The Death of Software?

Fears of AI disruption catalyzed a major selloff, but a number of high-conviction active managers see opportunity in high-quality software companies with robust competitive moats.

At a Glance

Perceived AI-driven disruption has triggered one of the sharpest selloffs in software history, raising questions about the durability of traditional SaaS models. This paper evaluates whether fears of "the death of software" are overstated and where durable advantages may remain.

Key Takeaways

Disruption is uneven. AI may pressure certain models while reinforcing companies with proprietary data and mission-critical workflows.

Enterprise systems are sticky. Deep integration, security, and compliance slow replacement cycles.

Moats still matter. Durable competitive advantages may strengthen in an AI-enabled landscape.

Volatility creates opportunity. Market dislocations may offer investors the chance to own high-quality companies at temporarily depressed valuations.

From Durable SaaS Moats to AI Uncertainty

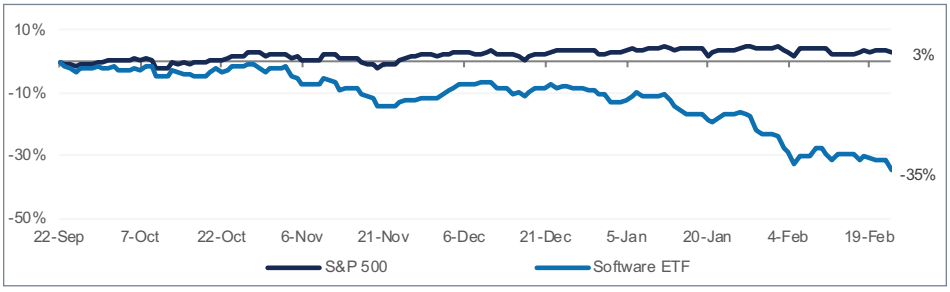
In recent years, software-as-a-service ("SaaS") businesses generated consistent earnings growth. Their subscription-based pricing benefited from an expanding addressable market and an efficient, lower capital expenditure business model. Given how entrenched these programs became in their customers' ecosystems, these software companies were perceived to have fortified moats around their business and received premium equity valuations. However, with the rapid development and expansion of artificial intelligence ("AI"), the size of their potential markets and strength of their moats are now being questioned.

Concerns around the competitive advantages of software companies have been growing since the first launch of ChatGPT, but these fears really came to a head in early 2026 with the release of the latest Anthropic AI model. Anthropic's new Claude Cowork AI workspace allows users to automate tasks across legal, sales, marketing, and data management functions. Companies typically outsource these functions to SaaS companies with large market shares in their respective niches, but this new development stoked worries that businesses will develop tools in-house and render these SaaS products obsolete.

Market Reaction: Indiscriminate Selling

The market reaction to these developments has been relentless and largely indiscriminate. From a recent high on September 22, 2025 through February 23, 2026, the iShares Expanded Tech-Software Sector ETF (IGV) declined 35% while the S&P 500 gained 3%. Very few software companies have been able to escape the carnage. 85% of the ETF constituents declined over this period, and 75% of the stocks fell into bear market territory, defined as a drop of 20% or more from the latest peak.

AI-Driven Repricing: **Software Underperforms Broader Market**



Source: Morningstar

While uncertainty around the future technology landscape is high, there are several reasons to believe that the initial drawdown for many of these stocks is overblown. A lot of these software products are deeply entrenched in the day-to-day operations of their customers, and these functions are not easily replaced. Major corporations cannot quickly migrate their customer relationship management, human resources, or accounting systems, and many corporate leaders will be reluctant to rely on new technology that hasn't been tested and has the potential to pose cybersecurity issues. Vertically-integrated software products that are designed for specific industries also enjoy large market shares and have access to proprietary data that cannot be easily replicated by AI-generated systems. Lastly, many forward-thinking software companies are already leveraging AI technology to improve their own products and view AI as enhancing their value-add, not as a destructive competitive force.

Adaptation Will Determine the Outcome

AI is a revolutionary technology that is likely to have a profound impact on the way companies do business in the years and decades ahead. While this revolution will inevitably lead to winners and losers, and some software companies that are unable to adapt will lose their moat, those companies with strong competitive advantages and capable management teams can leverage this new technology to remain industry leaders.

A number of OAM Research's high-conviction equity managers provided their perspectives on the market backdrop and their outlook for software:

Hedge Funds

Alkeon views disruption as a multi-year process, noting that large enterprises are unlikely to rip out secure, compliant, enterprise-ready systems overnight. The team has expressed skepticism toward companies they believe may face structural disruption over the next several years, while also identifying beneficiaries of AI acceleration — particularly firms tied to semiconductor design activity, which is increasing as AI investment expands.

Large Cap

Atlanta believes AI's impact will take years to fully manifest and stresses the importance of proprietary data, durable growth, and mission-critical functionality. The team has trimmed software exposure over time and remains focused on businesses demonstrating high retention, consistent cash flow generation, and embedded enterprise relationships. Atlanta began trimming software exposure in the middle of 2023, and has consistently had less software ownership in the strategy vs peers, the Russell 1000 Growth and S&P 500. Microsoft and Intuit remain under review, with attention on capital intensity and the durability of seat-based models.

Jennison views the industry as being in the early stages of an AI-driven investment cycle. While volatility has increased — particularly in traditional seat-based software — the team has not made broad AI-specific shifts. Instead, Jennison favors infrastructure and software enablers that help enterprises integrate AI safely and effectively. The team emphasizes monitoring enterprise adoption, product development cycles, and monetization models as the cycle matures.

Ithaka believes disruption depends on workflow integration, mission-critical data, and value-to-cost dynamics. Over the past 12 months, the team has actively high-graded software exposure, and rotated away from point solutions that are vulnerable to being feature-ized by LLMs, focusing instead on systems of record that own proprietary data moats. While short-term disruption appears limited in large enterprise environments, the team is closely monitoring the transition from assistive AI to agentic AI and the potential pressure this could place on traditional seat-based licensing models.

SMID Cap

Riverbridge views AI as both disruption and opportunity. The team believes consumer-facing applications face the greatest risk due to low switching costs, while enterprise software providers with proprietary datasets and mission-critical workflows may benefit most. Portfolio adjustments have been bottom-up and selective, with conviction maintained in businesses demonstrating durable recurring revenue, high retention, and strong returns on invested capital. Software has absorbed substantial selling pressure, leaving investor positioning light and expectations muted. Historically, forward returns improve meaningfully when ownership is reduced and expectations are low.

Wasatch is underweight software relative to its benchmark, not due to a macro call but because of uncertainty around moat durability in certain models. Over time, the team has exited a handful of positions where there was uncertainty in an AI-driven environment. The software companies owned today are those the team believes have competitive advantages independent of the underlying technology. The team prioritizes network effects, scale advantages, regulatory barriers, and proprietary data. In some cases, AI may reinforce competitive positioning rather than weaken it.

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SMID Cap (cont'd)

Geneva

Geneva sees disruption as meaningful but uneven. Companies with point solutions and limited switching costs are more vulnerable, while those embedded in mission-critical workflows may benefit. The team is monitoring revenue retention trends, pricing power, AI integration credibility, and financial resilience. The portfolio maintains modest software exposure and is evaluating opportunities created by indiscriminate selling.



Spyglass expects significant AI-driven disruption but believes the market has not differentiated sufficiently between winners and losers. The team focuses on whether software products remain the most effective, efficient, and low-risk tools for users — human or AI agents. The portfolio has been actively rebalanced, with continued conviction in software companies that partner with leading model providers and trade at historically low valuation multiples.

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