

# Short-term Asset Class Forecasts

over the next 1-3 months



October 2019

## QS Leading Economic Indicator

Our proprietary leading economic indicator strongly declined month-over-month and moved into negative territory. This was a result of a decline in global trade data, weakening manufacturing data and a decline in average hours worked.

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.

### Important Information

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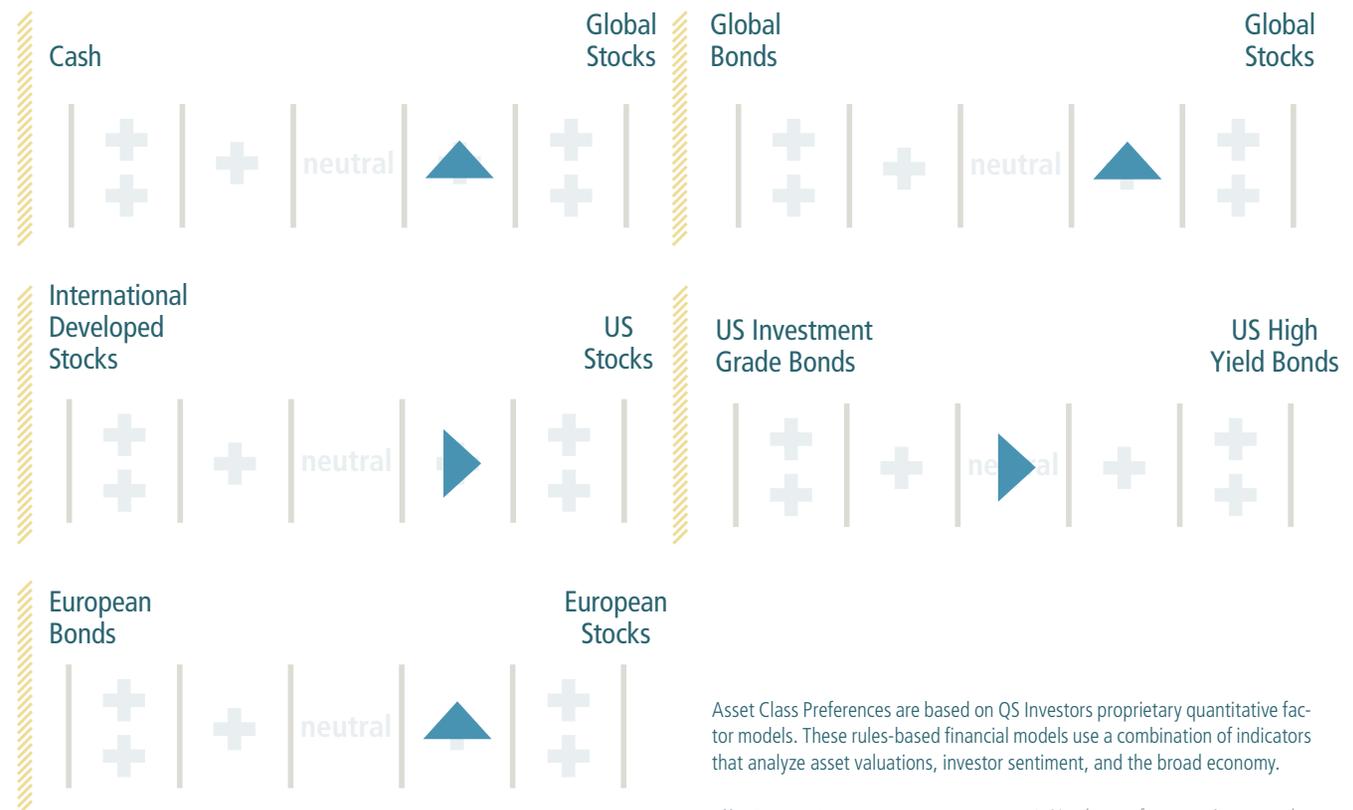
## Asset Class Preference

Despite these leading indicators, our outlook for U.S. stocks outperforming investment grade bonds remains in positive territory, however the strength of the signal has moderated since last month. This is driven by the decline in our proprietary leading economic indicator. Valuation, as measured by comparing U.S. equities earnings yield to the ten-year treasury yield, continues to support U.S. stocks.

In U.S. fixed income, our forecast has moved to a neutral view. This is mainly supported by the decline in equity volatility.

We believe that U.S. stocks are positioned to slightly outperform their international developed market counterparts. The valuation factor, which compares the forward earnings to price ratio in the U.S. versus their international counterparts and options market data supports international developed markets. 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 and supports U.S. equities.

European stocks are forecasted to outperform European bonds in our model, though the strength of the signal has moderated. Four of the six explanatory variables in our model point to this conclusion, including European stock price momentum, valuation, European government yields and our proprietary U.S. stock versus bond signal.



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