bcp Wealth Management

Market Snapshot

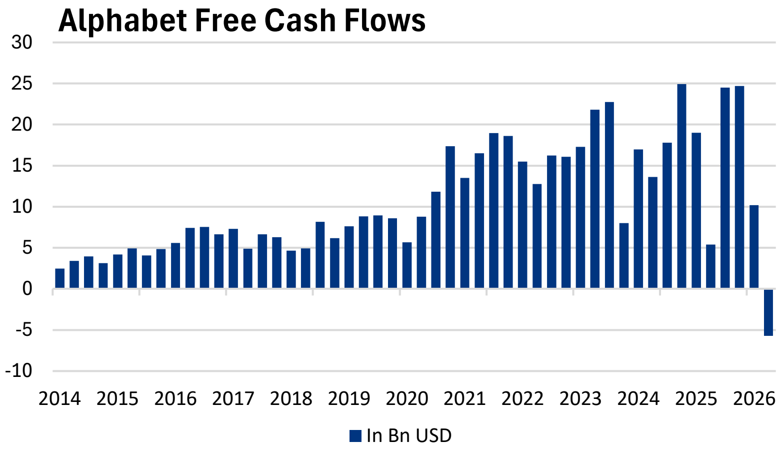
The AI Boom Reaches the Credit Markets

August 2026

Funding the AI Infrastructure

A Historic Wave of Issuance

- **The bond market has a history of booming alongside transformative infrastructure buildouts.** In the 19th century, the railway expansion gave birth to liquid credit markets. The internet boom later fueled a marked credit surge between 1997 and 1999, and AI is now writing the next chapter.
- **AI companies already represent an unprecedented share of the U.S. equity market.** The seven largest names account for roughly one third of the S&P 500 by market capitalization, **and their influence is now extending across credit markets.**
- Last year, AI companies were funding massive investments in data centers, chips and power through existing cash flows. **Today, they are raising new capital through equity and debt. As a result, Alphabet posted its first-ever negative free cash flow of -$5.86 billion in Q2 2026.**



Sources: Bloomberg, BCP Assset Management

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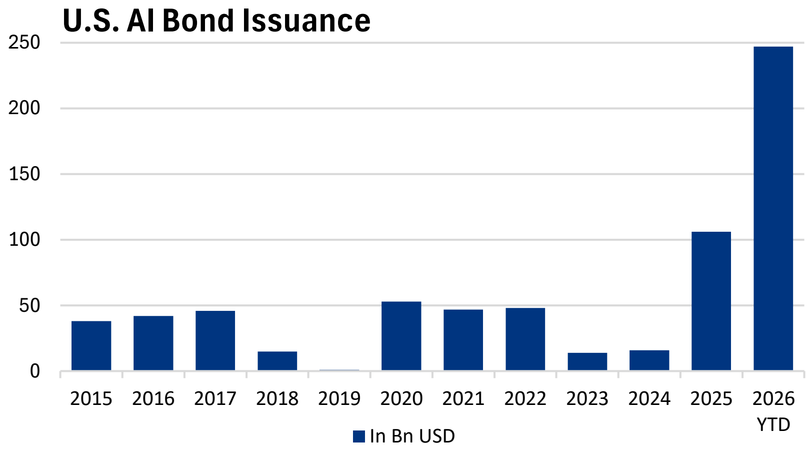
AI Is Not Only an Equity Story

- **According to some estimates, AI bond issuance could exceed $350 billion in the US investment-grade market this year**, more than 15% of potential supply and up from negligible levels just a few years ago. High-yield issuers could add a further $50 billion, roughly 10% of that market.
- **The firms are tapping every possible market.** They are borrowing through European investment-grade corporate notes, US commercial-mortgage bonds and leveraged loans, **in increasingly complex structures**. BlackRock's recent bond sale for a data center in Texas that Meta is developing is a good illustration.
- **The exposure also extends beyond public markets**. Private credit lending to AI and IT borrowers has quadrupled over five years, now representing roughly 15% of private credit portfolios.



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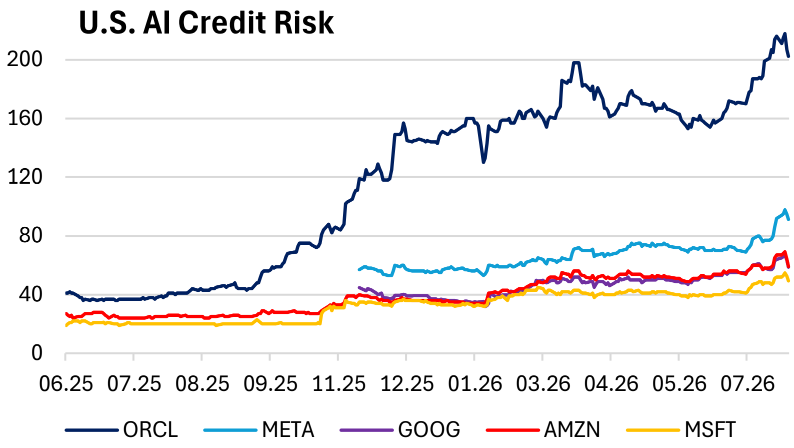
Where the Pressure Is Showing

- **Hyperscalers face increasing pressure, with spreads trading at around 100 bps on average**, twice their benchmark. Oracle has been hit hardest, reaching 215 bps against around 40 bps in mid-2025. An S&P downgrade in early July left the company only one notch above high yield.
- Markets are requiring more compensation to hold often very long-dated paper, such as Alphabet's 100-year GBP bond, reflecting **doubts over whether profitability will match expectations and concern that current investments could be outdated before they pay off.**
- **Investors should therefore remain selective and mindful of concentration, as there may be fewer places to hide**: AI exposure now extends into credit markets, with higher risks of contagion across asset classes.
- **And the good old credit spreads may prove to be the market's canary in the coal mine.**



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