Mosaique Asset Allocation

April 2025

KEY TAKEAWAYS

- Geopolitical uncertainty remains high
- US interest rate cuts have been paused
- We again stay tactically neutral on the main asset classes

The Macro Picture

Geopolitical tensions and market caution

Geopolitical alliances are shifting. A trade war seems to be imminent. US stocks have looked dear. The Federal Reserve has paused its interest rate cuts, even as US data seem to suggest an economic downturn. Nonetheless, our asset allocation remains firmly in "wait and see" mode, not "risk off".

It is very clear what might go wrong, but potentially positive outcomes also exist, and can be overlooked. The neutral stance has in fact served us well since we implemented it in November by taking a profit on our previous overweight call on stocks. Despite volatility, global stocks and the key discount rate are little changed since then.

The Trump factor: market risks and opportunities

President Trump's comments and gestures can be alarming, but he often uses them not to communicate but to provoke. For example, he may have succeeded in getting Europe to take more responsibility for its own defence, and in the process deliver a potent boost to the medium-term growth prospects for its biggest economy. For the first time in three years, there may be a chance of a ceasefire in Ukraine, and the increase in risk appetite, and likely reduction in European energy costs, which that could deliver may not be "priced in".

Similarly, his belligerent stance on tariffs may not be fully implemented, or last for long. There will be exemptions and special cases. The US' trading partners may yet compromise. As US households are asked to pay more for the things they want – many of which may not be made in the US to begin with – their vocal discomfort may change his mind. The POTUS is many things, but not an ideologue. Ultimately, protection is not in the best interests of the US economy, traditionally the leader of the global product cycle: we associate basic manufacturing and mining with poorer economies, not the wealthiest.

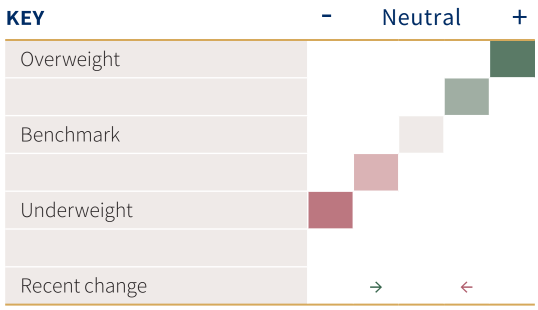
Beyond politics: the business cycle and market fundamentals

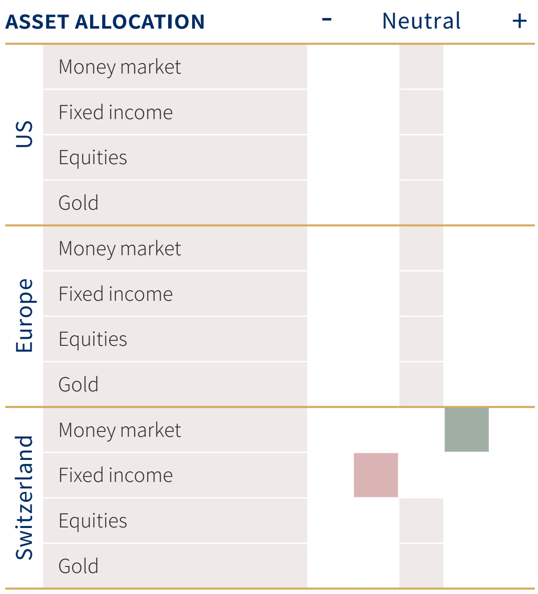
The evolving business cycle can matter as much or more to portfolios than even quite dramatic political developments, as we often note. A mix of declining inflation with healthy profitability has been friendly to stocks since 2022. We thought 2025 could prove more difficult – but not dramatically so. The US stock market has rarely looked significantly more expensive than it did in late 2024, but valuations elsewhere have been unremarkable. Meanwhile, the Fed's ongoing pause has not been a surprise, because inflation does seem to have bottomed out. The recent weakness in US data looks erratic to us: a surge in imports ahead of likely tariff increases, for example, is not necessarily an indicator of a meaningful economic downturn, but it does cut estimated GDP.

Portfolio positioning: staying ready for any outcome

Our overall asset allocation has thus been unchanged again in March. We did however make some further adjustments to our holdings within stocks – closing a regional call that we felt had run its course, and opening a new sectoral position that we felt might benefit us if 2025's more eclectic pattern of performance continues. Generally, our portfolio stance leaves us able to capitalise on significant developments from here – in either direction.

