# Short-term Asset Class Forecasts

*over the next 1-3 months*

**QS Investors**

August 2019

## QS Leading Economic Indicator



neutral    +    ++
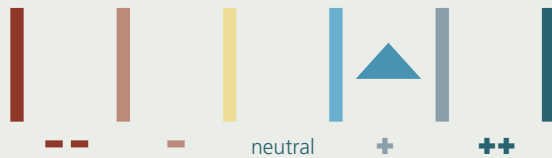
Our proprietary leading economic indicator remained in positive territory. This view is supported by global trade data and the change in initial unemployment claims.

QS Leading Economic Indicator Index is a proprietary composite of economic data that QS Investors believes are significant in determining financial and economic conditions in the U.S.
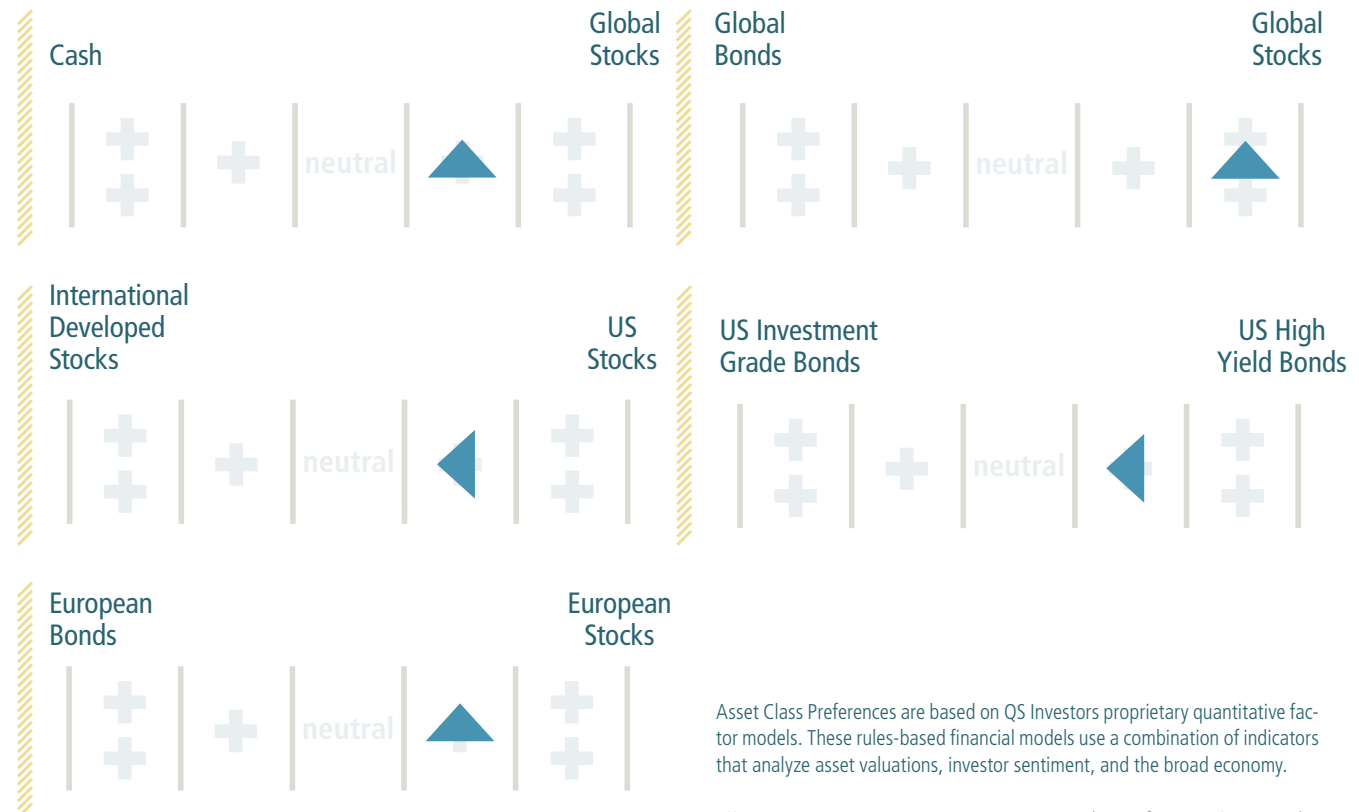
## Asset Class Preference

Our outlook for U.S. stocks outperforming investment grade bonds remains in positive territory. Valuation, as measured by comparing U.S. equities earnings yield to the ten-year treasury yield, continues to be the largest driver of this preference, as the factor's strength ranks in the top quartile on a historical basis.

In U.S. fixed income, we forecast that high yield bonds will outperform investment grade bonds over the next month. This is supported by the yield differential between high yield and investment grade and the level of U.S. equity volatility.

We strongly believe that U.S. stocks are positioned to outperform their international developed market counterparts. The model's preference is driven by stronger price momentum in the U.S. and yield curve dynamics. Yield curves in other developed markets are flattening at a faster rate than in the U.S. which we interpret as a sign of lower economic prospects. However, options market data, for the first time this year, shows greater demand for price protection in the U.S. versus international-developed markets.

European stocks are forecasted to outperform European bonds in our model, however this has moderated over the past month. Four of the six explanatory variables in our model point to this conclusion, including European stock price momentum, valuation, and European government yields.



Cash — Global Stocks

Global Bonds — Global Stocks

International Developed Stocks — US Stocks

US Investment Grade Bonds — US High Yield Bonds

European Bonds — European Stocks

Asset Class Preferences are based on QS Investors proprietary quantitative factor models. These rules-based financial models use a combination of indicators that analyze asset valuations, investor sentiment, and the broad economy.

◄► Change from previous month    ▲ No change from previous month