

Software firms take major hit from AI

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At the beginning of 2025, the high-tech market was rocked by the announcement from a Chinese start-up company, DeepSeek, that it had developed a chatbot as good as that launched by OpenAI (Chat GPT) at a fraction of the cost and without the latest high-end chips.

At the start of this year the market has again been thrown into turmoil with the launch by the AI firm Anthropic of a new tool, known as Claude, which when combined with a series of plugins has the capacity to carry out a series of complex tasks, in particular the writing of software.

The well-known American software engineer, Aditya Agarwal, who played a role in establishing Facebook and was chief technology officer at Dropbox, summed up the impact in comments reported by the *Financial Times* (FT).

“It was very clear that we will never ever write code by hand again. Something I was very good at is now free and abundant,” he said.

It remains to be seen whether this is an exaggerated assessment, but his remarks indicate the direction of development.

The new AI tool codenamed *Claude Cowork* has impacted on a wide range of software and IT business models. These include enterprise software firms, such as Salesforce and Adobe, legal and data firms, including Thomson Reuters and Relx, legal outsourcing firms and Software as a Service (SaaS) firms where applications are hosted by a vendor and accessed by users over the Internet.

The stocks of the firms affected have taken a major hit. For example, last Tuesday as Anthropic was rolling out its new tool, the shares of Relx, which provides legal information and risk analysis, declined 14.4 percent. In the words of the FT, it reversed “the fortunes of one of the best-performing stocks in recent years and a company regarded as one of the UK’s

brightest hopes for AI success.”

In a rationally planned and consciously organised economy, the developments in AI would provide the means for major advances. Like all major technical developments, those in AI are subject to constant improvement. But under capitalism, grounded on market relations and driven by profit, this very development contains the seeds of a crisis.

This is because the vast amounts of capital which have been invested previously suddenly undergo what is known as moral depreciation—a term initially elaborated by Karl Marx. It occurs not because the asset depreciates due to wear and tear but is suddenly devalued as another product enters the market rendering the existing asset obsolescent and outdated. As the events of last week show, this can happen literally overnight.

Writing at the weekend, FT columnist Katie Martin described what was taking place as a “tech wreck” and a “market reset.” This was, she said, a “big deal.” Noting the fall in the S&P 500 index of 3 percent and the fall in the NASDAQ of 6 percent, she said there were “serious ructions under the bonnet.” Those issues have not gone away despite the upturn in the market over the last couple of days.

“The problem here is not that the enthusiasm for AI-related stocks has proven to be the bubble that many feared. Or at least it has not burst because the technology itself has proven to be a dud. Instead, somewhat ironically, it is the opposite. In some areas, AI simply works too well. Stocks in analytics and software companies have taken the strain ... after the AI company Anthropic launched productivity tools that could, over time, wipe out the need for a lot of what they do.”

The shift in the market is estimated to have wiped hundreds of billions of dollars—possibly as much as \$1 trillion—from the value of the companies immediately

impacted. In some cases, the events of last week came on top of a process that had been in train for some time.

The *Australian Financial Review* (AFR) pointed to the case of the Australian software company Atlassian whose rise and rise has lifted the net worth of its co-founder Mike Cannon-Brooks to \$8.5 billion.

The stock fell 6 percent in trade last week and then 9 percent after hours despite beating analysts' forecasts for revenue. It bounced back somewhat at the end of the week but as the article noted: "Not only is the stock down 70 percent in the past 12 months, it's back to levels last seen in 2019. The market is suggesting it sees a deep problem."

The problems for major software firms could spread more broadly because as a *Wall Street Journal* (WSJ) article noted concerns over the steep selloff are "spreading to the debt market."

It stated the "expanding pain is worrying many on Wall Street because software has come to assume an outsize presence in the corporate-debt market—the result of a wave of private-equity buyouts that stretched from the late 2010s through the early 2020s."

In another article, the WSJ said that the "flurry of deals" financed by private debt funds "left software as a significant slice of their investment portfolios."

While attention has been focused on the effects of the success of AI, concern over whether the massive investments in data centres will pay off has not gone away.

It was underscored by the reaction to the news that Amazon would lift its capital spending to \$200 billion this year, up from \$130 billion in 2025. This was at least a third more than had been expected and came with a warning that its profits could be affected, leading to a 4.4 percent fall its shares.

The stock is now down some 20 percent from its peak last November, forming part of a broader trend. Microsoft is down 27 percent from its most recent peak, Nvidia has lost 17 percent from its high, Tesla is down 19 percent, and Meta is down 15 percent. Oracle has lost almost 60 percent.

As the AFR commented after reporting these figures: "These are the foundational companies of the AI boom, and the firms providing the infrastructure on which this revolution is supposed to run. But suddenly, investors are very sceptical that the huge amounts being invested by the likes of Amazon will deliver returns."

While they have yet to do so, the sharp falls have the potential to set off a financial crisis because of the increasing role being played by debt.

The fall in the price of Bitcoin, which has wiped out all its gains since the coming to power of Trump, is another indicator of possible financial turmoil. Concerns about what its dramatic fall might signify emerged last week when US Treasury Secretary Scott Bessent was asked in a congressional hearing whether the government could force banks to buy it in order to halt the decline.



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