would avoid a recession and inflation would subside. He was slightly early, with the S&P 500 hitting that in the first half of June, but his bullish call for the first half of the year was especially correct relative to his peers, who had a median year-end price target of only 4,075.

In August, Bannister then said the market would stay largely flat through the end of the year. The index fell about 8% by the end of October before recovering those losses over the last month-and-a-half.

By the middle of next year, Bannister sees the benchmark index only climbing as high as around 4,650, slightly above current levels, as rates stay unchanged through the first half of the year. Through the rest of the 2020s, he believes stocks are in a secular bear market.

Ryan Detrick, chief market strategist at Carson Group

Given his soft-landing outlook, Detrick said late last year that the S&P 500 would return 12-15% this year, well-above the Wall Street median call for 6.5% returns. In June, Detrick doubled down on his bullishness and adjusted his target to a gain 21-25% for 2023. With two weeks left in the year, the S&P 500 is up 21.4%.

Today, Detrick still has a very constructive outlook on stocks, and believes the S&P 500 will see 11-13% gains next year.

"We're going to have record earnings next year, we've got profit margins which continue to trend higher right now, and CapEx 12 months out is expected to hit an all-time-high," Detrick told Business Insider.

Underneath the surface of the market, he favors cyclical and small- and mid-cap stocks amid a less-hawkish Fed.

The Fed raising rates above 5%

When the Fed began its rate hikes from zero in early 2022, virtually no one on Wall Street envisioned how aggressive the central bank would become. Starting in June of that year, it instituted four consecutive 75-basis-point hikes. The last time the Fed had carried out even one hike of that magnitude was in 1994. Today, the fed funds rate is 5.25%-5.5%.

Anna Wong, chief economist at Bloomberg Economics

Wong said fairly early in the Fed's hiking cycle that the peak rate would go much higher than consensus.

After the Fed had conducted just one its four 75 basis-point hikes, she said in July 2022 that the central bank's terminal rate would reach 5%. At the time, the fed funds rate was just 1.5%-1.75%, and the market's view was that rates would climb to 3.25%-3.5%.

Wong's call was based on her view that inflation would be stubborn, and that the Fed would have to act aggressively to bring it down.

Since 2022, Wong has called for a recession to hit the US economy, and she still holds that view as rate hikes continue to work their way into the economy. She said the labor market is currently weaker than headline data shows — for example, 80% of the jobs added to the economy last month were in recession-proof sectors like healthcare and government or were a result of strikes ending.

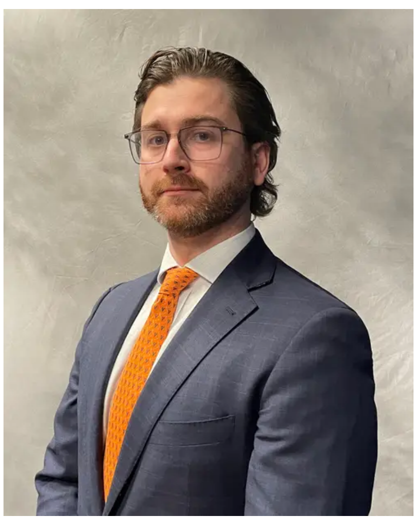
"It's possible that a recession has actually already begun in October 2023," Wong told Business Insider.

She said she expects the unemployment rate to hit 4.3% by March 2024, and believes the Fed will start cutting rates then.

A housing bust that never came — and a dearth of market activity

Heading into 2023, many forecasters saw the decline in home prices that began in June 2022 to continue. But in February the trend reversed and home prices on a national basis are back at all-time-highs, according to the S&P/Case-Shiller U.S. National Home Price Index.

James Egan, housing economist at Morgan Stanley



James Egan is one economist who believed home prices would avoid a more significant drawdown. Despite the worst housing affordability in four decades, he said in a September 2022 client note that a lack of homes for sale thanks to higher mortgage rates would prevent prices from falling significantly. Better lending standards than in the mid-2000s would also mean fewer foreclosures, he said.

Heading into next year, however, Egan sees home prices falling by 3%. He thinks falling interest rates will slightly boost supply by encouraging homeowners who have been disincentivized from getting out of cheap mortgages they secured before the Fed's rate hikes.

"We think that people have perhaps been in their homes a little bit longer than they might have wanted to be given this lock-in effect," Egan told Business Insider. "When you combine that with our view that mortgage rates will come down in 2024, we think that will engender a little bit more listing volumes."

Still, prices will remain fairly stable given that affordability will remain stretched and transaction volumes low, he said.

Bobby Mollins, director of internet equity research at Gordon Haskett

While home prices didn't see a significant decline, lack of activity in the market crushed some housing-adjacent companies, like brokerage and data firm Redfin and home-flipping firm Opendoor.

Mollins was laser sharp with his calls against both firms this year. On July 19, he downgraded shares of Redfin and Opendoor to "Underperform." The stocks subsequently lost as much as 68% and 55%, respectively, by early November. And the calls were against consensus — 80% of analysts had "Hold" ratings on Redfin at the time, while 72% of analysts had either "Buy" or "Hold" ratings on Opendoor.

For 2024, Mollins said one of his highest-conviction calls is a "Buy" rating on Expedia. Mollins originally placed a "Buy" rating on the stock in May, and it's since risen over 50%. But he said the stock likely has further upside, thanks in part to the completion of their digital update to have all of their brands — like Vrbo and Hotels.com — on the same "technology stack." That means they'll have more developer resources freed up and can save on tech costs, he said.

Another call is an "Underperform" rating on Airbnb. Traffic is down year-over-year by the most ever, and site visits to Vrbo relative to Airbnb are the highest in two years, Mollins said in a recent note.

Spiking Treasury rates

Treasury rates soared above consensus expectations this year, especially in the second half when the soft-landing narrative gained more traction. Yields on 10-year Treasurys went from 4% in early August to about 5% in late October as strong economic data poured in.

Phillip Colmar, global strategist at MRB Partners

Colmar was one strategist who called the jump. He said that Treasury rates would stay relatively calm for the first several months of the year — they did — and then managed to time the spike in yields impressively.

"Another up wave in bond yields is inevitable," Colmar said in an August 9 client note. "The latest macro data is sending a clear message that interest rates and/or bond yields will ultimately need to move decisively higher before the economic expansion becomes threatened. This is especially true for the leading U.S. economy."

Colmar's call for higher rates was tied in with his view the economy would avoid a recession this year, which he expressed in December 2022 and reiterated in May.

"Still-solid prospects for consumption, backed by still-sizable excess savings, good income growth and the tailwind of cooling headline inflation will ensure that the economic expansion continues next year," he said last December.

As for next year, inflation will stay at around 3% or higher, and the Fed is likely to leave rates elevated, Colmar said. He said Treasury yields are probably near their lows right now and could go to new highs by the end of 2024.