

## The Credit Risks Behind AI Infrastructure

### *AI and the Corporate Bond Market Series, Part 2*

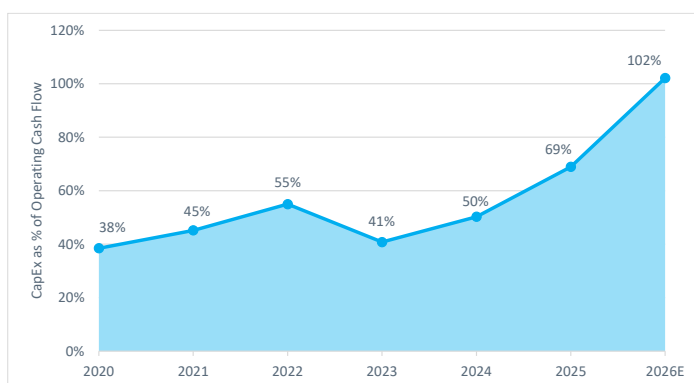
AI's infrastructure buildout is being financed with the expectation that future cash flows will ultimately justify today's spending. For creditors, the key challenge is that the timing and magnitude of those cash flows remain uncertain while debt obligations are generally contractual. These concerns extend beyond traditional corporate bonds as AI-related financing now spans a variety of debt structures. As a result, credit outcomes may depend less on the promise of AI itself and more on whether individual financing structures are supported by durable cash flows, resilient collateral, and realistic assumptions about future funding conditions.<sup>1</sup> For investors, understanding how these risks emerge and where they reside is becoming increasingly important as the AI buildout continues.

This is the second of a three-part series examining AI and the corporate bond market. The first piece examined financing of the AI buildout and implications for corporate bond markets and fixed income investors. The final piece will explore how AI credit risks differ across the financing ecosystem.

#### The Central Credit Test: Cash Flow, Leverage, and Time

The central credit question is whether AI-related capital expenditure will generate sufficient durable free cash flow within an acceptable period to support the leverage incurred.<sup>2</sup> Current credit strength is relevant, but the direction of travel matters more. A borrower can begin with substantial liquidity and modest leverage yet still experience deterioration if capital expenditure persistently exceeds operating cash flow and expected revenue arrives more slowly than anticipated.

**Figure 1: Capital Expenditure as a Percentage of Operating Cash Flow (2020–2026E)**



Source: FactSet

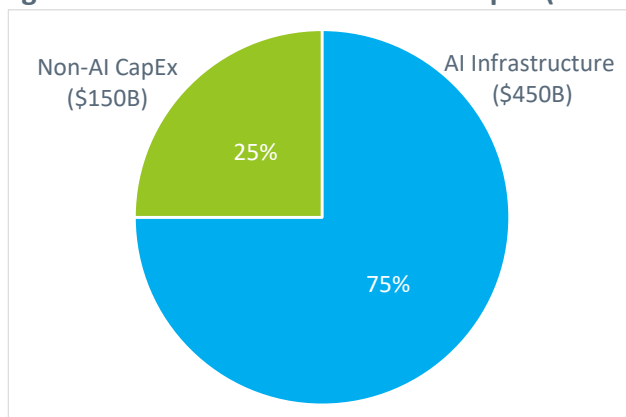
The near-term risk is therefore gradual rather than necessarily abrupt. Higher capital expenditure can compress free cash flow, increase borrowing needs, and weaken interest-coverage and leverage metrics before the new infrastructure produces material returns. Issuers with diversified revenue, recurring cash generation, and balance-sheet flexibility have greater capacity to absorb this period. Borrowers with weaker starting positions, less visible monetization, or heavy shareholder distributions have less room for execution error.

<sup>1</sup>PIMCO, "How Will Big Tech Manage Its AI Capex Surge?" (May 2026); CreditSights Technology Team, "Hyperscalers' Capex Above \$600 Bn in 2026" (November 2025).

<sup>2</sup>PIMCO, "AI Credit Expansion: Assessing the Micro and Macro Risks" (2026).

A second issue is the timing mismatch between debt obligations and asset economics. Revenues from AI services may develop unevenly, while technology components such as graphics processing units can become obsolete faster than conventional infrastructure. Data centers combine long-lived real estate and power assets with shorter-lived computing equipment and changing tenant specifications. When long-duration or bullet-maturity debt finances assets with uncertain useful lives, repayment can depend heavily on refinancing rather than amortization from realized cash flow.<sup>3</sup>

**Figure 2: Infrastructure vs. Non-AI CapEx (2026E)**



Source: MUFG Americas. [https://www.mufgamericas.com/sites/default/files/document/2025-12/AI\\_Chart\\_Weekly\\_12\\_19\\_Financing\\_the\\_AI\\_Supercycle.pdf](https://www.mufgamericas.com/sites/default/files/document/2025-12/AI_Chart_Weekly_12_19_Financing_the_AI_Supercycle.pdf)

