

Weekly CIO Letter

22 SET
2026

W

AI Is Becoming a Capital Markets Story

The next phase of the AI cycle is no longer only about chips, models or earnings. It is about who funds the buildout, at what price, and whether cash flow arrives before the debt does.

**ASTRO
WALLENIOUS**
INVESTMENTS

WW

Executive Summary

The Federal Reserve raised the federal funds target range by 25 basis points to 3.75%-4.00% on 16 September. The decision came with an economy still expanding at a solid pace, inflation still elevated and a September projection set that places 2026 real GDP growth at 2.3%, PCE inflation at 3.7% and the median year-end policy rate at 4.1%.

That matters because the most capital-intensive investment cycle in decades is accelerating at the same time. Artificial intelligence is moving from a story financed primarily by internal cash generation to one that increasingly depends on public bond markets, bank lending, private credit and infrastructure capital.

14%

AI and data-center debt share of U.S. IG
issuance in 2026
BlackRock

\$279bn

J.P. Morgan estimate for hyperscaler bond
issuance in 2026

-\$87bn

PIMCO August consensus for aggregate 2027
hyperscaler free cash flow

The crucial change is not that large technology companies suddenly look financially weak. Most hyperscalers still have exceptional balance sheets. The change is that the scale of spending is becoming large enough to compete with governments and the rest of the corporate sector for the same pool of long-term savings.

BlackRock estimates total U.S. financing demand could exceed \$7.5 trillion annually by 2030 as AI investment rises alongside heavy public-sector borrowing. J.P. Morgan estimates hyperscaler corporate bond issuance could reach \$279 billion this year, after only \$17 billion in

2024. PIMCO, meanwhile, shows that consensus free-cash-flow expectations for the major hyperscalers have moved below zero for both 2026 and 2027.

Our central view is that AI remains a powerful structural investment theme, but its next phase will be more financial. The winners will not be determined only by technological leadership. They will also be determined by access to capital, balance-sheet capacity, financing structure and the speed at which investment converts into recurring cash flow.

1. AI financing is no longer a niche part of credit markets

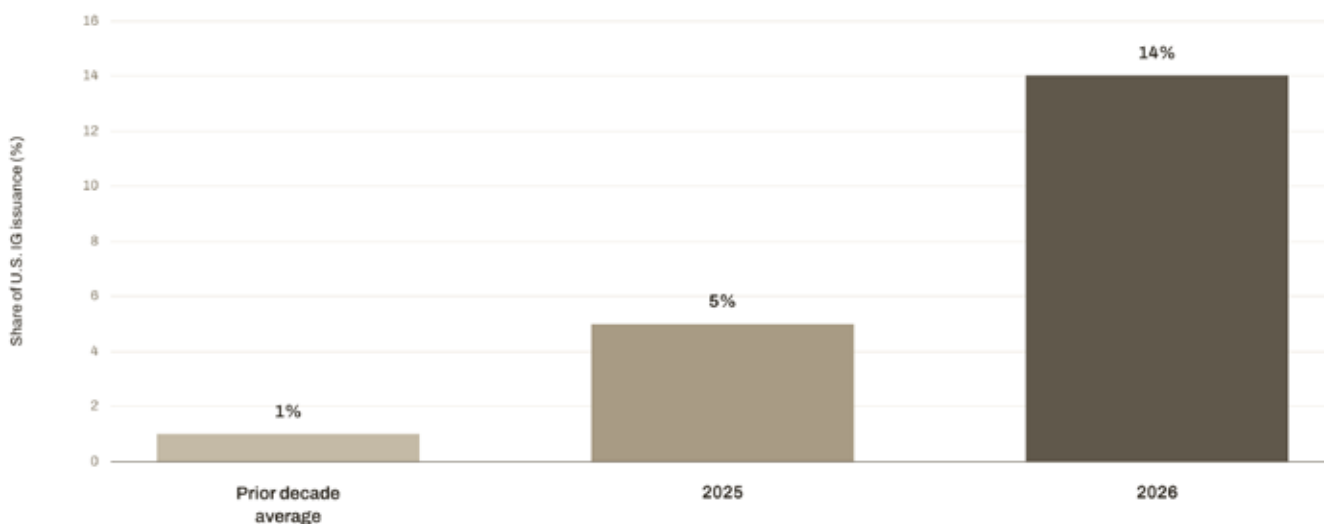
The first stage of the AI buildout was unusually easy to finance. The largest technology companies entered the cycle with enormous cash balances, limited leverage and strong recurring cash flow. Much of the initial investment could therefore be funded internally.

