Mosaique Asset Allocation

February 2026

KEY TAKEAWAYS

- Geopolitical risk remains elevated
- Interest rates and valuations may matter more to portfolios
- We shift away from US stocks, and towards Asia and cyclicals

The Macro Picture

A noisy start to 2026

Two US initiatives have quickly been added to ongoing trauma in Ukraine and the still-tense situation in the Middle East: the abduction of Venezuela's president, and the threat to Greenland. Following closely on the heels of the publication of America's National Security Strategy, with its focus on US self-interest and its criticism of Europe, this has fostered widespread talk of paradigm change and a "new world order".

This seems to us to be (again) premature. Meanwhile, the global economy and capital markets remain little affected – a striking exception being the performance of gold, whose safe-haven appeal is likely one of the factors propelling its continued rise to new highs.

We take nothing for granted with such a mercurial US president. Trade and tariff tensions may have stabilised, but are still elevated, and America's domestic political debate seems as polarised and dysfunctional as ever. For the time being, though, our concerns as investors remain more prosaic.

Growth with stubborn inflation

The available data continues to suggest that the bellwether US economy continues to do better than many feared. Estimates for the final quarter of 2025 currently suggest growth was running at roughly twice its usual pace (Mr Trump's comments at Davos were not all hyperbole). This may be partly erratic, and doubtless also reflects ongoing AI-related expenditures, but the signs are that consumer demand also is in rude health.

European growth, as usual, is much more restrained. Again, however, it has been outpacing even more downbeat expectations, and at year-end, industrial order books in Germany in particular seemed to be firming up – with a potent stimulus to defence and infrastructure spending looming. China's economy continues to suffer from its real-estate hangover, but nonetheless is likely to have grown by around 5% in 2025, with momentum continuing to year-end.

Globally, New Year business surveys remain in middle-of-the-road territory. Industry looks weaker than services, but there is little sign of a looming downturn. Unemployment has been rising only slowly, and from low levels. As a result, we continue to worry more about inflation than deflation risk, and despite some recent softness we see core inflation staying stubbornly-firm, at above-target levels, in the big Western economies.

Possible rethink on interest rates

The US president continues to browbeat the Federal Reserve, and if he were to seriously dilute its monetary independence the implications for capital markets could be profound (and not just for those in the US).

However, we continue to think that the Fed will retain its operational independence, and we see the easing of policy to date – rates were cut again in December – as reflecting its own assessment of the balance of risks. Looking ahead, if inflation does indeed prove as sticky as we think it will, then that assessment may change.

Money markets have perhaps begun to register this possibility, with expected US policy rates at end-2026 slightly firmer in recent weeks. Of the big central banks, we see only Switzerland's as facing minimal inflation risk – and its policy rate is now back at zero. The possibility of a more hawkish market rethink on interest rates at some stage in 2026 continues to be one of our reasons for keeping our asset allocation close to benchmark.

