

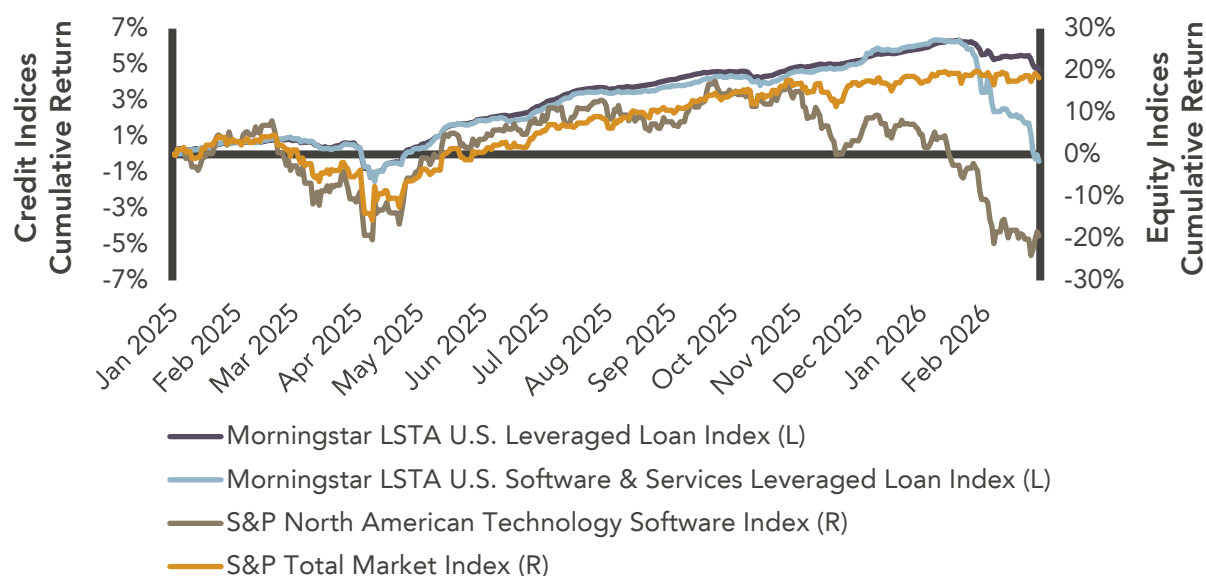
Chart of the Week

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A Bug in the Software

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AI-driven disruption fears have triggered a broad sell-off in software-linked equities and loans as investors reassess the sector's long-term outlook



Source: Bloomberg as of February 28, 2026

Recent market dynamics in the software sector reflect a sharp shift in investor sentiment driven primarily by concerns that advances in artificial intelligence could fundamentally disrupt traditional software business models. Public software-linked equities have sold off broadly (even as many companies continue to deliver solid earnings) because investors are increasingly focused on long-term structural risks rather than near-term financial performance. Indeed, estimates for longer-term earnings growth for these businesses have started to decline despite stable or improving near-term outlooks, highlighting growing skepticism around the durability of pricing power, competitive moats, and growth trajectories in an AI-enabled environment. Since the end of October, the S&P North American Technology Software Index has fallen by roughly 30%. These concerns have now spread beyond equities into credit markets, where leveraged loan investors are rapidly reducing exposure to software-related borrowers. Many software loans that entered 2026 priced at or near par have since declined as investors reassess the sector's credit risk profile, reflecting fears that AI-driven disruption could weaken cash flows and increase default risk for highly leveraged issuers. Specifically, the Morningstar LSTA U.S. Leveraged Loan Index has dropped by around 6% since the start of 2026.

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This repricing across equity and credit markets underscores a key shift in sentiment. Software, long viewed as one of the most predictable and resilient sectors of the economy due to recurring revenue models and high margins, is now facing simultaneous multiple compression in equities and widening spreads in credit. While fundamentals remain relatively intact today, markets are increasingly discounting a wider range of potential outcomes for software-linked businesses, creating heightened volatility and a more selective environment in which investors are demanding clear evidence of AI resilience and sustainable competitive differentiation. ■

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