



RBC BlueBay
Asset Management



Stop being shocked by shocks

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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, the Truss UK gilt crisis, food price spikes, Trump (again), Liberation Day, the software sell off and now Iran and yet more political upheaval in the UK. 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 free loading 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 Western consumers, has been the decline in Western manufacturing jobs. Of course, many Western companies and some of their workers have benefitted greatly from globalisation too. But some workers have struggled to adapt to the shift in Western 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, Reform's recent strong showing in the UK local elections and the rise of the right in France.

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.

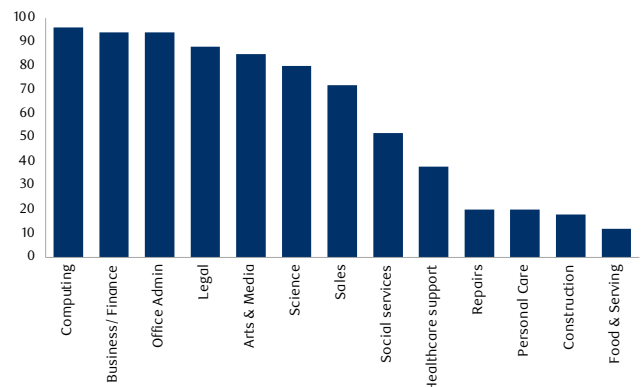
There are plenty of historic examples of technology leading to productivity gains that didn't then lead to job losses, such as the increase in the number of accountants post the advent of excel. However, in recent discussions with senior bank executives we were told that they expect to reduce employment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

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.

AI has the potential to replace a lot of jobs

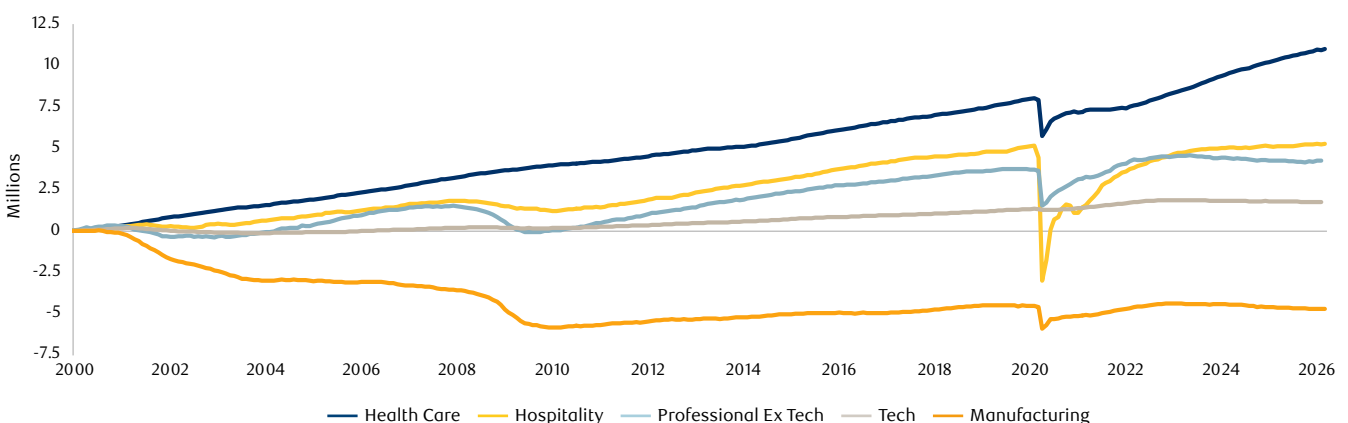
Share of job tasks that LLMs could theoretically perform: (%)



Source: Anthropic research, Data as of March 2026.

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.

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.

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.

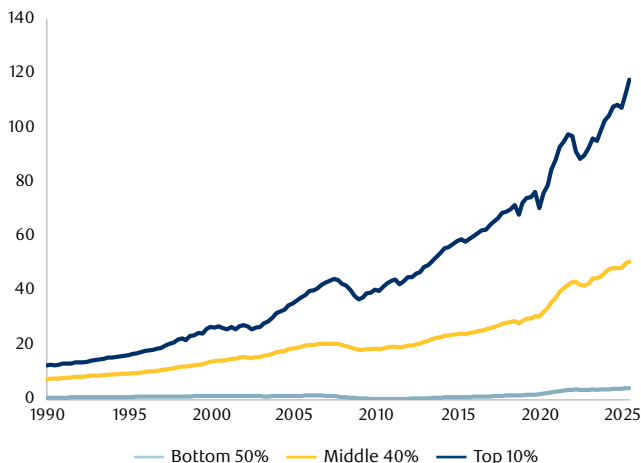
3. Inequality and house prices

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 house price to income ratios since the mid-90s is another divisive issue. While interest rates aren't as high as they have been at times in the past, deposit requirements make home ownership unaffordable for many who don't have help from wealthy relatives.

Inequality in the US has increased significantly since the 1990s

US net worth, trillion USD



Source: Federal Reserve, June 2025.

Home ownership is unaffordable for many, especially in big cities like London

UK first time buyer house price to income ratios



Source: Nationwide, Macrobond, January 2026.

This is particularly acute in big cities such as London, New York or Sydney, where many of the best paid jobs are concentrated.

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 and parties, 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 most 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, as former prime minister Liz Truss found out in the UK. 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.

While household debt-to-income levels have come down 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.

Then consider that populations are ageing in most countries. In the UK, 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.

