

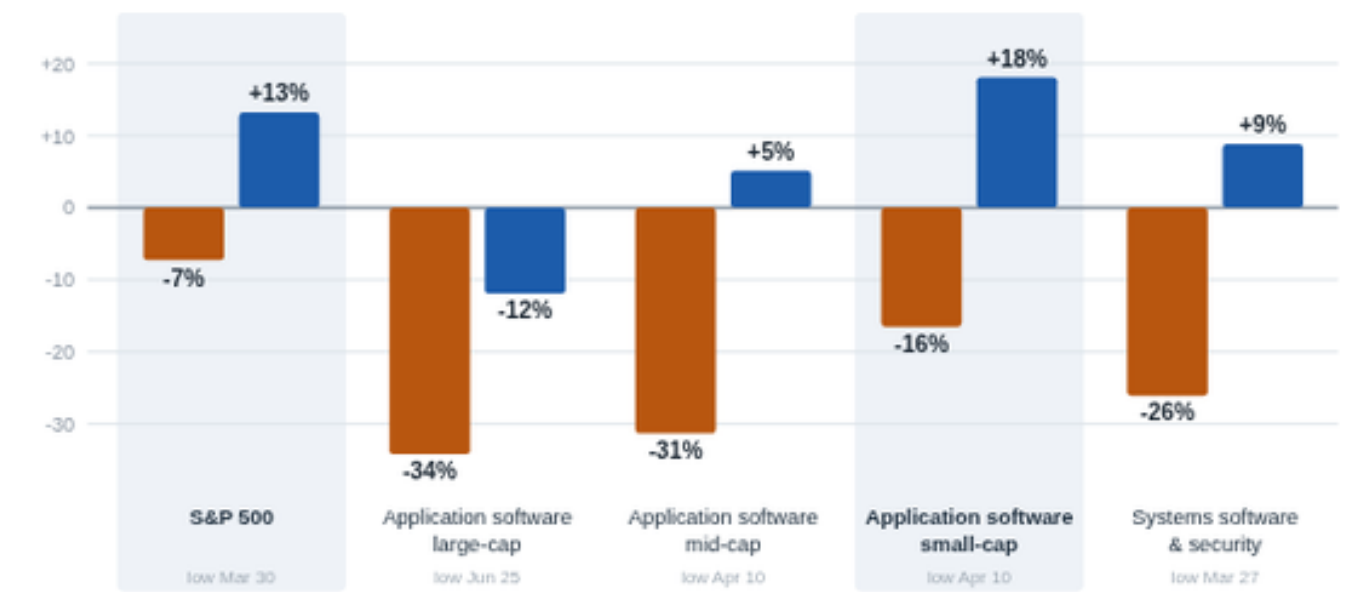
Everyone knows that AI killed software. The recovery says otherwise.

After a selloff of up to a third this spring, application software has come all the way back, except for the fifteen largest names.

01 The claim

AI killed software. That much everyone knows: the S&P 500 software and services index shed about \$1 trillion in one week of February, and the obituaries followed. The reality is different, and the recovery has been vastly underreported.

The market did not sort. It sold the entire software universe in fear. Then the money came back in force: small-cap application software is up 18% for the year against 13% for the S&P 500, mid-cap is above par, and the fifteen largest have recovered most of what they lost.



02 Why it is true

Systems software, the layer applications run on and what AI needs more of, is back, sitting close to the market's gain for the year. Application software is what founders build: the programs people use to do a job, the software AI was supposed to replace. It is not merely back. Outside the fifteen largest names it is beating the market. The money that returned looked at what these companies actually do and concluded that most of it is not readily replaceable.

Buyers are discriminating, and paying up when they find what they want. On 13 August, Silver Lake was reported in talks for Workday; the shares rose nearly 18% on the report alone, their best day in a decade. In May, Publicis agreed to acquire LiveRamp, a small-cap application software company, for cash at a 30% premium.

03 What it means for private companies

The software discount was a large-cap story, and for companies your size it is over. Buyers never priced the category; they price the company, and they are paying premiums for the ones they want. If your sense of what your company is worth was set in June, it is out of date.

Numbers as of 15 September 2026. Bracton Partners advises founders of software, fintech and data companies on M&A. M&A advisory only; nothing here is a valuation, a recommendation, or an offer of any security.