Rothschild & Co
Wealth Management

Mosaique Asset Allocation

April 2026

KEY TAKEAWAYS

- Middle East conflict is pushing energy prices higher…
- … and reversing expectations of lower interest rates
- We have reduced risk in portfolios, favouring cash

The Macro Picture

Geopolitical risk surges…

Our thoughts are with all those affected by the grim conflict in the Middle East. In the narrow, impersonal investment context, the US/Israel attacks on Iran have pushed oil and gas prices up sharply, to levels which threaten lower growth and higher inflation. It is unclear how long the war will last, or what the outcome will be. President Trump's comments and motives are unpredictable, and the situation is fluid.

The conflict has broken out at a time when the business cycle has been relatively benign. US tariffs have put sand in the wheels of growth, but not stopped it – world trade outpaced GDP in 2025, and was growing through to year end at least.

The key engine of global growth, US private demand, has been healthy, and able to finance spending so far without recourse to borrowing (though that may have been about to change with AI-related capex poised to rise further). In Europe, a looming surge in Germany's public spending promises some extra momentum, and hard data at year end was solid. China's ongoing real estate hangover has not prevented it from continuing to outpace Western growth, albeit less convincingly than usual. Forward-looking business surveys to early March at least pointed to growth continuing. Our main economic concern, against this backdrop, has been sticky inflation and the possibility that markets have been too optimistic on interest rates.

… potentially hitting growth, and boosting inflation – and interest rates

In the space of a few short weeks, this resilience has been called into question. Meanwhile, interest rate expectations have indeed risen, but not for the reasons we expected: instead of healthy economic growth leading to demand-pull inflation risk, we suddenly face disrupted energy supplies and cost-push inflation.

Whether central banks should be raising rates for this reason is questionable. Traditionally, they would see such an event as a one-off shock which might even be followed by reduced inflation pressure as consumer spending power falls and unemployment rises. However, the monetary authorities may have been sensitized by their mistakes in responding so slowly to inflation risk after the pandemic – it had already risen well above target even before Russia invaded Ukraine – and their comments so far suggest that they may well respond hawkishly if oil prices do remain high. Money markets are now expecting several rate increases during 2026 from the ECB and Bank of England; one hike from the SNB; and no change at the Fed (which had previously been expected to cut).

Market response has been moderate – so far

Oil prices have risen by around two thirds, but from below-trend levels. In Europe, wholesale natural gas prices have more than doubled, but also from relatively subdued levels. As yet, the energy price spike looks significant, but not yet on a par with those seen in 2022. This could change, of course, if the Strait of Hormuz remains closed for much longer.

The stock market response to date has been measured, relative to "typical" volatility, while gold and bond prices – two traditionally "safe haven" assets – have fallen materially in response to that change in interest rates expectations. The dollar has been firmer, but not dramatically so. Again, all this could easily change with the situation as fluid as it is.

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				■	

FIXED INCOME		–		Neutral		+
US	Duration			■		
	Government					■
	Investment Grade		■			
	High Yield		■			
	EM Hard Currency			■		
Europe	Duration				■	
	Government (>AA)					■
	Government (<AA)			■		
	Investment Grade		■			
	High Yield		■			
	EM Hard Currency			■		
Switzerland	Duration				■	
	Government					■
	Investment Grade		■			
	High Yield		■			
	EM Hard Currency			■		
UK	Duration			■		
	Government					■
	Investment Grade		■			
	High Yield		■			
	EM Hard Currency			■		

Risk reduced: stocks cut in favour of cash, regional and sectoral positions closed

Mosaique portfolios were positioned close to benchmark to begin with. High stock valuations, and our wariness of a possible rethink on interest rates (albeit for more routine reasons, as noted), had led to us reducing equity positions to neutral in late 2024, and in most currencies we had been neutral on bonds for longer still. We did however have an overweight position on gold (mostly funded from cash, but from bonds in franc portfolios). Sub-asset class positions were few in number.

Since the conflict broke out the asset allocation committee has been meeting more frequently than usual. We first closed two open equity sector positions: in energy (underweight), and in financials (overweight). A week later we cut stock holdings to underweight, raising our cash positions, and closed two regional positions: in the US (underweight) and Emerging Asia (overweight).

We retain the overweight position in gold, and we remain (outside franc portfolios) neutral on bonds. Neither asset has performed as it usually might in a crisis, but bonds in particular are now pricing in a significant reversal on interest rates and a sustained increase in inflation, which may be premature.

We are of course following events closely, but mindful that in today's circumstances the news media's signal-to-noise ratio must be even lower than usual. From our current positions we have room either to move further in a risk-off direction, or back into risk-seeking mode, as circumstances change.

Fixed Income: high quality and (eurozone) duration still favoured

Our decision to stick with a preference for the highest quality – mostly government – bonds has been rewarded in the last few weeks, albeit not in the way that we might have expected. Both investment and speculative grade corporate spreads have widened significantly as the conflict has erupted, even as government yields have risen. Credit generally remains historically expensive nonetheless, and we retain the preference for government bonds.

We have been neutral on duration in US and sterling portfolios, but favour longer-dated bonds in euro and franc-based portfolios. This has not helped in recent weeks, but we are unconvinced that the ECB will indeed follow through with aggressive rate hikes, or that eurozone inflation will stay (even) further above trend for much longer than was already likely.

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: regionally neutral again, few open sector calls

Having cut our US equity weighting to underweight at the start of the year, and raised Emerging Asia to an overweight position, we have now reversed these moves. The US stock market, like its currency, often behaves as a relative safe haven compared to other stock markets, while Emerging Asia tends to be volatile at the best of times. This leaves us once again regionally neutral.

At the sector level, as the conflict erupted we quickly closed our residual underweight in energy, raising funds by cutting (relatively high-beta) financials back to neutral. This leaves us again with few open positions, which we think is appropriate currently: we stay overweight materials and utilities, and underweight consumer staples and real estate – a sector mix which we see as eclectic. We closed a long-standing overweight in technology a couple of months ago, but AI-related valuations still look high to us, and when/if "normal" investing conditions resume we think that market leadership may shift elsewhere.

FX	-	Neutral	+
USD			
EUR			
GBP			
CHF			

Currencies: USD as safe haven

In closing our underweight in US equities, we are implicitly expecting the US currency also to benefit from relative safe haven status. We have always been sceptical that the "MAGA" agenda will necessarily lead to sustained dollar weakness, and investors' return to the US currency as soon as the geopolitical temperature has surged confirms that for the time being at least it is still viewed strategically as the reserve currency of choice.

* Excluding Switzerland

Notes

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