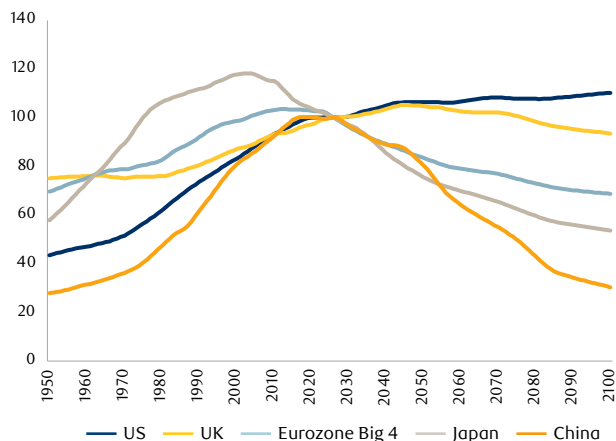
The implications for both the magnitude and type of consumer spending, due to ageing populations, is also an important consideration.

High debt levels combined with this demographic profile 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.

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.

Populations are ageing in most major economies (25-64 year olds, indexed to 100 in 2026)



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

5. Forever war and freeloading fatigue

The US administration has critiqued Europe (and the UK), for freeloading off American defence and healthcare spending. Europe and the UK 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 international 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.

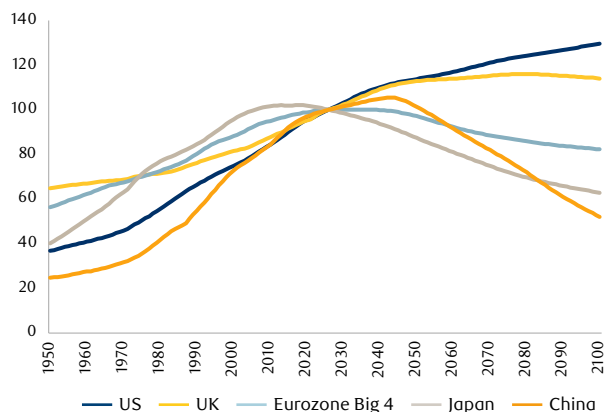
“American voters have grown tired of foreign ‘forever wars’ in far flung lands, without obvious benefits to Americans back home.”

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.

Shrinking populations could have important implications for housing demand Population aged 25+ (indexed to 100 in 2026)



Source: UN, Macrobond, Eurozone Big 4 is Germany, France, Italy and Spain. Data latest available as at April 2026.

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 conflicts.

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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 and could continue to be a source of future shocks for many other countries.

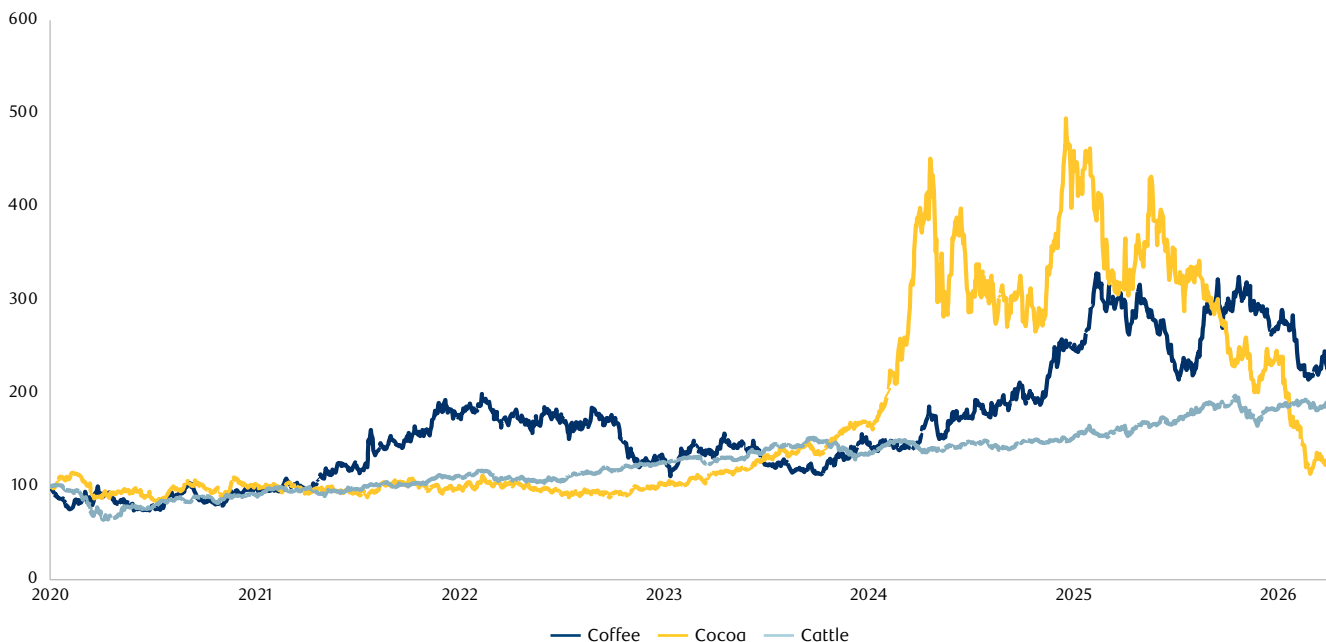
Meanwhile, home insurance costs in parts of the US and Australia, among others, have risen meaningfully already due to climate-related damage.

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.

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