Financing the AI Buildout

AI Capex, the Credit Stack, and the Coming Dislocation

The financing of AI infrastructure has migrated from hyperscaler balance sheets into external credit markets — corporate bonds, securitizations, project finance, and private structures — at a scale and pace with few precedents. To date, the focus has been largely an equity debate: whether the return justifies the capital. The more consequential issue for credit investors is less examined: **the composition of financing has changed, and the risk now sits where it is least visible and least able to reprice.**

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KEY TAKEAWAYS

1 **The buildout is increasingly credit-financed.** Of ~$2.9tr of global data-center capex through 2028, hyperscaler cash flows cover ~$1.4tr — leaving a ~$1.5tr gap that markets are filling faster than any asset class in memory.

2 **Reported leverage understates the exposure.** Lease commitments alone approach $932bn, mostly off the reported debt line — before contingent guarantees and multi-year purchase commitments that behave like debt.

3 **Enhancement relocated the risk; not removed it.** Nearly all of this debt is pre-leased and guaranteed. But the protections are conditional, finite, concentrated, and — at the frontier — circular.

4 **The telecom precedent is instructive.** 1996–2002 was also a debt-financed build where the demand thesis proved ultimately right. However, lenders were impaired anyway, because monetization arrived after the debt matured.

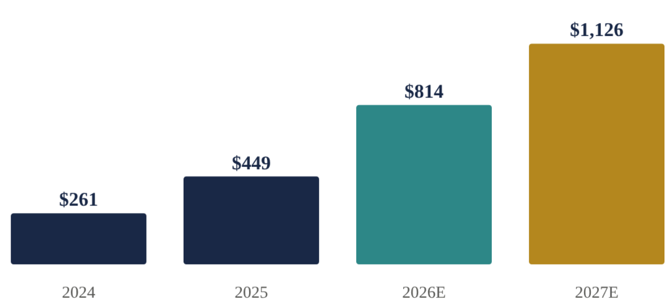
5 **Market structure will drive the sequence of the adjustment — and the sequence will provide an opportunity.** A growing share of this credit resides in vehicles that cannot mark or exit. When conditions turn, we expect the repricing will surface first in traded credit, then will route into the private secondary market at a discount to both liquidity, spread and price.

> Public equity as part of this buildout is marked daily and exits continuously. A growing share of debt financing is neither marked, nor readily exitable. These two parts of the same balance sheet will register stress at very different speeds.

I. BUILDOUT SCALE, AND WHERE IT SITS

Exhibit 1 · Hyperscaler capital expenditure, 2024–2027E

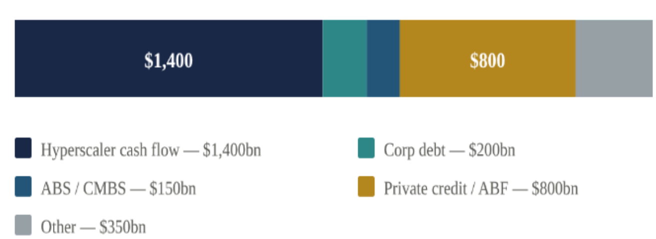
Combined capex, five largest spenders ($bn)



Source: Company data, Morgan Stanley Research estimates (May 2026).

Exhibit 2 · Estimated financing sources, 2025–2028

Global data-center capex, by source ($bn)



Source: Morgan Stanley Research (Jul 2025). Private-credit components led by asset-based finance.

II. THE RISK REPRICING SEQUENCE

Risk repricing does not occur all at once, rather in phases. It moves through the credit stack in a defined order, determined by which venues can clear stress and which cannot. Each phase is a different entry point — and calls for a different kind of capital.

PHASE 01

Primary markets reprice

Before stress

The sheer weight of new supply widens new-issue spreads across investment grade, and IG anchors the curve — pulling other spread product with it.

Investor Response: new-issue selectivity; get paid for risk, when spreads move on supply, not fundamentals.

