



Investment Insights

Our monthly look at what's driving global markets

Volatility returns

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Quick take

In this month's issue

Volatility returns

Markets face fresh shocks from war, technology and policy

Escalating conflict in the Middle East has pushed oil prices higher and brought market volatility back to the surface, after a relatively calm period.

While Iran's oil production is significant, the greater risk to global energy markets lies in potential disruption to shipping through the Strait of Hormuz.

Higher energy prices could complicate the outlook for inflation and interest rates, particularly for energy-importing economies such as the UK and Europe.

Markets are also navigating uncertainty about AI disruption and renewed trade tensions following a US Supreme Court ruling on tariffs.

Despite these shocks, strong company earnings and well-diversified portfolios remain key supports, reinforcing the importance of staying disciplined through periods of volatility.

Read the full story on page 3.

The world is growing older

Countries and businesses need to adapt to shifting demographics

Global population growth is projected to peak later this century, with falling fertility rates and rising life expectancy driving a shift towards older societies.

The proportion of people aged over 65 is set to rise sharply, placing growing strain on pensions, healthcare systems and public finances.

Ageing populations may slow growth, reduce savings and alter investment patterns. This will increase pressure on government debt and real interest rates.

Policy responses such as raising retirement ages, encouraging people to stay in the labour market, and reforming social systems will be critical in mitigating these effects.

While the demographic challenge is significant, countries that adapt could sustain long-term prosperity and unlock new investment opportunities.

Read the full story on page 7.

Apocalypse now?

How AI-native startups are challenging software incumbents

US software stocks have fallen sharply amid fears that AI-native startups could disrupt established enterprise software providers.

The sell-off reflects concerns about shrinking demand, margin pressure and a shift in value towards large language model providers, rather than any immediate deterioration in fundamentals.

Despite disruption fears, many incumbents retain durable competitive advantages through deep integration and customer 'stickiness'.

AI may ultimately prove more sustaining than disruptive, enhancing productivity and potentially supporting future revenue and margin growth.

While sentiment may remain fragile in the near term, valuations now appear to reflect widespread pessimism. This offers selective long-term opportunities for investors.

Read the full story on page 5.



Snapshot

The global economy and markets

Key facts and figures from around the world. These include rising concern in the US about AI's impact on jobs, tight data centre capacity, inflation in Japan, a widening UK trade deficit and a sharp rebound in global M&A volumes. We also show the latest moves in equities, bonds, sterling, and gold.

Find out more on page 9.

Volatility returns

Markets face fresh shocks from war, technology and policy



John Wyn-Evans, Head of Market Analysis

The surface calm of markets has been disrupted by an escalation of conflict in the Middle East. Oil prices and overall volatility have spiked, but we remain confident in the long-term prospects for well-diversified portfolios.

I began writing before the US-Israeli assault on Iran. It's tempting to rip everything up and to make it all about the consequences of this escalating conflict, but that would be a mistake. Numerous forces act on markets like unseen tides. There are also many unknowns about this fast-moving conflict – not least how long it might last.

The Iran war

While sensitive to the humanitarian costs of war, we have a responsibility to make judgements about economic and financial effects. As we noted in the latest update of our report on major geopolitical risks, *Peace of Mind in a Dangerous World*, whenever hostilities break out in the region, the focus will be almost exclusively on oil and gas prices.

There are two strands to analyse: production and transportation. Iran itself produces around 4.5% of

global crude oil. If that supply was taken off the market other Opec countries would have sufficient spare capacity to make up the shortfall. At the time of writing, there is enough oil coming out of the ground to satisfy demand.

The bigger potential problem is getting it to consumers. In this regard the Strait of Hormuz, a narrow channel between Iran and Oman, is a crucial transportation bottleneck. Around a fifth of global oil and (liquefied natural) gas supplies are shifted through it daily, so any closure would be extremely disruptive.

The price of a barrel of Brent crude oil had been rising steadily from \$60 at the beginning of January, in anticipation of war in the region. It had reached \$70 before any missiles had been fired and now trades at \$83. Figure 1 puts this into the context of the past ten years.

