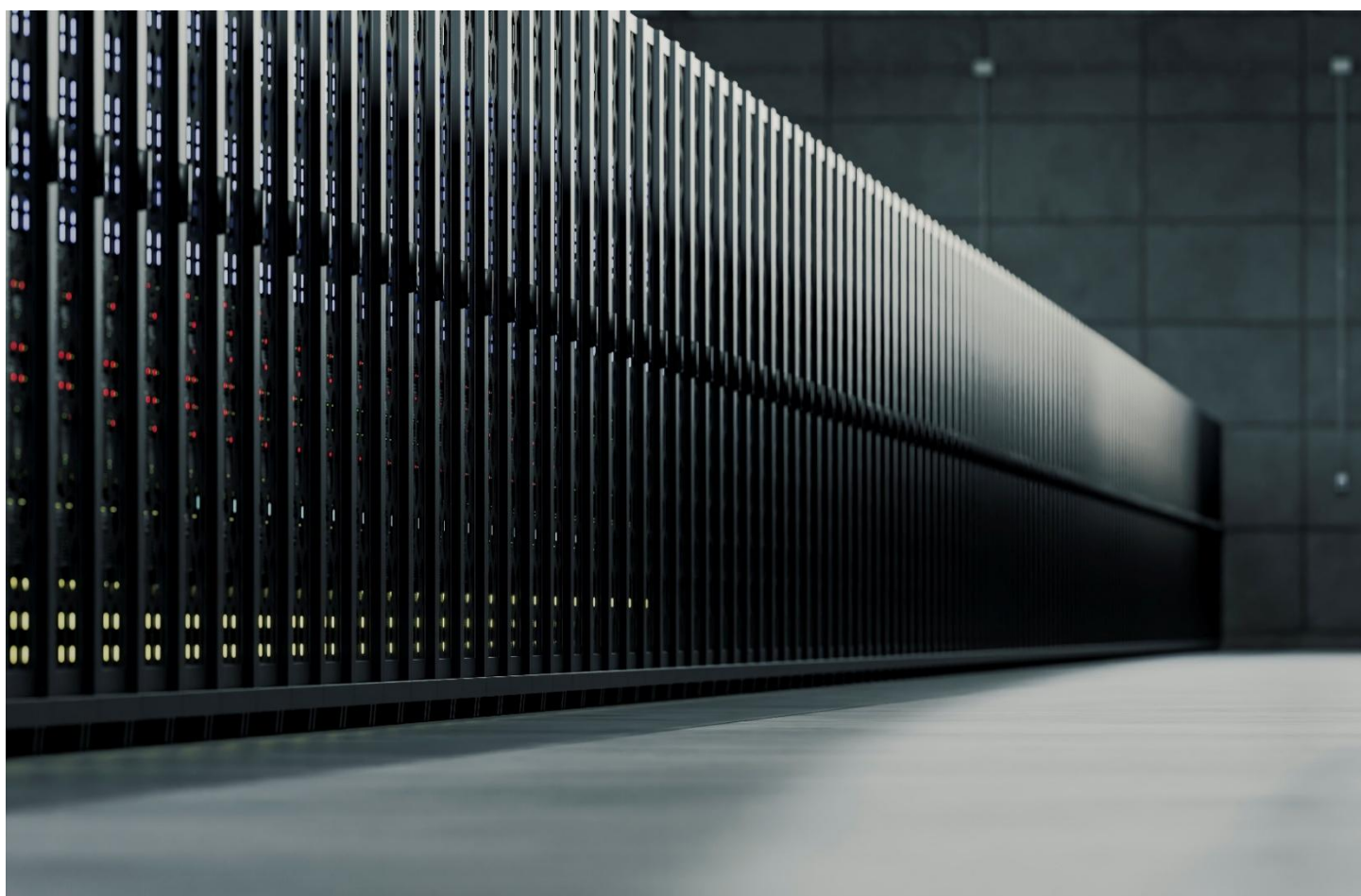


The AI debt wish

Rising funding and credit risks because of the hyperscaling frenzy warrant attention

