Rothschild & Co
Wealth Management

Mosaique Asset Allocation

January 2026

KEY TAKEAWAYS

- Economic momentum can be maintained in 2026
- This could lead to a rethink on interest rates
- Meanwhile, stock markets are pricing in a lot of good news to begin with
- We close a long-standing technology call in favour of financials

The Macro Picture

Geopolitical risk evolves

A traumatic and noisy year is finishing with conflict and strategic relations once again driving geopolitical risk. The situation in the Middle East remains fraught, while a ceasefire in Ukraine has been elusive. China's claim on Taiwan remains non-negotiable. Meanwhile, political dysfunction remains widespread in the West, and the publication of the US' 2025 National Security Strategy has alarmed many with its narrow self-interest and critical appraisal of Europe's prospects.

However, these concerns continue to have little effect on the global economy and capital markets. Shipping remains mostly unimpeded. Real oil prices have dipped further below trend, and European natural gas prices are back close to their pre-invasion trends.

The more direct threat to global business from an outright trade war seems to have faded a little further, with negotiations continuing between the US and some of the countries which Mr Trump has targeted most aggressively with tariffs (including Switzerland). We can take nothing for granted with such a mercurial US president, but as things stand the overall level of tariffs may be manageable: costly for sure, but not prohibitive – especially if, as seems likely, the revenues generated in the US are recycled as tax cuts or public spending. Data to end-September show world trade growing in 2025, and at a faster pace than in 2024 (though some of the acceleration may reflect attempts to pre-empt the duties).

Economic growth continues

The end (for now) to the US federal government shutdown has seen the resumed publication of more US data, and the picture painted is of an economy which has been doing better than many feared. It has probably grown only a little more slowly than usual in 2025, and its private sector – businesses and consumers together – was still running a financial surplus (that is, savings outpaced investment) in the first half of the year at least, despite massive AI-related capex.

As usual, the eurozone has been more sluggish, but has likely grown nonetheless, and by more than initially seemed to have been the case; meanwhile, the stimulus from higher defence spending looms. China continues to struggle with its real estate hangover, but its economy is likely to have grown by another 5% in 2025.

Looking forwards, and globally, year-end business surveys remain mostly in middle-of-the-road territory. Industry looks weaker than services, but there are still few signs of a looming downturn. This ongoing economic resilience, rather than tariffs (which are still not showing up in many consumer price indices) likely explains why core inflation remains stubborn, at above-target levels in the big Western economies.

Lower interest rates not needed?

US policy rates were cut again in December, but discussion of the outlook at the Federal Open Market Committee, and in the money markets, seems a little more balanced than it has been: further significant rate reductions are seen as a little less likely than was the case a month or so back. The Bank of England has also cut rates in December), even though the local inflation rate remains firmly above target and the recent budget was slightly expansionary for 2026. Of the big central banks, the eurozone continues to look the most hawkish, with money markets expecting the next move to be upwards.

As investment analysts we know it can be dangerous to "fight the Fed". Nonetheless, we continue to doubt the need for lower US (or UK) rates, and the possibility of a rethink at some stage in 2026 is one of our reasons for keep our asset allocation close to benchmark of late.

Stock valuations still elevated

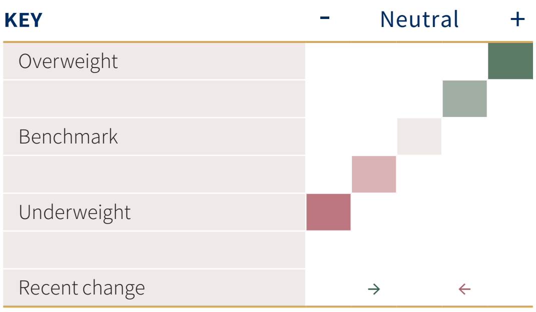
After a brief setback in November, the big stock indices have rallied to hit (just) new highs in December, though some of the high-profile AI-led names have not joined in this time.

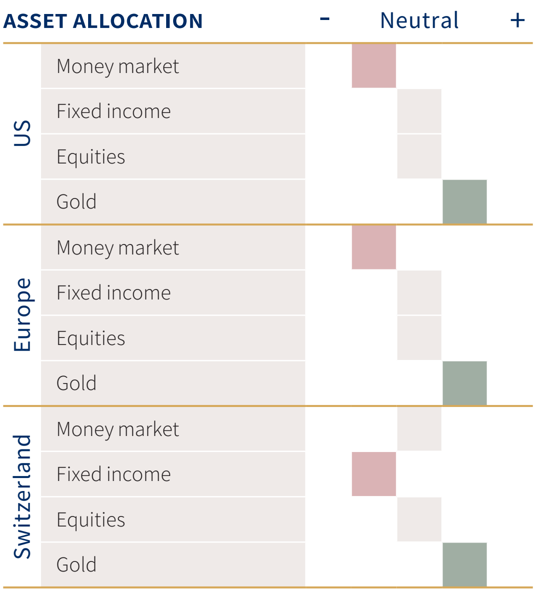
Earnings have been growing healthily, and as noted, market leadership may (at last) be rotating; nonetheless, valuations look elevated: the only time they were noticeably higher was in 2000, which did not end well. Increasingly, the two episodes have much in common: a new, potentially transformative technology theme; elevated expectations for future profitability; and signs of bandwagon-type behaviour.