At the time of writing, the Strait is not 'closed' as such, but shipping has been greatly disrupted as insurers either withdraw cover or make it punitively expensive to sail through. Unsurprisingly, independent operators are unwilling to subject their crews to the danger.

Figure 1.1: Oil prices rise as tensions escalate

Brent crude has climbed sharply in recent weeks, but remains within the range seen over the past decade.



Source: Factset, Rathbones

China is a big net importer of oil and gas and Iran and its neighbours – the key suppliers – are highly dependent on oil revenue. Meanwhile, US President Donald Trump will be keen to keep higher inflation from weighing on the performance of the Republican Party in November’s mid-term elections. So the vested interests in keeping shipping lanes open suggest that any blockage should be short-lived.

Analysts at US bank Goldman Sachs calculate that an \$80 oil price reflects an assumption of up to six weeks of shipping disruption. But what happens if there’s a longer closure? The price of a barrel of oil in that case could jump to more than \$100, and possibly even higher in the very short term. That has consequences for inflation, particularly for net oil and gas importers like the UK and Europe. It would also make central banks more reluctant to cut interest rates.

Markets have tended to bounce back quite quickly from most event-driven sell-offs. But the exceptions are sell-offs with an extended period of higher energy prices. The worst ones were caused by supply disruptions. For example, the 1973–74 Arab oil embargo, the 1979 Iranian revolution (when Iran had a much bigger share of global output than today), and Russia’s full-scale invasion of Ukraine in 2022.

Another AI scare

Even before Iran jumped to the top of the investment agenda, there were more than enough things to keep investors on their toes. There are the perceived economic and societal threats from accelerating development of generative artificial intelligence (genAI) and the tools that it can help to create.

Volatility had been low at the overall market level (though figure 1.2 shows how expected volatility has

“
Markets have tended to bounce back quite quickly from most event-driven sell-offs
”

picked up as the Iran conflict escalates). But there have been some monumental shifts below the waterline. Market-watchers have coined a new acronym for companies seen as safe from AI disruption: Halo, which stands for ‘hard assets, low (risk of) obsolescence’. Think ‘stuff’ rather than easy-to-copy computer code. We believe that solid research can unearth valuable opportunities from the indiscriminate selling of supposedly vulnerable companies, as they prove their resilience (see our related article on page 5).

Scotus vs Potus

The Supreme Court of the United States (Scotus) caught markets on the hop by ruling 6–3 that the IEEPA tariffs invoked by the President of the United States (Potus) were illegal. The full implications aren’t clear yet, especially since the decision about refunding tariffs already collected (around \$175bn) has been deferred to a lower court. And this is far from the end of the tariff story. In response, President Trump immediately invoked Section 122 of the 1974 Trade Act, which allows universal tariffs of up to 15% for 150 days to address deficits in the balance of international transactions.

Still, the fact that the Supreme Court delivered this ruling is a reason for optimism, showing it’s not in hock to the White House as many feared. Two Trump appointees ruled against him, much to his displeasure. It appears the checks and balances that protect the US Constitution are not in complete disrepair.

Despite all this malaise, strong earnings growth has been a key support. Reporting so far for the final quarter of 2025 has shown year-on-year earnings growth at around 10% globally.

Conclusion: process and discipline

The investment horizon is a distant one, whereas markets are highly reactive. In most cases the best course of action has been to remain fully invested (and keep investing) even as prices swing violently around longer-term upward trends.

Indiscriminate selling can also provide level-headed investors with opportunity. It’s not possible to predict major geopolitical risks and their impact on investments, but we are prepared for them. A key part of this is constructing portfolios resilient to shocks, with some element of insurance against the worst outcomes. This means that balanced portfolios are well-diversified across asset classes. And this is the time for the ‘boring’ constituents to prove their worth.

Figure 1.2: Market anxiety returns

The Vix index, a popular gauge of expected volatility in US equities, has risen amid escalating geopolitical risks.



Source: LSEG, Rathbones

Apocalypse now? How AI-native startups are challenging software incumbents



Ben Derber, Equity Analyst

The US software sector has had a brutal start to the year, dubbed the ‘software apocalypse’, amid fears that startups built using generative AI (genAI) from the outset – ‘genAI natives’ – could replace incumbents’ service offerings.

