July / August 2020

Mosaique Views

Rothschild & Co
Wealth Management

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.

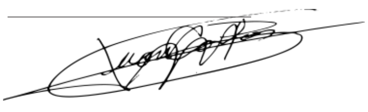
The result of our work is to give you an overall financial and macro-economic "*picture*" that helps select the assets we need to build your Mosaique portfolios.

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



Asset allocation views

We move overweight equities, and cancel our overweight in cash

Cautiously optimistic as visibility improves

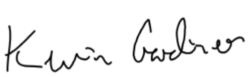
Just four short months ago the two-year-old slowdown in the global economy seemed to be bottoming out as expected. Then came the downturn that is already so special: it is the most sudden, the deepest, the least contentious, the first service-led; it has inspired dramatic market and policy responses; and, most importantly, it is deliberate: we collectively chose to suppress covid-19 by closing part of the global economy.

The self-imposed nature of the downturn is important because, from the outset, it has provided grounds for thinking that it may prove to be special in one other way also: it may be relatively short. If contagion slows, and lockdowns ease, economies can start to rebound. The latest data suggests that they are likely doing so as we write.

Of course, lockdowns are easing more slowly than they were introduced. Meanwhile, many businesses and jobs will sadly fall between the cracks of that official support. It will take longer to climb back to the starting point than it did to fall from it. But the probability of a rebound in the not too-distant future has allowed forward-looking capital markets to “look across the valley”, and to begin to stabilise even as some economic data have yet to register the full extent of the decline.

Financial markets and the economy may not be as disconnected, then, as they can seem. Just as stocks and credit fell sharply as soon as the shutdowns were announced, and before the economic data did, they have rebounded earlier too.

Kevin Gardiner
Global Investment Strategist



Thinking that the contraction itself might be short, and that monetary and fiscal support would remain in place for some time, even as economies started to revive, we felt that it would be a mistake to react, once the scale of disruption became clear, by reducing holdings of riskier assets. We maintained our equity weightings as markets fell, and added to weightings in corporate bonds – the focus of much central bank support – by trimming our above-normal holdings of cash.

We stay open-minded: renewed short-term volatility is possible – perhaps if the slowing of contagion is interrupted, as recently seen locally in some US states – but so too is a more extended period of supportive policy, and the possibility of a more vigorous economic revival, which we are beginning to see in some data.

Conclusion

We increase our equity positions to overweight by cancelling an overweight in cash. We maintain our underweight in fixed income, but move neutral on duration. The highest grade bonds, including most government bonds, have remained prohibitively expensive for long-term portfolios seeking to beat even modest inflation, but in the current policy climate, longer-dated yields in general may stay low for some time.

Within equities, we continue to favour the US and emerging Asia. We are least keen on Europe, Hong Kong and Australia. We retain overweight positions in technology and communications, and stay underweight in energy. In Europe, we remain underweight financials as interest rates seem set to stay (even) lower for longer, and move overweight healthcare, a Covid-19 beneficiary, by cancelling an overweight on industrials.

With low inflation and interest rates in most regions, exchange rate conviction remains low. We remain wary of the Euro, though its long-term credibility may be poised to improve.

Asset allocation overview

We have moved overweight equities, and cancelled an overweight position in cash.

In equity sectors, we have turned more positive on European healthcare, and cancelled an overweight in European industrials to neutral.

Within fixed income, our duration positioning is moved to neutral while making no further changes.

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		●	●	●	◉	●
Healthcare		●	●	◉	●	●
Technology		●	●	●	●	◉
Financials		●	●	◉	●	●
Real estate		●	◉	●	●	●
EU						
Energy		●	◉	●	●	●
Materials		●	●	◉	●	●
Industrials	←	●	●	◉	●	●
Utilities		●	◉	●	●	●
Consumer discretionary		●	●	●	◉	●
Consumer staples		●	●	◉	●	●
Communications		●	●	◉	●	●
Healthcare	→	●	●	●	◉	●
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 Mosaique portfolios. In addition we provide a quarterly *Mosaique 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.

Video-podcasts

A series of short video updates can be viewed on the *Wealth Insights* section of our website.

In addition our Advisory and Discretionary clients can watch video updates to learn more about the sector impact of Covid-19 from our Head of Investment & Portfolio Advisory, and with a message from our CEO, a review of financial markets and how our portfolios have performed in our Half-Year review from our CIO and Head of Portfolio Management.[1]

[1] A password to access the video is available from your Client Adviser.