Rothschild & Co
Wealth Management

Mosaique Asset Allocation

August 2025

KEY TAKEAWAYS

- Geopolitical and policy risks remain elevated…
- … but so too do stock prices
- We again have few active positions, waiting for clarity

The Macro Picture

Geopolitical stress continues…

There may be a ceasefire between Iran and Israel, but conflict continues elsewhere in the Middle East and of course in Ukraine. The impact on energy and shipping costs remains modest, and we know that grim humanitarian and political developments often have little financial impact. Nonetheless, the risk of escalation and economic contagion remains.

… trade tensions have revived…

The threat of trade war revived with the expiration in early July of the postponement of the "Liberation Day" tariffs. President Trump issued letters to America's trading partners threatening large levies – in some cases on par with those of April 2nd – if trade agreements were not negotiated by a new deadline of August 1st. If such tariffs do take effect after all, the economic damage could be big. Investors have learned by now that the administration's various comments should not always be taken literally, but the risk of significant economic disruption – avoided to date – remains real.

… but fiscal and monetary policy is loosening

President Trump's "big beautiful bill" has been passed, and seems likely to push the US federal deficit towards 7% of GDP in the year ahead. European fiscal policy is also set in expansionary mode, led by the sea-change in thinking on defence spending encouraged by the US President. Monetary policy too is looking more lenient. Policy rates have fallen significantly on both sides of the Atlantic, and while money market expectations have often been too optimistic in recent months, rates likely still have room to fall a bit further – even as trailing inflation seems to have bottomed-out at mostly above-target levels. The Federal Reserve has been the most hawkish of the three main western central banks, but its current Chair is being browbeaten by the President, and its independence might be called seriously into question for the first time in recent memory. As a result, long-dated bond yields have been drifting higher in the US and Europe, and the dollar has softened further. Financial volatility as yet however has remained unremarkable.

Are stock markets "looking across the valley" – or just complacent?

Despite these very visible risks, stock markets have rallied and reached new highs. Continuing economic resilience has helped: there are still no signs of a material downturn in either the backward-looking hard data, or the more forward-looking business surveys. Inflation remains sticky, as noted, but not sufficiently to reverse the direction of interest rates. We know that markets can often look past near-term risks if the longer-term outlook remains constructive, and we have ourselves often taken such a view.

Nonetheless, market valuations are high. We think US stocks in particular have only been materially more expensive once before, in 2000. Moreover, the expectations underpinning the big stocks leading the market higher remain rather ambitious. The current wave of AI may not be capable of delivering the widespread impact on business profitability that market valuations are arguably taking for granted. There is sometimes a fine line between far-sightedness and complacency.

We remain reluctant to add risk to client portfolios. That said, while tactical risks currently feel more tilted to the downside, we do still recognise that constructive outcomes are still possible. We remain firmly neutral in our asset allocation, well-placed to respond should circumstances change in either direction.

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			→		

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					

We stay firmly neutral

The combination of ongoing geopolitical, trade and policy risk with high stock market valuations and sticky inflation keep us neutral on the three main asset classes – stocks, bonds and liquidity – as we have been now since November. 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.

Liquidity management: adding to gold

Within liquid assets we are moving to an overweight position in gold (and lowering cash to underweight).The price has already risen some way, but we think it can trend higher. Inflation seems to have bottomed; the dollar has been soft; interest rates are likely to fall a little further in the rest of 2025; and geopolitical risk remains high. Also, the latest the surge in crypto assets may be tempting banks to get more closely involved, perhaps adding a little to systemic risk there.

Fixed Income: still favouring European duration and high quality

We retain an overweight position in duration in euro, franc and pound-based portfolios: currencies are firmer, and economies more fragile. In dollar-based portfolios however we cut duration to neutral in May. We also continue to prefer government bonds to credit, despite looser fiscal policy. Credit spreads have narrowed still further, 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

We cut our overweight in the US back to neutral in March, but still feel that an underweight there would be premature. Indeed, there have been signs in the last few weeks of the US market starting to outperform again. Europe may be taking greater control of its own political and economic security, but corporate profitability is still at risk from tariffs, the dollar's softness, and more lacklustre trend growth. Global stock market leadership also still seems to favour technology, a sector in which Europe is relatively light.

Mosaique portfolios remain much more closely aligned with benchmarks than usual. With risks so poised currently we feel this is appropriate. Our overweight in consumer staples has not helped recently, but with another tariff deadline looming it is not clear what cyclical sector might be elevated in its place. Meanwhile, it has been right so far to resist closing our energy underweight – oil prices were little affected by the Iran/Israel conflict – and to persevere with the technology overweight, despite our misgivings about AI-driven valuations: the sector continues to lead the market more often than not.

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

Currencies: dollar remains soft, but reserve asset status is intact

The dollar has stabilised but remains soft. 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, and there is no other major currency capable of filling the role (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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