



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

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

Asset allocation views

An overweight position in cash is maintained as we make no changes to our positioning

Remaining tactically cautious

The global economy continues to slow, and ongoing trade tension remains a key risk. US-China talks resume in October: we think an adverse outcome can still be avoided, but a speedy resolution seems unlikely. With inflation subdued, central banks have been offering some insurance against a more dramatic downturn. Led by the US Federal Reserve from July and followed by the European Central Bank in September, they have begun to pre-emptively loosen monetary policy – which was far from tight to begin with.

Bonds have rallied by more than we think can be justified by slowing growth and lower interest rates: nearly a third of global bonds trade on negative yields, and the positive yields available are mostly below today's low inflation rates. Stocks look less fully valued, but are not cheap. Tactically, we think both assets are vulnerable to a setback: those cyclical risks are real, but interest rates may not fall as far as the markets are assuming. Longer-term, we still see stocks as the asset class most likely to deliver long-term inflation-beating returns, but prospective returns are likely smaller than they have been for most of the last decade.

Conclusion

We maintain our **moderate underweight in equities** – having moved from neutral in early June – after their strong rally. In bonds, 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. Underweight positions in stocks and bonds are 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.

We continue to favour US and emerging Asian equity markets within **regions** to the rest, particularly those in Europe. At a **sector level**, we continue to favour a mix of cyclical and structural growth over defensives. Having moved from overweight in August, we remain neutral healthcare – which seems set to remain under (US) political pressure for a while longer – and stay positive on conventional technology, even after its recent outperformance.

Within currencies, in the light of low inflation in most regions and with leading central banks planning accommodative policies, there remains little to choose between the majors. We maintain our ongoing wariness of the euro, which is exposed to the least attractive mix of growth and policy, and stay tactically neutral on most other currencies.



Kevin Gardiner
Global Investment Strategist

A handwritten signature in black ink that reads "Kevin Gardiner". The script is fluid and cursive.

Asset allocation overview

We have maintained our Asset Allocation for the months of October / November.

As of early June we have been moderately underweight equities.

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

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

Fixed income	-	Neutral	+
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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	+
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USD	●	●	●
EUR	●	●	●
GBP	●	●	●
JPY	●	●	●
AUD	●	●	●
CNY	●	●	●
CHF	●	●	●

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

Equity sectors	-	Neutral	+
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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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