



Stop being shocked by shocks

For Professional Investors Only | Marketing Communication



Mike Bell
Head of Market Strategy

Mike is responsible for providing global economic and market analysis to clients and the media, supported by the full resources of RBC BlueBay's investment teams and analysts. Mike's extensive experience spans market strategy, economics, asset allocation and portfolio management. You can follow his daily LinkedIn posts for his latest views on the evolving economic data and the market implications, along with his longer-form strategy research by scanning the QR code below.



Published June 2026

Key takeaways:

What's changed? Structural forces are leading to more frequent political and economic shocks.

The causes: Several fault lines are leading to frequent shocks – from globalisation and automation to inequality and climate change.

Investment implications: Flexible absolute return strategies and active management of relative equity and duration positions within traditional balanced portfolios can potentially help buffer portfolios. This approach offers the potential for strong risk-adjusted returns, while aiming to provide some protection against both fixed income and equity market volatility.

It's time to stop being shocked by shocks. After all, we are now 10 years into an era of successive shocks. Brexit, Trump, Tariffs 1.0, Russia's invasion of Ukraine, food price spikes, Trump (again), Liberation Day, the software sell off and now Iran. Rather than a bevy of black swans, these shocks represent something more structural.

The causes

Domestic

1. Globalisation and immigration
2. Innovation and automation
3. Inequality and house prices
4. Debt and demographics

International

5. Forever war and freeloading fatigue
6. Nationalism and national security

Environmental

7. Climate change

1. Globalisation and immigration

The other side of the spectacular rise of China's manufacturing sector, and with it the influx of cheap goods for developed market consumers, has been the decline in manufacturing jobs in several developed market economies. Of course, many developed market companies and some of their workers have benefitted greatly from globalisation too. But some workers have struggled to adapt to the shift in jobs away from manufacturing and towards services.

While some of the new service sector jobs have been well paid professional jobs, these are not unlimited nor are they easily accessible to all. Other service sector jobs in retail, hospitality and parts of healthcare are often less well paid in real terms than many manufacturing jobs were in the past. And tech's rising share of the US stock market hasn't been accompanied by a large increase in tech sector employment.

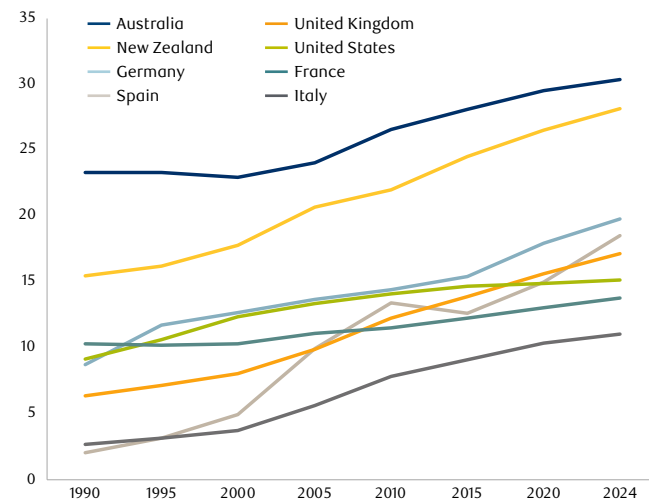
“The risk that jobs could be automated faster than new jobs are created is becoming a real and pressing concern for some.”

Also, some jobs were remotely outsourced to workers in countries with lower living costs, particularly in places like India. For those jobs which couldn't be done remotely, native-born workers often had to compete with immigrants. Immigration has also led to concerns about stresses on social services.

Clearly, the backlash against globalisation and immigration were significant factors behind Brexit, Trump's elections, tariffs, and the rise of the right in Europe. One Nation's recent surge in opinion polls in Australia and New Zealand First's rising popularity have also both been fuelled, at least partly, by concerns over immigration.

Immigration has increased the foreign born share of populations in many countries

Share of the population born in another country, 1990 -2024



Source: UN Department of Economic and Social Affairs 2024.

