Rothschild & Co
Wealth Management

Mosaique Asset Allocation

March 2026

KEY TAKEAWAYS

- Geopolitical risk has faded – for now
- Our investment concerns still focus on interest rates and valuations
- We again make only small changes to portfolios, staying close to benchmark

The Macro Picture

Geopolitical noise subsides

After a dramatic start to the year, in which the US abducted Venezuela's president and threatened Greenland, the political backdrop has quietened. We doubt that these remarkable events represent a genuine geopolitical paradigm change, and even if they do, the impact on the narrow, impersonal world of economics and finance would be unclear.

To date, and with ongoing trauma continuing in Ukraine, and the Middle East ceasefire remaining fragile, the read-across from an unsettling international relations climate to portfolios has been relatively minor. The most obvious exception perhaps has been the performance of gold, whose safe-haven appeal is likely one of the factors propelling its recent surge – though that surge seems to have run out of steam in recent weeks.

We take nothing for granted with such a mercurial US president. Recent statements directed towards Iran, for example, hint at renewed US intervention there (which ought to strengthen scepticism towards a "new world order"). Meanwhile, trade and tariff tensions are still elevated. For the time being, though, our concerns as investors remain more prosaic.

Growth with stubborn inflation

Estimates for the final quarter of 2025 still suggest US growth was running at a healthy pace (Mr Trump's comments at Davos were not all hyperbole). This doubtless reflects ongoing AI-related expenditures, but consumer demand has also been firm.

European growth has been much more restrained, as usual, but has also outpaced more downbeat expectations, and a potent stimulus to defence and infrastructure spending in Germany looms ahead. China's economy continues to suffer from its real-estate hangover, but nonetheless grew by 5% in 2025.

If anything, forward-looking business surveys have become stronger, at least in the US and Europe, led unusually by industrial sentiment, which has narrowed some of its shortfall to services. Overall, there is still little sign of an imminent downturn. Unemployment has been rising, but slowly, and from low levels. As a result, we continue to worry more about inflation than deflation risk, and despite recent softness on both sides of the Atlantic we see core inflation staying stubbornly-firm, at above-target levels.

Possible rethink on interest rates

The US president has probably chosen the right Kevin (Mr Warsh) to head the Federal Reserve, and the threat to its monetary independence – which would be profound for investors globally – has probably faded somewhat.

We have seen the easing of US monetary policy to date as reflecting the Fed's own judgement, not Mr Trump's intimidation, and if inflation does indeed prove as sticky as we think it will, then that judgement may change.

Money markets have registered this possibility for some time now, but there is still room for a further, more hawkish, rethink. Of the big central banks, we continue to see only Switzerland's as facing minimal inflation risk – and its policy rate is now back at zero. The possibility of such a rethink on US interest rates continues to be one of our reasons for keeping our asset allocation close to benchmark.

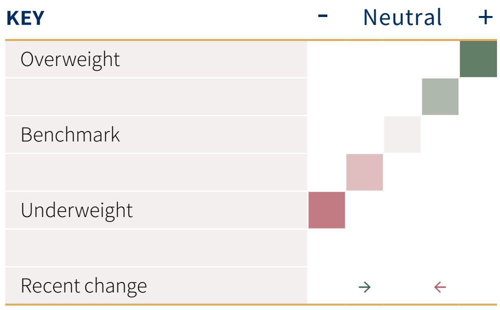
Stock valuations remain high

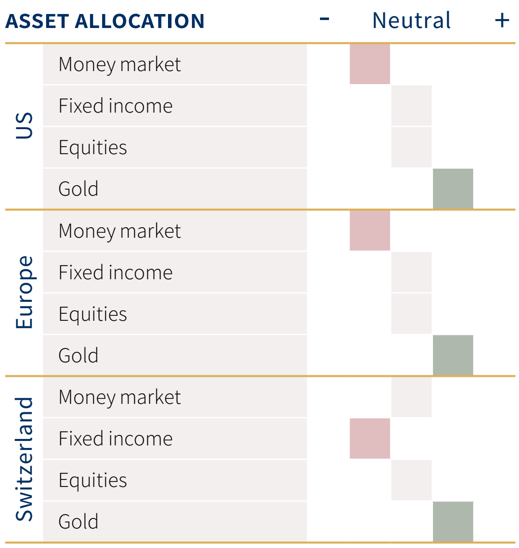
Despite the noisy geopolitical backdrop, and strong gains in 2025, stock prices have mostly remained firm in early 2026, briefly hitting new highs. The only time valuations have been noticeably above today’s was in 2000, which did not end well. Both episodes share a new, potentially transformative technology theme; elevated expectations for future profitability; and 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. Nonetheless, such elevated valuations have been another reason for us keeping our allocation to stocks at cautious, benchmark levels.