Asset allocation overview (i)

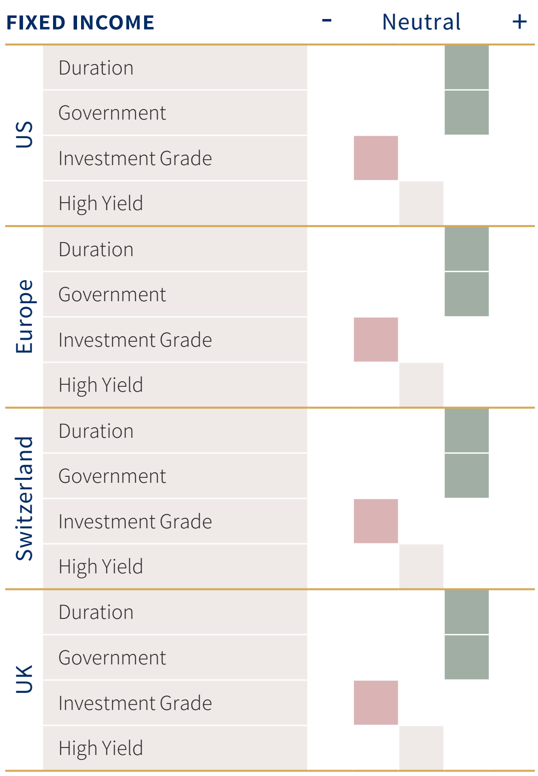




Balanced positioning: neither stocks nor bonds take the lead

A mix of cyclical, valuation and geopolitical concerns continues to argue against tactically favouring either stocks or bonds. At neutral we are well-positioned to add or cut risk if/when we think circumstances change.

The exception remains a local, technical one. In Swiss franc portfolios, bond yields are so low as to make liquidity preferable. The SNB is the most credible central bank, facing negligible inflation and presiding over arguably the best all-round performance of any major economy, but we doubt that it will cut policy rates – now just 0.25% - much further, leaving local bonds perhaps facing a relatively one-sided outlook.



Fixed Income: favouring duration and government bonds

Duration has recently detracted from performance in euro portfolios, but the sell-off in bunds may have gone too far, and could be partially reversed before the fiscal stimulus takes effect. We think central banks will avoid repeating earlier mistakes, and curves can flatten anew as it becomes clear that inflation is not rising back out of control. Current 10-year yields have room to fall.

We prefer government bonds simply because corporate credit looks expensive. Within credit, with few signs of corporate distress, speculative grade credit's higher yields look more attractive.

Asset allocation overview (ii)

EQUITIES		-	Neutral	+
Regions	North America		■	←
	Continental Europe*		■	
	UK		■	
	Switzerland	→	■	
	Japan		■	
	Pacific excluding Japan		■	
	EM excluding Asia		■	
	EM Asia		■	
Developed-market Sectors	Energy	■	←	
	Materials		■	
	Industrials		■	
	Utilities	■		
	Consumer discretionary	■		
	Consumer staples		■	
	Communications			■
	Healthcare		→	■
	Technology			■
	Financials			■
	Real estate	■		

Equities: the US losing its edge?

Trump's actions to date may be weakening the appeal of the US. Meanwhile, Europe seems to be taking greater control of its own political and economic security. We have changed our regional and sectoral equity weightings as a result.

Specifically, we decided in early March to close our overweight stance on US stocks and our underweight in Switzerland, and raised healthcare to overweight while cutting energy to underweight. We thought the closed underweight on the defensive Swiss market was more appropriate, for now, than the opening of a new overweight position elsewhere in Europe. Healthcare similarly represents an alternative source of equity duration, rather than more direct cyclical exposure, while energy may be exposed to greater supply (on both sides of the Atlantic). The Swiss market is healthcare-heavy, and both the SMI and the sector have had some momentum this year.

This leaves us now neutral on equity regions, but with ongoing sectoral positions that favour a mix of cyclical (financials) and structural (technology, communications and now healthcare) growth. Expectations for the latter group, particularly around the theme of AI, may have been overly optimistic, but cashflow and balance sheets remain healthy. We fund these positions with ongoing underweights in utilities, real estate, consumer discretionary, and now energy.

FX	-	Neutral	+
USD		■	
EUR		■	
GBP		■	
CHF		■	

Currencies: a low-conviction outlook

The dollar's post-election surge has been largely reversed, leaving trading ranges intact. Our currency conviction remains low: valuations are not extreme, and interest rates are not diverging hugely. That said, closing our regional preference for US stocks does cancel a modest pro-dollar stance in portfolios.

* Excluding Switzerland

Notes

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