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Market Commentary

Has Artificial Intelligence Found Its Second Casualty?

By Michael Crook, CAIA, Chief Investment Officer



Source: Created by Mill Creek on 02/04/2026.

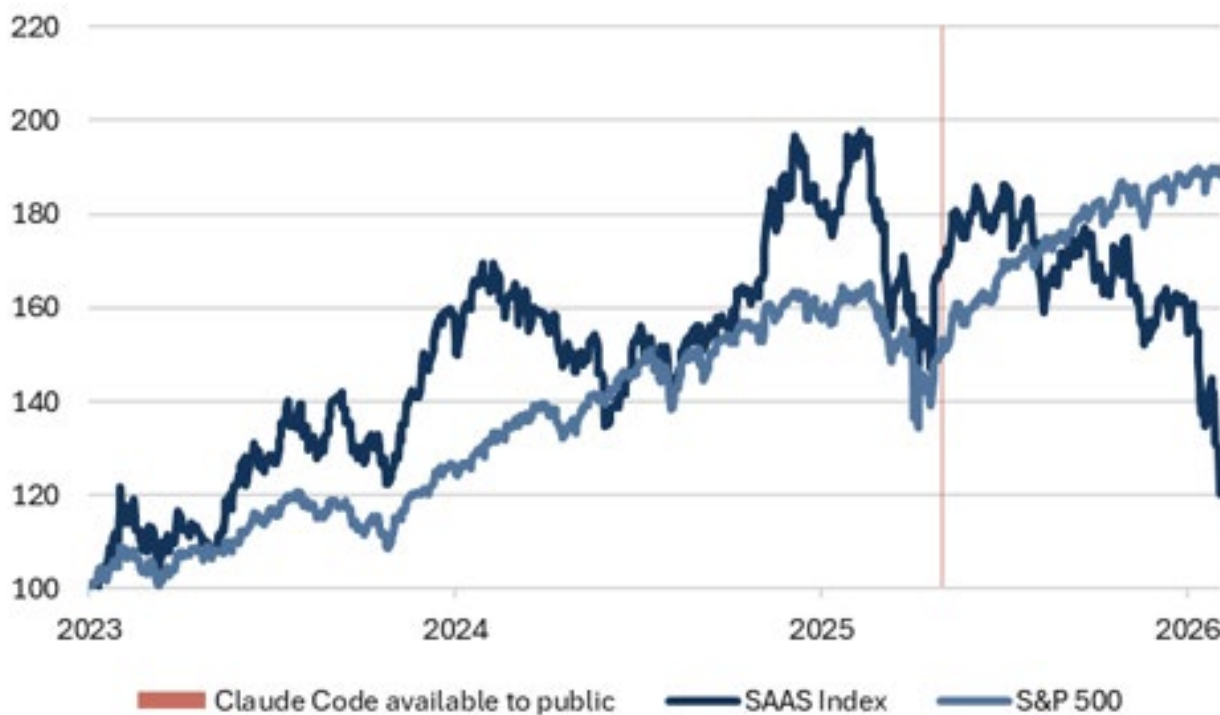
Underperformance of software-as-a-service (SAAS) companies, which has been ongoing since the release of Claude Code (an AI-powered coding software) to the general public in May 2025, accelerated last week (Fig. 1).

- Investors are concerned about the sustainability of subscription-based software businesses in a world where virtually anyone can vibe-code¹ cheap and quick software solutions.
- [Private credit is vulnerable](#) to a downturn in software businesses. We have intentionally avoided software-backed private credit due to the (now obvious) risks from AI, but industry estimates put it at 25-35% of the private credit market (Fig. 2), particularly within technology and business services.
- [Private equity is also exposed](#) to software. SAAS buyout activity increased through 2025 in what could end up being a big misstep for the industry.

These risks notwithstanding, we don't want to overstate the short-term impact of AI on software usage. Last week, Nvidia CEO [Jensen Huang called the notion that AI will replace software](#) "the most illogical thing in the world, and time will prove itself." It will take many months, or more likely years, for AI-native enterprise software replacements to be developed.