That is changing. BlackRock estimates that the broader AI and data-center bond universe now represents about 14% of U.S. investment-grade issuance, up from 5% in 2025 and roughly 1% over the previous decade.

CREDIT MARKETS

AI and data-center debt is becoming a material share of U.S. IG issuance

Share of U.S. investment-grade issuance, in %.



Source: BlackRock Investment Institute, Weekly Market Commentary, 21 September 2026.

The implication is broader than technology spreads. New AI financing competes for capital with Treasury issuance, traditional corporate borrowers, mortgages, infrastructure and private assets. When demand for capital rises faster than the supply of savings, the clearing price is a higher

cost of capital.

J.P. Morgan reaches the same conclusion from the issuer side. Hyper-scaler corporate bond issuance rose from \$17 billion in 2024 to \$109 billion in 2025. It had already reached \$194 billion in the first half of 2026, and J.P.

Morgan estimates \$279 billion for the full year, followed by another \$220-\$300 billion in 2027. Technology spreads now trade wider than the broad investment-grade benchmark, reversing the sector's long-standing premium status.

This is not evidence of a credit crisis. It is evidence that supply is becoming economically meaningful. The market is beginning to price not only the credit quality of individual issuers, but also the amount of paper investors are being asked to absorb.

2. The funding gap has moved from a forecast risk to a balance-sheet issue

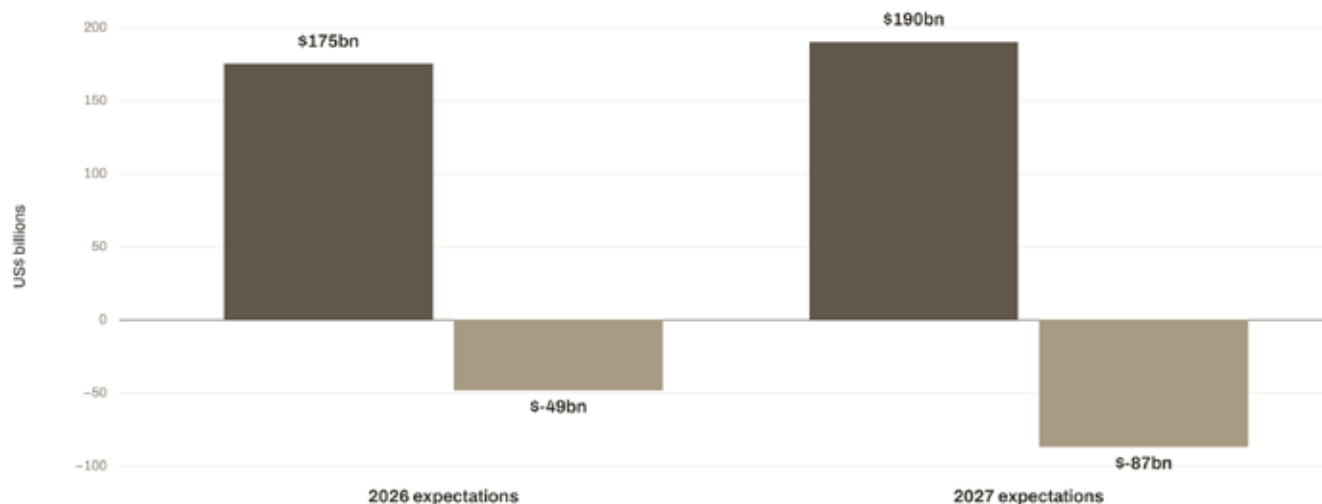
The most important change in the AI financing story is visible in free cash flow. PIMCO compares consensus expectations made at the end of 2025 with estimates available in August 2026. The change is striking.

CREDIT MARKETS

Hyperscaler free-cash-flow expectations have moved below zero

Aggregate hyperscaler free cash flow, US\$ billions.

■ YE 2025 consensus ■ Aug 2026 consensus



Source: PIMCO / Bloomberg, The Credit Market Lens, data as of 9 September 2026.

At the end of 2025, consensus expected aggregate hyperscaler free cash flow of roughly \$175 billion in 2026 and \$190 billion in 2027. By August 2026 those estimates had fallen to approximately negative \$49 billion and negative \$87 billion, respectively.