2. Innovation and automation

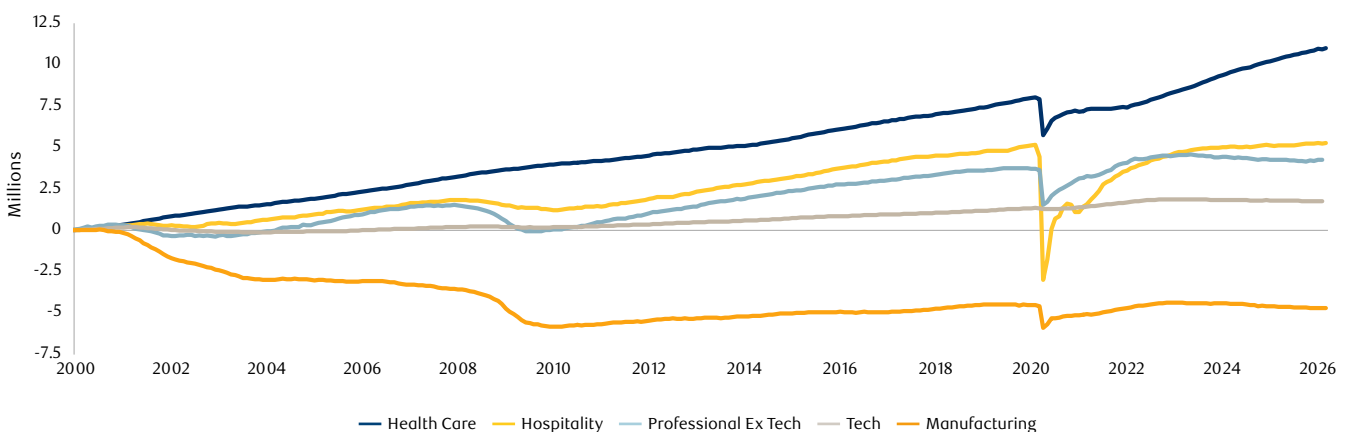
Technological progress is nothing new and has been a key driver of growth over the long term.

But as the pace of automation increases, particularly as AI progresses, the risk that jobs could be automated faster than new jobs are created is becoming a real concern for some. Think, for example, about the effect that generative AI is already having on job prospects for graphic designers and certain tech sector jobs.

There are plenty of historic examples of technology leading to productivity gains that didn't then lead to job losses, such as the increase in the number of accountants post the advent of excel. However, in recent discussions with senior bank executives we were told that they expect to reduce employment by up to 30% within five years. If that's even half right, the implications are significant.

The US has lost close to 5 million manufacturing jobs since 2000

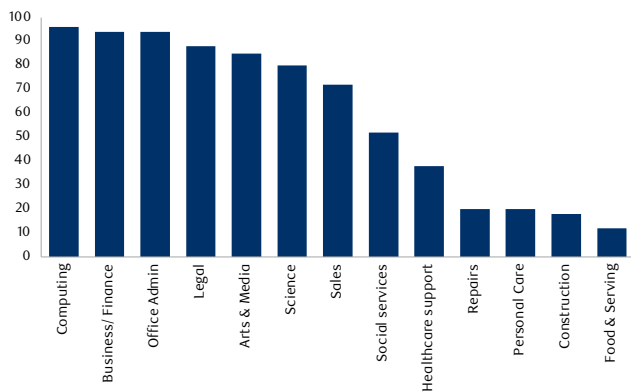
Change in US employment in key sectors since 2000



Source: Bureau of Labor Statistics, Macrobond, March 2026.

AI has the potential to replace a lot of jobs

Share of job tasks that LLMs could theoretically perform: (%)



Source: Anthropic research, Data as of March 2026.

Of course, it's possible that AI could lead to strong productivity growth without leading to net job losses, but the outlook is uncertain.

AI could also be disruptive to many existing business models, as has already been, at least partly, reflected in the share prices of some of the potential losers in the software space.

But what about the winners?

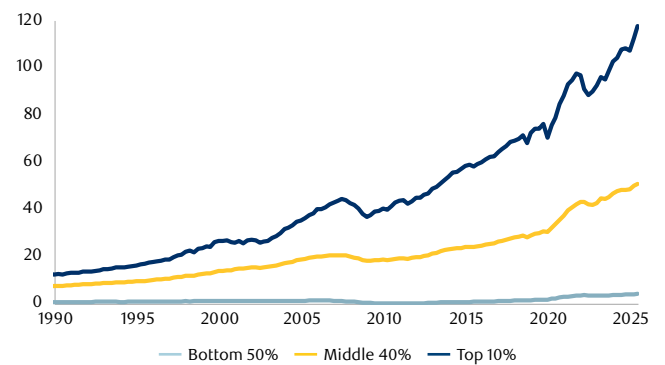
Several companies, some private and some public, are investing as if they are in an existential race with each other. But who the eventual winner(s) will be and how profitable they will be remains uncertain.

