You may recall our February *Investment Update* provided a primer on the size and scale of the AI investment cycle and its implications for the broader bond market. This month, we examine its impact in greater detail across key fixed income subsegments.

As a brief recap, J.P. Morgan estimates the AI investment cycle will require approximately $5.4T in capital between 2025 and 2030—roughly 3% of U.S. GDP annually. Of that total, approximately $2T is expected to be raised in traditional fixed income markets, including high-grade corporates, leveraged finance, and securitized products.

Each subsegment plays a distinct role in funding the AI ecosystem and reflects a different balance between durability and speculative risk. Just as important, each has varying capacity to absorb incremental issuance. As new debt is issued and absorbed, the structure and risk profile of these markets will evolve.

The high-grade corporate bond market will bear the largest share of AI-related issuance. J.P. Morgan projects approximately $1.5T in high-grade issuance tied to the AI buildout through 2030. If realized, AI alone would increase the size of the high-grade corporate market by roughly 22% relative to year-end 2024. This compares to just 18% growth in the 2019-2024 period, when there was no issuance tied to AI.

While AI-related issuance will be spread over several years, it will materially change the composition of the market. The Technology sector will be most affected as hyperscalers account for the majority of incremental issuance. (For our purposes, we include Meta and Amazon within Technology.)

Hyperscalers are well positioned to fund the buildout. They operate diversified legacy businesses that generate strong margins and free cash flow. Most maintain rather modest levels of debt relative to profitability and cash flow (Oracle being the exception), allowing for significant debt capacity while maintaining strong credit profiles. As issuance rises, investors are underwriting the

durability of those legacy cash flows to bridge the gap until AI-related revenues scale sufficiently.

In 2025, hyperscalers issued ~$93B of U.S. dollar high-grade bonds. That represented 74% of net Technology sector issuance and increased hyperscalers' share of the Technology sector to 31% from 26% in 2024. More broadly, hyperscaler issuance accounted for 18% of net high-grade issuance last year.

As hyperscaler issuance continues to outpace broader market issuance, their share of both the Technology sector and the broader high-grade index will increase further, with several implications. Index returns will become increasingly influenced by hyperscaler performance. The market's overall duration will lengthen, as hyperscalers tend to issue longer-dated debt. And persistent supply may place structural upward pressure on yield spreads relative to historical norms.

Financing structures are also evolving. While hyperscalers have historically relied on unsecured bonds, the scale of AI investment is driving increased use of off-balance sheet and bespoke financing—including operating leases, guarantees, and special-purpose vehicles (SPVs). These structures allow issuers to access capital and secure compute capacity without fully consolidating associated financing on their balance sheets, though rating agencies typically treat such obligations as debt-like in their credit analysis. As a result, investors must look beyond reported leverage to assess true financial risk.

SPVs, in particular, allow hyperscalers to isolate assets and financing while accessing structures more commonly associated with infrastructure and project finance, including secured debt tied to specific assets, amortizing repayment profiles, lock-box cash flow mechanisms, and debt service reserve accounts.

Meta and Blue Owl Capital's Beignet Investor SPV provides a clear example. The companies used the SPV to help finance the $30B Hyperion data center in Louisiana by issuing a bespoke $27B

AI Investment Funding Sources

private placement bond. The debt is secured by committed lease payments and a residual value guarantee from Meta, and it amortizes through the 2049 final maturity. While the structure keeps the debt off Meta's consolidated balance sheet, the rating agencies incorporate portions of the lease and guarantee into adjusted leverage calculations.

The leveraged finance market will see less AI-related issuance in absolute terms. J.P. Morgan estimates roughly $200B through 2030, representing 7% of the ~$3T combined high-yield and leveraged loan markets.

The smaller share reflects the financial profiles of issuers in this segment. Neoclouds and independent data center developers typically have limited balance sheet capacity and rely heavily on equity capital. Many are early-stage businesses with minimal profitability and negative free cash flow as capital expenditures and investment in the business outpace revenues. Over time, as projects are completed and leases commence, margins and cash flows should improve—but that inflection is not immediate.

Bespoke financing structures are even more common in leveraged markets. Data center developers have led this trend. In several cases, publicly traded Bitcoin miners—such as TeraWulf and Applied Digital—have pivoted toward AI-oriented data center development. These issuers frequently utilize SPVs and secured, amortizing debt structures similar to the Beignet transaction, though typically with shorter maturities and partial amortization profiles. There are other key distinctions as well—maturities around five years, introducing refinancing risk; construction completion milestones tied to lease enforceability; lessee termination rights if projects are delayed; and guarantees or backstops that activate only after completion.

Leveraged finance investors are therefore underwriting future earnings growth while assuming construction, timing, and refinancing risk in the near term. Credit enhancements may ultimately reduce risk, but only after projects are delivered and cash flows stabilize.

Finally, the securitized markets are likely to play an increasing role as the AI infrastructure buildout progressively shifts from "vision" to "operating assets." Data center securitizations—primarily in the form of asset-backed (ABS) and commercial mortgage-backed (CMBS) securities—currently represent a small, but growing, proportion of the $4.5T non-agency securitized market. Through 2025, over $70B of data center securitized bonds have been issued and J.P. Morgan projects roughly $50B per year of financing in the medium term, totaling ~$300B by 2030.

Unlike unsecured corporate bonds—which rely primarily on issuer-level cash flows—securitized structures are designed to finance discrete pools of assets and contractual payments. This is a natural fit for data centers. Once constructed and fully leased, data centers produce predictable cash flows well-suited for securitization, with both the lease contracts and the underlying real estate value serving as collateral for the bonds.

Even so, securitized markets are likely to represent a smaller share of the overall AI funding mix due to several structural constraints. The first reflects the current early stage of the buildout timeline. During the construction phase—when completion risk and timing uncertainty are most acute—financing is more likely to come from other markets as securitized markets are better positioned to provide permanent financing once facilities are leased, delivered, and operating.

Second, scale is a challenge. Data center projects carry price tags in the tens of billions of dollars, compared with historical data center ABS/CMBS deal sizes of roughly $500MM to $1B. That mismatch also highlights a third, securitization-specific risk: residual value risk. Because ABS and CMBS are ultimately secured by the properties themselves, investors can be exposed to residual values if leases roll off and are not replaced or are replaced at materially lower rents.

Residual value risk can be amplified by rapid technological change which could drive potential obsolescence, future overcapacity, and difficulty repurposing highly specialized facilities for alternative uses at comparable value. This is further heightened by the fact that newly built data centers are typically valued materially above traditional CRE property types, reflecting the current dynamic of constrained supply versus outsized demand. Investors can mitigate these risks via careful collateral selection, particularly facilities in Tier 1 geographies (close to population centers and dense fiber connectivity), and those occupied by creditworthy tenants on long-term leases.

While securitized markets may not fund the bulk of the buildout, ABS and CMBS securitizations should provide a growing source of permanent financing as AI-related infrastructure continues to scale in the years ahead. From a securitized investor's perspective, underwriting focuses on tangible factors: tenant strength and concentration, lease term and contract durability, facility and infrastructure quality, and the residual value of the property as leases mature and roll off.

For bond investors, the key takeaway is that the AI buildout will drive a persistent increase in both supply and complexity across key subsegments of the fixed income markets. That creates opportunities—but also more dispersion and potential pitfalls. It also raises the importance of risk management— looking beyond headline leverage to assess true obligations, focusing on durable cash flows and structural protections, and staying disciplined on valuation as elevated new issuance comes to market. As always, our goal is to participate where we are appropriately paid for the risks we take, while continuing to deliver consistent, risk-adjusted returns for our clients.