Point of view

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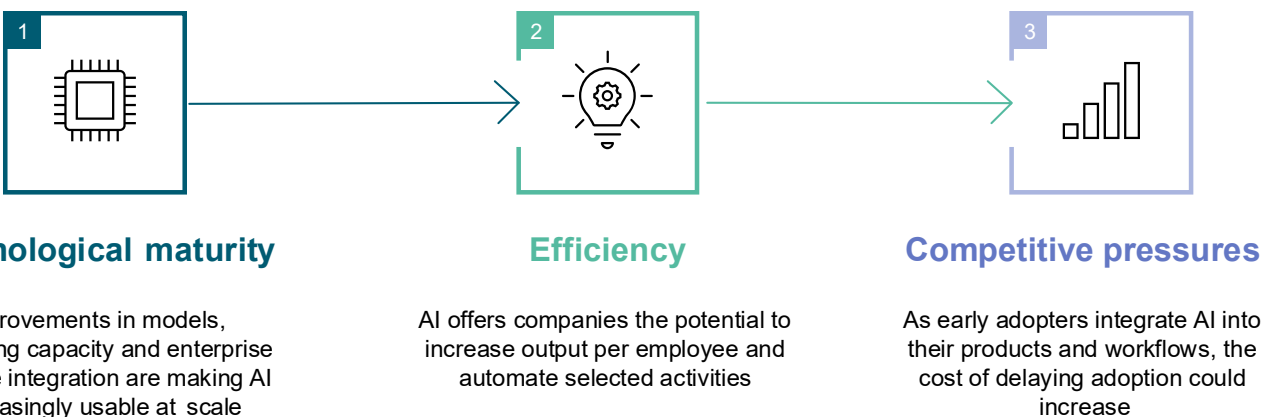
Growing like gangbusters

Over the past decade, artificial intelligence (AI) has evolved from a largely experimental technology into a strategic enterprise capability. Generative AI, copilots, intelligent automation tools, AI agents, predictive analytics and domain-specific models are increasingly being integrated into business workflows. Organizations are deploying AI across software development, customer support, marketing, research, risk management, financial analysis, supply-chain planning and enterprise knowledge management.

With adoption surging, **investment in AI is rising exponentially**. Much of this spending is being funded through a combination of accrued cash flows and external capital. Because many companies are still establishing sustainable monetization models – questions are emerging around financial risk, funding structures and the extent to which revenue growth can keep pace with rapidly expanding infrastructure expenditure.

The current investment cycle, underpinned by frenzied spending on hyperscaling—spanning semiconductors, cloud infrastructure, data centers, model development, software integration and workforce upskilling—is creating the foundation for what could become a substantially larger economic value pool.

Several structural forces are underpinning this humongous wave of investments. Advances in model performance, declining barriers to adoption, expanding enterprise use cases and intensifying competitive pressures are all driving deployment. Put simply, AI adoption is hastening because the technology has become more practical, business applications are increasingly evident, and the cost of inaction is rising.



Capex surge, monetization pathways and rising financial risk

At its core, the AI boom is an infrastructure-led investment cycle. Leading hyperscalers, including Alphabet, Amazon, Microsoft, Meta, Oracle and SpaceX, are investing aggressively in data centers, graphics processing units, networking equipment, cloud capacity, custom silicon and energy infrastructure to position themselves for future AI demand.

Capital expenditure by these six hyperscalers is expected to exceed \$1.2 trillion in 2027, up from \$800 billion in 2026, of which \$359 billion had already been spent in the first half of the year, and approximately \$400 billion in 2025¹.

To generate returns on these investments, companies are pursuing multiple monetization strategies:

1. Embedding AI capabilities into first-party products and services
2. Hosting AI models and charging usage-based fees, including per-token pricing
3. Leasing or selling compute capacity to AI developers and research laboratories

¹ Company filings; expected spending sourced from S&P projections

To support this rapid expansion in AI-related spending, major hyperscalers are increasingly complementing internally generated cash flows with debt issuance, lease financing and other capital structures. Their scale, profitability and balance-sheet strength provide them with greater funding flexibility than most companies.

