Rothschild & Co
Wealth Management

Mosaique Asset Allocation

December 2025

KEY TAKEAWAYS

- Economic picture remains unclear
- Stock markets look a little less exuberant, but still expensive
- We open another sector position, but again stay mostly close to benchmark

The Macro Picture

Tariff risk seems to subside (again)

Currently, it looks as if the dramatic tariff increases with which Mr Trump most recently threatened Switzerland and China may prove short-lived. Negotiations are reportedly close to securing a compromise in each case – as has happened already for many other countries in the last year. The likely effective tariff rate on US imports is still going to jump sharply in 2025, perhaps to levels not seen before the Second World War, but this may not be enough, in itself, to lead to recession – in the US or elsewhere. In 2025 to date, world trade has mostly continued to grow. The tariffs are putting "sand in the wheels" of global commerce, but not making those wheels drop off.

More troublingly, attrition continues in Ukraine, though there is talk of a renewed Trump initiative, and the Middle East ceasefire remains fragile. However, the read-across to capital markets remains marginal, with oil prices in particular trending at firmly below-trend levels in real terms. More parochial concerns have perhaps eased a little: the US federal government shutdown has been resolved, at least for a few months, and France's latest government may have a better chance of securing a budgetary compromise.

Business surveys point to ongoing modest growth

The recent partial Federal government shutdown (the longest) interrupted the publication of many key US economic statistics, leaving analysts dependent on "softer" survey-based data produced by other agencies. Publication is now resuming, but the recent state of the US economy is subject to (even) more uncertainty than usual. That said, the available business surveys have continued to show few signs of a significant worsening in economic activity, and the shutdown itself was probably not big enough to deliver a sizeable setback directly. Estimates suggest that growth continued through Q3 at least, possibly at an above-trend pace.

European economies have been more visible, but likely more sluggish, though as in the US there are few signs of a sudden seizure. China's data has perhaps firmed up a little, and the government has a good chance of achieving its objective of a full-year growth rate of 5% (with local data being no more questionable than usual). Despite the higher tariffs which have now been in place for much of the year, world trade has continued to trend higher.

Inflation remains sticky

Unemployment has risen only slowly, and wages continue to grow faster than prices. This, rather than tariffs (which are not yet clearly visible in published CPIs), likely explains why core inflation remains "sticky" at above-target levels in the US (subject to data availability) , the eurozone and UK. Switzerland remains better behaved in this respect, as usual.

US interest rate cuts may not be warranted

US policy rates were cut again in October, and money markets continue to expect further significant cuts (around a cumulative 100bp) in the year ahead. We still doubt that such a reduction in US rates is necessary or likely. Expectations for European rates however remain (in our view) more realistic: eurozone policy rates are widely believed to be at or close to their cycle lows.

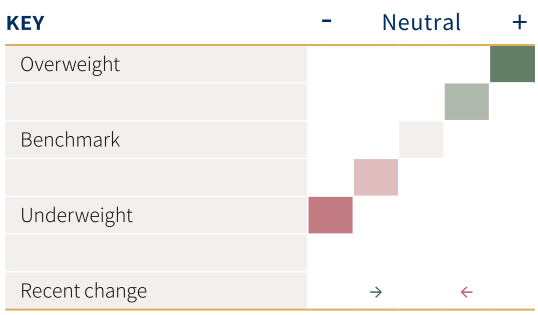
Stock valuations remain elevated

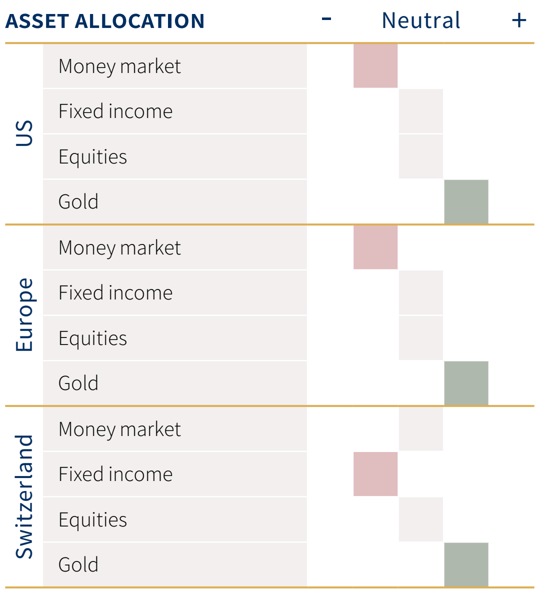
Stock prices hit further new highs in October. More recently they have fallen back a little, but valuations remain elevated. The only time that earnings-based valuations were noticeably higher was in 2000, which did not end well, and the two episodes have much in common: a new, potentially transformative technology theme; elevated expectations for future profitability; and signs of bandwagon-type behaviour.