PHASE 02

Traded credit reprices

When conditions turn

Stress surfaces first in loans, high yield, and ABS — the venues where it can clear continuously. Not because they hold the worst risk, but because they can print a price.

Investor Response: tactical liquidity and loan-level selection to address mark-downs.

PHASE 03

Private credit reprices

The follow-on

Illiquidity defers rather than diffuses the adjustment, routing pressure into the secondary market at a discount to liquidity, spread and price.

Investor Response: dedicated secondary capital to provide the exits locked structures cannot.

III. REPRICING IS NOT HYPOTHETICAL — EARLY SIGNALS ARE ALREADY VISIBLE

TRADED CREDIT

Hyperscaler CDS has begun to **decouple from the investment-grade index**, and software loan yields have moved to **~12–13%** as the tech sub-index widens — pricing dispersion before defaults arrive.

PRIVATE CREDIT

Direct-lending non-accruals rose from **1.5%to 2.4%**of index volume in a single month, with the watchlist **up ~20% year-over-year** — deterioration in the mechanics, not yet the marks.

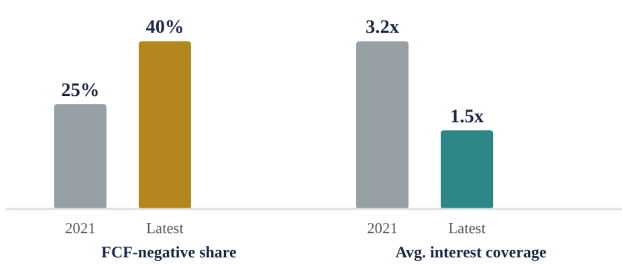
THE CUSHION · RECOVERY

Reported recovery marks (**~47%**) sit well above realized bankruptcy recoveries (**~17%**), and even the implied figure is being revised down **as marks catch up to reality**.

IV. UNDERLYING CREDIT IS DETERIORATING — AND THE MARKET IS STARTING TO REACT

Exhibit 3 · Credit deterioration is visible

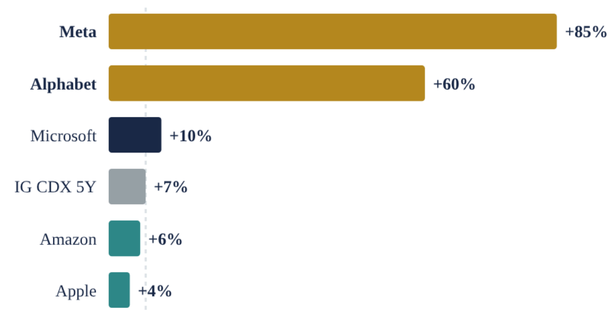
Private-credit borrowers: share FCF-negative & avg. interest coverage, 2021 vs. latest



Source: IMF GFSR (Apr 2025); FSB (2026); KBRA DLD (Apr 2026).

Exhibit 4 · Risk repricing is visible

5Y CDS spread change, Jul 2025 → Jul 2026 (dashed line = IG index, +7%)



Source: Bloomberg (5Y CDS spreads, Jul 2025–Jul 2026; per Bloomberg AI-generated summary).

Why the gap has not already closed: Spreads are constrained by hope around AI's potential, confidence in hyperscaler balance sheets, and strong demand for new assets in a supply-starved market — each a real reason the gap exists, but none a reason it will persist forever. The serious challenge to our view is if AI proves as transformational as its proponents believe, the hyperscalers may grow into these obligations and the repricing never arrives. We take that seriously — **but credit investors are, in our judgment, currently paid too little to underwrite the chance that it does not occur.**

> **Conclusion:** Liquidity is not a concession to be minimized. In a market whose outcomes are set by technicals rather than fundamentals, it is the edge.

This commentary is Issue 2 of a series of credit market reports, the first being “Why Liquidity Matters Again,” available on our company website at www.sycamorelp.com/category/insights/