Rothschild & Co
Wealth Management

Mosaique Asset Allocation

November 2025

KEY TAKEAWAYS

- US shutdown obscures the economic picture
- Stock markets have risen to further new highs
- We open a new sector position but mostly stay close to benchmark

The Macro Picture

Political risk shifts back to tariffs

Mr Trump has succeeded in arranging another ceasefire in Gaza. It may be too soon to say whether it will last, but the initiative seems more soundly based than its predecessor. As often happens, however, there has been little read-across – this time in a positive sense – to capital markets, perhaps because of a coincidental re-awakening of tariff concerns. China's restrictions on rare earth exports have provoked Mr Trump to levy 100% tariffs on China's other exports to the US, and while we still believe that the global economy will be able to live with the likely trade regime ahead – not least because we still think that the two biggest economies will eventually reach some sort of compromise – the road immediately ahead once again looks bumpier.

In other developments, France's political difficulties may have eased, albeit at the cost of further fiscal procrastination, while those in the US have become a little more pressing with the federal government shutdown. Meanwhile, conflict continues in Ukraine, though energy prices remain seemingly unaffected, with the inflation-adjusted oil price dropping further below its trend.

Economies are probably still resilient…

The partial Federal government shutdown has interrupted the publication of most US economic statistics. That said, the available business surveys still show few signs of a significant worsening in economic activity, and the shutdown itself may not be big enough to deliver a sizeable setback directly. When last seen, the US economy looked to have been growing at a well-above-trend pace in Q3.

European economies remain sluggish, but as in the US there are few signs of a sudden seizure. China's data continues to disappoint, but at rates of growth which remain well above those in the developed world. Despite the higher tariffs which have now been in place for several months, world trade has continued to grow.

… keeping inflation sticky…

This economic resilience, not the tariffs themselves (which are still hard to trade in the published CPIs), likely explains why core inflation remains "sticky" at above-target levels in the US (subject to data availability) , the eurozone and UK. Swiss inflation remains better behaved, as usual. The main driver of this seems to be growing real wages, underpinned by unemployment rates which remain below historic trends, which are keeping service sector inflation rates at uncomfortably firm levels.

…and probably limiting the scope for interest rate cuts

US policy rates were cut in September, as expected, for the first time since December, and money markets continue to expect further significant cuts in the year ahead. We still doubt that such a reduction in US rates is necessary or likely. Expectations for European rates however look to us to be more realistic: eurozone policy rates are widely believed to be at or close to their cycle lows.

Stock valuations have risen still further

Stock prices hit further news highs recently, and despite selling-off on those renewed tariff concerns, valuations remain historically elevated. The only time that earnings-based valuations were higher was in 2000, an episode which ended unhappily, and now, as then, the market is being driven by a tech-oriented theme, some increasingly ambitious ideas about future profitability, and signs of bandwagon-type behaviour.

There are still some differences with 2000. Most of the companies in the van today are highly profitable and cash-generative; the surge in merger and acquisition activity that we saw then – including some highly questionable cross-industry tie-ups – is so far missing; and so too is corporate leverage (at least in the public markets). The parallels are nonetheless concerning, and together with our wariness on the room for further cuts in US interest rates, has been keeping our allocation to stocks at cautious, benchmark levels.

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				■	

Staying neutral on stocks and bonds, overweight gold

The US interest rate concerns posed by sticky inflation, and those high AI-driven valuations, again keep us at "wait and see", benchmark, weightings on stocks: we think it is too late to capitalise on momentum, but also too early to anticipate a significant correction. We also stay neutral – in dollar and euro-based portfolios – on bonds: valuations look reasonable, but policy rates may not fall much further. The exception continues to be a local, technical one: in franc-based portfolios we see the risk/return mix for fixed income as very one-sided, and have an underweight position. Meanwhile, we stay overweight on gold. We opened our position only in July, but it has risen significantly since then and continues to offer a play on possible "tail risk" and inflationary scenarios. The position in gold is funded from an underweight cash in dollar and euro portfolios, and from the underweight in fixed income in franc portfolios.

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: we still favour European duration and high quality

We continue to prefer longer-dated bonds in euro, franc and pound-based portfolios, where currencies remain firm, and economies more fragile. In dollar-based portfolios, we cut duration to neutral in May, and Treasuries look fully valued. We also continue to strongly prefer government bonds to credit, where both investment and speculative grades still look expensive, even after the latter's recent setback.

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: new sector position opened

We cut our overweight in the US back to neutral in March. In the last few months the US market's relative performance has stabilised, but with valuations still looking relatively stretched we are not ready to return to a more positive stance – indeed, as Europe's defence-led fiscal stimulus approaches, the arguments for an overweight there may strengthen sooner. Emerging markets recently have been doing well, and a soft dollar/falling rate environment can help them, but outside Asia – which faces its own short-term concerns with tariffs and China's disappointing economy – the bloc is simply too volatile and illiquid for us to take tactical positions unless our conviction is really strong.

At the sector level, we are opening a new position: an overweight in utilities, financed by an extended underweight in energy. In recent years we have been underweight the former more often than not, but its defensiveness has been muted of late by its exposure to Big Data's demand for energy – a demand which will not disappear soon, despite our misgivings at the valuations of stocks more directly shaped by the AI theme – and by the evolving energy transition. The energy sector is a natural source of funding for it, particularly with oil and gas prices softened by currently ample supply. Meanwhile, we again persevere with our long-standing technology overweight, despite those valuation misgivings: the sector continues to lead the market more often than not, and much of AI-related froth in any case lies outside the immediate sector.

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

Currencies: rangebound

The dollar has stabilised after its resumed decline last month, and relative to the euro – and most other major currencies – it looks broadly rangebound. Mr Trump's intimidation of the Federal Reserve may have peaked after it cut rates in September – not that we think the FOMC decision was mainly driven by that – and as we note above, further rate cuts may be smaller than the money markets expect. Strategically, we have long 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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