There are some important differences with 2000, however. Today's market-leading stocks are mostly profitable and cash-generative, which was not the case then; merger and acquisition activity today is more subdued, with few signs of the empire-building cross-industry excesses seen then; and corporate leverage is more subdued.

The parallels have nonetheless been concerning, and together with our wariness on the room for further cuts in US interest rates, have kept our allocation to stocks at cautious, benchmark levels.

Asset allocation overview (i)

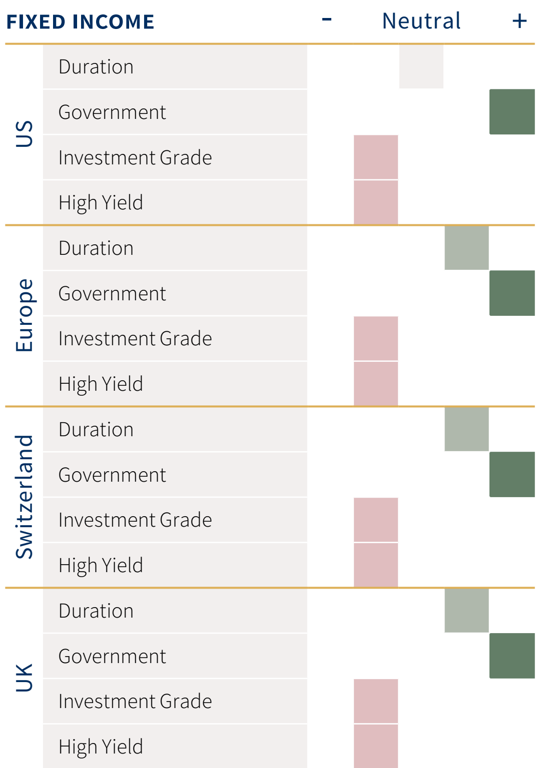




Firmly neutral on stocks and bonds; overweight gold

The recent softening in stock prices has not yet brought AI-driven valuations down materially, and together with our scepticism on the room for further US rate cuts, this has again kept us in "wait and see" mode, with weightings on stocks at benchmark levels. We also stay neutral – in dollar and euro-based portfolios – on bonds: valuations look reasonable, but as noted, 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.

We stay overweight on gold, despite its recent loss of momentum. We opened our position only in July. It has risen significantly since then, but can still offer a play on possible "tail risk" and inflationary scenarios. In euro and dollar portfolios the position is funded from an underweight in cash, and in franc portfolios from the local underweight in fixed income.



Fixed Income: European duration and high quality preferred

We continue to prefer longer-dated bonds in euro, franc and pound-based portfolios, where currencies have been firm, and economies more subdued. In dollar-based portfolios, we cut duration to neutral in May, and Treasuries have looked fully valued in recent months. 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. That said, we are not expecting a dramatic worsening of corporate creditworthiness, the high-profile collapses of First Brands and Tricolor notwithstanding.

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: another new sector position opened

We continue to have no strong regional preference. We cut our overweight in the US back to neutral in March, but Europe's relative economic performance has remained sluggish, as noted. This may well change, as there is a potent defence-led boost to public spending waiting in the wings in Germany, but for now that still lies on the other side of the tactical investment horizon. Emerging markets recently have been doing well, but outside Asia – which shares with the US an AI-heavy disposition – the bloc is simply too volatile and illiquid for us to take tactical positions unless conviction is really strong.

At the sector level, we are opening a second new position after last month's addition to utilities and cut to energy: we are now returning healthcare to an overweight, funded by cutting consumer staples to underweight. We had (prematurely) favoured healthcare in the spring, only for the sector to be hit by specific concerns over tariffs. These concerns seem to have abated, and the sector's downward momentum seems to have been arrested; meanwhile, the sector's own technological edge gives it a growth potential independent of the frothier AI-led theme, and a degree of defensiveness which could be attractive. Consumer staples is also a defensive sector, but may perhaps be less so if inflation concerns are one of the reasons for market softness, and its traditionally-higher valuations are called into question. Meanwhile, despite our wariness of AI-related valuations we continue to persevere with our long-standing technology overweight: we are not expecting a dramatic market downturn, and the sector continues to lead the market more often than not. Much AI-related froth in any case lies outside the sector.

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

Currencies: still rangebound

The dollar has broadly stabilised since the spring, and the major cross rates remain rangebound. Mr Trump's intimidation of the Federal Reserve may have peaked, and as we note above, further US 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

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

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