

# Report on impact of AI triggers market turmoil

Nick Beams  
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The extreme nervousness on Wall Street about the impact of artificial intelligence (AI) on a range of companies, particularly those supplying software and software services, was highlighted on Monday when a report by a small research firm played a significant role in a market selloff.

The report by Citrini Research was widely circulated and cited as a contributing factor in the fall, which saw the Dow drop by more than 800 points or 1.7 percent, the S&P 500 by 1 percent and the NASDAQ by 1.1 percent.

The *Wall Street Journal* noted that while it does not take much to move markets top-heavy with tech shares jumpy over AI, the Citrini report “tapped into a new strain of fears.”

The main concern in the past months has been whether the massive spending on AI data centers by the hyperscalers, such as Meta, Google, Amazon and Microsoft, would generate a sufficient rate of return. Those fears remain.

But new ones have emerged in recent weeks centering on the impact of AI tools which contain the possibility of upending existing information and software systems by massively reducing time and labor costs.

Pointing to these effects, the Citrini report began: “What if our AI bullishness continues to be right ... and what if that’s actually bearish?”

In other words, what will be the impact on the economy if the potential productivity gains of AI are realized.

The Citrini analysis was presented in the form of a hypothetical report on the economy around two years hence. In this scenario, there had been a major fall in the stock market, unemployment had risen to 10 percent, and a kind of doom loop had developed, in

which companies were increasingly replacing their white-collar workforces through the use of AI, leading to other firms adopting cost-cutting AI measures to remain competitive.

Two days after the report was issued, an Australian-based firm WiseTech Global announced it would be cutting 2,000 staff—around a third of its workforce—over the next two years.

In words which are being repeated around the world, the chief executive, Zubin Appoo, said the logistics software firm was not halving its productive capacity but its “human capacity.”

“The era of manually writing code as the core act of engineering is over,” he said.

There have been various comments in the financial press disputing the Citrini scenario, mainly on the basis that vast technological changes have destroyed jobs in the past but created new ones in the process, and this pattern would be repeated with AI.

But as a comment piece in the *Financial Times* concluded, “we should probably worry more about how the market is so jittery that a Substack can trigger a violent rout, than debunking the report itself.”

The reason the report struck a chord was because it gave voice to tendencies that are becoming even more apparent.

In an interview with the FT on Monday, Jenny Johnson, the chief executive of the \$1.7 trillion asset management firm Franklin Templeton, warned that AI was challenging the business model of many tech groups.

“It’s a legitimate concern [when] you look at the capabilities with coding with, say, a Claude and what Anthropic’s done ... and you really have to question if enterprise software companies can survive,” she told the FT.

Some of these firms still made “tons of money” and their shares may have been “oversold in the short run,” but there was a “threat to their long-term business model.”

Johnson also pointed to some of the financial issues which are being raised, as private equity firms that have financed much of the activity of software firms in recent years now find conditions becoming more difficult.

According to the FT report, she “cited the decision by many private equity groups to turn to continuation vehicles—where an investment group sells a business it owns to a separate fund it manages—as a sign of the difficulty alternative asset managers were having returning money to their investors.”

The case of International Business Machines (IBM) points to another significant effect of AI. On Monday, IBM had its worst day on the market in 26 years when its stock fell by 13 percent, on the news that Anthropic had developed coding capabilities which could impact IBM’s core business.

IBM produces most of the mainframe computers which still operate with the COBOL program, first developed in 1960. COBOL, often running on an IBM system, powers around 95 percent of ATM transactions and 40 percent of banking systems.

In a blog post, Anthropic said: “Modernizing a COBOL system once required armies of consultants spending years mapping workflows. AI changes this.”

According to Bloomberg, IBM shares have fallen 27 percent in February and are on track for their biggest one-month slide since 1968.

Other firms are being hammered as well. Major software-based firms Workday, CrowdStrike and Datadog all fell by more than 7 percent on Monday. Salesforce dropped by 4 percent, bringing its total decline so far this year to 30 percent and decline over the past 12 months to 40 percent.

The Australian software-based company Atlassian, a veritable darling of the market, has been “smashed” in the words of the *Australian Financial Review*. It lost 10 percent of its share price on Monday, taking its losses in the year to date to 55 percent and 75 percent over the past year.

From a high of \$162 billion five years ago, its market capitalization has plunged to \$22.25 billion.

One of the big questions arising from the AI-induced

roul of software-based firms, and the possibility that some may go under, is the impact on the private equity funds that have played a major role in financing their activities.

The amounts run into the trillions of dollars. This month, according to a recent FT report, the value of two of the world’s largest software companies, Salesforce and ServiceNow, have fallen by a fifth.

This has led to concerns over the exposure of private capital groups, including Blackstone, Ares, KKR and Blue Owl, which have exposure to software investments.

According to the FT report: “Takeovers of software companies by private equity firms accounted for about 40 percent of the trillions of dollars in deal activity over the past decade by some estimates. Such deals also represent nearly a third of lending in the fast-growing private credit industry.”

In the words of one unnamed finance executive, cited by the FT: “Software was the biggest area of private equity in the last decade. It is the largest exposure in every one of the largest private credit funds.”

Investors fear that if the use of AI expands as rapidly as the latest daily developments indicate, then private equity firms will have billions of dollars tied up in software companies that will either be severely disrupted or on their way to extinction.

A report on Bloomberg dealing with the travails of the private equity firm Blue Owl, the shares of which have now plunged 60 percent in the past 13 months, evoked the lead up to the financial crisis of 2008.

It cited remarks by Orlando Gemes, the chief investment officer of the UK based financial firm Fourier Asset Management. “The red flags we are seeing in private credit today are strikingly familiar to those in 2007,” and that various worsening lender protections had “obscured the mismatch between what investors believe they own and what they can actually exit.”



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