November / December 2020

Mosaique Views

Rothschild & Co
Wealth Management

Foreword

Asset Allocation is to most, the process of balancing the risks and rewards of assets in a portfolio according to a predefined risk tolerance. For us, however, it is much more than that.

We believe asset allocation starts with the assessment of the global economy, the corporate sector, the political environment and monetary and fiscal policy. Most importantly, in an age where information is at our finger tips we need to differentiate between the headlines and those issues that impact the economic landscape and the profitability of companies we invest in on your behalf.

This process is heavily driven by statistics, analysis and mathematical models. Numbers, however, are not enough. Financial markets are influenced by human emotions: fear, greed, surprise, guilt, joy…

In reality, no mathematical model is able to capture these emotions. That’s why human judgment is also key and this is why creating an Asset Allocation is both a science and an art.

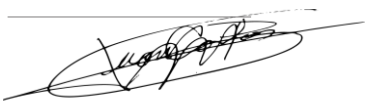
The result of our work is to give you an overall financial and macro-economic “*picture*” that helps select the assets we need to build your Mosaique portfolios.

In this publication, you will find our views in a format that is both easy to understand and easy to translate to your portfolio. It also forms the basis of the discussions we have with you when we provide investment advice.

If we do our job well, you should not expect sudden changes from one publication to the next… but you should expect that it will always be timely and relevant.

Happy reading,

Dr. Carlos Mejia
CIO, Rothschild & Co Bank AG



Asset allocation views

Staying constructive

European governments have reintroduced wider constraints on their economies to deal with the second wave of covid-19 contagion: whether local growth slows, stalls or goes into reverse depends on the severity and duration of the resumed closures.

Elsewhere, however, China seems to have avoided a second wave, while US closures – at least under the outgoing administration – remain more modest in scale. The remarkably V-shaped revival in output through to September at least – faster even than we'd pencilled-in – tells us that economies can still grow when they're permitted to. People still want to travel, mingle and prosper: talk of a changed, less materialistic Western consumer always looked fanciful (many households simply can't afford not to spend).

Meanwhile, the US election result seems to offer a more predictable White House together with a Congress that is less hostile to business than feared. And as we write, hopes are rising that a credible and distributable vaccine may lie ahead in 2021.

The question for us as investors is whether to focus on the short-term losses and risks, or instead – as we have been doing to date – to "look across the valley" at the ongoing probability of an eventual rebound (in the context of a world that now looks a little less unpredictable than it did), accompanied by policy settings that are likely to remain supportive for some time to come (with even the IMF recently sounding doveish).

At the asset allocation level we have decided to sit tight, with a continuing bias towards assets that benefit from economic growth – mostly corporate securities rather than loans to governments. Within equities, however, we have shifted our emphasis a little further towards more cyclical, or relatively shorter-term, growth.

Kevin Gardiner
Global Investment Strategist

Conclusion

From the outset we thought that the combination of a prompt rebound in economies with continuing low interest rates and ample liquidity meant that it could be a mistake to reduce holdings of corporate bonds and stocks. If anything, markets subsequently looked across the valley sooner and further than we might have anticipated.

The US election result, ongoing policy support, and the progress being made towards a vaccine, suggest to us that markets will continue to take a longer-term view, and we stay moderately overweight equities and underweight bonds – and neutral on cash, which provides us with opportunities should market volatility return.

Within equities, as noted we have been tilting portfolios a little further towards cyclical, rather than structural, growth. Even without a "Blue Wave" in the US, and despite those near-term headwinds in Europe, we think confidence in economic recovery will strengthen. We think "long duration" sectors such as technology and communications can continue to perform, but increasingly we favour sectors more focused on economic recovery. This has not yet affected our regional views: we still prefer the US and emerging Asia, and stay least positive on the UK, continental Europe, and (more recently) developed Asia ex-Japan.

Within bonds, we continue to favour lower quality bonds – predominantly corporate – ahead of the safe-haven bonds issued by the most creditworthy Western governments. We stay neutral on duration: we are not yet convinced that the recent steepening of yield curves can go much further while central banks continue with their buying programmes.

Exchange rate conviction remains low, with negligible interest rates and subdued inflation across most of the major economies, and few outlandish valuations.

Asset allocation overview

We moved overweight equities at mid-year, at the expense of cash, since when our overall positions are unchanged.

We continue to favour a mix of cyclical and structural growth, and have added some more cyclical exposure recently, now by increasing European industrials, at the expense of technology in the region.

Key	–		Neutral		+
Material overweight					●
Benchmark weight			●		
Material underweight	●				

Asset allocation	–		Neutral		+
Money market			●		
Fixed income		●			
Equities				●	

Fixed income	–		Neutral		+
EUR					
High-grade	●				
IG low-grade				●	
High-yield				●	
Duration			●		
USD					
High-grade		●			
IG low-grade				●	
High-yield			●		
Duration			●		
CHF					
High-grade	●				
IG low-grade				●	
High-yield				●	
Duration			●		

Currencies	–		Neutral		+
USD			●		
EUR			●		
GBP			●		
JPY			●		
AUD			●		
CNY			●		
CHF			●		

Equity regions	–		Neutral		+
North America				●	
Eurozone		●			
UK		●			
Switzerland			●		
Japan			●		
Pacific ex Japan		●			
EM EMEA			●		
EM Asia					●
EM Latin America			●		

Equity sectors	–		Neutral		+
US					
Energy		●			
Materials				●	
Industrials				●	
Utilities	●				
Consumer discretionary				●	
Consumer staples		●			
Communications				●	
Healthcare			●		
Technology				●	
Financials			●		
Real estate		●			
EU					
Energy		●			
Materials				●	
Industrials →				●	
Utilities		●			
Consumer discretionary				●	
Consumer staples		●			
Communications			●		
Healthcare				●	
Technology ←				●	
Financials		●			
Real estate		●			

Investment Insights

At the heart of Investment Insights lies a wide set of timely and insightful publications, podcasts and infographics.

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