Mosaique Asset Allocation

October 2025

KEY TAKEAWAYS

- Growth continues, suggesting inflation is a bigger risk than deflation
- Stock markets seem to be pricing in a lot of good news
- We make only marginal portfolio changes, staying close to benchmark

The Macro Picture

Political risk becomes more local

Mr Trump's initiatives seem to have lost momentum, and ceasefires in Ukraine and the Middle East remain elusive. In the case of the former, the possibility of some escalation may even have risen a little after recent airspace infringements. Nonetheless, energy and shipping costs remain largely unaffected, with real oil prices firmly below trend, and financial markets are impersonal.

An added source of uncertainty, but one which has also left markets so far unmoved, are the fiscal difficulties faced in France and the UK, where political authority has been eroded by recent developments.

Tariff risk may have peaked

After the excitements earlier in the year, tariff news has thankfully been relatively light. We can be sure that negotiations are continuing between the US on the one hand, and China and Switzerland respectively. With deals done with the EU, Japan and the UK, it is beginning to feel as if a worst case outcome may be avoided. We continue to think that tariffs may settle at levels which are high enough to dent profitability and growth, putting sand in the wheels of business, but not to trigger a more dramatic economic downturn. Of course, nothing can be taken for granted under the current US administration.

Economies remain resilient…

US labour market data suggest some slowing in growth, and at downwardly revised levels of employment. However, they are lagging, not leading, indicators, and other "hard" data (such as retail sales) have been firmer – as have more forward-looking "soft" data such as the various business surveys. European economies also seem to remain resilient in the face of higher US tariffs and all the associated uncertainties, though growth rates here are much more subdued than those in the US. Perhaps the most visible outlier in the last month has been China, whose economic data have mostly fallen short of expectations – though there, of course, growth rates are (even these days) much higher than in the West to begin with.

Overall, the picture remains one in which neither world trade nor wider measures of economic activity have yet shown the sort of significant setback that many feared at the start of the year.

… but inflation remains sticky

This economic resilience, rather than tariffs themselves (which still have yet to show up significantly in published CPIs), probably explains why core inflation remains "sticky" at above-target levels in the US, eurozone and UK (Swiss inflation is better behaved, as usual). Low unemployment – despite the slower job growth in the US noted earlier – continues to underpin real wages, which in turn are keeping service sector inflation in particular at uncomfortably firm levels.

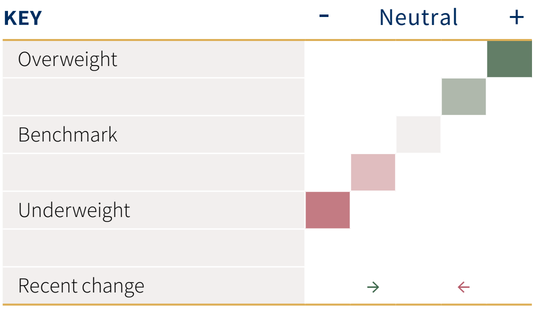
… suggesting limited room for further interest rate cuts

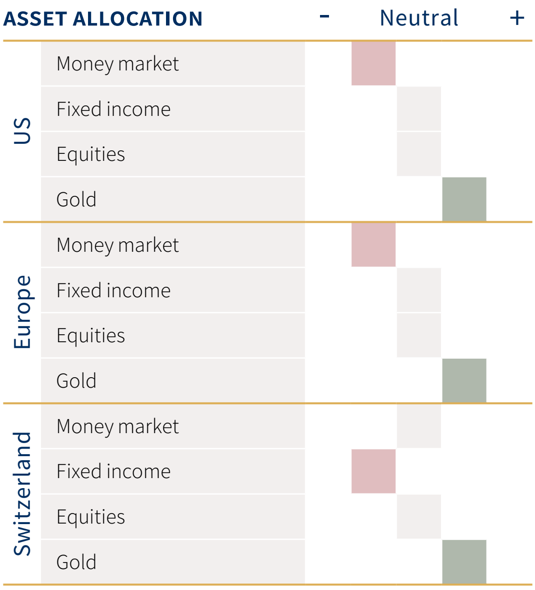
As we write, US policy rates seem poised to fall for the first time since December, with the money markets now expecting a further significant fall in the following twelve months. We continue to doubt whether such a large further fall in US rates is necessary or likely. Here in Europe too, even though growth is softer, it feels as if interest rates may be close to bottoming out.