The software-focused IGV index was down 20% relative to the US benchmark S&P 500 at the time of writing. It’s not just software stocks that have suffered. Information services companies, such as London Stock Exchange Group and RELX, have also experienced collateral damage.

Until last year, these once high-flying sectors were regarded as home to some of the best businesses in the world. They were characterised by dependable recurring subscription revenue, growth rates above GDP, pricing power, and excellent cash flow generation. In short, they appeared to have everything you could ask for in a high-quality business.

Organic revenue growth (excluding growth from mergers and acquisitions) is typically over 10% in the software sector. Many companies hold net cash on their balance sheets (more cash than debt), and profit margins have been rising. If forecasts are correct,

stocks in ‘global enterprise software’ – businesses that sell large-scale, integrated software systems to other companies – look attractively valued.

Figure 2.1 shows total enterprise value, the net sum of all outstanding shares, cash and debt. But figure 2.2 shows cash flow continuing to rise for a basket of major software services firms. So why are these software companies getting cheaper, relative to their ability to make money? Putting it another way, why have we seen such a sell-off?

A plug-in threat

The most recent bout of selling was triggered by the release of plug-ins from Anthropic, a leading large language model (LLM) lab specialising in coding tools. A plug-in is software that increases the functionality of another software application. Anthropic introduced a new feature called Skills that, rather than simply enhancing coding and other applications, competes more directly with software service providers.

There’s been no immediate impact on incumbents’ revenues. But the decline in share prices reflects concerns. Some investors fear incumbents could eventually be replaced.

Figure 2.1: Valuations under pressure

Falling share prices have pushed enterprise values down for a basket of major software services firms.



Source: Rothschild & Co | Redburn, based on a basket of major software services firms (Salesforce, ServiceNow, SAP, Adobe, Workday, Intuit and HubSpot)

Figure 2.2: Cash flow expected to hold firm

Forecasts are for underlying cash generation to remain strong at these enterprise software firms.



Source: Rothschild & Co | Redburn, based on a basket of major software services firms (Salesforce, ServiceNow, SAP, Adobe, Workday, Intuit and HubSpot)



The battle between every startup and incumbent comes down to whether the startup can get the distribution before the incumbent can build the innovation.

Alex Rampell, venture capitalist

LLMs enable AI agents to perform tasks previously handled by humans by combining understanding, reasoning and action to automate complex workflows. This new technology has generated several concerns:

- Demand for enterprise software could shrink if automation reduces headcount and workflow complexity at companies using platforms supplied by businesses such as Microsoft, Salesforce, SAP and Oracle.
- GenAI-native startups may operate with lower cost structures and superior functionality compared with incumbents retrofitting AI into legacy products.
- Margins could be compressed if more value accrues to LLM providers and genAI chip makers, leaving software incumbents with a smaller share of the economic value created.

The innovator's dilemma

A classic treatise on innovation is *The Innovator's Dilemma*, written in 1997 by Harvard professor Clayton Christensen. He distinguishes between two types of innovation:

- Sustaining technologies, which improve the performance of established products that mainstream customers already value, such as faster processors or better screen resolution.
- Disruptive technologies, which create simpler, cheaper or more convenient ways of doing things, such as digital cameras replacing Kodak film, or Google overtaking the *Yellow Pages*.

What about incumbents adding genAI natural language interfaces to their applications? We think this is a sustaining rather than disruptive technological phenomenon. It doesn't fundamentally undermine their economics. In fact, it could enhance revenue growth and margins. By making customers more productive, software providers may be able to charge more, effectively taking their share of the money freed through labour savings. However, the question remains: could incumbents ultimately be replaced?

Software moats to keep the startups out

To withstand this wave of AI-driven disruption, software companies need durable moats – competitive advantages that retain customers and deter entry. Companies such as Salesforce and SAP benefit from deep integration within clients' ecosystems. These integrations create 'stickiness', making it costly and complex to switch providers. That should make them resilient in the face of AI-native challengers.

The real risk is complacency. Failure to embrace AI could allow superior rival products to overcome switching costs. But we expect incumbents to evolve, as they did during earlier transitions from PC to mobile and from on-premises servers to cloud computing.

