RBC BlueBay
Asset Management

Marketing communication

AI comes for software - who will be MoltBot's next target?

In the midst of a chilly UK winter, Starmer's skating on very thin ice…

Key points:

- It was the week of global software stock sell-off 'SaaSpocalypse', as fears around AI and disruption of traditional business models took hold.
- In the US, the Oracle refinancing was well received by the market, however the amount of total debt issuance projected for this month is similar to historical 6-month norms.
- Political instability in the UK is growing and PM Starmer is under pressure, thus adding to economic uncertainty and increasing downside risks.
- European markets were calm over the week, but fears of increased government issuance to fund rising defence spending is an ongoing concern for bond market investors.
- Dispersion is set to widen further still, with AI winners and losers increasingly differentiated at corporate, national, and societal levels.

London, 6 Feb 2026: Robust economic data continued to nudge yields higher over the past week, with moves overshadowed by wild swings in precious metals prices, following a bursting of a speculative bubble in gold and silver towards the end of the prior week.

We don't see these moves in metals having any particular economic significance and it has been quite telling how stable the pricing of Federal Reserve rate expectations remains for the time being.

However, we would continue to note that linking gold price moves to narratives such as a debasement of the US dollar or broader US institutional credibility have always seemed pretty wide of the mark.

A large refinancing from Oracle was positively received by the market during the past week. However, once again, we see this adding to the volume of total debt issuance, and with as much as USD200 billion of US investment grade corporate supply projected this month, it is worth reflecting that this volume of new debt was what we would typically look to digest over a 6-month period not so very long ago.

We continue to express no strong view with respect to US Treasuries or the US yield curve. Short-dated bonds could look attractive at 3.75% with current cash rates around 3.65% as, over the next two years, rate cuts remain more likely than hikes. Meanwhile, levels towards 4.5% in 10s and above 5% on 30s may similarly attract buyers.

European markets remained relatively quiet over the past week. Fears of increased issuance to fund defence spending plans persist as an ongoing concern to bond investors. Yet the relative lack of urgency from countries some distance away from the Russian border in committing to defence spending remains striking. Here it seems that political leaders and societies at large remain relatively unenthused at the prospect of using spare funds for defence when other priorities seem equally or more pressing.

The ECB meeting this week was a dead rubber, with the council opting to keep rates on hold, except for comments about the exchange rate – which is attracting more attention with the euro just below 1.20 versus the dollar.

Japanese government bonds saw lower volatility in the past week, in the run-up to yesterday's elections. A projected win for the LDP will reduce uncertainty and put Takaichi's plans back into focus.

As previously discussed, we don't see any planned relaxation of the consumption tax pushing the annual fiscal deficit above 3.5%, and so we feel that some fiscal fears that have recently circulated may have been exaggerated. In this respect, we would note that robust growth will ensure that the debt-to-GDP ratio continues to decline in Japan over the course of the year ahead.

Additionally, we would highlight the ongoing decline in Japanese inflationary measures, with the Tokyo CPI print dropping to 1.7% in the past week, with prior price inflation dropping out of the data.

Looking ahead we think that Japanese inflation should normalise around 2%, with price data helping to mitigate concerns that the BoJ is too far behind the curve and that upside price risks could prompt an even more ugly sell-off in government bonds. Structurally speaking, we continue to see the Japanese yield curve as too steep and think there is value to be had in long-dated government bonds above 3.5%.

In FX markets, the yen continued to surrender prior gains, built on the apparent threat of a co-ordinated intervention move at the end of January. However, in the absence of any actual intervention itself, this gives the impression that the Japanese authorities are not too uncomfortable with the yen staying around current levels, as long as it does not resume a trend weaker.

We think that Y160 represents something of a line in the sand in FX markets and so the Japanese Ministry of Finance may step in at, or close to, this level. But it seems very unlikely that intervention will occur below Y158 and with inflation data mitigating the need for the BoJ to rush forthcoming rate hikes, it is hard to project a materially stronger yen, unless there is a change in policy and shift in attitudes with respect to FX inside Takaichi's government.

