

AI's Capital Spending Boom and What It Means for Bond Markets

AI and the Corporate Bond Market Series, Part 1

Artificial intelligence (AI) has evolved from primarily an equity-market theme into a significant development across virtually every asset class. Building the required ecosystem—data centers, graphics processing units, custom chips, cooling systems, cloud infrastructure, transmission assets, and dedicated power generation—requires substantial upfront capital. Even the largest technology companies are increasingly supplementing internal cash flow with public bonds, private financing, project-level debt, and lease-backed structures.¹ This marks a structural change in how transformational technology infrastructure is financed.

The resulting credit opportunity is neither uniformly attractive nor an immediate source of broad market instability. AI-related borrowing is instead becoming a durable source of corporate bond supply,² and markets have absorbed substantial issuance to date, particularly from high-quality issuers.³ However, pricing is becoming more discriminating, and a key longer-term question is whether investor demand can continue absorbing supply if AI spending keeps rising.

This is the first in a three-part series examining AI and the corporate bond market. This installment focuses on how the AI buildout is being financed and the implications for corporate bond issuance, credit markets, and fixed income investors. Subsequent pieces will explore the credit risks behind AI infrastructure and how AI credit risks differ across the financing ecosystem.

From Software Economics to Infrastructure Finance

AI infrastructure differs materially from the traditional software model. Unlike software businesses that typically become less capital intensive as they scale, AI deployment requires sustained investment in physical infrastructure and supporting energy systems. Once conventional software platforms reach scale, incremental margins can be high, and serving additional users typically requires relatively little incremental physical capital. Advanced model training and deployment, by contrast, require data centers, specialized chips, accelerated computing clusters, cooling equipment, fiber networks, backup generation, electricity contracts, and dedicated power generation or grid interconnection. As a result, portions of the technology sector are increasingly exhibiting capital characteristics more commonly associated with infrastructure and utilities.

Historically, the largest technology companies funded most capital expenditure from internally generated cash flow. The scale, speed, and front-loaded nature of the current buildout have altered that model.⁴

¹PIMCO, "AI Credit Expansion: Assessing the Micro and Macro Risks" (2026); Morgan Stanley Investment Management, "AI Dispersion in Credit" (2026); Voya Investment Management, "Fixed Income: Navigating the AI Capex Boom" (2026).

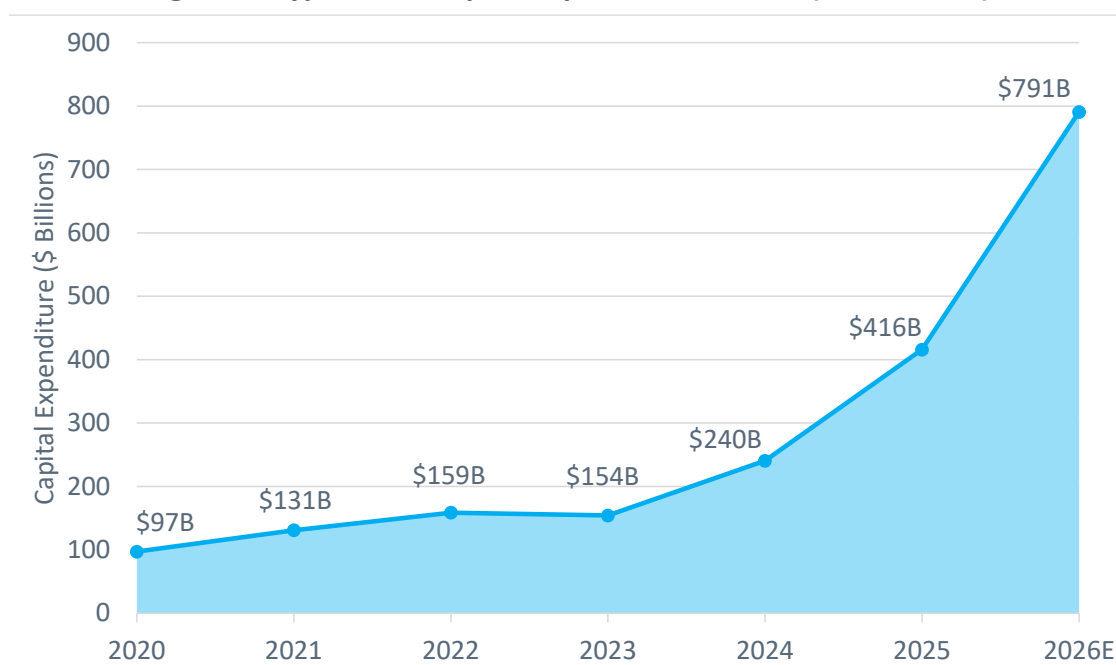
²M&G Investments, "Tech Issues: The AI Debt Deluge Hitting Bond Markets" (March 2026); Morgan Stanley Investment Management, "AI Dispersion in Credit" (2026).

