Rothschild & Co
Wealth Management

Mosaique Asset Allocation

September 2025

KEY TAKEAWAYS

- The macro outlook may be a little clearer…
- … but stock market valuations have risen further
- We again stay close to benchmark

The Macro Picture

Geopolitical stress may ease a little…

As we write, the outcome of the most recent US-led initiative aimed at ending Russia's war on Ukraine is unclear, and a Middle East ceasefire remains elusive. In each case, however, it is perhaps a little easier to imagine some negotiated end to conflict, and the risk of wider escalation seems thankfully to have subsided. Meanwhile, energy and shipping costs remain largely unaffected – in real terms, oil prices have fallen further below trend – and financial markets remain callously indifferent to the grim humanitarian news.

… and there is a little more visibility on tariffs

The latest tariff deadline of August 7th passed mostly without drama, as the European Union and Japan had reached deals beforehand, and negotiations with China remained underway at an advanced stage. Currently, it looks as if US tariffs may settle at levels which are high enough to dent profitability and growth, but not to trigger a more dramatic economic downturn.

Perhaps the most visible exception is the case of Switzerland, which unexpectedly faces a tariff of 39% on its sales to the US – sales which represent a big portion of its GDP. Market response to the news has however been modest: negotiations will no doubt be continuing, and Switzerland's otherwise deep pockets may yet allow it to present Mr Trump with an attractive "deal" – which perhaps explains why the response of the franc and SMI to the news has so far been marginal.

Economies are resilient…

Both backward-looking "hard" data on GDP and employment, and "softer" forward-looking business surveys, continue to suggest that the global economy is managing to avoid a dramatic downturn. China is leading the major economies, tariff threats and ongoing domestic real estate problems notwithstanding. The US had a mixed first half, but in the current quarter seems to be growing on trend (so far). Europe is lagging, but has nonetheless managed to grow, and forecasts for the full year have been nudged higher recently. Unemployment rates have risen a little in the US and UK, but in the eurozone remain at record lows.

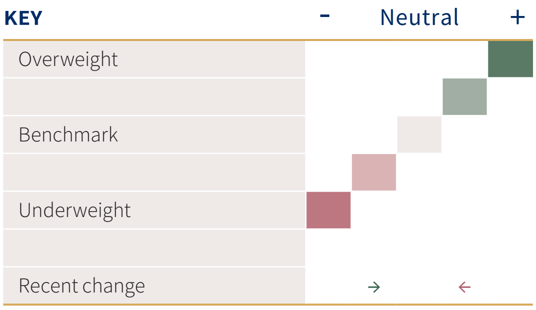
… but so is inflation, and interest rates may not fall much further for now

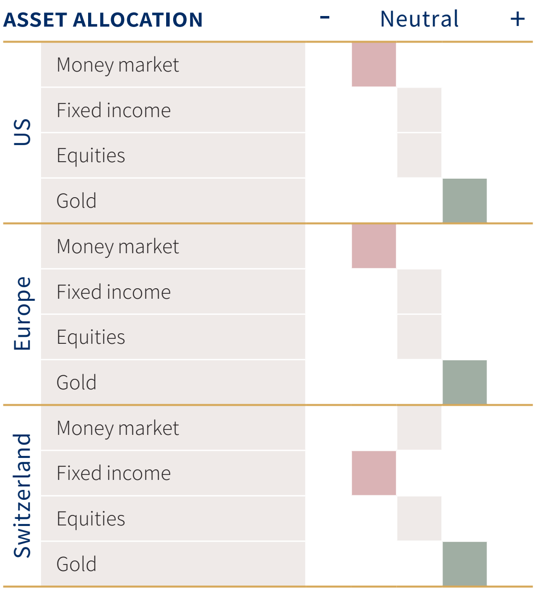
This economic resilience – rather than tariffs, which have yet to show up significantly in published CPIs – probably explains why core inflation has been "sticky" at above target levels in the US, eurozone and UK (Swiss inflation is better behaved, but then it almost always is). Low unemployment is underpinning real wages, which are in turn keeping service sector inflation in particular at uncomfortably-firm levels for the monetary authorities. As a result, the room for further reductions in interest rates is modest, on both sides of the Atlantic (though the Federal Reserve may nonetheless cut rates in September, for the first time since December, and it faces significant political pressure to do so).

Meanwhile, market valuations have risen further

Stock markets were not cheap to begin with – the US market has only looked significantly more expensive once before, in 2000 – and in recent weeks have risen to new highs. As noted, there may have been a marginal improvement in the macro situation, but with less room for interest rates to fall we think this may be fully priced in. Corporate results to date have mostly been positive, but looking further ahead we doubt whether the current wave of AI can deliver the widespread impact on business profitability that valuations are arguably taking for granted.