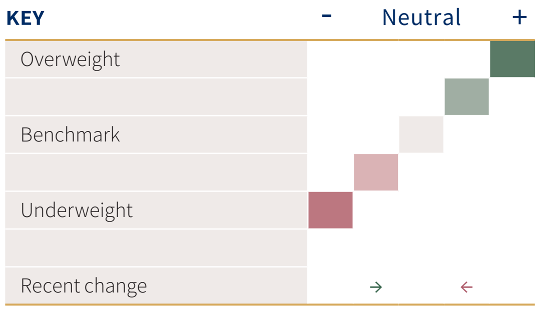
Stock valuations remain high

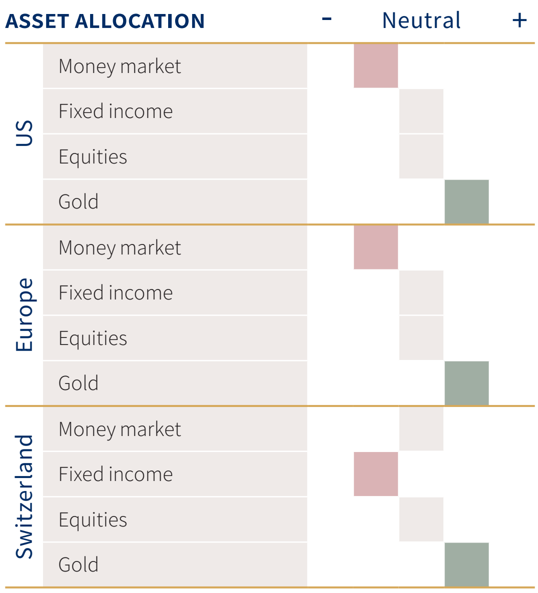
Despite the noisy geopolitical backdrop, and strong gains in 2025, stock prices have been firm in early 2026, at new highs. Earnings have risen strongly, but prices have risen faster: the only time valuations were noticeably higher was in 2000, and that did not end well. Both episodes share a new, potentially transformative technology theme; elevated expectations for future profitability; and signs of bandwagon-type behaviour.

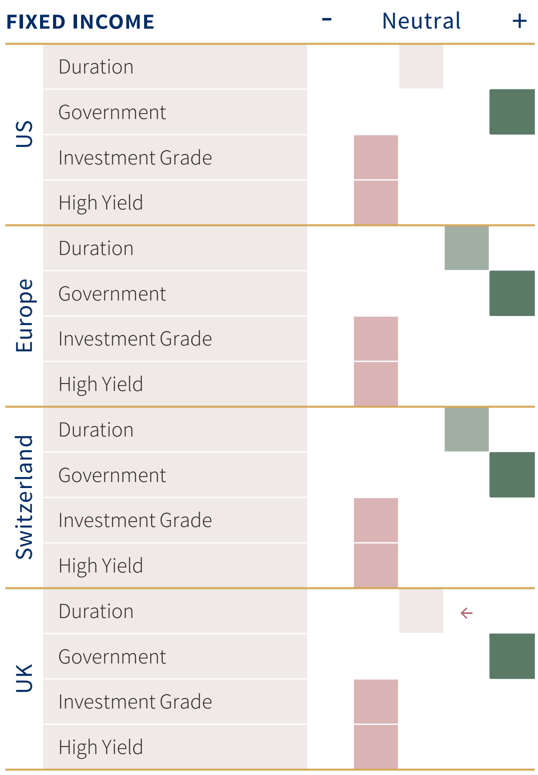
There have been important differences with 2000 too. The trend-setting stocks this time are mostly profitable and cash-generative. Merger and acquisition activity, and corporate leverage, is more subdued. And now, most recently, there are signs that market leadership may be rotating.

Nonetheless, such elevated valuations have been another reason for us keeping our allocation to stocks at cautious, benchmark levels.

Asset allocation overview (i)







Staying firmly neutral on stocks and bonds, and overweight gold

We remain in "wait and see" mode, with stock weights at benchmark levels. As noted, we are sceptical that interest rates can fall much further, and stocks seem to be pricing-in a lot of good news.

We also stay neutral – in dollar and euro-based portfolios – on bonds. Here, the rethink on interest rates is the main reason: government bonds actually look reasonably valued. The exception continues to be a local, technical one: in franc-based portfolios, bonds do look expensive, and we have an underweight position.

