EPISODE 561

How to Navigate the AI Debt Bubble

David Stein • Money for the Rest of Us

What Is the Scale of AI Data Center Debt?

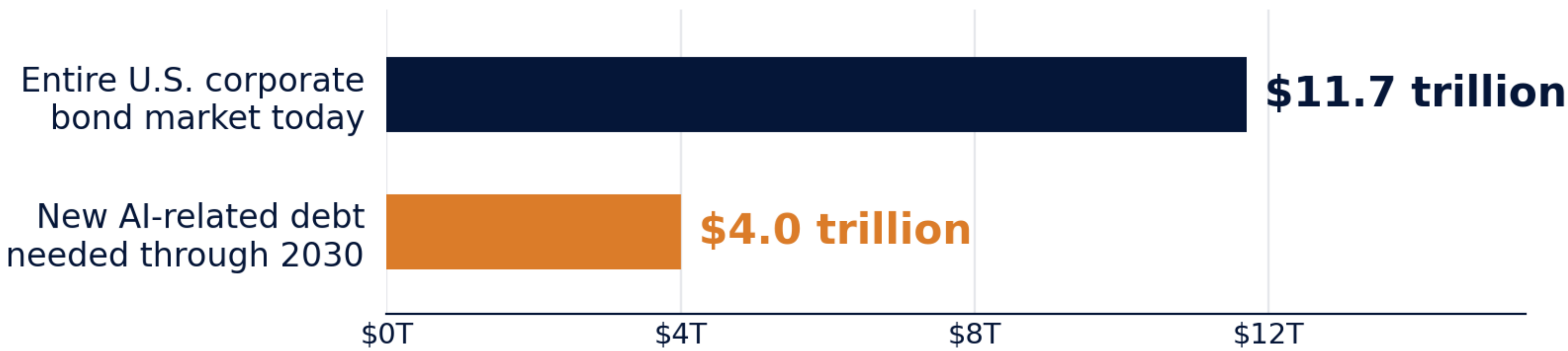
Estimated capital expenditure through 2030 and the borrowing required to fund it

$6 to $7
Trillion
Estimated AI and data center capital expenditure through 2030

~75%
of that total
Expected to be funded with debt rather than operating cash flow

9% → 32%
of capex
Share of hyperscaler capex funded by incremental debt

The new borrowing in context



Source: McKinsey, Goldman Sachs, JPMorgan, SIFMA, and FactSet.

The Capital Cycle

Edward Chancellor's seven stages of a capital boom and the bust that follows

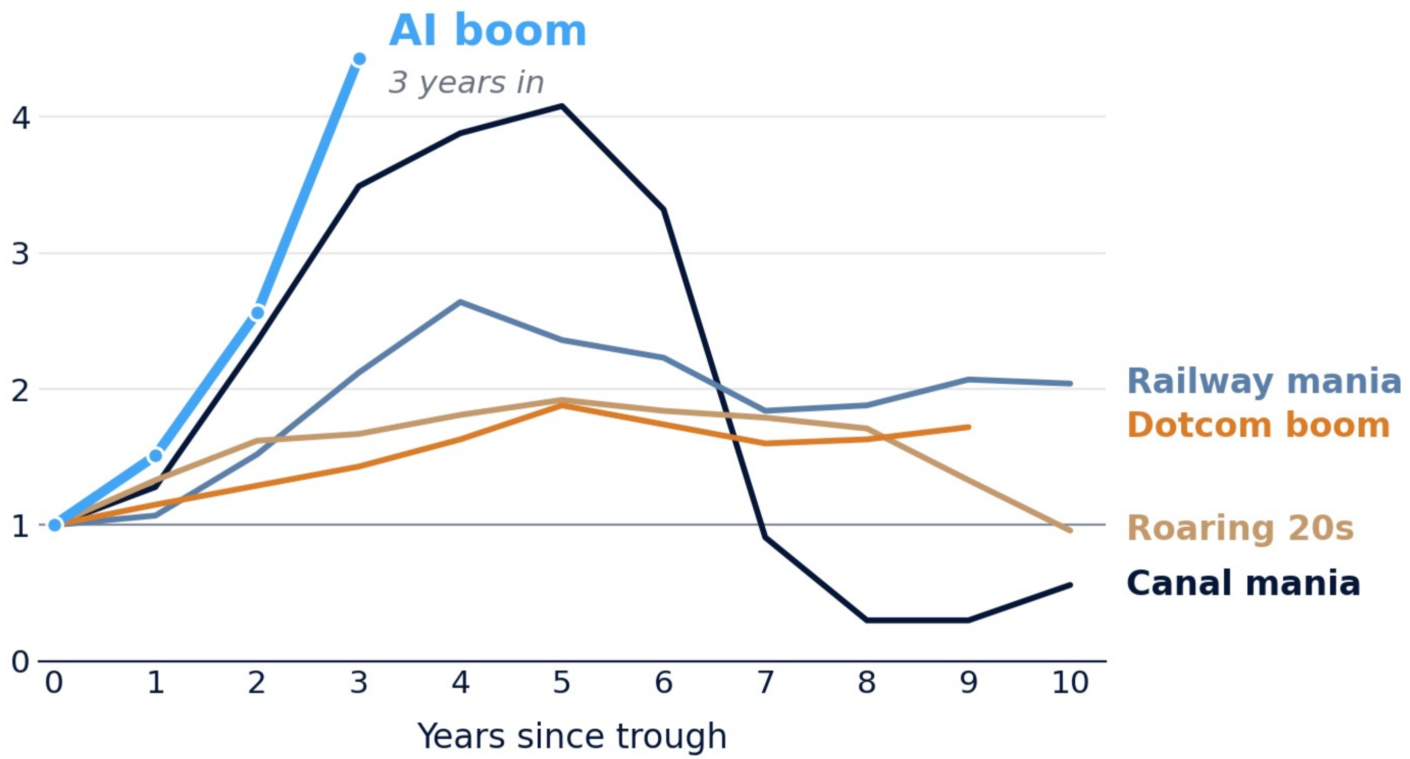
1. New technology sparks excitement
2. High returns attract capital and competitors
3. Massive investments are made in new infrastructure
4. Supply overwhelms demand
5. Prices and profits collapse
6. Firms go bankrupt and investors suffer losses
7. Infrastructure remains and new users prosper

