



Mosaique Views

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Foreword

Asset Allocation is to most, the process of balancing the risks and rewards of assets in a portfolio according to a predefined risk tolerance. For us, however, it is much more than that.

We believe asset allocation starts with the assessment of the global economy, the corporate sector, the political environment and monetary and fiscal policy. Most importantly, in an age where information is at our finger tips we need to differentiate between the headlines and those issues that impact the economic landscape and the profitability of companies we invest in on your behalf.

This process is heavily driven by statistics, analysis and mathematical models. Numbers, however, are not enough. Financial markets are influenced by human emotions: fear, greed, surprise, guilt, joy...

In reality, no mathematical model is able to capture these emotions. That's why human judgment is also key and this is why creating an Asset Allocation is both a science and an art.

The result of our work is to give you an overall financial and macro-economic "*picture*" that helps select the assets we need to build your Mosaïque portfolios.

In this publication, you will find our views in a format that is both easy to understand and easy to translate to your portfolio. It also forms the basis of the discussions we have with you when we provide investment advice.

If we do our job well, you should not expect sudden changes from one publication to the next... but you should expect that it will always be timely and relevant.

Happy reading,



Dr. Carlos Mejia
CIO, Rothschild & Co Bank
AG

A handwritten signature in black ink, appearing to read 'Carlos Mejia', written over a horizontal line.

Asset allocation views

Our positioning is maintained as we are inclined to watch and wait how Covid-19 evolves

Remaining tactically neutral on stocks

Until the Covid-19 outbreak, the two-year-old slowdown in the global economy seemed to be bottoming out as expected. Meanwhile, trade risks had eased after the US and China signed a stage 1 trade deal; and central banks remained very accommodative, thanks partly to continued weakness in inflation. The stage seemed set for some revival in growth.

Now, a renewed weakening of economic activity seems inevitable as virus-related disruption – which will likely be further amplified if the WHO declares a pandemic – spreads. After initially shrugging off the news of the epidemic, stock markets have fallen.

How should we respond? It could be a mistake to react by reducing stock holdings. Disruption may prove brief, and some eventual improvement in economic growth is still likely. For now, portfolio managers may move tactically to maintain our current asset allocation.

Most bonds were expensive to begin with, with yields below even modest inflation rates, and have become more so as nerves have spread.

Longer-term, stock valuations are unremarkable, and they remain the only major asset class that we think is likely to deliver inflation-beating returns.

Conclusion

We stay tactically neutral in **equities**, having moved from underweight in November. The macro picture has stabilised and trade risks have fallen, but we await more clarity – or more attractive entry prices – in the face of on the short-term economic impact of Covid-19.

In **fixed income**, we maintain a longer-standing wariness: we have been underweight duration in EUR, USD and CHF portfolios, and no longer favour lower quality credit over high quality government bonds.

Our underweight position in fixed income is matched by an overweight position in liquid assets: despite its lack of income. A healthy weighting in **cash** we think will enable us to capitalise on market opportunities as and when they present themselves.

In **regions**, we continue to favour US and emerging Asian equities to the rest, particularly those in Europe (including the UK).

Within **sectors**, we have added to overweight positions in technology after the setback in the sector. We move underweight energy, whose weakening cashflow offsets its apparently-low valuations. In Europe, we no longer favour staples, and cancel an underweight in real estate as interest rates seem set to stay (even) lower for longer.

Within **currencies**, with low inflation and accommodative monetary policies in most regions, there remains little to choose between the majors. We stay wary of the euro, which has the least attractive mix of growth and policy, and tactically neutral on other major currencies.



Kevin Gardiner
Global Investment Strategist

A handwritten signature in black ink that reads "Kevin Gardiner". The signature is written in a cursive, flowing style.

Asset allocation overview

We have maintained our asset allocation, after moving neutral from underweight equities in November.

An underweight position in fixed income is matched by an overweight position in liquid assets.

Key	-	Neutral	+
Material overweight	●	●	●
Benchmark weight	●	●	●
Material underweight	●	●	●

Asset allocation	-	Neutral	+
Money market	●	●	●
Fixed income	●	●	●
Equities	●	●	●

Fixed income	-	Neutral	+
EUR			
High-grade	●	●	●
IG low-grade	●	●	●
High-yield	●	●	●
Duration	●	●	●

USD			
High-grade	●	●	●
IG low-grade	●	●	●
High-yield	●	●	●
Duration	●	●	●

CHF			
High-grade	●	●	●
IG low-grade	●	●	●
High-yield	●	●	●
Duration	●	●	●

Currencies	-	Neutral	+
USD	●	●	●
EUR	●	●	●
GBP	●	●	●
JPY	●	●	●
AUD	●	●	●
CNY	●	●	●
CHF	●	●	●

Equity regions	-	Neutral	+
North America	●	●	●
Eurozone	●	●	●
UK	●	●	●
Switzerland	●	●	●
Japan	●	●	●
Pacific ex Japan	●	●	●
EM EMEA	●	●	●
EM Asia	●	●	●
EM Latin America	●	●	●

Equity sectors	-	Neutral	+
US			
Energy	●	●	●
Materials	●	●	●
Industrials	●	●	●
Utilities	●	●	●
Consumer discretionary	●	●	●
Consumer staples	●	●	●
Communications	●	●	●
Health care	●	●	●
Technology	●	●	●
Financials	●	●	●
Real estate	●	●	●

EU			
Energy	●	●	●
Materials	●	●	●
Industrials	●	●	●
Utilities	●	●	●
Consumer discretionary	●	●	●
Consumer staples	●	●	●
Communications	●	●	●
Health care	●	●	●
Technology	●	●	●
Financials	●	●	●
Real estate	●	●	●

Investment Insights

At the heart of Investment Insights lies a wide set of timely and insightful publications, podcasts and infographics.

Strategy: Making sense of the current macroeconomic environment, *Market Perspective* is our flagship strategy publication, written by our Global Investment Strategist Kevin Gardiner. Our *Strategy podcast* complements the written publication and provides a conversational update for investors on latest market and macroeconomic views. Our Strategy team also publishes its views and insights into lesser-known market trends, through its *Strategy blog*.

Portfolio management: For those seeking a swift yet comprehensive review of the month gone by, we publish our *Monthly Market Summary* with portfolio management commentary for Mosaïque portfolios. In addition we provide a quarterly *Mosaïque podcast* update on performance and portfolio positioning during each quarter.

Investment and portfolio advisory: Our *Investment Views*, *Instant Insights* and *Infographic* series are forward-looking short and long-term publications exploring key thematic trends and asset classes – educational and informative, these publications give our advisory clients and prospects fresh perspectives on themes which are set to bring with them profound change.

For more information on our Investment Insights, please visit our Wealth Insights page at www.rothschildandco.com/insights.



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