³Goldman Sachs, "Will AI-Driven Corporate Debt Strain Credit Markets?" (2026).

⁴PIMCO, "How Will Big Tech Manage Its AI Capex Surge?" (May 2026).

Public debt, private placements, project finance, lease financing, securitization, joint ventures, and other off-balance sheet financing arrangements now supplement internally generated cash. This shift does not necessarily imply deteriorating credit quality, given the exceptionally strong balance sheets and cash-generating capacity of the leading technology companies. Rather, it reflects both the magnitude of the required investment and a desire to preserve liquidity, maintain financial flexibility, and diversify funding sources while capacity is built ahead of uncertain future demand.

Figure 1: Hyperscaler Capital Expenditure Growth (2020–2026E)



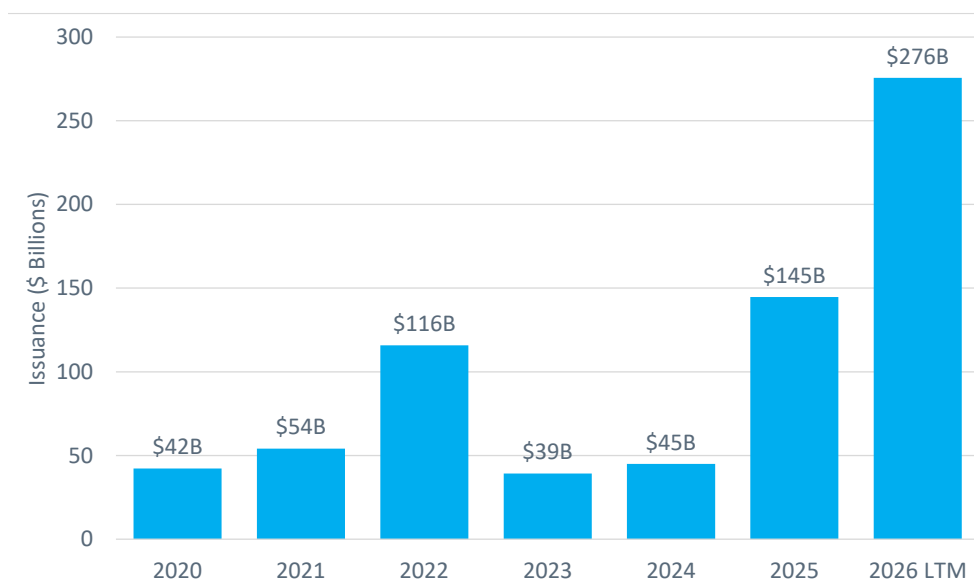
Source: FactSet

Large hyperscalers have accessed public markets on favorable terms, while developers, utilities, landlords, and infrastructure vehicles increasingly rely on asset-backed securities, commercial mortgage-backed securities, project finance, private credit, and sale-leaseback arrangements. AI is therefore directly relevant to fixed income portfolios. It affects investment-grade supply, sector and duration exposure, issuer leverage, utility financing requirements, structured-finance issuance, private-credit demand, and the relative value of different repayment structures. It also creates a broader analytical challenge: the same underlying economic theme may appear in several portfolio sleeves, making aggregate exposure less visible than security-level classifications suggest.