While the market focuses on downside risks, AI agents also present a significant opportunity. Hundreds of billions of dollars in incremental revenue could be unlocked through automation of repetitive, data-driven back-office processes. From this perspective, AI could enhance incumbents' pricing power and even lift margins as they reduce their own labour costs. For now, however, markets are unwilling to price in this upside scenario.

Software is stayin' alive

We see durable long-term value in the software sector, particularly after the recent sell-off. But we can't predict when sentiment might turn positive again. It may remain negative for some time, especially if further product launches from LLM providers reignite disruption fears.

For now, valuations – such as prices relative to earnings – are likely to remain depressed. We can't call the exact floor. But at current levels, markets appear to have priced in significant and widespread market share losses across the sector.

One potential catalyst for a rerating would be a meaningful acceleration in revenue growth among incumbents. However, that seems unlikely within the next 12 months, as AI-enabled enhancements are still in the early stages of rollout.

In our view, incumbents are unlikely to be fully disrupted. Over time, markets should recognise this. Meanwhile, these businesses continue to generate strong free cash flow – cash remaining after operating expenses and capital investment – and robust profit growth. Their task is to keep delivering, reinvesting appropriately in research and development, and integrating genAI functionality while using surplus cash prudently. That includes share buybacks where appropriate.

What would change our view? Clear evidence of sustained market share loss to AI-native competitors. That could occur if moats prove shallower than expected or management teams are slow to embed genAI into their core offerings.

For now, we remain confident that high-quality, sustainable growth can still be found among many leading software companies. At lower valuations, they may even offer more compelling long-term opportunities for selective investors. That said, rapid technological change reinforces the importance of diversification, avoiding excessive exposure to AI-related risks within portfolios.

The world is growing older

Countries and businesses need to adapt to shifting demographics



James Thornhill, Investment Director

The ageing of the global population is much more than a mere demographic curiosity – it could be one of the defining trends of the 21st century, reshaping society, economies and businesses.

For centuries, the global population has grown continuously. But the UN projects a peak in the 2080s for the first time in modern history. With fertility rates falling, the world’s population is set to shrink over the coming centuries (figure 3.1). The fertility rate is the average number of children a woman is expected to have over her lifetime.

As longer life expectancies combine with declining birth rates, the global population is ageing at an unprecedented rate. The proportion of people over the age of 65 is projected to increase to 24% by 2100, up from 9% in 2021 and just 6% in 1990 (figure 3.2).

The growth rate of the global working-age population (15–64) peaked in 1979. In the high-income OECD countries responsible for about half of global GDP, the ratio of working-age adults (20–64) to elderly people (65 and older) plunged from 7.1 in 1950 to 2.9 in 2022. The UN expects it to fall below 2.0 by 2050. Countries such

as Japan, Italy and Finland could see particularly low ratios in the future, but many developing countries are also likely to experience the impact.

Long-term projections come with uncertainties. Variables such as migration are difficult to predict. Another factor hard to forecast over decades is the pace of healthcare advances. Even so, current trends reveal a striking global shift towards ageing.

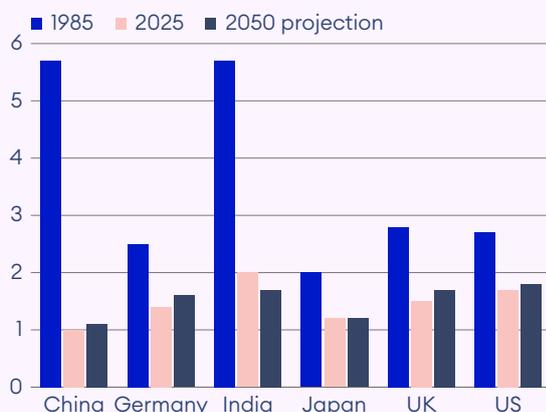
The UN’s *World Population Prospects*, published in 2024, projects average global life expectancy rising to 82.1 years by 2100. Women are projected to live an average of 84.5 and men 79.7 by then. Today’s averages are 76.2 and 70.9 years respectively.

