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The Price of AI: How CapEx Is Rewriting Tech Balance Sheets

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SUMMARY

- The investment grade (IG) Technology sector is in transition, moving from a net cash position to potentially the largest borrower in the IG corporate bond market.
- Hyperscalers[1]—including some of the largest names in the sector—are borrowing to fund data center capacity buildouts to support artificial intelligence (AI) expansion.
- Higher leverage, persistent issuance, and evolving fundamentals may pressure spreads but may create active investment opportunities.

1. Hyperscalers operate large, highly scalable data center infrastructure designed to support large-scale cloud computing services and workloads. The data centers can quickly grow, or scale, to manage massive amounts of data, growing numbers of users, and persistently increasing processing demands. Commonly known hyperscalers include Amazon Web Services (AWS), Microsoft Azure, Google Cloud Platform (GCP), and Meta (Facebook) and sometimes Apple (for internal infrastructure).

AI capital expenditures (capex) are adding up fast. Technology, Media, and Telecommunications (TMT) giants are expected to spend about $2.7 trillion on data centers and AI infrastructure in the U.S. by 2030, McKinsey & Company estimates.[2] Annual AI related capex at the largest hyperscalers is already approaching $100 billion.[3] The projected spend is large enough that hyperscalers increasingly are shifting the funding for AI-related capex from self funded projects to cycles of capital-market funding.

Historically, cash rich firms such as Microsoft Corp., Alphabet Inc. (Google), Amazon.com, Inc., Meta Platforms, Inc. (Facebook), and Oracle Corp., funded capex from free cash flow (FCF). As the capex demands of AI growth increase, these companies are engaging in regular bond issuance and structured financing to support AI buildouts that include data centers, graphics processing units (GPUs), and power supply demands.

Corporate spending guidance in the cases of four large TMT firms reflects the size of the planned spending (See Figure 1).

FIGURE 1: AI-RELATED CAPEX IS HIGH & HEADING HIGHER

Company	FY 2025 CapEx	Current Fiscal Year (FY) Guidance
Meta (Facebook)	$69.7 Billion	$115 to $135 Billion
Alphabet	$91.4 Billion	$175 to $185 Billion
Amazon	$131.8 Billion	$200 Billion
Oracle	$21.2 Billion	$50 Billion

Source: Breckinridge Capital Advisors based on management disclosures, as of March 31, 2026.

Debt Funding AI CapEx

Hyperscalers, historically, generate significant cash flow from operations (CFO), which has funded capex spending undertaken by the companies (See Figure 2).

FIGURE 2: HYPERSCALERS GENERATE ELEVATED LEVELS OF CFO

Company	Last 12 Months CFO
Meta (Facebook)	$115.8 Billion
Google	$164.7 Billion
Amazon	$139.5 Billion
Oracle	$23.5 Billion

Source: Breckinridge Capital Advisors based on management disclosures, as of most recently reported fiscal quarter.

2. "The data center balance: How U.S. states can navigate the opportunities and challenges," Adam Barth, Chhavi Arora, Gayatri Shenai, Jesse Noffsinger, and Pankaj Sachdeva, McKinsey & Company, August 8, 2025.
3. "The cost of compute: A $7 trillion race to scale data centers," Jesse Noffsinger, Mark Patel, Pankaj Sachdeva, Arjita Bhan, Haley Chang, and Maria Goodpaster, *McKinsey Quarterly*, McKinsey & Company, April 28, 2025. "Our research shows that by 2030; data centers are projected to require $6.7 trillion worldwide to keep pace with the demand for compute power. Data centers equipped to handle AI processing loads are projected to require $5.2 trillion in capital expenditures, while those powering traditional IT applications are projected to require $1.5 trillion in capital expenditures. Overall, that's nearly $7 trillion in capital outlays needed by 2030—a staggering number by any measure."

Despite significant CFO, current projected capex spending for AI-related initiatives is expected to result in negative FCF for these companies, at least initially. As a result, additional funding sources are necessary to pay for capex. Funding sources include IG debt (including corporate bonds, asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS), off-balance sheet financing (including joint venture financing), special project vehicles, private credit, and leasing.

In recent months, hyperscalers engaged in substantive rounds of IG debt issuance, resulting in Meta, Alphabet, Amazon, and Oracle's collective weighting in the Bloomberg (BBG) U.S. Corporate IG Index[4] to nearly double over the year ending April 1, 2026, from 2.2 percent to 4.1 percent.

AI linked issuance was roughly five percent of total IG corporate bond issuance in 2025 and approximately three times the prior decade's average annual tech issuance.[5] Increased debt issuance in the sector may cause material changes to benchmark composition,[6] supply/demand dynamics, and investment considerations for credit investors.

Considering the Investment Implications of Debt Funding for AI Growth

Additional bond issuance to fund accelerated AI development is increasing leverage in the near term, as companies must finance data center buildouts in advance of seeing returns from customers such as OpenAI and Anthropic.