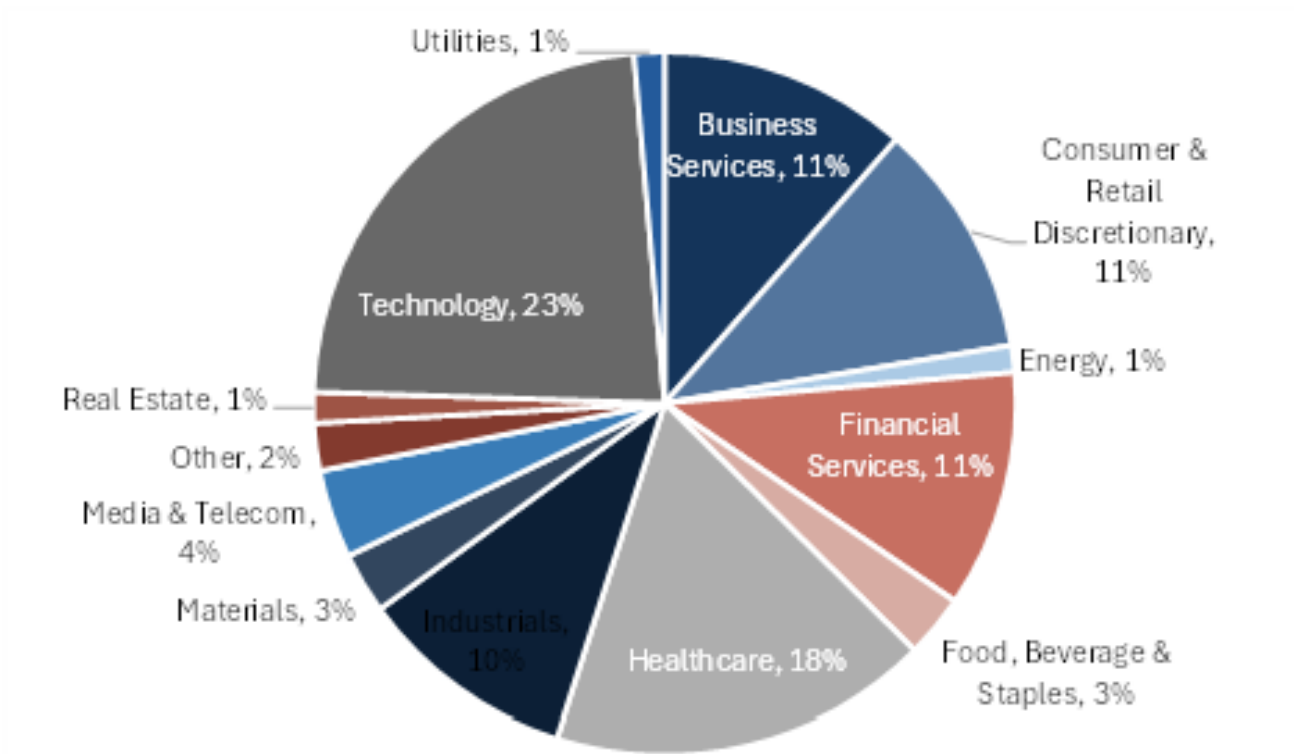
¹ Vibe coding is using AI to build software by describing what you want in plain English rather than coding line by line.

Fig. 1: SAAS has underperformed the broad market



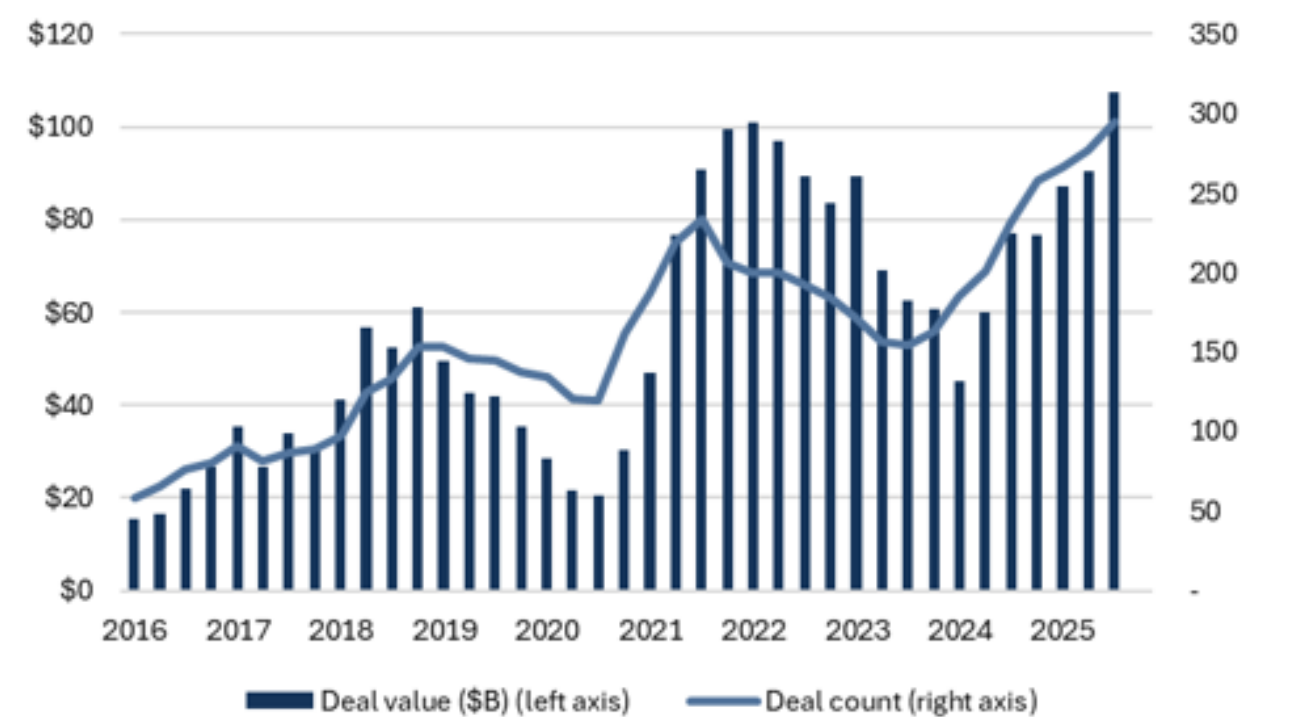
Source: Bloomberg, Mill Creek. Data as of 02/03/2026.

Fig. 2: Direct lending industry composition



Source: Cliffwater, Mill Creek. Data as of 12/31/2025.

Fig. 3: SAAS buyout deal activity (trailing 12 months)



Source: Pitchbook, Mill Creek. Data as of 09/30/2025.

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