The companies have not stopped generating operating cash. The issue is that capital expenditure is absorbing it faster. As the buildout expands from GPUs into data centers, power generation, transmission, cooling, networking and land, a greater share of the investment must be financed

externally.

That changes the risk map. A strong hyperscaler balance sheet can absorb temporary negative free cash flow. A data-center vehicle or neocloud with concentrated customers, long leases, rapidly depreciating hardware and continued refinancing needs may not have the same flexibility. PIMCO argues that credit risk increasingly migrates from the technology company toward the financing structures around the physical

infrastructure.

For credit investors, this creates an asymmetric proposition: lenders finance a large share of the buildout, but do not participate fully in the upside if AI monetization exceeds expectations. The return is largely capped at coupon and principal; the downside still includes execution, utilization, obsolescence and refinancing risk.

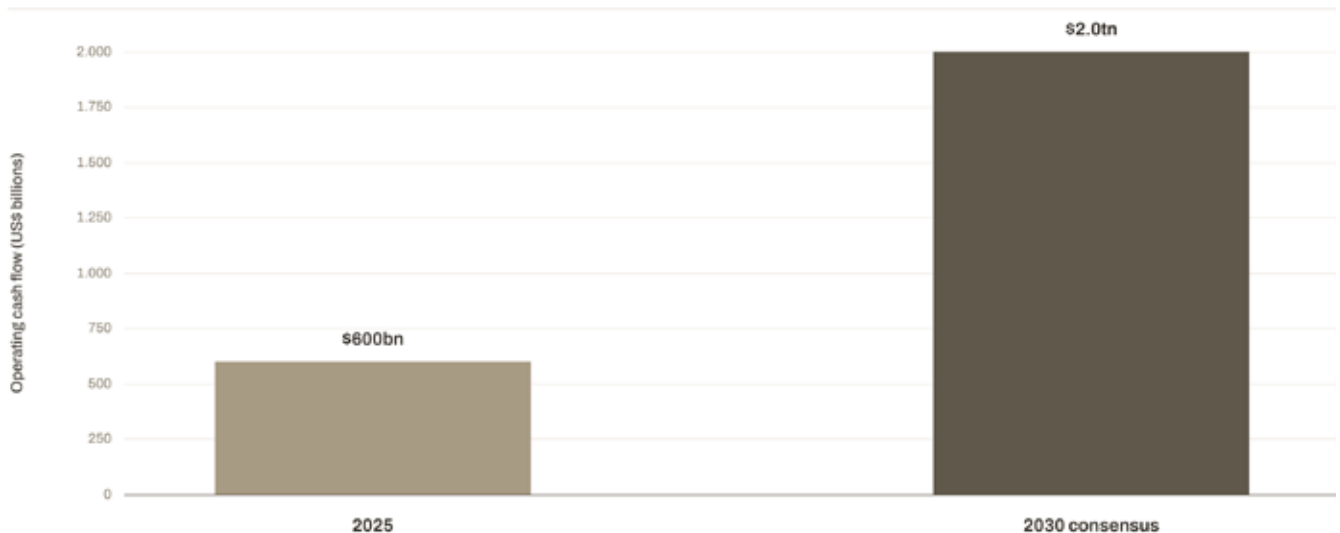
3. The credit thesis now depends on monetization, not only adoption

Apollo frames the next stage of the cycle around one central assumption: the major hyperscalers must convert the infrastructure boom into substantially higher operating cash flow.

CREDIT MARKETS

The hyperscaler credit case assumes operating cash flow more than triples

Aggregate hyperscaler operating cash flow, US\$ billions.



Source: Apollo Chief Economist / FactSet, Daily Spark, 21 September 2026.

Consensus currently expects operating cash flow across Google, Meta, Amazon, Microsoft and Oracle to rise from roughly \$600 billion in 2025 to about \$2 trillion in 2030. Apollo argues that this cash-flow expansion is the foundation supporting today's credit narrative.

This does not mean the forecast is implausible. Cloud adoption remains strong, inference demand is expanding, and the physical buildout is creating real scarcity in power, chips and data-center capacity. The issue is sequencing: debt and capital expenditure are being committed before the full revenue stream exists.

If monetization arrives quickly, the cycle can become self-reinforcing. Higher revenues support operating cash flow, stronger cash flow sup-

ports more capex, and the resulting infrastructure enables further AI adoption.