Most hyperscalers entered this period of higher IG debt issuance with extremely strong balance sheets, leverage below 1x, or net cash positions. The exception was Oracle, with net leverage above 3.5x. Among other things, hardware obsolescence, specifically from GPUs, will result in ongoing capital needs, rather than a brief period of elevated capex.

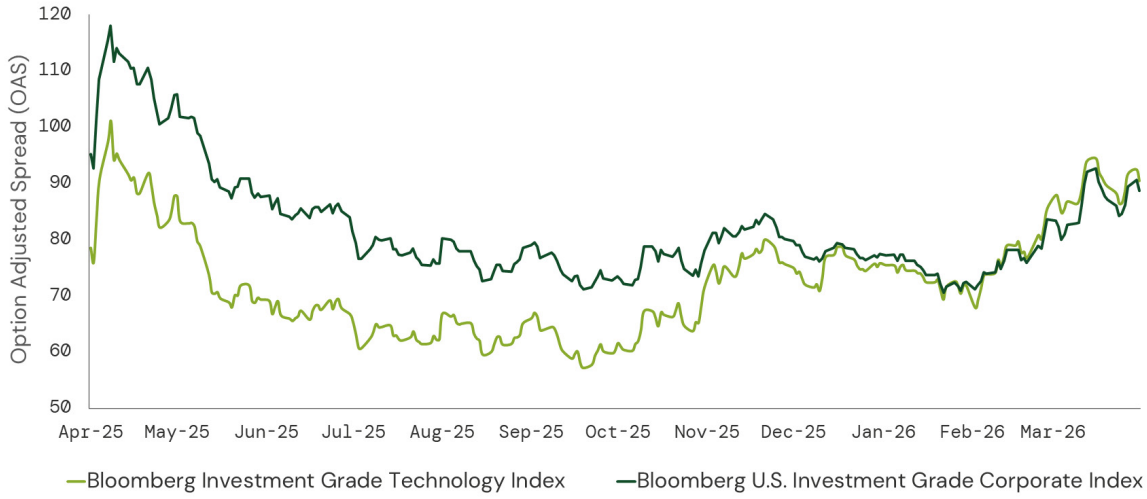
Higher leverage and periods of negative FCF could pressure credit quality ratings of some companies, depending on the tolerance a rating agency may have for higher leverage during periods of time before returns on capital investments are realized. Given the high-quality nature of most hyperscalers, the risk of a ratings downgrade may be relatively lower.[7]

Along with increasing leverage, hyperscalers may face added concentration risk. In early 2026, OpenAI and Anthropic are two of the largest purchasers of AI infrastructure services. These large AI customers can be pre-profit or venture backed. If AI customers cannot monetize their products/services as expected and hyperscalers face revenue collection challenges, AI infrastructure obsolescence could emerge.

4. The BBG U.S. IG Corporate Bond Index is an unmanaged market-value-weighted index of IG corporate fixed-rate debt issues with maturities of one year or more. You cannot invest directly in an index.
5. From 2020 through 2025, U.S. IG corporate bond issuance averaged roughly $1.5 to $1.6 trillion annually. Total U.S. corporate bond issuance, including high-yield, often exceeded $2 trillion annually during this period, according to data from the Securities Industry Financial Markets Association (SIFMA) and Akin Gump Strauss Hauer & Feld LLP, as of March 31, 2026.
6. As a corporate bond issuer issues more debt, the total market value of its outstanding bonds increases, leading to a higher weight in market-value-weighted indices.
7. Oracle is an exception. The issuer is BBB-rated, as of March 31, 2026, with negative outlooks at S&P Global Ratings and Moody's Investors Service.

Already, increased supply has come with widening spreads during the first quarter of 2026, at levels indicative of lower ratings (See Figure 3). Driven by supply technicals, sustained increased issuance may continue to impact spreads across the sector. Changing risks and wider spreads within the sector are altering risk dynamics in what has historically been a defensive sector.

FIGURE 3: INCREASED SUPPLY DROVE WIDER TECH SPREADS OVER THE LAST SIX MONTHS



Source: Bloomberg, as of April 1, 2026.

While more supply will be necessary, the amount of IG debt relative to other financing sources is uncertain. Persistent supply could result in continued pressure on spreads, despite strong fundamentals. At the same time, these dynamics could lead to opportunities for stronger returns.

Conclusions & Considerations for Sector Investors

AI linked issuance is rising sharply. As the level of debt issued by hyperscalers increases, the relative size of the sector represented in common capitalization-weighted bond indexes is increasing. More sector concentration in indices could increase potential spread pressure from supply overhang. Variation in business models, capex intensity, and funding strategies could drive greater issuer-level spread dispersion, which could reward active selection.

While the largest hyperscalers remain IG quality issuers, smaller names could be more fragile. The risk of widespread credit deterioration may be lower for now, but the rapidly changing AI business model could result in higher risks over the longer term. Hyperscalers with strong FCF and cash balances, clear AI monetization paths, and the capacity to slow or sequence capex if returns disappoint, seem best positioned to offer risk/reward advantages.

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