Asset allocation overview (i)



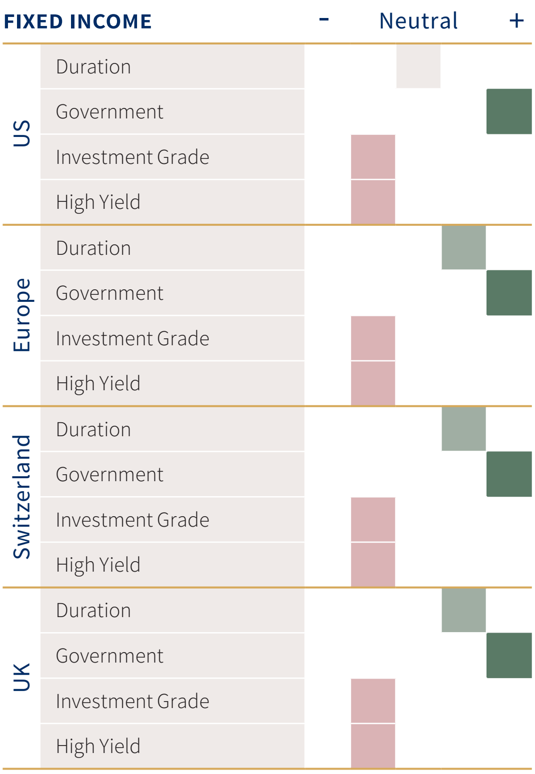


We remain firmly neutral

The combination of high stock market valuations with sticky inflation, together with the lingering tariff-related risks, again keep us neutral on the three main asset classes – stocks, bonds and liquidity – and well-placed to respond to changing circumstances in either direction. The exception remains a local, technical one: in Swiss franc portfolios, even with cash rates back on the brink of negative territory, risks look rather asymmetric, and we prefer liquidity to bonds.

Liquidity management: gold favoured over cash

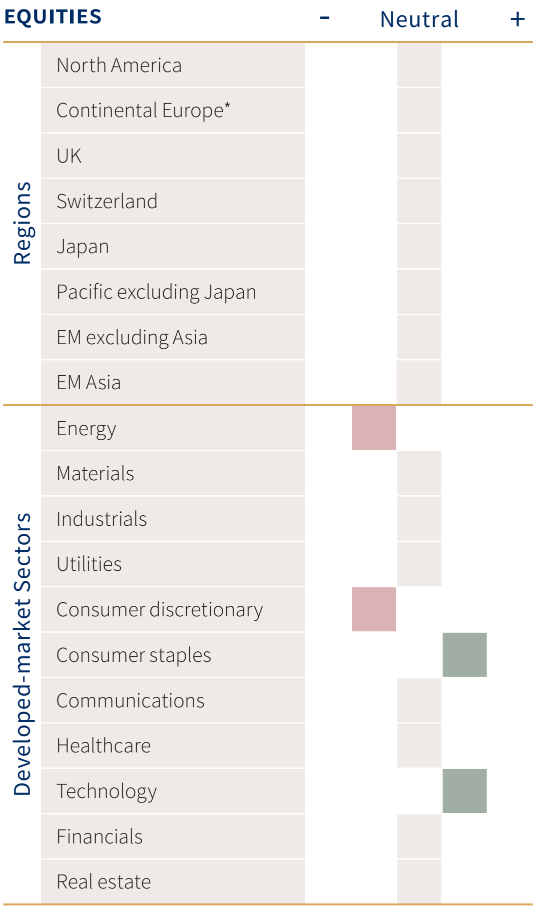
Within liquid assets we moved last month to an overweight position in gold, cutting cash to underweight. We think the price can continue to trend higher: inflation seems to have bottomed, and monetary credibility may start to be questioned again – particularly if President Trump continues to browbeat the Fed.



Fixed Income: we prefer European duration and high quality

We continue to prefer longer-dated bonds in euro, franc and pound-based portfolios, even though that has hurt a little of late: currencies are firmer, and economies more fragile. In dollar-based portfolios, 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 (even) more expensive.

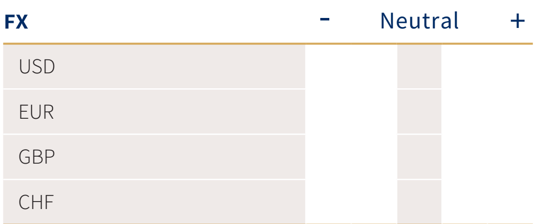
Asset allocation overview (ii)



Equities: still waiting for a wider rotation

Our regional equity positions are also at benchmark. We cut our overweight in the US back to neutral in March, but still feel that an underweight there would be premature. Indeed, in the last couple of months the US market's relative performance seems to have stabilised. Europe is taking greater control of its own security, but corporate profitability is still lower, currency risk is a headwind, and domestic growth is lacklustre. Europe is also relatively light in the sort of technology-led stocks currently leading markets.

At the sector level, we have a few active positions. One of them, an overweight in consumer staples, has been less supportive recently – reflecting the wider trend of defensive sector weakness. As yet, we do not see a strong case for rotating into cyclicals, but this remains an active discussion point. We stay underweight on energy and consumer discretionary sector (the latter is dominated by two of the big but very volatile M7 names), and persevere with a technology overweight, despite our misgivings about AI-driven valuations: the sector continues to lead the market more often than not.



Currencies: dollar decline has paused

The dollar has been broadly stable for a second month, albeit at levels last seen in 2021. Tactically we have little conviction: we closed an implicit pro-dollar stance when we cancelled our regional US overweight in stocks in March. Strategically, we feel that the "Make America Great Again" strategy is misconceived. As long as China has a big payments surplus and capital controls, the renminbi is not capable of replacing the dollar as the most widely held reserve currency.

* Excluding Switzerland

Notes

At the heart of Wealth Insights lies a wide set of timely and insightful publications and podcasts.

For more information please visit our page www.rothschildandco.com/insights

Important information