Stage seven is the lesson: the assets survive, the capital that built them does not.

Source: Edward Chancellor, Capital Returns and The Price of Time.

Boom and Bust Follow Major Innovations

Investment during past manias, as a multiple of the pre-boom trough



Source: BIS Annual Economic Report 2026.

Where the AI Debt Is Coming From

Six financing channels behind the data center buildout

CHANNEL	SIZE	WHO HOLDS IT
● **Investment grade bonds**	**$1.2T** *outstanding*	Bond index funds: AGG, BND, LQD
● **Bank project finance**	**$170B** *in 2025*	Banks, now offloading risk
● **Private credit lending**	**$200B** *outstanding*	Private funds, BDCs, insurers
● **Off-balance-sheet SPVs**	**$27B** *one Meta deal*	PIMCO, BlackRock, insurers
● **Data center ABS and CMBS**	**$61B** *outstanding*	Insurance accounts, active funds
● **High yield and neoclouds**	**$28B** *2026 so far*	High yield funds: HYG, JNK

● Public and priced daily ● Private, unrated or marked to model

Source: Bloomberg, JPMorgan, Morgan Stanley, BIS, and SFA.

The Circular Financing Loop

Nvidia is financing the customers who buy its chips

NVIDIA
Invests, guarantees debt, and takes equity stakes

→

AI LABS AND NEOCLOUDS
OpenAI, Anthropic, xAI, CoreWeave

→

CHIP PURCHASES
Return as Nvidia revenue and reported backlog

Higher revenue lifts the valuation that funds the next round

$750B of new Nvidia deals under discussion	**$540B** of similar deals already announced this year	**0.82%** Nvidia 5-year CDS, a record high

Google and Broadcom do the same for Anthropic. SoftBank for OpenAI.

Source: Bloomberg, July 2026. OpenAI terms still under negotiation.

How the Risk Gets Passed On

The tools moving AI credit risk off the originators' books

1. **Significant risk transfers**
   Banks buy protection on loan portfolios to free capital: Morgan Stanley, RBC, TD, BBVA.
2. **Credit default swaps**
   Investors hedge downgrade risk, not just default. Nvidia, Oracle, Alphabet at records.
3. **Bond insurance wraps**
   Nationwide is insuring private credit bonds, cutting capital charges by over half.
4. **Hyperscaler guarantees**
   A backstop turns cash-burning debt into A rated paper: Meta, Google, Broadcom, Nvidia.
5. **Off-balance-sheet SPVs**
   The debt never hits the balance sheet. $662 billion of lease commitments sit outside.

In 2008 the guarantors became the transmission channel, not the firewall.

Source: Bloomberg, Moody's, and Bloomberg Opinion, July 2026.

A Plus Member Asked

Could risky AI data center debt end up in bond funds the way subprime did before 2008?

Is it showing up in large bond index funds?

Yes, but as plain investment grade bonds you can see, not repackaged paper. That is concentration risk, not hidden risk.

14%

of the IG index is AI-related

What about REITs like VNQ?

Yes, but you own the landlords' equity, not the construction debt. These are investment grade companies.

8.7%

of VNQ is data center REITs

Source: JPMorgan, and Vanguard holdings as of June 30, 2026.

A Plus Member Asked

Three more questions on where the AI debt actually sits

How can I check if my funds hold it?

Download the fund's full holdings file, or search N-PORT filings on SEC EDGAR by issuer name.

N-PORT
on SEC EDGAR

Which funds are most likely to hold it?

Active securitized and multisector funds, private credit vehicles, and insurance company accounts.

Active
not index funds

Should I worry about the ABS sleeve?

No. Data center collateral is not even eligible for the Aggregate's ABS sleeve.

0.42%
of the Agg is ABS

Source: Bloomberg US Aggregate and US ABS index rules.

What Could Go Wrong

Five vulnerabilities in the AI infrastructure debt build

1. **Short-lived assets, long-dated debt**
   AI chips last four to six years. The Meta SPV bonds mature in 2049.

2. **Tenant concentration**
   Most deals lean on one or two tenants. Microsoft walked from 2 gigawatts in 2025.

3. **Refinancing walls**
   ABS repayment dates and CMBS balloons force refinancing into an unknown market.

4. **Guarantee cascades**
   A downgrade at one guarantor reprices everything it backs. Oracle is at BBB minus.

5. **Opacity and liquidity mismatch**
   Private credit is marked to model. Semi-liquid funds just posted net outflows.

None of this is 2008 in asset quality. The techniques are the same.

Source: Moody's, BIS, and the Federal Reserve Financial Stability Report, May 2026.

Spreads Price Little Compensation

Investment grade credit spreads sit well below their long-run average