MARKET
SIGHT LINES

AI Optimism Abounds, but Some Industries Are Punished with Indiscriminate Selling

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People are optimistic about artificial intelligence as a toolkit to use time more efficiently, cut costs, raise productivity, and ultimately amplify output. For individuals, that can mean getting more done – better, faster, and more substantively over time. For businesses, it can translate into more productive teams, stronger processes and quality control, lower costs, and, in turn, amplified revenues and earnings. But as new AI capabilities are announced for specific industries, we're also seeing bouts of volatility in the stocks of the perceived "targets," driven by a "sell now, ask questions later" dynamic as investors try to gauge winners and losers over the long term. Recent examples include software, financial services, insurance, and legal research services. In this Sight|Lines, we discuss what's behind this volatility and the investor considerations it raises from here.

THE TAKEAWAY: "STAY THE COURSE" WITH PROCESS DURING VOLATILITY"

Investors should maintain a disciplined process during bouts of volatility. In summary:

- More generally, when valuations are elevated, as they have been recently, downside volatility with select stocks, industries, or the market can be amplified when uncertainty rises.
- AI is broadly viewed as positive for productivity, but when a credible tool targets a specific workflow, that industry's stocks can fall as investors debate the implications.
- Some announcements have shifted investor focus from "AI helps existing workflows" toward "AI may compete with incumbents" – even if the reality takes longer to play out.
- When an industry's stocks start trading as a single "AI risk basket," investors may sell first and analyze later, often pushing prices below reasonable estimates of fundamental value.
- And fundamentals matter, even in fast moving markets, and that defines how to evaluate who's structurally advantaged, who's mispriced, and who's at risk.
- AI can automate work inside systems without eliminating them, especially where workflow integration, permissions, audit discipline, and compliance are central to value.
- The most exposed models are those where pricing is closely tied to human seats or fee-for-time knowledge work, and where functionality can be fully replaced with AI agents.
- Recent "sell now, ask questions later" episodes remind us to "stay the course" on process – avoid indiscriminate selling, do the work, and reaffirm conviction … or not.

IN-DEPTH: FOR INVESTORS, DISCIPLINE IS IMPORTANT, ESPECIALLY DURING BOUTS OF VOLATILITY LIKE THOSE TRIGGERED BY RECENT AI HEADLINES

Recent news about new AI capabilities has shaken some industries and triggered indiscriminate selling – the kind of environment where investors should maintain a disciplined process before acting. Going deeper:

- Elevated valuations can amplify downside volatility when uncertainty rises:
  - The current S&P 500 trailing price-to-earnings ratio of 27.7 sat 23.6% above its 10-year average – so elevated valuations.
  - The S&P 500 30-Day Realized Dispersion Index has risen to 43.4, a level not seen since last April.
- While AI sentiment is positive, when a new tool targets a specific workflow, that industry's stocks can fall:
  - In the first five days of February, the S&P 500 Software & Services Index fell close to 10%.
  - Several U.S. wealth management firms fell approximately 5-10% in a day on tax planning disruption concerns related to AI.
  - Insurance brokerage shares fell approximately 9-12% in a session following the launch of an AI comparison tool.
- Investor focus seemed to shift from "AI helps workflows" to "AI may compete with incumbents":
  - For example, investors worry Anthropic's agentic workplace tools may fully replace certain services.
- When an industry's stocks trade together as a single "AI risk basket," some prices fall below fundamental value:
  - For example, Nvidia and Broadcom, among others, fell in the DeepSeek scare in 2025, only to recover.
- Fundamentals matter, even in fast-moving markets, and that defines the important work:
  - Industry leaders with deep workflow integration and the capacity to invest in AI should survive … and thrive.
- Despite these worries, AI can automate work inside systems without eliminating the systems themselves:
  - This is especially the case where workflow integration, permissions, audit discipline, and compliance are central to value, such as Enterprise Resource Planning, CRM, HR, finance, and those involving customer data.
- Companies with revenue closely tied to human seats or fee-for-time knowledge work, where functionality can be fully replaced with AI agents, are at greater risk.
  - Businesses reliant on selling more seats face a harder transition as automation rises and hiring slows – and this will push prices toward usage, outcomes, and AI workloads.
  - Margins may first be compressed but then improve with internal AI efficiencies and new pricing schemes.
- When we see "sell now, ask questions later" episodes, we're reminded to "stay the course" on process:
  - A robust investment review will look past fears to the fundamentals, with conviction often reaffirmed.
  - We believe these selloffs are generally overdone, but many companies will face real long-term pressure.

WHAT WE THINK

We consider the recent volatility a repricing episode driven by uncertainty around how value will be created and captured in a more AI-driven world – more than a broad, sudden fundamental breakdown. For investors, the key is not to overgeneralize and capitulate. Often, the repricing of excess valuations creates opportunity. And ultimately, the work must be bottom-up: continue to assess each company's fundamentals, make a judgement about its role in this future AI-driven landscape, then make one of three decisions with conviction – (i) establish or expand a position as a buyer if selling is overdone, (ii) hold an existing position through this valuation reset, or (iii) sell and move on. In our view, much of the recent "sell now, ask questions later" behavior has been overdone.

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