A key question is whether the market rotates towards new leadership, or reverses. There are some encouraging signs of rotation in recent regional and sector performance as the impact of AI is being questioned (most loudly, ironically, within the technology sector itself, rather than its customer base).

Asset allocation overview (i)



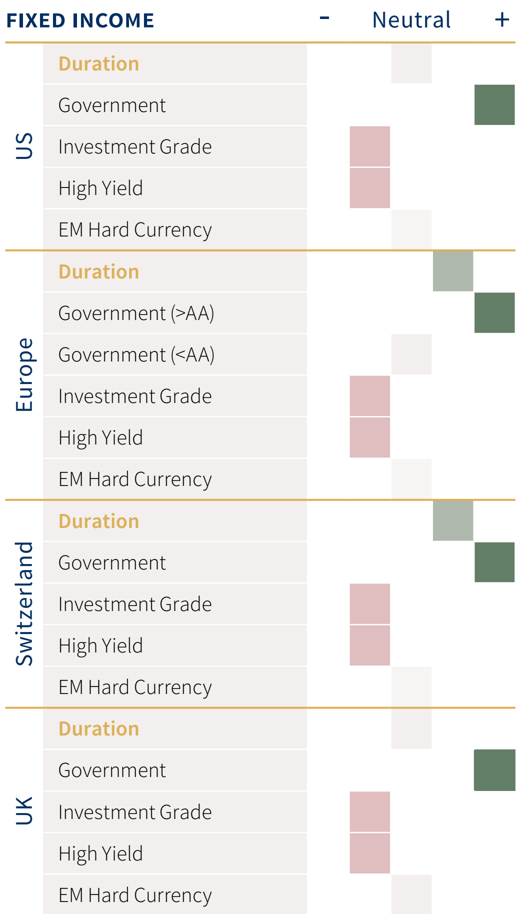


Still firmly neutral on stocks and bonds, and overweight gold

We remain in "wait and see" mode, with stock weights at benchmark levels. As noted, we doubt interest rates will fall much further, and stocks have been pricing-in a lot of AI-related optimism.

We also stay neutral – in dollar and euro-based portfolios – on bonds, though government bonds have been reasonably valued. The exception continues to be a local, technical one: in franc-based portfolios, bonds do look expensive, and we are underweight.

Gold has fallen back a little from January's all-time nominal and real-terms highs, but long-term price charts still 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 spreads have widened a little in recent weeks, but credit generally remains historically expensive. We do not, however, expect a dramatic worsening of creditworthiness (whether for Western corporates or emerging market borrowers). Last autumn's high-profile defaults reflected misbehaviour, not the economic climate, and the public credit markets have not yet been noticeably affected by the rotation in equity market leadership.

We prefer longer-dated bonds in euro and franc-based portfolios, but in a sterling context we recently trimmed duration to neutral (to align more closely with dollar-based portfolios). Continental currencies remain firm, and local economies (and inflation risk) are more subdued.

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: a growing cyclical tilt

Having been regionally neutral for some months, we last month 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 might yet 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.

We are also unconvinced by the surge in Japan's stock market on the LDP's unexpected election landslide. Japan's long-term stock market malaise has been as much about the lack of corporate reform as about the macro context. The new administration is not noticeably committed to making Japan more capitalist.

At the sector level, we last month lifted industrial materials to overweight, and moved underweight in real estate. This added 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 are now trimming a double-underweight in energy, and financing that move by cutting healthcare back to neutral. Energy is showing signs of renewed momentum as the policy backdrop has become a little less unfriendly to fossil fuels, while healthcare has again failed to build on a post-tariff rebound. These moves further add to portfolios' net economic exposure.

We remain overweight in financials – often unaffected by the level of interest rates per se – and utilities, financed by an underweight in consumer staples and now a single 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, but are not yet confident enough in that rotation to move to underweight.

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

Currencies: new dollar weakness unconvincing

The dollar softened a little further in February and broke outside the narrow trading range it had occupied since May. Our move to an underweight position in US equities in January could be seen as an implicit expectation that the US currency will stay soft, but our conviction here remains low. The rethink on US interest rates mooted above in particular may yet offer some tactical support for it. More strategically, 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.

For more information please visit our page https://www.rothschildandco.com/en/wealth-management/switzerland/insights/