That said, there are still important differences with 2000. The recently market-leading stocks are mostly profitable and cash-generative, which was not the case then; merger and acquisition activity, and corporate leverage, is more subdued.

The parallels nonetheless remain concerning, and another reason for us keeping our allocation to stocks at cautious, benchmark levels.

Asset allocation overview (i)



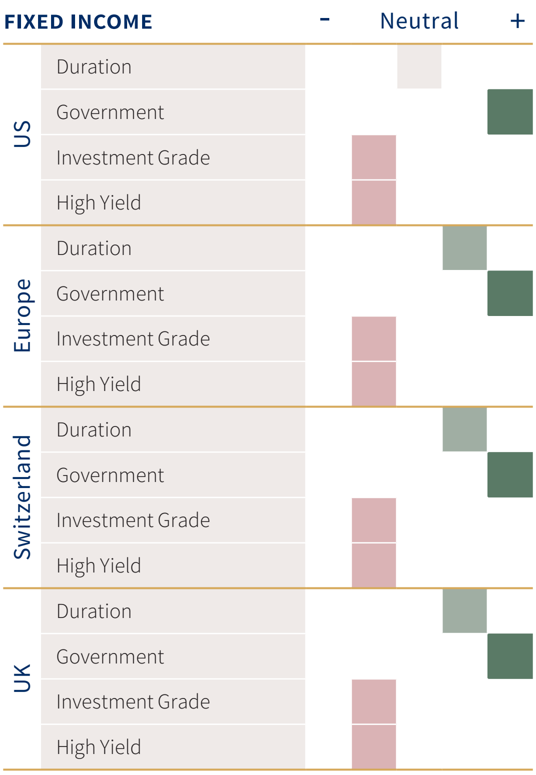


We stay firmly neutral on stocks and bonds; overweight gold

As noted, stock valuations look full, and together with our scepticism on the room for further US rate cuts, this is keeping 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, a rethink on policy rates might lie ahead. The exception continues to be a local, technical one: in franc-based portfolios the risk/return mix for fixed income remains very one-sided, and we have an underweight position.

After a brief loss of momentum, gold has rallied close to earlier highs, and long-term charts of the price look stretched. Nonetheless, we stay tactically overweight. It still offers 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 still favoured

Again, despite recent weakness, we continue to prefer longer-dated bonds in euro, franc and pound-based portfolios. Currencies remain firm, and economies more subdued. In dollar-based portfolios, we cut duration to neutral in May, and Treasuries continue to look more fully valued.

We also continue to strongly prefer government bonds to credit, where both investment and speculative grades still look expensive (a tentative sell-off in the latter has been reversed, pulling spreads back down towards historic lows). That said, we are not expecting a dramatic worsening of corporate creditworthiness: recent high-profile defaults seem to reflect misbehaviour rather than the economic climate.

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: technology overweight closed

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 not improved significantly. This may well change, given the potent defence-led boost to public spending ahead 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 can be too volatile and illiquid for us to take tactical positions.

At the sector level, after several years we are closing our overweight in technology, locking in a profit and waiting to see how the AI story will unfold from here (we move to neutral, not underweight). As noted, valuations are high, and expectations as to what AI can do for its customers may be unrealistic. We use the funds to move financials to overweight – a sector which is cyclical, and capable of benefiting from interest rates staying a bit firmer than money markets have been assuming.

Elsewhere we continue with recent overweights in healthcare and utilities, funded – together with the financials overweight – by an underweight in consumer staples and a double underweight in energy. This sector mix is deliberately eclectic – neither aggressively cyclical nor defensive, in keeping with our neutral stance on the asset class.

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

Currencies: dollar remains rangebound

The dollar has softened a little in the last month, but remains inside the narrow trading range it has occupied since May. Currency conviction remains scarce. Mr Trump's intimidation of the Federal Reserve seems to have peaked, and as noted above, the US interest rate outlook may not be as one-sided as money markets have assumed. Strategically, 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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