As many workers are already upset by the effect that globalisation and immigration have had on their bargaining power, the potential for political backlash against AI and for taxes on the winners also seems substantial.

Potential shocks emanating from AI's energy demands are also important to consider.

Inequality in the US has increased significantly since the 1990s

US net worth, trillion USD



Source: Federal Reserve, Data as of June 2025.

Technological innovation can also interact with international politics. AI will be key to determining future military dominance. And it's not just innovation in the tech sector which can influence international politics. The shale energy revolution in the US, which enabled the US to become a net energy exporter, is also already having significant international political repercussions.

Overall, innovation and automation have the potential to be disruptive, with the balance of positive and negative implications currently uncertain.

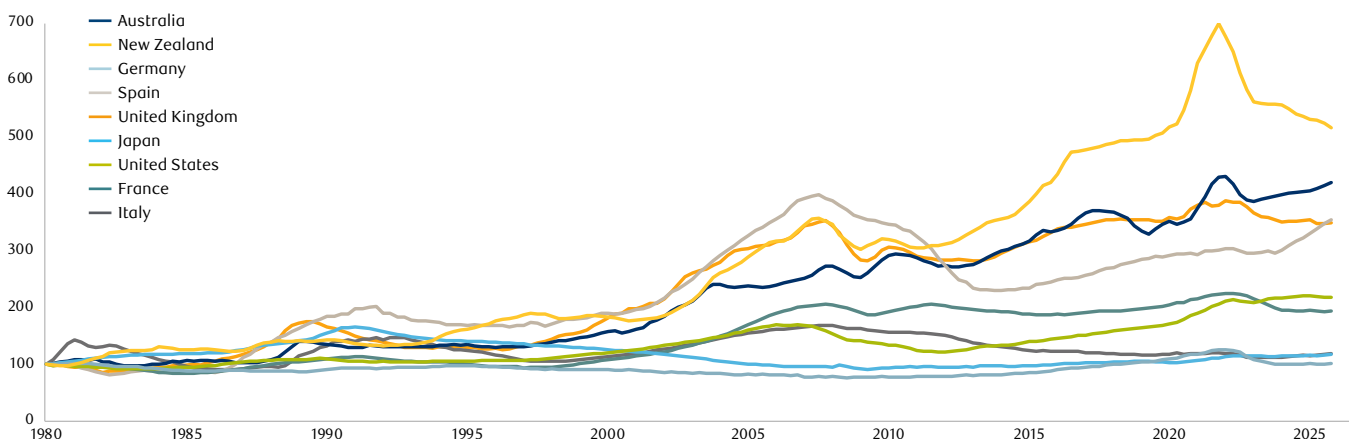
3. Inequality and house prices

Inequality has risen meaningfully among many developed market populations since the 1990s. The bottom 50% of Americans have barely seen any gain in real wealth since the 1990s, whereas the top half have enjoyed a boom in asset values.

The substantial rise in real house prices is another divisive issue. This has been particularly acute in Australia and New Zealand where real house price appreciation has outstripped much of the developed world.

House prices have risen substantially in real terms

Real house prices



Source: OECD, Data as at 31 December 2025.

High house prices relative to incomes both make it harder to save for a deposit and make new mortgages harder to afford when interest rates rise.

Repeated cost of living shocks affecting basics like food, transport and energy costs also exacerbate resentment among those who are struggling to make ends meet. Social media highlighting the wealth gaps probably doesn't help either.

Inequality and the unaffordability of housing help to explain some of the rising popularity of left-wing politicians in some countries, but it also likely plays a role in fuelling the anti-immigrant sentiment most commonly associated with the right. Inequality often precedes a rise in populism.

