ANNUAL FORECAST ISSUE

Kiplinger's

MONEY SMART LIVING

PERSONAL FINANCE

WHERE TO INVEST IN 2015

The U.S. outshines the world, so start close to home.

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"Stocks will continue to move up, but it will be a bumpy road."
Kristina Hooper, of Allianz Global Investors

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Q&A KRISTINA HOOPER

Brace Yourself for a Bumpy Road

KRISTINA HOOPER *is the U.S. investment strategist for Allianz Global Investors.*

KIPLINGER'S: Where do you see stocks headed in 2015?
HOOPER: That depends on where those stocks are located. We expect more decoupling of our markets from other markets. We believe the U.S. economy will continue to improve, while global economic growth will decelerate. In this environment, we expect the U.S. stock market to continue to move up. It will be a bumpy road, but we expect U.S. stocks to deliver better relative returns than other major investments, although there's a place in your portfolio for investment-grade and high-yield U.S. bonds, too.

What kind of stock market returns are you looking for? We expect high-single-digit to low-double-digit returns—most likely high-single-digit. But we're going to see significant volatility. That's because although we have an improving economy, we continue to see a large number of investors who lack confidence in this market. That's not changing in 2015, particularly with concerns about a global economic slowdown and a less accommodative Federal Reserve Board.

What's driving the economy? Improvement in the employment situation. Beyond that, we are starting to see capital expenditures improve. Companies have the ability to deploy a significant amount of cash toward capital spending. We also recognize a significant tailwind coming from lower energy prices. That's a plus for consumers and companies. The U.S. is experiencing a manufacturing renaissance because of lower energy prices and anemic wage growth. The whole thesis behind shipping jobs overseas has changed.


PHOTOGRAPH BY ALEX MARTINEZ

Where should investors put their money now? We're positive on U.S. stocks. But you have to recognize the threat posed by the rising dollar, which makes exports less competitive and results in earnings from overseas translating into fewer dollars here. We favor some large-company stocks—but not the biggest ones—and midsize companies that don't derive substantial revenues from outside the U.S. To ensure that you are diversified, make sure you have some global exposure. European stocks could deliver positive surprises in 2015 because expectations are so low.

Where else do you see value? We believe strongly that investors need to focus on dividend-paying stocks. They serve two purposes: One, in an environment in which we expect volatility to remain high, dividend-paying stocks are shock absorbers for stock market investors. Two, given that we don't expect robust returns from price appreciation alone, dividends will play an important role in contributing to total returns.

Where will investors find the kinds of stocks you mention? Technology is one area. A lot of tech stocks are paying dividends these days—it's the second-highest dividend-paying sector. Financials offer attractive value right now. With the exception of high-end retailers, many consumer stocks have been lackluster. That could reverse, with things improving for less-upscale retailers, given that consumers have a lot more breathing room thanks to lower energy prices and improvement in the labor market.

Any stocks in particular that Allianz portfolio managers like right now? Tech names that Allianz likes include **CISCO SYSTEMS (SYMBOL CSCO, $24)**, **PALO ALTO NETWORKS (PANW, $106)** and **SANDISK (SNDK, $94)**. In the financial sector, our managers like **NAVIENT (NAVI, $20)**, which services government loans, as well as **PNC FINANCIAL SERVICES (PNC, $86)**, **WELLS FARGO (WFC, $53)** and **JPMORGAN CHASE (JPM, $60)**. **WAL-MART STORES (WMT, $76)** is seeing a recovery among middle- and lower-income consumers and sells at an attractive price; **MACY'S (M, $58)** could benefit from a stronger middle-income consumer as well as from a rising dollar, since the retailer imports goods from overseas but sells its clothing primarily in the U.S. **ANNE KATES SMITH**

HAIR AND MAKEUP: SOURAYA HAMDI. STYLING: ALYNN BABINSKI