Market Capacity and Emerging Differentiation

Institutional investors report that the bond market is absorbing AI-related issuance, although pricing is becoming more discriminating and issuer outcomes are increasingly segmented. Industry research indicates that hyperscaler issuance exceeded \$100 billion in 2025 and is expected to rise further in 2026. In addition, utility issuance has also reached record levels. Separate market estimates show that the largest technology companies issued more than \$170 billion of corporate debt through June 2026—already surpassing their full-year 2025 issuance and totaling more than four times their pre-AI annual average.⁵ Together, these figures point to a sustained structural expansion in supply from some of the highest-quality issuers in the credit market.

Figure 2: Hyperscaler Bond Issuance Volume (2020–2026 YTD)

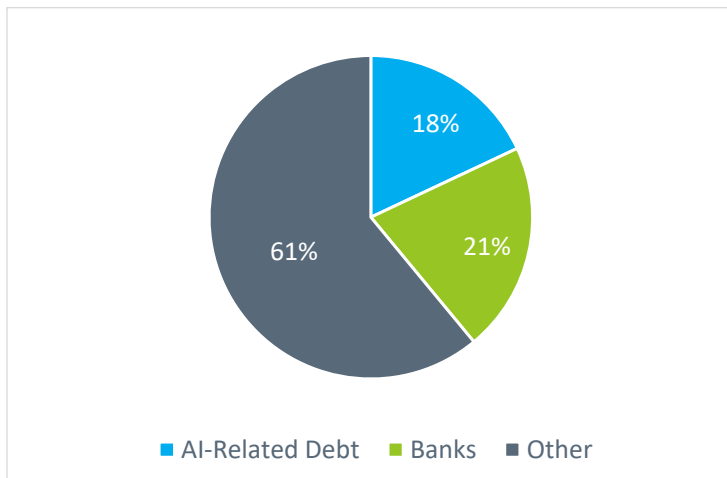


Source: FactSet (LTM = Last Twelve Months). As of June 30, 2026.

The market's current comfort level reflects two factors: (1) issuer credit quality remains strong, and (2) all-in yields are attractive to fixed income investors. However, research across the asset management industry indicates that this capacity is not unlimited. Several distinctions are emerging as investors assess the market's ability to absorb additional supply. Large hyperscalers with strong operating cash flow generation and diversified revenue streams—Amazon, Microsoft, Alphabet, and Meta—continue to access markets on reasonable terms, reflecting confidence in their balance-sheet capacity and ability to manage periods of elevated capital expenditure. By contrast, issuers with less visible AI revenue generation, weaker free cash flow dynamics, or higher starting leverage face greater scrutiny. The S&P downgrade of Oracle from BBB to BBB- in July 2026, which market observers linked to concerns about AI spending and leverage, illustrates this bifurcation.

⁵BofA Securities, "AI Hyperscalers: Mega-Capex Funding" (January 2026); IESE Insight, "An AI Debt Wave Meets Uneven Balance-Sheet Risk" (June 2026).

Figure 3: Technology Sector Weight in Investment-Grade Credit Indices (2025)



Source: MUFG Americas. https://www.mufgamericas.com/sites/default/files/document/2025-12/AI_Chart_Weekly_12_19_Financing_the_AI_Supercycle.pdf. As of December 31, 2025.

A key longer-term question is whether investor demand can continue absorbing supply if AI spending keeps rising. At some point, issuance could exceed the market's available demand, leading to wider spreads and a higher cost of capital for the AI buildout. This is not merely a theoretical concern; credit markets have finite capacity to absorb new supply, even from high-quality issuers. To date, demand has been sufficient, but that outcome reflects current market conditions rather than a guarantee of continued absorption.

As AI-related borrowing expands, understanding where credit risk resides becomes increasingly important. The next piece will examine the key risks behind AI infrastructure financing, and the final installment will assess how those risks are distributed across the broader financing ecosystem.

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