4. Debt and demographics

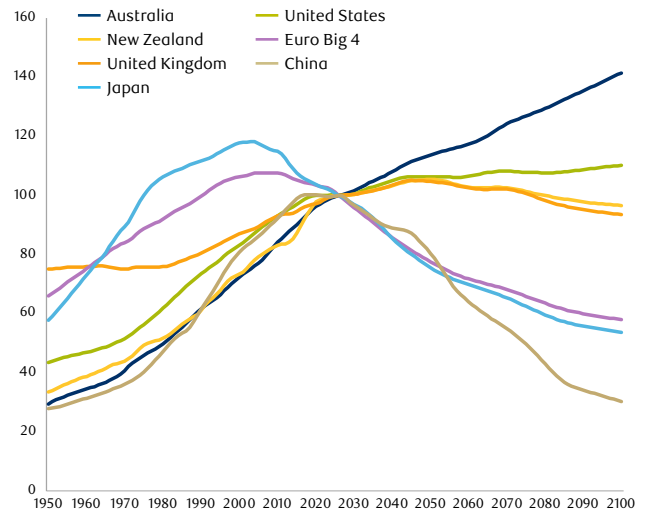
Government debt-to-GDP levels are high today in many developed market countries. This is largely because of the global financial crisis (GFC) and Covid support packages but also because many governments now run persistent fiscal deficits.

This increases the potential for bond market shocks. It also reduces governments' ability to ease voters' concerns or smooth over external shocks with additional borrowing, at least without the support of their central banks and the associated risks to their currencies.

Relative to other developed market economies, government debt-to-GDP is lower in both Australia and New Zealand. However, household-debt-to-GDP has remained stubbornly high since 2008, in contrast to other developed market economies.

While household debt-to-income levels have come down in many other countries since the GFC, this masks substantial inequality. Older homeowners who have paid off their mortgages are unlikely to borrow substantially in order to spend more. Meanwhile, younger people either already have large mortgages relative to their incomes or can't afford the deposit on a house. Furthermore, many young people today bear substantial student loan burdens.

Populations are ageing in most major economies Working age population (25-64 year olds)



Source: United Nations, Medium Fertility Projection, Macrobond, Eurozone Big 4 is Germany, France, Italy and Spain. Data as available at June 2026. Indexed to 100 in 2026.

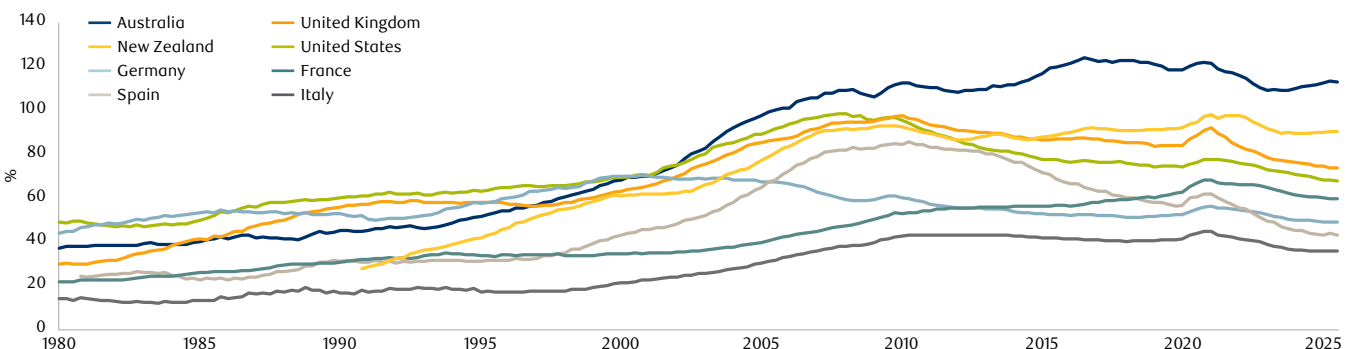
Then consider that populations are ageing in most countries. In the UK for example, in 1948 the retirement age for men was 65 while life expectancy was only 61. Today the retirement age is 66 but average life expectancy is 81.

UK National Health Service spending is also much higher per person on pensioners compared with workers. As the population ages, healthcare spending is forecast to rise from 8% of GDP to 15% of GDP per year by 2075. However, cutting healthcare or pension entitlements would be a recipe for political instability.

The implications for both the magnitude and type of consumer spending, due to ageing populations, is also an important consideration.

Australia is one of the few developed market countries projected to see continued growth in its working age population, although this assumes continued immigration that runs counter to the brewing backlash against immigration.

