Rothschild & Co
Wealth Management

Mosaique Asset Allocation

May 2026

KEY TAKEAWAYS

- A tentative ceasefire has stabilised markets…
- … and energy costs and trade disruption have so far been manageable
- We have raised equity weightings back to neutral, and reduced cash

The Macro Picture

Geopolitical risk remains high…

Our thoughts remain with all those affected by the grim conflict in the Middle East: we can only hope that the ceasefire leads to a sustainable peace. Meanwhile, in the narrow, impersonal investment context, the conflict has pushed oil prices up, disrupted supplies – particularly for refined products – and caused significant local shortages and constraints, but its global impact, even with the Strait of Hormuz remaining close, has so far been moderate.

As we write, crude prices, in real terms, are perhaps one-fifth above their 10-year trend: high enough to boost consumer prices and restrain spending power, but not so high (we think) as to cause a major economic setback. Of course, the situation remains fluid, and somewhat opaque, with the protagonists' competing claims adding to confusion.

… though the inflation/growth mix has not yet worsened dramatically

Going into the conflict, the business cycle was relatively benign. US tariffs had put sand in the wheels of growth, but not stopped it – world trade outpaced GDP in 2025, and was growing into early 2026 at least.

The key engine of global growth, US private demand, remained healthy, and without relying on borrowed funds (though that might have been about to change as AI-related capex continued to surge). In Europe, the big defence-led boost to German public spending has been delayed, but hard data has been stable. China continued to outpace Western growth, despite its real estate hangover.

Forward-looking business surveys to early April – that is, into the conflict period – point to growth continuing.

Our main economic concern, pre-conflict, was sticky inflation, and the possibility that interest rates would not fall much further and might even rise. Interest rate expectations have indeed risen since February, but not for the reasons we expected. Instead of healthy economic growth leading to demand-pull inflation risk, the conflict has led to higher energy costs and cost-push inflation, and the risk of slower growth.

Traditionally, central banks would see such an event as a one-off shock which might even be followed by reduced inflation pressure, if consumer spending power falls and unemployment rises. This time around, however, the markets initially expected the monetary authorities to respond by pushing interest rates higher in Europe, and by no longer cutting rates in the US.

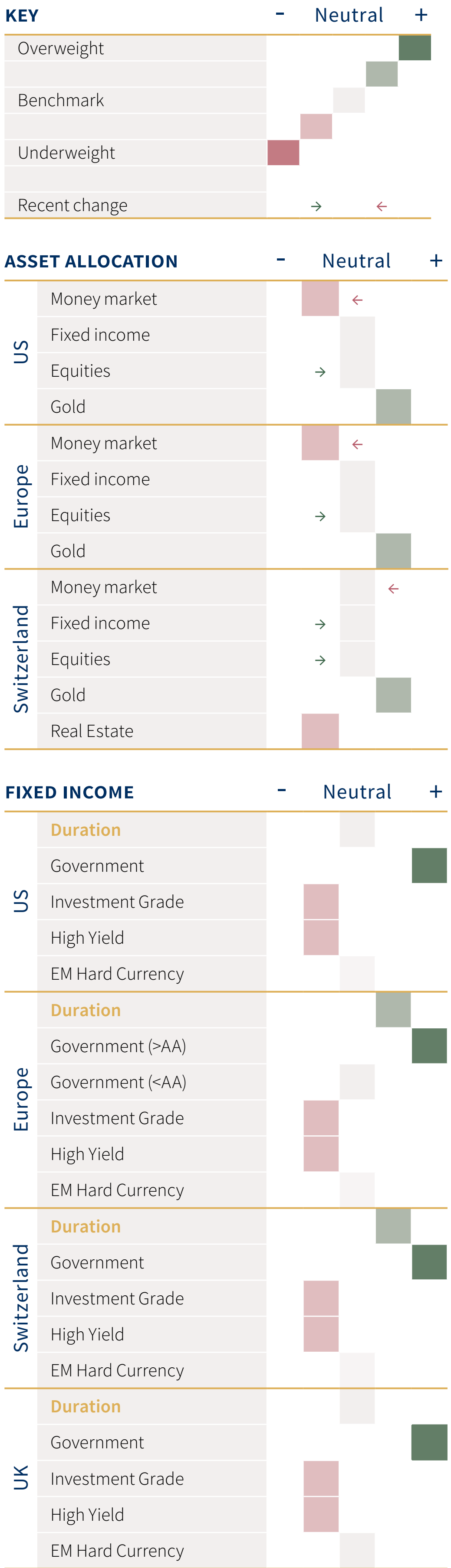
Those hawkish expectations have now subsided somewhat – though euro rates are still seen rising in 2026 – but remain higher than at the start of the year.