Managing the strain

There are significant macroeconomic implications. A declining ratio of working-age people to the overall population will strain state pensions and healthcare systems. It could reduce overall savings, alter consumption patterns and put enormous pressure on public finances. One obvious effect of an ageing population is likely to be a substantial increase

Figure 3.1: Smaller families, slower population growth

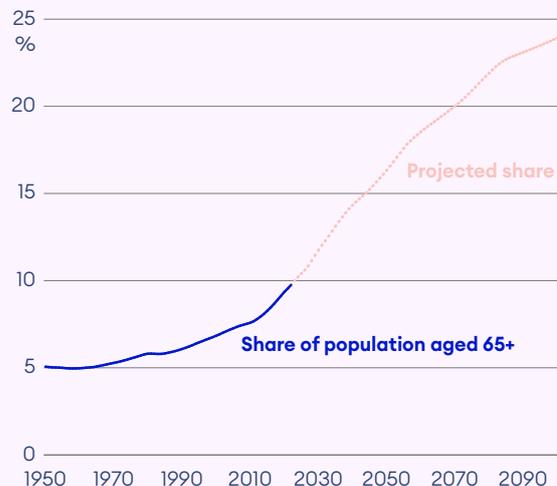
Fertility rates across major economies have dropped well below historical levels and remain subdued in projections.



Source: UN World Population Prospects (2022), Rathbones

Figure 3.2: A greying world

The global share of people aged 65 and over is projected to rise steadily through the rest of the century.



Source: UN World Population Prospects (2022), Rathbones

in healthcare spending by both individuals and governments.

Without reform, Japan and various EU member states could see government deficits and debt rise sharply by mid-century. Lower private savings and higher public spending may reduce national savings, put upward pressure on interest rates, and slow investment in new capital. In other words, across the world, national financial imbalances could intensify.

Government policy responses – such as raising retirement ages, boosting female labour participation and managing migration – can help mitigate this.

Economic impacts

Ageing populations can slow economic growth. A 2023 study, in a journal from the American Economic Association, showed that a 10% increase in the share of the population aged 60 and over reduces growth in GDP per person by 5.5 percentage points. Two-thirds of this decline stems from slower productivity growth across all age groups, with the remaining one-third due to lower participation in the labour force – the pool of people in work or looking for it.

The productivity slowdown isn't confined to older workers, who may adopt new technologies more slowly – though we're talking about averages, not individuals. Older and younger workers are complementary. The retirement of experienced workers, who pass on knowledge and expertise, may reduce productivity among younger workers as well.

Fiscal pressures and public debt

Figure 3.3, from the UK's Office for Budget Responsibility, shows how an individual's net

contribution to government income (taxes paid less the cost of services provided) changes by age. Unsurprisingly, under-20s receive more from the state than they contribute in taxes, as most are too young to work full-time. People in their 70s and beyond also receive more than they pay in. As more people live well into their 80s and 90s, welfare, social care, and healthcare spending increases accordingly.

The net effect is that UK public sector net borrowing (PSNB) is projected to rise from 1.2% of GDP in 2028–29 to 20.5% of GDP by 2073–74. This increase is driven by projections of a slight fall in receipts and a significant rise in spending.

PSNB accelerates over the projection period as the population ages. Rising government debt would then increase interest payments, creating a snowball effect. In practice, governments would almost certainly take corrective action to prevent public finances from entering what would otherwise be an unsustainable debt spiral.

Ageing also affects saving. Older people save less as they draw down accumulated wealth, so national savings rates may decline. Combined with rising public debt, this could put upward pressure on real (inflation-adjusted) interest rates. That would reduce investment in the capital essential for economic growth.

The economic implications of global ageing are significant. The savings and investment imbalances it may create, alongside higher interest rates, could increase financial instability. Coordinated international policy responses will be important in managing these risks.