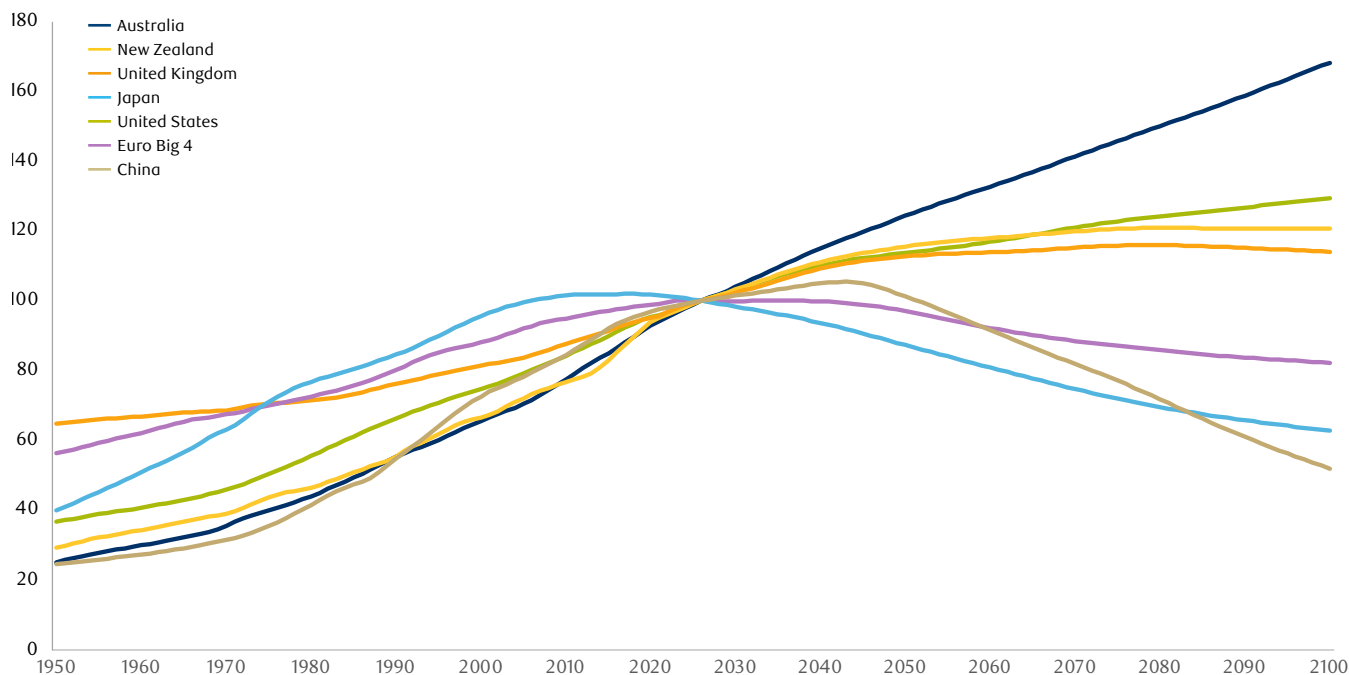
Household debt to GDP



Source: Source: Macrobond, July 2025.

Divergent demographic outlooks could have important implications for house prices

Total population aged over 25 (housing demand)



Source: UN, Macrobond, Eurozone Big 4 is Germany, France, Italy and Spain. Data latest available as at June 2026. Indexed to 100 in 2026.

High debt levels in most developed market countries, combined with generally weak demographic outlooks, create concerns about intergenerational fairness and questions about how best to reduce government debt to GDP ratios, including a potential future political debate about the desirable level of inflation and the desirability of financial repression.

“The net implications for growth, inflation, and rates are hard to predict today, but will become more apparent with time.”

Finally, consider that in some countries, populations are not just ageing but are set to outright shrink. This is the case in China, Japan and much of Europe. The implications for housing demand, as well as the broader real growth outlook are important.

The balance between the effects of demographics and automation on labour demand and supply is a key question facing investors over the coming years. The net implications for growth, inflation, and rates are hard to predict today, but will become more apparent with time.

5. Forever war and freeloading fatigue

The US administration has critiqued its allies for freeloading off American defence and healthcare spending. Many countries have indeed become used to paying much less for medicines than in the US and being able to rely on the US for military support without having to pay their fair share for it.

But, understandably, after Vietnam, Afghanistan, and Iraq, American voters have grown tired of foreign ‘forever wars’ in far flung lands, without obvious benefits to Americans back home.