#### Four Interconnected Credit Risks

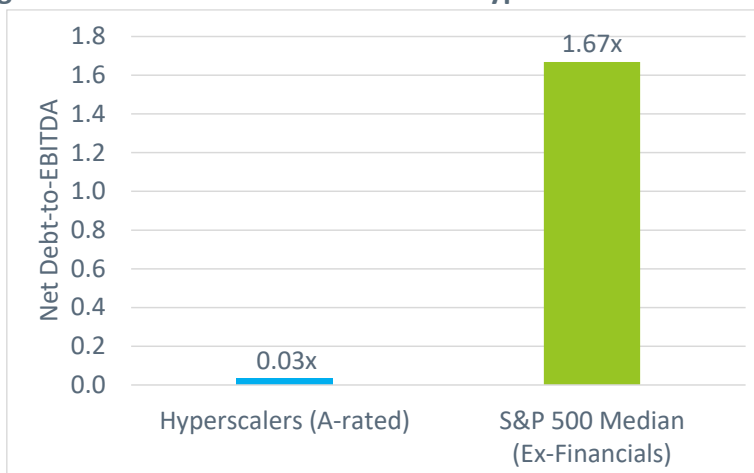
Given the growing share of corporate capital spending directed toward AI infrastructure, several interconnected risks could become increasingly relevant for fixed income investors:

1. **Leverage and free cash flow compression.** If capital expenditure grows faster than operating cash flow, leverage can rise even among initially strong borrowers. This is primarily a deterioration risk: ratings, spreads, and financial flexibility may weaken over time rather than fail suddenly.
2. **Portfolio concentration.** AI-linked issuers are becoming more prominent in investment-grade benchmarks, and investors may also hold related exposure through equity, infrastructure, commodities, utilities, securitized debt, real estate, and private credit. A disappointing monetization cycle could therefore affect multiple positions simultaneously, including exposures that appear diversified by sector or vehicle.
3. **Refinancing and residual value.** Minimal amortization and large bullet payments make credit outcomes sensitive to future capital-market conditions. If refinancing occurs when interest rates are higher, technology has changed, or asset utilization has weakened, borrowers may face a higher cost of capital, forced asset sales, equity injections, or creditor losses.

<sup>3</sup>Fitch Ratings, "Data-Center Structured Finance and Project Finance Risk" (2026); Brown Advisory Fixed Income, "Mind the Inflection Points: Artificial Intelligence and Debt" (2026); S&P Global Ratings, "Digital Infrastructure and Data-Center Risk" (2026).

4. **Construction and operating execution.** Larger projects, ambitious timelines, labor and supply constraints, permitting, grid interconnection, and behind-the-meter generation can delay completion and revenue. These risks are materially greater for construction-stage assets than for completed, stabilized facilities.<sup>4</sup>

**Figure 3: Net Debt-to-EBITDA Ratios: Hyperscalers vs. S&P 500**



Source: FactSet. As of March 30, 2026.

### Risks Across Financing Structures

AI-related financing now extends well beyond senior unsecured corporate bonds. Construction loans, project finance, private credit, sale-leasebacks, asset-backed securities, commercial mortgage-backed securities, and joint ventures support different stages of the asset lifecycle.<sup>5</sup> Construction-stage assets are commonly financed through project-level or private structures; completed, leased, and stabilized facilities may later refinance through public or private capital markets, including securitized structures. Each transition changes the investor base and redistributes construction, operating, collateral, and refinancing risk.

The strongest structures align debt repayment with a completed asset, durable power access, enforceable leases, creditworthy counterparties, conservative advance rates, and meaningful amortization. Construction-stage financings require additional protection against cost overruns, delays, equipment procurement problems, permitting, zoning, labor shortages, and utility interconnection constraints. A facility backed by stable operating cash flow is fundamentally different from one whose repayment depends on timely completion and successful lease-up.

<sup>4</sup>Fitch Ratings, "Data-Center Structured Finance and Project Finance Risk" (2026); Moody's Investors Service, "Data Centers and Credit Risk" (2026).

<sup>5</sup>Fitch Ratings, "Data-Center Structured Finance and Project Finance Risk" (2026); S&P Global Ratings, "Digital Infrastructure and Data-Center Risk" (2026).

Tenant quality must also be considered together with lease durability. A long-term commitment from a highly rated tenant can provide strong near-term visibility, but concentrated dependence on a single user creates exposure to nonrenewal, termination provisions, technological change, and evolving capacity requirements. The facility's location, fiber connectivity, power economics, expansion capability, and ability to serve alternative tenants may ultimately matter as much as the original tenant's rating.

Technology obsolescence creates a further distinction from conventional infrastructure. The physical shell, land, and electrical connection may remain valuable for decades, while computing equipment and technical specifications can age much faster. If debt amortizes more slowly than the economic value of the financed components, the collateral base can weaken before maturity. Conservative useful-life assumptions and clearly identified replacement-capital needs are therefore essential.

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