

## **AlbaCore Credit Market Update: Is software dead? Identifying AI resilient business models** **David Allen, Managing Partner and Chief Investment Officer, AlbaCore Capital Group**

**London, 26 March 2026** – More than a quarter-century after Salesforce’s provocative “software is dead” marketing campaign, which declared traditional, on-premises enterprise software obsolete due to the rise of cloud-based delivery models, we are now witnessing a far more seismic shift.

**For credit investors, the implications are nuanced and inherently asymmetric.** AI has the potential to enhance credit quality through productivity gains, operating leverage and efficiency improvements, while simultaneously undermining long term enterprise value by intensifying competition and disrupting business models. Fear of these existential risks have sparked a sell-off across software names.

This volatility has directly impacted credit markets, with leveraged loans and high yield bonds pricing in greater uncertainty for software and business services companies. **In European leveraged finance, technology related loans and high yield bonds have underperformed the broader market**, with software focused broadly syndicated loans trading ~7 points lower on average over recent weeks.<sup>1</sup> This reassessment of risk is particularly relevant for private credit, given the scale of exposure to software and business services companies across direct lending and BDC portfolios.

**As AI substitutes for human “seats” across functions, the durability of traditional per-person-based software pricing models is increasingly in question.** While nobody can accurately predict the full timeline or exactly how this software transition will end, it is clear it will be transformative.

### **Nuance in what seems indiscriminate**

Recent selling of software related names currently feels indiscriminate with c.200 bps of spread widening across all levels of credit quality.<sup>2</sup> **Recent spread widening is most acute however, in issuers with pre-existing credit issues rather than those most exposed to AI risk.** A significant proportion of these software loans were originated during 2021 and 2022 at elevated leverage levels and peak valuations and now face upcoming maturities which appear increasingly difficult to refinance.

### **At the moment, software fundamentals are actually the healthiest in sub-IG credit markets.**

However, while fundamentals today look robust, loan-to-value (LTV) may prove to be a bigger problem. Thus far in 2026, we have seen a notable compression of equity multiples for listed software names. As software valuations fall, equity cushions for issuers are eroding, increasing LTV ratios even where absolute debt levels and cashflows remain unchanged. Given the high growth and margins historically associated with the sector, many issuers in the software market are relatively highly levered at 6-8x. While free cash flows currently support these levels of debt, with public comps rapidly approaching valuation multiples of only 10x, what were once ample equity cushions feel increasingly uncomfortable for some issuers.

This compression of enterprise values poses a fundamental challenge for private equity investors, where returns are tied to exit multiples. **With many software LBOs having occurred at lofty**

---

<sup>1</sup> Source: AlbaCore Analysis, 11 March 2026

<sup>2</sup> Source: AlbaCore Analysis, 11 March 2026

**valuations in 2021 and 2022, the fall in equity multiples will have a material impact on private equity returns.**

As credit investors, our focus isn't on predicting which technologies will succeed, but rather evaluating how AI impacts downside risk, loan-to-value ratios, and recovery prospects across various business models. The rise of AI adds a layer of uncertainty: obsolescence, shrinking profit margins, or falling prices can all threaten recoveries, particularly for highly levered capital structures. Unlike private equity though, senior creditors benefit from their position at the top of the capital structure, which provides some protection against losses. **Fundamental credit analysis, however, is essential to identify the issuers that could prove resilient to AI-related disruption.**

**Underwriting AI risk: what makes a software company "AI-resilient"**

We do not believe that AI risk can be evaluated adequately using only simplistic sector classifications or broad industry groupings alone. AlbaCore's approach is instead to undertake a detailed analysis of the characteristics and fundamentals of each individual business, considering factors such as revenue streams, cost structures, competitive positioning, and capital intensity. **We consider a broad array of elements in combination, acknowledging that the interplay between them will shape a business's resilience and adaptability in the face of ongoing AI-driven change.**

We believe that software businesses that demonstrate high switching costs both quantitatively in terms of high gross revenue retention rates and capital required to switch provider (e.g. retraining of employees) and qualitatively in terms of how ineffective data migration would impact a customer's operations will have greater resilience. We also seek opportunities in companies that offer critical solutions at a low-cost relative to the customer's cost structure, decreasing the likelihood of customer switching and increasing the investment required to switch.

**Businesses that develop a substantial proprietary database, typically built over an extended period, often rely on an active, self-reinforcing ecosystem of data submitters and users. It is difficult for AI alternatives trained on only public data to replicate the value of these offerings.** The significance of proprietary data in mitigating AI risks extends beyond software companies to other industries. It can also limit the competitive threat posed by new entrants utilising AI to scrape publicly available data and construct competing databases.

Equally, the higher the cost of failure associated with a given software, the lower the propensity to switch providers. LLMs are probabilistic and **95% accuracy is not enough when filing taxes, producing payslips or maintaining patient records. This is especially true when there are regulatory penalties associated with a failure to accurately perform these activities.** In contrast, companies which are most at risk are those for which AI-native solutions can replicate their offering entirely rather than complement it, such as CRM or collaboration solutions.

For the above advantages though to be sustainable over the long-term, software providers must invest in AI capabilities to enhance their propositions. For many businesses investment in AI is becoming survival capex rather than discretionary growth investment. For some issuers, this incremental AI investment may directly pressure free cash flow. As a result, companies with highly levered balance sheets may lack the financial flexibility to keep pace with in a rapidly evolving capital landscape.

