



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 Mosaique portfolios.

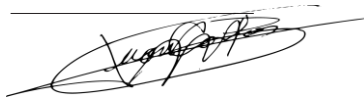
In this publication, you will find our views in a format that is both easy to understand and easy to translate to your portfolio. It also forms the basis of the discussions we have with you when we provide investment advice.

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 BankAG



Asset allocation views

An overweight equities is maintained

Cautiously optimistic as economies rebound

From the start, we saw the self-imposed nature of this alarming downturn as important: it provided grounds for thinking that it may prove relatively short. This remains our view.

As contagion rates slowed, lockdowns eased while monetary and fiscal policies remained supportive. As a result, most big economies have been growing again.

The rebound was always likely to be slower than the fall. Lockdowns would be eased much more gradually than they were introduced, and many businesses and jobs would unfortunately fall between the cracks of those official support policies.

In addition, as we are seeing currently in Europe, there was always the risk of resumed contagion, and the possibility that the re-opening of economies would slow or even reverse.

The rebound was also likely to be very uneven: not all sectors were affected equally, and some service sectors in particular have indeed suffered game-changing damage, and are having to re-think the ways in which they interact with their customers.

Nonetheless, we thought an early and decisive turning point in economic activity was likely, and the low point can now be seen in most big economies to have been in April: growth has in most cases resumed from May, at a robust pace.

There is of course still a long way to go before global GDP is back at end-2019 levels. But some indicators – including retail spending in the US, Germany, and the UK – are already above those levels. And while some models are having to change, in many other cases “business as usual” looks less remote than it did. Talk of the crisis changing everything has faded.



Kevin Gardiner
Global Investment Strategist

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

Renewed volatility is possible – if resumed contagion in Europe continues, for example – but so too is a more extended period of supportive policy, and the possibility of a more vigorous economic revival.

Conclusion

Thinking that the contraction might be short, and that monetary and fiscal support would remain in place even as economies started to revive, we felt it would be a mistake to react 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. At mid-year, we raised our equity positions to overweight, and reduced those cash positions to neutral. We have stayed underweight bonds.

Within equities, for the time being we continue to favour the US – pending more clarity on the US election – and emerging Asia. At sector level, our material overweight in the US technology sector is reduced after its long rally and in the context of political uncertainty, but its mix of structural and cyclical growth remains attractive. We also moved overweight US industrials to add some more cyclical exposure, whilst our portfolios still have more of a “growth” than “value” tilt (though we do not build them with such stylistic labels in mind). We are least keen on Europe, Hong Kong and Australia.

Our preference within bonds is still for lower quality investment grade, and for speculative grade credit, ahead of the highest-quality bonds. As of mid-year, however, we have raised our duration to neutral: we expect central bank buying to remain supportive.

With low inflation and interest rates in most regions, we have had little exchange rate conviction. Indeed, with the growing possibility of a more federalist EU, we recently cancelled our long-standing wariness of the euro, and are now neutral on each big currency.

Asset allocation overview

We moved overweight equities at mid-year, at the expense of cash, since when positions are unchanged.

In our equity sector views, we have lowered our overweight in US technology stocks, and added to US industrials positions.

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

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

Fixed income

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

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

CHF	-	Neutral	+
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	-	Neutral	+
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 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.



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 from our CIO and Head of Portfolio Management, in addition to our Autumn Investment Webinar.¹

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

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