Rothschild & Co
Wealth Management

Mosaique Asset Allocation

June 2025

KEY TAKEAWAYS

- Stocks have regained ground lost since April 2nd
- Tariff risk has not disappeared, however
- We again stay close to our benchmarks, waiting for more clarity

The Macro Picture

Trump tariffs postponed, not cancelled

The stakes were clear, and the stock market's initial fall after April 2nd was understandable. Protection is bad for profitability and jobs, and Trump's proposed tariff regime would have been a major break with the recent past. A new age of autarky and US reindustrialisation would reverse the business model which has underpinned living standards and investment returns these last few decades.

By similar reasoning, the market's sharp rebound when the threat of the "Liberation Day" tariffs was seemingly lifted was also understandable. The rally continued as a tentative bilateral deal with China – which would see tariffs of an additional 30% "only" levied on China's exports to the US, in place of the previously prohibitive 100%-plus proposal – was announced.

As we write, the US stock market has regained the ground lost since April 2nd, and has been within a few percentage points of February's all-time high. But as is clear from the President's latest tirade against Europe, until formal trade deals are confirmed, the threat of tariffs can always return. Most Liberation Day increases have been postponed, until early July, not cancelled, and the US president is capricious and mercurial. He is right to point to unfairness in the world trade regime, but his actions in seeking to remedy the situation could yet do significant damage to the global and US economy. Risk assets are not out of the woods yet.

Economic data more difficult to read than usual…

Currently, 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 tariff framework is clearer, the data will remain difficult to interpret. Some business has been brought forward to avoid higher tariffs; other transactions are being delayed or even cancelled in anticipation of them.

All that can be said so far is that as yet there is little sign in the regular, widely-watched business surveys of a dramatic fall in business confidence or orders – even in the manufacturing sector, which might be particularly vulnerable to additional tariffs (so far confined to trade in goods, not services). Extra tariffs on Canada, Mexico and China were announced well before April 2nd, but are perhaps taking some time to register in the surveys. Similarly, the various inflation indices have yet to reflect higher tariffs.

If Liberation Day tariffs were permanently withdrawn, and the tentative deal with China were to become concrete, the likely increase in US effective tariffs would be of the order of 10 percentage points – enough to slow growth, but probably not enough to trigger a significant downturn. The IMF's latest projections suggested that even the Liberation Day tariffs might not be enough to trigger an outright US recession, though confidence in that projection must of course be low given the unprecedented nature of the risk.

… but we think interest rates will fall a bit further

We do not see the tariffs themselves as having a lasting inflationary effect, because they effectively reduce spending power (at least, until the revenues are recycled as lower taxes). However, taking those recent surveys at face value, and assuming that the Liberation Day tariffs are not implemented, then the US and European economies may not need emergency support from extra cuts in interest rates, and we think now that the Federal Reserve in particular may cut interest rates only another 1-2 times (in place of the bigger cuts which initially seemed likely after April 2nd). Similar moves are likely in the euro area, the UK and Switzerland. In the latter case, such cuts would take rates back into negative territory, but the SNB faces significantly less inflationary risk than the other central banks.

Portfolios again ready for a wide range of outcomes

We do not pretend to be able to forecast Mr Trump's actions, but we have long felt that his statements – as opposed to his intentions – should not always be taken at face value. They seem often to be designed to provoke, not communicate. We did not expect Liberation Day to turn out as it did, but we did think Mr Trump was capable of changing his mind, and in successive ad hoc and routine meetings of the Asset Allocation committee we have decided against making dramatic changes to Mosaique portfolios. As we have noted often, it is very clear what might go wrong, but potentially positive outcomes also exist, and can be overlooked.

We have been neutral on the main asset classes since November, and despite the intervening volatility, market levels – both stocks and bonds, which continue to display unusually-high volatility – have not, net, moved far. In March we closed our regional preference for US stocks. In April we cut some sector positions, mostly closing active calls and adding to defensiveness, and within fixed-income holdings we trimmed risk by cutting high-yield corporate bonds to underweight, and boosting government bonds to a double overweight.

We are now making two further incremental changes by closing a long duration stance in the fixed-income portion of USD-denominated portfolios, and in our equity holdings by closing an overweight in healthcare, and an underweight in real estate. This has moved Mosaique portfolios even closer to benchmark – a deliberate stance, given the tactical uncertainties, which leaves us well placed to move in either a "risk on" or "risk off" direction should the need arise.

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 again preferred

As the post-Liberation Day volatility suggested, extreme positions currently may not pay. Bad outcomes for business are easy to imagine– but so are more positive ones. Global stocks remain expensive, but not dramatically so.

As has been the case since November, we stay neutral on the three main asset classes, well-positioned to add or cut risk if/when we think circumstances change. The exception remains a local, technical one: in Swiss franc portfolios, even as cash rates seem headed back into negative territory, bond yields look too low for comfort, and we favour liquidity over 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: US duration cut to neutral

Longer-dated bonds continue to trade poorly. Without the prospect of more substantial cuts to policy rates, and with the economy perhaps less fragile than seemed likely immediately after April 2nd, we have pulled our longer-duration stance in USD fixed income portfolios back to benchmark. We still suspect that the weakness of the very longest-dated bonds may reflect technical factors, and we doubt that yields will rise much further. Nonetheless, the chances of an earlier reversal in yields seem slimmer, with no obvious trigger at hand. In euro portfolios, with inflation risk more muted, we keep duration above benchmark.

Meanwhile, we continue to prefer government bonds to credit. The loss of the US's residual triple A rating has not changed our thinking here, and we are wary of credit spreads' renewed narrowing (back to expensive levels).

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 had weakened the appeal of the US even before April 2nd, and we cancelled our US overweight in March. However, while Europe is taking greater control of its own political and economic security, corporate profitability is still at risk from tariffs and the dollar's softness. Nor have we yet seen a decisive rotation in investor preferences at the sector level: until we do, Europe's relative lack of quoted technology stocks, and its reliance on traditionally cyclical sectors, may restrain its advance.

We have had few active sector positions recently – one of the few remaining being an overweight in technology – and we are closing two more this month. Healthcare has been hit (again) by expectations that the US administration will indeed act more aggressively on pharmaceutical pricing. Even though it has underperformed significantly already, we are closing our overweight. We place the funds into real estate, closing an underweight position there in the expectation that the lower policy rates already in place will provide a boost to sentiment. It is also perhaps a sector which is relatively immune to worries about tariffs.

FX	-	Neutral	+
USD			
EUR			
GBP			
CHF			

Currencies: dollar down but not out

The dollar remains soft, but not dramatically so: its recent lows were back in April. The common belief that it would benefit from Trump trades and tariff talk was mistaken, but so too (we think) is the currently-popular notion that its days as the world's reserve currency are at an end. The "Make America Great" strategy is flawed in conception and execution, and there is no other major currency capable of filling the role any time soon (at least, while China has a big payments surplus and capital controls). The dollar has been expensive, but not outlandishly so, and having effectively closed an implicit pro-dollar stance when we cancelled our regional US overweight in stocks we remain tactically neutral.

* Excluding Switzerland

Notes

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