Market volatility has been moderate – so far

Oil prices initially rose by around two thirds, but from below-trend levels. With the ceasefire, they have retraced half of that rise. As usual, European natural gas prices have been more volatile, but they have also reversed around half of their surge (which even at its high point was still well below 2022's peak levels). Prices could of course surge anew if the Strait of Hormuz does not reopen soon.

The stock market response was measured, relative to "typical" volatility, and as we write stocks have rebounded, reaching new all-time highs. Gold and bond prices – two traditionally "safe haven" assets – fell materially in response to that change in interest rate expectations, but have partially reversed their falls as those expectations have fallen back. The dollar initially rose but has now fallen back. Again, all this could easily change with the situation as fluid as it is.

Asset allocation overview (i)



Risk added: stocks raised back to neutral, cash reduced, gold overweight continues

Mosaique portfolios were positioned close to benchmark when the conflict began. 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). More recently again, on hopes for the ceasefire, we closed that underweight in stocks, from cash.

We retained the overweight position in gold throughout, and have stayed neutral (outside franc portfolios) on bonds. Neither asset performed as it usually might in a crisis, with bonds being hit by those elevated interest rates expectations, but as noted some of that weakness has now been reversed. We continue to watch events closely, knowing however that in today's circumstances the news media's signal-to-noise ratio must be even lower than usual. We have room either to move again in a risk-off direction, or more fully into risk-seeking mode, as circumstances change.

A strategic amendment to Swiss franc portfolios

Independently of recent events, we have found it difficult for some time to obtain reasonably valued non-equity holdings for franc-based clients. Negligible yields have made the risk/reward mix for Swiss bonds in particular unappealing, and we have had a tactical underweight there (in contrast to euro and dollar-based portfolios, where we have been neutral). We are now adding a new asset class to Swiss portfolios: closed-end real estate funds, funded by reducing the strategic (long-term) weighting in bonds to neutral. As a new asset, we begin with a position that we see as smaller than its likely long-term allocation. This underweight serves as the counterpart to the ongoing tactical overweight in gold.

Fixed Income: sticking with high quality and (eurozone) duration

Our decision to stick with a preference for the highest quality – mostly government – bonds has not helped as corporate bonds have rebounded most recently. Both investment and speculative grade corporate spreads have now fallen back close to historic lows, making credit more expensive again, and we persevere with 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 did not help when the crisis broke, but more recently yields have fallen, and we suspect that expectations for rising euro interest rates are overly hawkish: we are unconvinced that the ECB will indeed follow through, 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: staying regionally neutral, 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 reversed these moves after the conflict began, as noted. We have not yet felt able to re-open them, despite closing the underweight on the wider equity market. US earnings momentum has been given yet another lift from near-term spending driven by AI: we remain wary of its longer-term profitability, but the higher short-term earnings have brought US valuations back to less stretched levels.

At the sector level, as noted we quickly closed our residual underweight in energy, raising funds by cutting (relatively high beta) financials back to neutral. This left us with few open positions, which we think remains 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: as noted, AI-related valuations have fallen back somewhat, but we are reluctant yet to return to a more positive stance. When/if "normal" investing conditions persist we still think that market leadership may shift elsewhere.

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

Currencies: USD safe haven status intact – but not in demand

In closing our underweight in US equities, we implicitly expected the US currency to benefit from relative safe haven status. Investors' return to the US currency as the geopolitical temperature surged confirmed that for the time being at least it is still viewed strategically as the reserve currency of choice. As ceasefire hopes have risen this status has become less attractive, but we still doubt that a return to "business as usual" in the "MAGA" context will necessarily lead to sustained dollar weakness, and we again have no strong tactical currency convictions currently.

* Excluding Switzerland

Notes

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