Software Is Hungry

Seven years ago Marc Andreesen, co-founder of Netscape and venture capitalist, wrote that “software is eating the world.” At the time, software investment had already seen considerable gains. Since then, growth in software investment has been so strong that it likely comes as a surprise to anyone who didn’t predict the vast digital revolution taking place. The digital revolution may be in its early innings.

- Since 1980, software spending has grown at 10% annually, nearly twice as fast as nominal GDP growth. That rapid growth has caused U.S. software investment to increase its share of the economy, rising from just a few billion dollars to nearly $400 billion annually in the past few decades.

- Software takes up not only a larger share of GDP but also of the S&P 500. The Software & Services industry group grew from less than 1% of the index in 1990 to 15% today. This is an example of market share gains in the economy being mirrored in the equity market.

- Software has reshaped transportation, lodging, retail, media, staffing and many other industries. After all, the world’s largest accommodation provider owns no real estate but relies on software to match travelers with hosts, and the world’s largest taxi company runs software but not automobile engines.

- As much as it has done to transform the economy, business investment in software is just 2% of GDP. The digital revolution is still in its early stages. As computing power and bandwidth become cheaper with the adoption of cloud computing and 5G wireless technology, the digital revolution should continue to reshape businesses. Software will likely continue to grow in importance in the economy and the stock market.
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