Rothschild & Co
Wealth Management

Mosaique Asset Allocation

July 2025

KEY TAKEAWAYS

- Geopolitical and tariff risks remain very visible…
- … but markets so far remain relatively stable
- We stay well-placed to respond if this changes

The Macro Picture

Renewed ME conflict…

The International Atomic Energy Agency's ruling on Iran triggered Israel's strike and the current wave of Middle Eastern conflict. The risk of escalation is clear, and daunting; but as is often the case, grim humanitarian and political developments do not have to be accompanied by financial upheaval, and the impact on oil, shipping, and capital markets to date has been small. In the narrow, technical context of investing, the range of potential outcomes may not be as one-sided as it seems, and investors have long been aware of this specific risk. More dramatic disruption, though possible, is not inevitable.

… ongoing trade tension…

Meanwhile, the threat of substantial tariffs continues to shadow global business. The "Liberation Day" measures have so far only been postponed, not cancelled, and the early July deadline is approaching. If they were to be implemented after all, the economic damage could be big, and the US president and his advisers continue to offer seemingly contradictory guidance about the outlook. However, investors have arguably learned by now that the administration's various comments should not always be taken literally; meanwhile, some deals will be struck, and where they aren't, there may be legal and practical challenges to the imposition of the largest duties.

… and fiscal imprudence…

The "big beautiful bill" continues slowly to make its way through Congress, and while the details are still in flux, it seems likely to add further to the US budget deficit (already at 6% of GDP). Mr Musk, having failed to cut federal spending as he'd promised, is now a vocal critic of the bill, and US government debt has just lost its remaining triple-A rating. However, despite much talk of a loss of confidence in US Treasuries and the dollar, and some occasional volatility in the longest-dated yields, there is no sign of the so-called "moron premium", and the currency's decline – from high levels – has been orderly and unremarkable.

… leave markets relatively stable for now

The tariff threat has made economic data difficult to read. Having been erratically weak on that account in Q1, as imports were brought forward, US growth seems to have been similarly strong in Q2. However, forward-looking business surveys have now had ample time to digest those risks, and as yet are showing no sign of a sudden collapse in economic activity. Inflation remains sticky, at above-target levels on both sides of the Atlantic (except in Switzerland of course), but the big central banks have some room to cut interest rates a little further.

This economic resilience, together with the caveats noted above, helps explain why stock and bond markets have not been more volatile of late. Indeed, despite the obvious risks, the global stock index has rallied close to its February peak in local currency terms (in dollar terms, it has hit a new high).

We can't pretend we expected markets to be quite this stoic, but we have been broadly neutral in our asset allocation, ready to respond in either direction should circumstances change.

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 intact again

As noted, while bad outcomes for business are easy to imagine, more positive ones are possible also. 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 with cash rates likely headed back into negative territory, the risks around high bond prices look rather asymmetric, and we favour liquidity to fixed income assets.

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: European duration and high quality preferred

The key driver of US bond yields is usually the business cycle, not the level of federal borrowing, as noted. Nonetheless, without the prospect of more substantial cuts to policy rates, last month we cut our longer-duration stance in USD fixed income portfolios back to benchmark. In Europe, where economies are more fragile, inflation softer, and Germany's pending surge in government spending still some way off, we again keep duration above benchmark.

Similarly, we continue to prefer government bonds to credit, despite that US sovereign downgrade and Germany's fiscal plans. Credit spreads have narrowed anew, and both investment and speculative grades look expensive.

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: still neutral on the US/EU

Europe is taking greater control of its own political and economic security, but corporate profitability is still at risk from tariffs, the dollar's softness, and the lack of more conventionally-cyclical market leadership. We cut our overweight in the US back in March, but still feel that an underweight there would be premature.

Mosaique portfolios have never had fewer open positions, but with risks so poised currently we feel this remains appropriate. Our underweight in energy has not helped in the last month, but the increase in oil prices has been small, and may not last, even with geopolitical risk elevated. Meanwhile, it has been right to persevere with the technology overweight, despite some misgivings about AI-driven valuations: the sector continues to lead the market more often than not.

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

Currencies: dollar down but still not out

The dollar has softened further, to post-2021 lows against the euro. The idea that it would benefit from Trump trades and tariff talk was mistaken, but in our view so too is the currently-popular notion that its days as the world's reserve currency are at an end. The "Make America Great Again" 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). We closed an implicit pro-dollar stance when we cancelled our regional US overweight in stocks, but have since remained tactically neutral.

* Excluding Switzerland

Notes

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