Turning challenge into opportunity

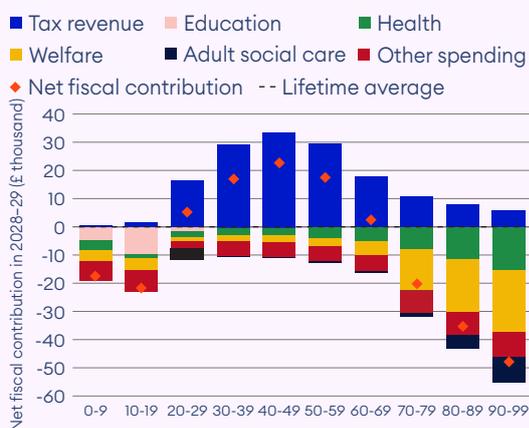
Governments can address many of these challenges through reform. Several OECD countries have begun revising pension and healthcare systems to improve sustainability, including raising retirement ages. Another key strategy is making it easier for mothers to remain in or return to work.

Reforms often face political resistance, especially where retirement expectations are deeply entrenched. Yet the challenges of population ageing, while considerable, are surmountable. With timely and coordinated action, social systems can be reformed, labour markets made more flexible, and financial pressures managed. Countries that adapt effectively to demographic change will be better placed to sustain long-term prosperity.

We have a Thematic Working Group, drawn from our Research and Investment Management teams, looking at ageing populations. We'll produce further articles on this theme in future editions of Investment Insights, exploring the investment implications across different industries.

Figure 3.3: Contributions across a lifetime

Primary receipts and public spending vary significantly by age, with working-age adults funding higher costs in childhood and old age.



Source: UK Office for Budget Responsibility, Rathbones

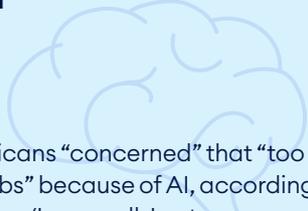
Snapshot

The global economy and markets

Figure of the month

71%

The proportion of Americans “concerned” that “too many people will lose jobs” because of AI, according to an August 2025 Reuters/Ipsos poll. Last year saw the weakest US job creation in two decades outside of a recession, despite solid growth. Both trends may reflect AI’s impact. Pessimism about the technology may also be weighing on consumer confidence, now at a 12-year low.



At a glance

4.2%

US data centre vacancy rate (H2 2025)

8%

UK trade deficit in goods (2025)

3.2%

Japanese consumer price inflation (2025)

50%

Rise in global M&A value (2025)

Key market indicators

Equities

Total return (1 March 2021 = 100)



Government bonds

10-year yields (%)



Sterling

Value of £1 in dollars and euros



Gold

US dollars per troy ounce



Sources: FactSet, LSEG, Rathbones

Find out more Knowledge and insight

Alongside this monthly *Investment Insights* publication, we share a wide range of updates and analysis, from regular strategy commentary and video briefings to in-depth reports, all designed to help you understand what's driving the global economy, financial markets and the outlook for investment returns. To explore more, visit www.rathbones.com/en-gb/wealth-management/knowledge-and-insight



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Weekly and monthly digest

Keep up to date with regular insights from John Wyn-Evans, our Head of Market Analysis, as he explores the key themes shaping the global economy and investment environment.

Research reports

In line with our focus on long-term investing, we produce in-depth reports. These publications reflect the thinking behind our portfolio decisions and explore how structural trends, risks and opportunities could affect investors over the long term.



The next decade for the global economy is likely to look very different to the 2010s. *Investing for the next decade* explores how the opportunities in fixed income have changed, the possible outlook for equities and why we believe the extraordinary outperformance of the US could end.



Geopolitical risks have risen in recent years, from conflict in the Middle East to tensions in the Taiwan Strait. *Peace of mind in a dangerous world* outlines the four risks we monitor most closely, the warning signs we look for, and how we prepare portfolios to help protect your investments.

Experience and expertise

Rathbones has a large and experienced in-house research team, covering global equities, fixed income, multi-asset strategies and responsible investing. With specialists dedicated to analysing market trends, sectors and individual securities, our team brings deep insight and rigorous discipline to every portfolio. This depth of knowledge allows us to uncover opportunities, manage risk effectively and respond quickly to changing conditions, helping you to invest with greater confidence.

You can access this expertise in a range of ways, from fully bespoke discretionary portfolios to ready-made multi-asset funds, tax-efficient investment strategies and specialist services for complex needs. To find out more and for details of your local office, visit www.rathbones.com/en-gb/wealth-management/contact-us



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