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Artificial intelligence and software: Curse or blessing?

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We believe the correction in software stocks is partly justified, but it is also too indiscriminate. While AI increases competitive pressure—which could put some companies under strain in the medium term—it is likely to strengthen productivity, growth, and long-term earnings potential for others. This creates opportunities for companies that successfully integrate AI into their products—and, in our view, opens up selective entry opportunities.

Recent turbulence in equity markets has been largely driven by concerns about artificial intelligence (AI). In addition to worries about excessive AI infrastructure investment, software companies in particular have been under pressure in recent weeks. Investors are concerned that AI-based solutions could displace existing products, squeeze margins, or even render entire business models obsolete.

We present three arguments for why we believe these concerns are probably overstated for the sector as a whole, even though they may be relevant for certain companies and thus partly justify the correction. In our view, this still creates selective opportunities for investors.

First, AI is increasingly becoming a productivity engine for the sector. AI already strongly supports software development in areas such as code writing, identifying security vulnerabilities, and optimizing existing systems. Leading companies report that 25% to 50% of their code is already written by AI. This reduces costs, increases productivity, and improves time to market—all developments that typically lead to higher, not lower, share prices.

Second, the market may underestimate the industry's adaptability. The argument that AI models could "replace" the software sector overlooks the fact that many providers are pursuing AI-driven strategies themselves. The line between developing AI models and applying them is increasingly blurred. This can create new opportunities for profitable AI monetization, and also enable software companies to cover a larger part of the value chain. In other words: Software is not becoming obsolete, but more intelligent and diverse.

Finally, as always, investors should focus on fundamentals rather than headlines, since share prices are determined by earnings and interest rates over the long term. This is precisely where the software sector shows that AI can be both a curse and a blessing.

For several companies, profit trends remain very solid, and we see no signs of a profit recession in the sector. At the same time, it is likely that AI-based applications will lead to disruptions in various industries over the medium term. Business models that rely heavily on standardized, repetitive tasks are particularly at risk—for example, in parts of services, administration, customer service, media, or simple analytical work. In these areas, AI can directly replace human labor or compete strongly. Within the software industry, this could also be disadvantageous for some companies, especially for providers that stick to rigid, traditional license or feature models and fail to transition to AI-supported, adaptive solutions in time. In such cases, margin pressure is likely to increase further. The key factor, therefore, is how quickly and successfully companies can integrate AI into their products and business models. If adaptability is too limited, the sometimes high valuations leave little room for deeper profit growth. In these cases, the correction is likely to continue.

Our conclusion: The correction in software stocks reflects concerns that are understandable on the one hand, but have probably been treated too indiscriminately by the market. For investors, this can offer selective entry opportunities. AI increases competitive pressure—but at the same time, it can enhance growth, productivity, and long-term profit potential. Against this backdrop, we see some grounds for the prevailing skepticism, but see it as exaggerated overall.

Appendix

Non-traditional asset classes are alternative investments that include hedge funds, private equity, private credit, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. **An investment in an alternative investment fund is speculative and involves significant risks.**

Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

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In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

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- **Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
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