If cash flow materially underperforms, the transmission works in reverse. Credit spreads can widen, marginal financing becomes more expensive, weaker projects are cancelled and capital-expenditure plans are revised. Given the scale of AI investment in the U.S. economy, that would no longer be only a technology-sector event.

This is the key difference between the current phase and the first years of the AI trade: the market increasingly needs evidence that capital intensity is producing cash returns, not merely technological progress.

4. Portfolio implications: the AI trade is becoming more selective

Equities

Higher financing needs do not invalidate the equity case. Equity investors participate in the upside if AI generates durable earnings growth.

But the distinction between revenue growth and capital efficiency becomes more important. Companies able to fund investment internal-

ly should command a different risk premium from businesses dependent on repeated external financing.

We continue to favor strong free cash flow, high returns on invested capital and clear paths from capex to monetization.

Credit

Credit investors should be more selective precisely because issuance is becoming abundant. Large supply can pressure spreads even when default risk remains low.

The cleanest exposures are not necessarily the highest coupons. Contract quality, tenant strength, asset

coverage, maturity structure and refinancing needs matter more as the ecosystem moves away from hyperscaler balance sheets.

We prefer compensation for identifiable risk rather than simply chasing AI-labelled yield.

Government Bonds

The Fed has tightened again, yet the more structural pressure on long yields comes from capital demand and supply. AI financing is joining large government borrowing rather than replacing it.

That argues for distinguishing policy-rate exposure from long-duration exposure. Short and intermediate

bonds can capture meaningful income without requiring the assumption that term premia must fall quickly.

The strongest case for long duration would require either a material growth shock, lower inflation risk or a meaningful reduction in competing capital demand.

Private Markets & Infrastructure

The physical AI buildout creates genuine opportunities in power, transmission, cooling and data-center infrastructure.

But structures matter. Long-dated debt financing short-lived or rapidly obsolescing technology can create duration mismatches that only

become visible after utilization or pricing weakens.

Investors should separate scarce infrastructure with contracted cash flows from assets whose economics depend on optimistic utilization assumptions.

The central portfolio implication is not to reduce AI exposure indiscriminately. It is to recognize that the source of return is changing. The first phase rewarded scarce technology and expanding multiples. The next phase is more likely to reward capital efficiency, financing discipline and the ability to convert infrastructure spending into recurring cash flow.

Risks to the thesis

- AI monetization may accelerate faster than expected. If operating cash flow expands rapidly, today's financing concerns could prove temporary while balance sheets remain highly resilient.
- Capital supply may expand alongside demand. Insurance companies, pensions, private credit, infrastructure funds and international bond buyers could absorb issuance without a material increase in spreads.
- A slowdown in AI capex would reduce competition for capital. Paradoxically, weaker AI investment could improve hyperscaler credit metrics even while hurting equity expectations and U.S. growth.
- Lower inflation or weaker economic activity could pull government yields lower, offsetting part of the financing pressure from higher corporate issuance.

Our Perspective

The AI cycle remains one of the strongest structural investment themes in global markets. What has changed is its financing architecture.

The largest technology companies are moving from a world in which exceptional cash generation funded most incremental investment toward a world in which capital markets play a much larger role. At the same time, governments are issuing heavily, inflation remains above target and central banks cannot simply provide cheap financing without risking credibility.

That combination makes capital itself scarcer and more valuable. It should increase dispersion between strong and weak borrowers, between productive and marginal projects, and ultimately between companies that turn AI investment into cash flow and those that merely turn it into assets.

For investors, the relevant question is therefore no longer only who wins the AI race. It is who can finance the race without destroying the economics of winning it.

Final Thoughts

The Nasdaq closed at a record high on 21 September as semiconductor shares rallied. That market optimism can coexist with a more demanding financing environment. Equity markets can reward future growth while credit markets simultaneously demand more compensation for funding it.

The next stage of the cycle will test whether revenue, operating cash flow and productivity can catch up with the extraordinary amount of capital already committed. If they do, the AI buildout can remain a powerful driver of earnings and economic investment. If they do not, financing conditions will become the mechanism that forces discipline.

This publication is for informational purposes only and does not constitute investment advice, a recommendation, an offer or a solicitation to buy or sell any financial instrument. Market conditions and estimates may change without notice.

Weekly CIO Letter

22 SET
2026



astrowallenius.com

Meydan Grandstand - 5853+R78 - D69 - Nadd Al Shiba First
Dubai - United Arab Emirates