The problem though is that without the US guaranteeing its allies’ security, trouble tends to brew, and wars are harder to win unless one is willing to commit to putting a substantial number of boots on the ground.

6. National security and nationalism

Rightly or wrongly, the US administration is concerned about the potential risk to their national and economic security posed by the rise of China. Part of the basis for US tariffs is on national security grounds, to try to bring production of everything which is essential for national security back to the US, or at least to its sphere of influence. The objective being that it doesn’t have to worry about potential disruption from China or any other potential adversaries.

The clear elephant in the room here is the US’s reliance on Taiwan to produce the vast majority of its high-end semiconductors. China’s dominant position in the production of rare earth minerals is another key risk to US national security.

For US allies who rely heavily on trade with China, such as Australia, New Zealand and Japan, any sustained escalation in US–China tensions puts them in a potentially difficult situation. Both Australia and Japan, are already familiar with China’s willingness to use its economic influence to try to achieve its political goals.

On the topic of nationalism, there's no need to rehash in detail the extensive literature on the causes of the rise of nationalism historically and its potential dangers. Nevertheless, nationalism is clearly on the rise again in many countries, increasing the potential for further international or independence related conflicts.

Within the context of an incomplete political and monetary union, like the Eurozone, nationalism probably increases the risk of potential political and financial shocks more than military ones.

7. Climate change

Last, but not least, climate change has the potential to lead to more frequent economic and political shocks. We have already seen how climate change can affect food prices, for example, with various recent supply shocks affecting chocolate, coffee and cattle among other things.

Weather-related food supply shocks are as old as history itself but the frequency of them is likely to increase as climate change accelerates. We have also, sadly all too often, seen how climate-related shocks can lead to humanitarian and political crises and/or waves of migration.

The war with Iran has also brought into sharp focus the dependence of the region on desalination facilities, while before the war began there was already talk of water shortages affecting Tehran. Access to water has also been a flashpoint between India and Pakistan. Many other countries, such as Australia, could also become increasingly prone to droughts.

Meanwhile, home insurance costs in parts of the US have risen meaningfully already due to climate-related damage. In Australia, home insurance premiums have soared by over 50% over the last five years. Homeowners in New Zealand have experienced a similar rise in premiums, partly due to climate change.

The potential inflationary effects of transition related commodity demand are also already well-rehearsed.

Climate change is likely therefore to prove a source of an increasing number of both inflation, growth and potential political shocks.

Climate shocks: food price spikes could be the new normal Coffee, cocoa, and cattle supply shocks (Indexed to 100 in January 2020)



Source: Macrobond, April 2026.

Investment implications

Taking all this into account, we shouldn't be surprised if the kind of political, economic and climate related shocks we've seen over the last decade keep on happening.

So far, of the shocks mentioned at the start, only the 2022 shock linked to the Russian invasion of Ukraine has had a meaningful impact on a balanced, internationally diversified, portfolio of stocks and bonds. Even Covid provided only a very brief shock to diversified portfolios.

But just because most earthquakes are mere tremors doesn't mean they all are.

The Japanese are no longer shocked by earthquakes, they have built their buildings to flex as the ground shakes beneath them to absorb the shock.

So how can investors build their portfolios so they too can flex to absorb any potential future shocks?

1. Don't ignore the risks. While shocks or their exact timing are not always predictable, neither do they always come completely out of the blue. Troops tend to get into position before wars begin, polls are often tight before electoral 'shocks'. Reducing active risk around such potential risk events can help reduce the probability that 'shocks' derail long term relative performance goals.
2. Absolute return strategies, with the flexibility to adjust their exposure to markets when the risk of a potential shock increases, could help buffer portfolios. They could be particularly useful during shocks that cause stocks and bonds to fall together, as they did in 2022.
3. High quality duration is still likely to diversify equity exposures during many shocks but not necessarily in all of them. Correlations are not always stable. Active duration management could therefore help to reduce drawdowns in traditional balanced portfolios.

Investments carry risk. The value of your investment may go up or down, and you may not get back the full amount you invested. Past performance is not indicative of future results.