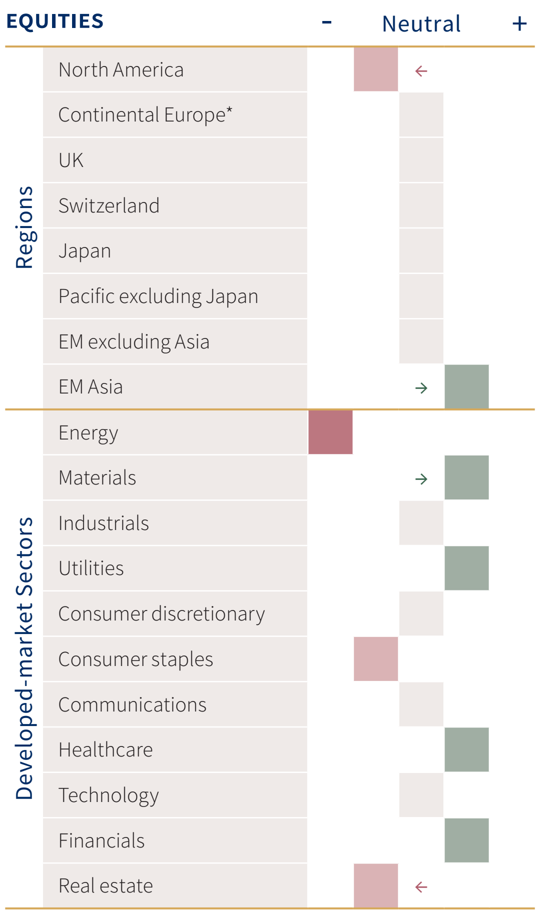
Gold has surged further in the New Year, and its dollar price has now doubled since August 2024. It is trading at all-time highs in real as well as nominal terms, and long-term charts of the price look remarkable. Nonetheless, we stay tactically overweight. It still offers a play on geopolitical "tail 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: High quality and (eurozone) duration still favoured

We continue to strongly prefer the highest quality – mostly government – bonds. Both investment and speculative grade corporate bonds remain historically expensive, though hard currency emerging market bonds look more reasonably priced. We do not, however, expect a dramatic worsening of corporate creditworthiness: recent high-profile defaults reflect misbehaviour rather than the economic climate.

We again prefer longer-dated bonds in euro and franc-based portfolios, but in a sterling context we have moved down to neutral (to align more closely with dollar-based portfolios). Continental currencies remain firm, and local economies more subdued.

Asset allocation overview (ii)



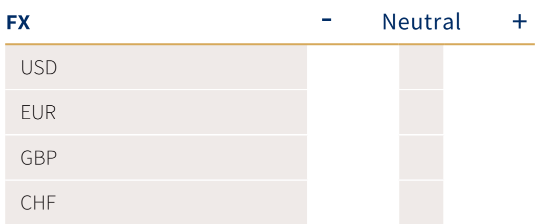
Equities: a modest cyclical tilt

Having been regionally neutral for some months, we have cut our US weighting to underweight, and raised emerging Asia to an overweight position.

Valuations have been most stretched in the US, which is where the AI-related theme has been most visible, and some stabilisation in tariff risk – and ongoing growth in world trade – may support China, Taiwan and South Korean markets. Those indices are also tech-heavy, but less expensive (and with perhaps less dependency on AI). Emerging markets other than Asia have also been doing well, but the bloc can be too volatile and illiquid for us to take tactical positions.

We stay neutral on Europe. This could still change, when the defence-led boost to public spending makes itself felt more, but that still seems to be on the other side of our tactical investment horizon.

At the sector level, we are lifting industrial materials to overweight, and move underweight in real estate. This adds a little to the economically-sensitive content of client portfolios, at the expense of a sector which could be sensitive to a possible rethink on interest rates. We remain overweight in financials – which are often unaffected by the level of interest rates per se – and in utilities and healthcare, financed by an underweight in consumer staples and a double underweight in energy. Overall, we see this sector mix as modestly but conventionally cyclical, having been more eclectic. We closed a long-standing overweight in technology a month back.



Currencies: dollar remains rangebound

The dollar has softened a little further, and is testing the narrow trading range it has occupied since May. Our move to an underweight position in US equities is an implicit expectation that the US currency will stay soft, though our conviction here is still low. The rethink on US interest rates mooted above in particular may yet offer some tactical support for the dollar. More strategically, with a big payments surplus and capital controls, China's renminbi cannot quickly replace the dollar in global portfolios.

* Excluding Switzerland

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