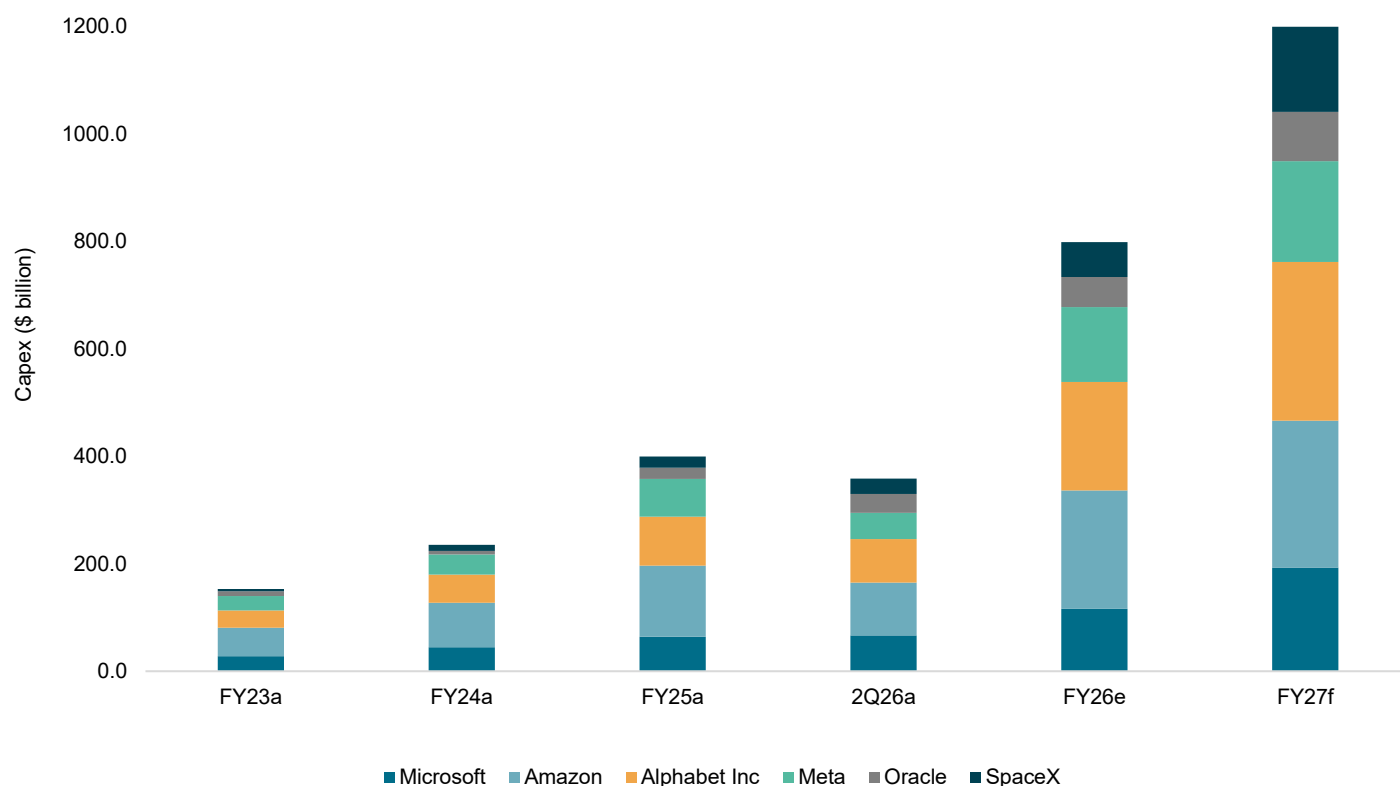
Nevertheless, financial risks are increasing as capital expenditure is front-loaded, monetization remains in its early stages and depreciation expenses continue to rise. **Infrastructure utilization and AI-driven revenues will need to scale sufficiently to generate acceptable returns on an expanding invested-capital base.**

Debt-funded AI investment is becoming a growing area of focus. As capex absorbs a larger share of operating cash flow, companies are becoming more reliant on external sources of capital. This does not suggest that the sector has become debt-dependent, but it does indicate a gradual shift towards greater use of external financing to sustain the pace of investment.

At the same time, the risk of overcapacity cannot be ignored. If AI demand fails to grow as anticipated, large-scale infrastructure deployment could outpace utilization. Furthermore, unconventional financing structures, significant contractual commitments and rising leverage could amplify stress among more aggressively funded market participants.

The long-term outlook remains constructive, but investors will closely monitor whether AI-related revenue growth can keep pace with infrastructure spending.

Capex of the six largest hyperscalers (FY23-27)