This document is a marketing communication and it may be produced and issued by the following entities: in the European Economic Area (EEA), by BlueBay Funds Management Company S.A. (BBFM S.A.), which is regulated by the Commission de Surveillance du Secteur Financier (CSSF). In Germany, Italy, Spain and Netherlands the BBFM S.A is operating under a branch passport pursuant to the Undertakings for Collective Investment in Transferable Securities Directive (2009/65/EC) and the Alternative Investment Fund Managers Directive (2011/61/EU). In the United Kingdom (UK) by RBC Global Asset Management (UK) Limited (RBC GAM UK), which is authorised and regulated by the UK Financial Conduct Authority (FCA), registered with the US Securities and Exchange Commission (SEC) and a member of the National Futures Association (NFA) as authorised by the US Commodity Futures Trading Commission (CFTC). In Switzerland, by BlueBay Asset Management AG where the Representative and Paying Agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. The place of performance is at the registered office of the Representative. The courts at the registered office of the Swiss representative or at the registered office or place of residence of the investor shall have jurisdiction pertaining to claims in connection with the offering and/or advertising of shares in Switzerland. The Prospectus, the Key Investor Information Documents (KIIDs), the Packaged Retail and Insurance-based Investment Products - Key Information Documents (PRIIPs KID), where applicable, the Articles of Incorporation and any other document required, such as the Annual and Semi-Annual Reports, may be obtained free of charge from the Representative in Switzerland. In Japan, by BlueBay Asset Management International Limited which is registered with the Kanto Local Finance Bureau of Ministry of Finance, Japan. In Asia, by RBC Global Asset Management (Asia) Limited, which is registered with the Securities and Futures Commission (SFC) in Hong Kong. In Australia, RBC GAM UK is exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of financial services as it is regulated by the FCA under the laws of the UK which differ from Australian laws. In Canada, by RBC Global Asset Management Inc. (including PH&N Institutional) which is regulated by each provincial and territorial securities commission with which it is registered. RBC GAM UK is not registered under securities laws and is relying on the international dealer exemption under applicable provincial securities legislation, which permits RBC GAM UK to carry out certain specified dealer activities for those Canadian residents that qualify as “a Canadian permitted client”, as such term is defined under applicable securities legislation. In the United States, by RBC Global Asset Management (U.S.) Inc. (“RBC GAM-US”), an SEC registered investment adviser. The entities noted above are collectively referred to as “RBC BlueBay” within this document. The registrations and memberships noted should not be interpreted as an endorsement or approval of RBC BlueBay by the respective licensing or registering authorities. Not all products, services or investments described herein are available in all jurisdictions and some are available on a limited basis only, due to local regulatory and legal requirements.

This document is intended only for “Professional Clients” and “Eligible Counterparties” (as defined by the Markets in Financial Instruments Directive (“MiFID”) or the FCA); or in Switzerland for “Qualified Investors”, as defined in Article 10 of the Swiss Collective Investment Schemes Act and its implementing ordinance, or in the US by “Accredited Investors” (as defined in the Securities Act of 1933) or “Qualified Purchasers” (as defined in the Investment Company Act of 1940) as applicable and should not be relied upon by any other category of customer.

Unless otherwise stated, all data has been sourced by RBC BlueBay. To the best of RBC BlueBay’s knowledge and belief this document is true and accurate at the date hereof. RBC BlueBay makes no express or implied warranties or representations with respect to the information contained in this document and hereby expressly disclaim all warranties of accuracy, completeness or fitness for a particular purpose. Opinions and estimates constitute our judgment and are subject to change without notice. RBC BlueBay does not provide investment or other advice and nothing in this document constitutes any advice, nor should be interpreted as such. This document does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product in any jurisdiction and is for information purposes only.

No part of this document may be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, in whole or in part, for any purpose in any manner without the prior written permission of RBC BlueBay. Copyright 2026 © RBC BlueBay. RBC Global Asset Management (RBC GAM) is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management (U.S.) Inc. (RBC GAMUS), RBC Global Asset Management Inc., RBC Global Asset Management (UK) Limited and RBC Global Asset Management (Asia) Limited, which are separate, but affiliated corporate entities. ® / Registered trademark(s) of Royal Bank of Canada and BlueBay Asset Management (Services) Ltd. Used under licence. BlueBay Funds Management Company S.A., registered office 4, Boulevard Royal L-2449 Luxembourg, company registered in Luxembourg number B88445. RBC Global Asset Management (UK) Limited, registered office 100 Bishopsgate, London EC2N 4AA, registered in England and Wales number 03647343. All rights reserved.

Published June 2026

RE/0400/06/26



RBC BlueBay
Asset Management