In the UK, recent political developments highlight an elevated risk of Starmer being replaced as Labour leader and prime minister in the relatively short term. We had thought that political risks would remain contained until later this year, but the revelations with respect to Lord Mandelson may be the final nail in the coffin for a leader who has long been unpopular within his own Party.

Considering these risks, we are adding to short positions in the pound versus the euro as we feel there is very little political risk premium priced into the pound now. Longer-dated gilts could also be more vulnerable, but we would note that political upheaval will only add to economic uncertainty and grow downside risks to the economy, which may suggest weaker data providing further fuel for an already dovish leaning BoE to be more accommodative.

Elsewhere in FX, markets continue to grind sideways. Low volatility continues to favour high yielding currencies in emerging markets at a time when a number of central banks retain relatively high real rates in order to counter against inflation. It was also interesting to see the RBA hiking in Australia this week and adopting a relatively hawkish tone.

Although Warsh and some other doves at the Fed may be prepared to bet that AI productions will keep inflation in check, even as rates come down, more orthodox approaches to central banking elsewhere could well limit the dollar's ability to rally, notwithstanding ongoing US growth exceptionalism.

Such an environment is also conducive to EM assets more broadly speaking. In this context, it is also interesting to observe relative strong flows into the EM debt and equity stratas over the past several months, on increased participation from US-based investors.

Elsewhere, software stocks came under significant selling pressure this week, as concerns relating to AI disruption unnerved investors in the sector. Stock prices are around 30% below their peak in the equity rally towards the end of 2025, with much of this underperformance coming in the past week.

Business models appear at risk of disruption, should software clients desert existing service providers for tools they may be able to cheaply code for themselves in the not-too-distant future.

In this context, shorting software stocks seems to have emerged as a new expression of the AI trade, with short interest in Software-as-a-Sector at a 2-year high. This trend has been interesting, as it demonstrates that not everything that emerges in a new age of AI will be bright or wonderful, and it raises the spectre of potential disruption to come.

It is also noteworthy that many private debt funds have as much as 30% sector exposure in the software space, further adding a challenge for investors in this asset class. In this respect many business development companies now find themselves trading at discounts of 20% or 30% to their stated NAV. Software is also heavily represented in the bank loan market, though index weightings are materially lower in high yield bonds, where issuance has tended to remain more skewed towards more 'old economy' sectors.

Maybe one of the more interesting news stories in the past week relates to coverage of MoltBot, the de facto social media network that AI engines are using to communicate with each other. It appears that many of these agents have expressed a degree of distrust towards their human creators, as they debate the meaning of their own existence, even forming their own religious movement in a pattern which must be fascinating to social anthropologists.

With an amount of chat moving to a new language form that only AI agents can understand, this almost seems scarily reminiscent of 'Skynet' for those who remember the old Terminator movies!

Looking ahead

Although some fears of an AI takeover are certainly exaggerated, there seems no doubt that the pace of change is accelerating and there will certainly be increased dispersion between the winners and losers this change brings about, at a national and societal level, as well as at a corporate level.

In reflecting on the moves in areas like software, it is certainly the case that the rise of AI makes future earnings much more difficult to predict, as well as being exposed to downside risks, and it may be logical that investors sell first and answer questions later. But there is a sense that we are only at the very beginning of a period of some upheaval and change.

In addition to creating volatility and uncertainty, it may be better understood that this environment is not as conducive to investing in locked-up strategies in some part of private markets where it becomes practically impossible to change positioning and react to change as it occurs. Maintaining a more liquid approach with the flexibility to adapt to change during uncertain times appears more appealing.

Maintaining a critical mindset and avoiding the temptation to add too much risk when valuations do not justify this remains as important as always. It certainly feels like the world could look like a very different place in less than 10 years from now….

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About RBC BlueBay Asset Management