Rothschild & Co
Wealth Management

Mosaique Asset Allocation

May 2025

KEY TAKEAWAYS

- Volatility spikes with "Liberation Day" confusion
- We think it is too soon to say everything has changed…
- … but are staying close to our benchmarks

The Macro Picture

Geopolitical Trump tariffs could be a game changer…

The potential impact of the extra "reciprocal" US tariffs announced on April 2nd was clear. Protection is bad for business and jobs, and Trump's proposed tariff regime would have been a major break with the recent past. Retaliation from the rest of the world would amplify the impact. Pundits were quick to proclaim a new age of autarky and US reindustrialisation: almost overnight, the globally-integrated production model underpinning living standards and investment returns seemed poised to go into reverse. A sell-off in stocks was understandable.

… but may not be: his comments seem almost designed to confuse

Unless you'd expected the announcement, the fall in stock prices was too sharp to trade. The same was also true of the sudden rebound in prices when Trump said he would postpone the reciprocal tariffs on countries other than China. Further comments from the US "administration" have suggested that exemptions for specific products and countries, and/or even a "deal" with China, might be forthcoming – or might not. The words and actions seem almost designed to confuse. Even if they are not, that has been their effect.

Meanwhile, with the extra tariffs only on pause, investors are not out of the woods yet. Risk appetite might not fully revive even if the tariffs were to be cancelled: the possibility that the commercial world might suddenly be turned upside-down again by an offhand comment from the White House is likely to keep some economic activity on hold for a while at least.

Unusually, the economic data may count for little at the moment

This is one of the rare times when geopolitical developments do dominate, and the economic news – which usually matters most to portfolios – may have relatively little impact. This is not because corporate profitability and interest rates no longer matter, but because until the policy backdrop is a little clearer, the economic data will be difficult to interpret. It will be unclear how long it will take for business to adjust to such tariffs as they take effect, or for other countries to retaliate fully; meanwhile, any unexpectedly-strong data may simply reflect some businesses trying to avoid tariffs by bringing shipments forward (as already seemed to be happening with US imports earlier in the year).

All that can be said is that until April 2nd at least, the previous two years' relatively friendly mix of ongoing growth with above-target but not runaway inflation seemed to be intact. Indeed, in place of the medium-term deflation risk which tariffs pose, we had been concerned that the stage was set for a modest revival in inflation risk.

Portfolios remain ready for any outcome

We did not expect Liberation Day to turn out as it did, but we did think that Mr Trump was capable of changing his mind, and in both ad hoc and routine meetings of the Asset Allocation committee we decided against making dramatic changes to Mosaique portfolios. As we noted previously, it is very clear what might go wrong, but potentially positive outcomes also exist, and can be overlooked. Even if the reciprocal US tariffs are implemented after all, the revenues are likely to be recycled in the form of bigger tax cuts, and the Federal Reserve will likely cut interest rates more significantly (though the latter might not count as for much as it usually would).

We have been neutral on the main asset classes since November, and despite the intervening volatility, market levels – both stocks and bonds, which have had recent technical concerns of their own – have not, net, moved far. In March we closed our regional preference for US stocks, and earlier in April we cut some sector positions, mostly closing active calls and adding to defensiveness. We are now making a further incremental reduction to portfolio risk within fixed income holdings by cutting high-yield corporate bonds to underweight, and boosting government bonds to a double overweight. Mosaique portfolios have rarely if ever been as close to benchmark as they are now – and the remaining active divergence is now modestly defensive.

Asset allocation overview (i)

KEY	-		Neutral		+
Overweight					
Benchmark					
Underweight					
Recent change		→		←	

ASSET ALLOCATION		-		Neutral		+
US	Money market					
	Fixed income					
	Equities					
	Gold					
Europe	Money market					
	Fixed income					
	Equities					
	Gold					
Switzerland	Money market					
	Fixed income					
	Equities					
	Gold					

Neutral stance still preferred

As the sharp fall and subsequent rebound after April 2nd shows, extreme positions currently may not pay. Bad outcomes for business are easy to imagine – but so are more positive ones, and global stocks do not look especially expensive. We stay neutral on the three main asset classes, and 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 have been so low as to make liquidity preferable to bonds.

FIXED INCOME		-		Neutral		+
US	Duration					
	Government				→	
	Investment Grade					
	High Yield			←		
Europe	Duration					
	Government				→	
	Investment Grade					
	High Yield			←		
Switzerland	Duration					
	Government				→	
	Investment Grade					
	High Yield			←		
UK	Duration					
	Government				→	
	Investment Grade					
	High Yield			←		

Fixed Income: we prefer government bonds, and (less so) duration

Despite the technical concerns which have occasionally of late caused bonds to trade poorly, even as stocks have been weak, we retain a preference for longer-dated bonds. Medium term deflation risk has likely fallen, and yields look reasonable value: we think curves can flatten as it becomes clearer that the impact of tariffs on inflation will be brief.

We have preferred government bonds to date simply because corporate credit looks expensive. Despite spreads widening, it still does, and more so than stocks. We are now reducing speculative grade credit to an underweight, and adding to our existing overweight in highest quality (government) bonds.

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 were weakening the appeal of the US even before April 2nd, and we cancelled our US overweight in March. We are not yet ready to move further: Europe may be taking greater control of its own political and economic security, but corporate profitability is still at risk from tariffs and the dollar's recent slide (see below).

Since March, we have made a few further changes at the sector level, mostly closing active positions and adding to defensiveness. Specifically, we have closed overweights in communications and financials, two volatile sectors, in favour of closing an underweight in utilities and raising consumer staples to an overweight (both sectors are relatively defensive).

This leaves us with few open positions: an underweight in consumer discretionary (the sector which includes two of the highly volatile M7 group of stocks) which can be seen as balancing an ongoing overweight in technology (which also includes several M7 names); an underweight in energy balanced by an overweight in healthcare; and an underweight in real estate balanced now by the overweight in consumer staples. Net, these sector positions are modestly defensive.

FX	-	Neutral	+
USD			
EUR			
GBP			
CHF			

Currencies: a low-conviction outlook

The widespread assumption that Trump trades and tariff talk would be good for the dollar was mistaken: it has fallen back to levels against the euro last seen in 2022, and has only once been lower against the Swiss franc (though the latter trends higher against most currencies). Closing our regional preference for US stocks cancelled a modest pro-dollar stance in portfolios, but we have not felt strongly enough to actively open an underweight. Recent talk about the US losing its reserve currency status is (again) premature; it was not outlandishly expensive to begin with; and moves have only been large when compared to recently-low levels of currency volatility.

* Excluding Switzerland

Notes

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