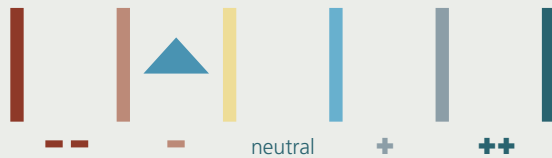# Short-term Asset Class Forecasts

over the next 1-3 months

QS Investors

December 2019

QS Leading Economic Indicator

Our proprietary leading economic indicator declined month-over-month and remains in negative territory. This was driven by a decline in global trade.

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.
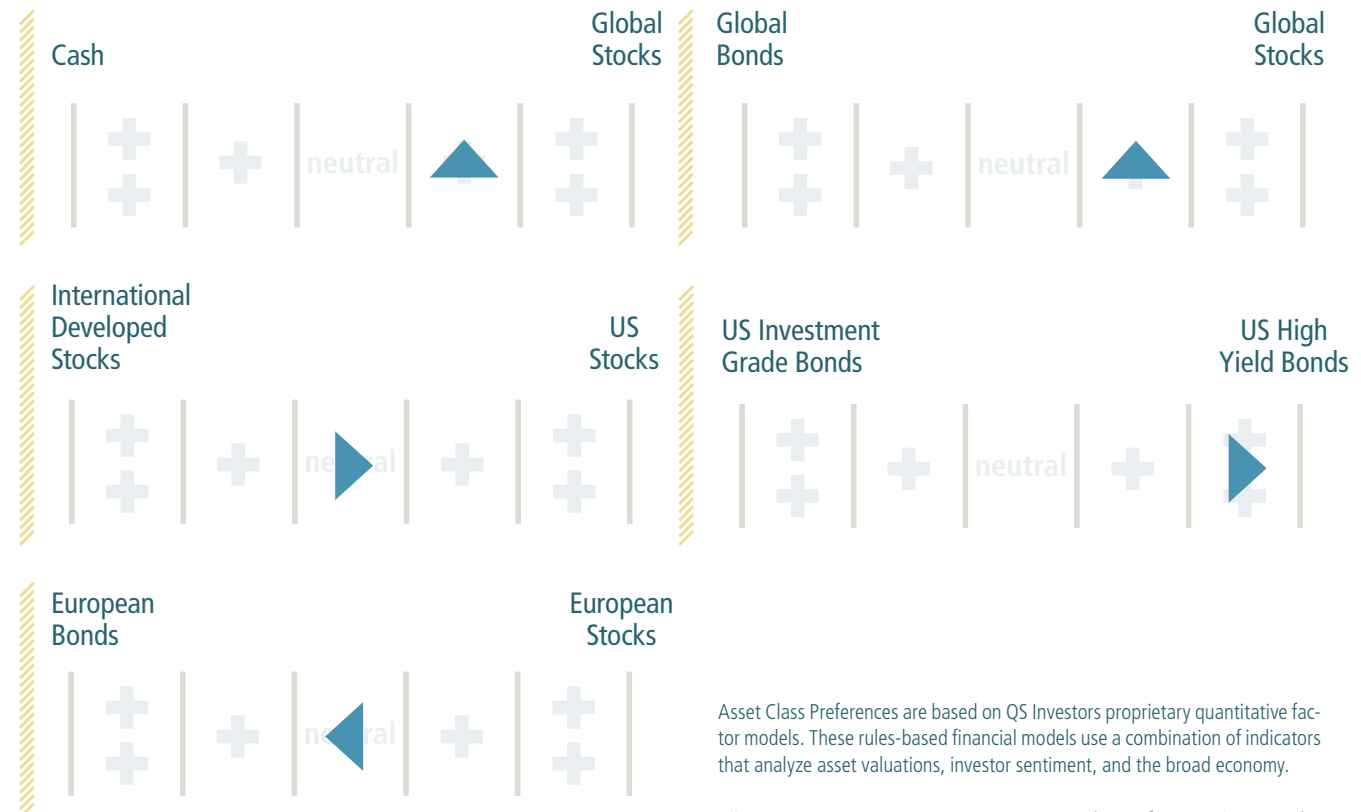
Asset Class Preference

Our outlook for U.S. stocks outperforming investment grade bonds remains in positive territory, though the strength of the signal declined since last month. The minor decline in the strength of the signal was driven by the recent rise in the ten-year treasury yield, which supports bonds over stocks.

In U.S. fixed income, we forecast that high yield will perform similarly to investment grade bonds over the near term. Within the model, the modest impact of the increase in the spread differential between high yield and investment grade has been offset by a decline in equity volatility.

We believe that U.S. stocks are positioned to underperform versus their international-developed market counterparts. This view is supported by valuation, which compares the forward price to earnings ratio in the U.S. versus their international counterparts. Options market data also shows greater demand for price protection in the U.S. versus international-developed markets. The option market data supporting international-developed markets is at the strongest level in almost three years.

European bonds are forecasted to marginally outperform European stocks in our model, a change compared to last month. The change in view is supported by a rise in European bond yields and a decline in the European Leading Economic Indicator. Valuation, as measured by comparing European equities earnings yield to the ten-year government yield continues to support 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