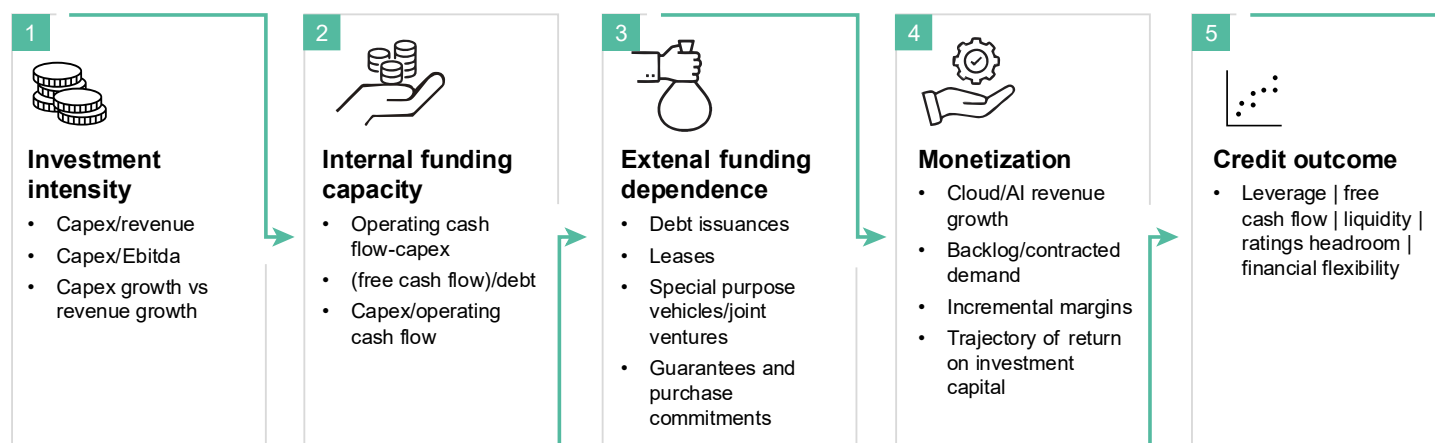
a—actual, e—estimated, f—forecasted

Sources: Company filings, S&P Global Ratings.

FY period: Microsoft – July to June; Oracle – June to May; Others – January to December

When does AI investment become a credit concern

High investment intensity, by itself, does not necessarily translate into elevated credit risk. The more important question is whether internally generated cash flows can support investment requirements, how any resulting funding gap is financed and whether monetization ultimately justifies the expanded capital base. **Therefore, credit assessment needs to connect investment intensity with funding capacity, financing structure and long-term returns.**



Where credit pressures can emerge

While the pace of AI investment does not, by itself, imply higher credit risk, the following areas warrant closer attention:

- **Cash flow pressure:** AI investment extends beyond computing infrastructure to software, data, cybersecurity, implementation and supporting infrastructure. If these costs rise faster than operating cash generation, free cash flow could remain under pressure for longer, reducing financial flexibility
- **Greater external funding dependence:** As investment requirements grow, companies may increasingly supplement internally generated cash with debt, leases or other financing structures. The credit impact will depend on the scale and duration of these obligations relative to cash generation, as well as the expected payback period of the underlying investment
- **Debt-like commitments and funding complexity:** Leases, special-purpose vehicles, guarantees, long-term capacity agreements and purchase commitments can create fixed or debt-like obligations. While not always fully reflected in reported debt, these commitments can increase economic leverage and constrain financial flexibility
- **Technology and execution risk:** Rapid advances in chips, models and infrastructure can shorten the economic life of assets, while power constraints, integration challenges and regulatory requirements can delay deployment. Both factors could extend the period between investment and the realization of cash returns
- **Difficulty measuring returns:** AI benefits are often distributed across multiple initiatives, including productivity gains, improved decision-making, faster product launches, stronger customer retention and reduced risk exposure. As a result, attributing and quantifying returns can be challenging

For credit analysis, the key question is whether these pressures remain manageable as monetisation develops. Over time, indicators such as utilisation, customer demand, margins, cash generation, and returns on investment will show whether AI spending is translating into sustainable business value.

Our perspective



Investment intensity alone does not determine credit risk

AI spending should be assessed in the context of a company's cash generation capacity and financial flexibility. Companies that fund investment through operating cash flow are generally better positioned, while those whose spending exceeds internally generated resources may face increasing balance-sheet pressure.



Economic leverage warrants a broader lens

Traditional debt metrics may not fully capture the extent of AI-related obligations. Leases, guarantees, purchase commitments and similar arrangements can materially increase economic leverage, particularly if returns fall short of expectations.



Monetization will become an increasingly important credit test

As AI deployment matures, the focus should shift from investment levels to investment returns. Metrics such as utilisation, margins, cash conversion and return on capital can provide a clearer view of sustainable value creation.



Credit outcomes are likely to become more differentiated

Credit performance is likely to vary across companies. Those with strong balance sheets and demonstrable returns should be better positioned to sustain investment, while others may see financial flexibility weaken because of greater reliance on external funding and slower monetization.

The next phase of the AI investment cycle is likely to be shaped less by how much companies invest and more by how effectively they fund those investments and convert them into sustainable cash returns. For lenders and credit investors, the critical distinction will be between investment that can be accommodated within existing financial capacity and investment that gradually weakens financial flexibility.

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