## **Opportunities in Infrastructure Debt: digitisation and financing the AI roll out**

AI is rapidly reshaping the infrastructure investment landscape, with data centres emerging as one of the most significant beneficiaries. Over the past three years, data centres have become a dominant sector in infrastructure finance, supported by approximately \$500 billion of new transactions.<sup>3</sup> Given the costs, even the largest and best-capitalised technology companies are turning to institutional investors to fund their infrastructure needs. Balance sheet discipline and the sheer scale of required capital have led sponsors to shift funding towards private credit, public bonds and structured solutions. Across the market, a wide range of financing structures has developed to meet these needs, creating multiple entry points for infrastructure debt investors with varying risk-return objectives.

This trend has been most pronounced in the US, where several large-scale financings have recently closed, including ~\$30 billion facilities supporting Meta-related developments, a further ~\$30 billion for Meta's AI-focused data centre capacity, and ~\$25 billion for Alphabet-backed projects. These transactions reflect both the scale of compute demand created by AI and the increasing capital intensity of delivering resilient, hyperscale infrastructure.

**Europe has also seen strong activity, with a notably different market structure. Rather than a handful of mega-transactions, investment has been spread across a larger number of smaller, often more bespoke deals. This has created a broader opportunity set for infrastructure lenders, particularly where projects benefit from contracted revenues, strong counterparties and conservative leverage, while avoiding some of the more aggressive terms observed in parts of the US market.**

Importantly, the expansion of data centre capacity is acting as a catalyst for a much broader set of infrastructure investments. AI-driven growth materially increases demand for supporting assets such as power generation, grid connections, cooling systems, water infrastructure and heat recovery solutions. In parallel, there is a growing need for enabling digital infrastructure, including fibre networks and telecom towers, to support data transmission and latency requirements. **These adjacent assets often exhibit long asset lives, contracted or regulated cash flows and lower technology obsolescence risk, making them particularly well suited to a defensive infrastructure debt strategy.**

While concerns remain around the potential for excess capacity, long-term demand uncertainty and technological obsolescence, the majority of transactions in this space are structured with robust protections for lenders. Typical features include long-dated contracts, strong security packages and the transfer of operational and utilisation risk to well-capitalised counterparties.

**As a result, we believe infrastructure debt provides a pragmatic way for investors to gain exposure to the growth of AI, benefiting from its real-economy infrastructure requirements, while maintaining a strong focus on downside protection and capital.**

---

<sup>3</sup> Source: Infrastructure Journal Research



David Allen is the Managing Partner and Chief Investment Officer at AlbaCore Capital Group.

Mr. Allen has more than 30 years of financial services and investment experience, with a focus on the High Yield and Leveraged Finance Markets.

Prior to founding AlbaCore Capital Group, Mr. Allen managed Canada Pension Plan Investment Board's European Principal Credit Fund and was a member of the Investment Committee. Mr. Allen was also a Partner, Investment Committee member and Senior Portfolio Manager at GoldenTree Asset Management, where he established and ran the firm's European presence. Mr. Allen spent a decade with Morgan Stanley in New York and Hong Kong, working across M&A and investment banking before specializing as a High Yield media analyst.

Mr. Allen graduated from the University of California, Berkeley, where he earned a Bachelor of Arts in Economics and was an all-conference rower.

### **About AlbaCore Capital Group**

AlbaCore Capital Group is one of Europe's leading alternative credit specialists, investing in private capital solutions, direct lending, opportunistic and dislocated credit, CLOs, structured products and infrastructure debt. Founded in 2016, AlbaCore is part of the First Sentier Group, a global asset management business which is owned by Mitsubishi UFJ Financial Group. AlbaCore's investment philosophy is focused on capital preservation and generating attractive risk adjusted returns through the cycle for its investors. AlbaCore manages US \$10.4 billion in AUM<sup>4</sup> as of December 2025 on behalf of global pension funds, sovereign wealth funds, endowments, insurance companies, family offices and high net worths around the world.

For more information, visit [www.AlbaCoreCapitalGroup.com](http://www.AlbaCoreCapitalGroup.com)

### **Important Notice**

Any statements made in this document are the author's opinions, which have been based upon publicly available facts, information, and analysis, and are not statements of fact. The opinions expressed in this document are current as of the date appearing in this document and are subject to change without notice. No part of this document may be reproduced in any manner, in whole or in part, without the prior written permission of AlbaCore. This document is not and should not be regarded as investment advice or recommendation regarding any particular investment, or an offer, marketing of services or products, advertisement, or representation of any kind, or as an opinion on the merits or otherwise, of any particular investment or investment strategy.

---

<sup>4</sup> AUM is calculated as the sum of the Net Asset Value, undrawn capital commitments, available debt finance and assets of all vehicles managed by AlbaCore.

**Press Contacts:**

**Lansons (London)**  
**Rakin Sayed**  
**+44 (0) 7581036067**  
[rakins@lansons.com](mailto:rakins@lansons.com)

**Lansons (New York)**  
**James Schiavone**  
**+1 917 238 9614**  
[jamess@lansons.com](mailto:jamess@lansons.com)