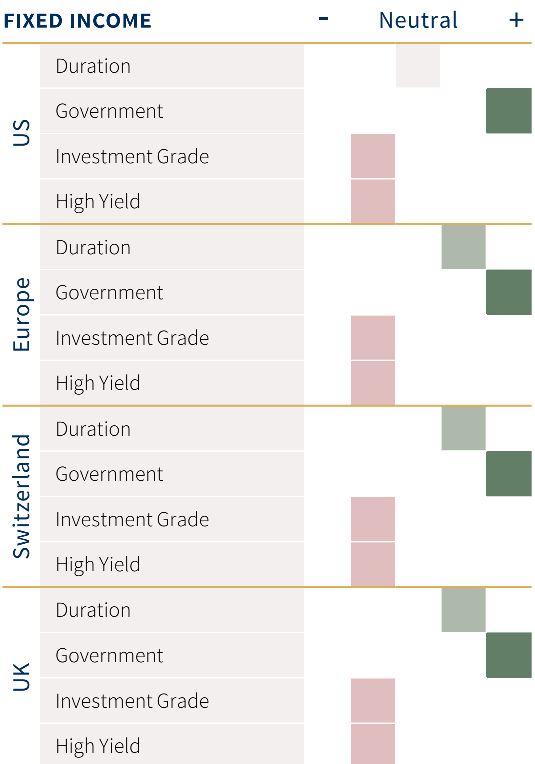
Meanwhile, stock prices have hit new highs

Recent earnings news has been better than expected, but doesn't make the US stock market look any less expensive: prices have already risen by more. It was not cheap at the start of the year, and has only looked significantly more expensive once before, in 2000. The companies leading the market have stronger business models, cashflows and balance sheets than was the case then, but some froth is increasingly visible in and around the AI theme. The economic backdrop is indeed friendlier than many had feared, but at these levels, and with less room for interest rates to fall, we feel some caution is warranted.

Asset allocation overview (i)







Conviction remains lower than usual

Again this month, a mix of high stock market valuations with sticky inflation, alongside lingering tariff-related risks, keep us neutral on the stocks and bonds. This leaves us well-placed to respond to changing circumstances in either direction. The exception remains a local, technical one: in Swiss franc portfolios, we see the risk/return mix for fixed income as very one-sided, and prefer liquidity to bonds, even with cash rates back on the brink of negative territory.

Gold favoured

We moved last month to an overweight position in gold, cutting cash to underweight. Even after its new highs, we still think the price can continue to trend higher: inflation seems to have bottomed, US interest rates are about to fall (at least for now), the dollar remains soft, and monetary credibility has been called into question by President Trump's public attempt to intimidate the Fed.

Fixed Income: we still favour 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 remain firm, and economies more fragile. In dollar-based portfolios, we cut duration to neutral in May, and after the recent rally, Treasuries look fully valued. We also continue to prefer government bonds to credit, despite looser fiscal policy. Credit spreads remain close to post-'noughties lows, and both investment and speculative grades look expensive, even with few corporate upsets.

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 waiting for a wider rotation

Our regional equity positions also stay at benchmark. We cut our overweight in the US back to neutral in March, but have felt that an underweight there would be premature, and in the last few months the US market's relative performance has indeed stabilised. Europe may be poised to spend a lot more on defence, but corporate profitability is still lower, currency risk is a headwind, and domestic growth so far remains lacklustre. Europe is also relatively light in the sort of technology-led stocks which are still leading markets.

At the sector level, we are closing one of our few active positions. Being overweight in consumer staples has been hurting performance as defensiveness has stayed out of favour, despite all the background noise and risk. We are closing that position, and at the same time closing an underweight in consumer discretionary, a more conventionally cyclical sector whose big idiosyncratic names may be a bit less volatile of late. Net, this adds a little economic risk to portfolios, but it also leaves them (even) closer to benchmark, which is not inappropriate at a time when our macro conviction is lower than usual. Meanwhile, we stay underweight on energy and persevere with our long-standing technology overweight, despite our misgivings about some AI-driven valuations: the sector continues to lead the market more often than not.

FX	-	Neutral	+
USD			
EUR			
GBP			
CHF			

Currencies: dollar down but not out

The dollar has softened again in the last month as a likely cut in US interest rates has loomed closer and as Mr Trump has seemed to threaten the Federal Reserve's independence. However, it has yet to break decisively below its 2025 trading range. We closed an implicit pro-dollar stance when we cancelled our regional US overweight in stocks in March, and still think this was enough for the time being – particularly if markets are now once again expecting too much in terms of further US rate cuts. Strategically, we have felt that the "Make America Great Again" strategy is misconceived. With a big payments surplus and capital controls, China's renminbi cannot quickly replace the dollar in global portfolios.

* Excluding Switzerland

Notes

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