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SFA Research Corner

Are the Winds Shifting in AI Finance?

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After years of enthusiasm for AI infrastructure investments, investors are asking harder questions about spending, returns and financing risk, even as demand for capital keeps growing.

October made that shift more visible. Disclosures from Oracle, Alphabet and Microsoft on October 28 highlighted differences in how companies are financing AI expansion and generating returns. Credit markets have also become more cautious, including the market for data center securitizations. The November 3 midterm elections have added a potential political dimension to that uncertainty, as investors weigh the prospect of greater scrutiny of the data-center buildout.

So far, the shift is showing up in bond pricing rather than underlying payment performance. Loans behind data center CMBS remain current, and data center ABS show stable cash flows, with no sign that recent corporate developments have disrupted rental income. Spreads—the extra yield investors demand for taking on risk—have widened amid concerns about AI investment returns and heavy bond issuance. For now, the shift is showing up in bond pricing rather than underlying payment performance. Data center ABS cash flows remain stable, and CMBS loans remain current, even as investors demand greater compensation for holding these securities.

What Investors Are Distinguishing

Unlike traditional securitizations, which often draw cash flows from thousands of individual borrowers, data center securitizations may depend on rental payments from a handful of large tenants. That concentration makes the financial health of major cloud providers particularly relevant, as many are the same companies whose AI spending investors are now scrutinizing.

On October 28, three of these companies offered different perspectives on the financial demands of AI expansion: Oracle through forecasts presented at its investor day, and Alphabet and Microsoft through their quarterly earnings reports.

Company	Disclosure	What investors may be weighing
Oracle	Will limit new capital raising to $20 billion through fiscal 2030, split evenly between debt and equity and excluding refinancing. Expects positive free cash flow in the second half of fiscal 2028.	Continued need for external financing, subject to the company's announced limit, with cash generation still more than a year away.
Alphabet	Google Cloud revenue up 103% to $30.7 billion. Capital spending of $51.4 billion and negative free cash flow of $9.1 billion.	Strong demand, but spending is outpacing cash generation for now.
Microsoft	Azure revenue up 48%. Free cash flow of $18.6 billion, down 27% from a year earlier. Some delays from third-party capacity providers.	Heavy spending funded largely from cash flow.

Sources: Company releases, October 28, 2026. Oracle's fiscal year ends May 31; Microsoft's ends June 30.

What distinguishes these companies is not the strength of demand, which all three describe as robust, but how they are financing expansion and how quickly that spending is translating into cash flow. Those differences appear increasingly important to investors. Oracle shares rose more than 12% after it capped its funding needs, Reuters reported, and Microsoft rose about 4% in after-hours trading, according to SiliconANGLE. Alphabet fell more than 11% after hours despite Cloud revenue doubling, Fortune reported.

Caution had been building in credit markets even before those reports. Trading in credit default swaps (CDS) on the bonds of large AI spenders rose sharply between July and September, the Financial Times reported, citing Morgan Stanley. CDS gain value when a company looks riskier. Some investors use them to protect bonds they own, while others use them to express concern about a company's creditworthiness or to hedge their exposure to AI stocks. The increase suggests investors are paying closer attention to the credit implications of AI spending.

How Corporate Selectivity Reaches Securitization

The market's growing scrutiny of AI spending raises a different question for securitization investors: how much of that corporate uncertainty can reach the rental income and property values supporting data center securitizations? Corporate developments can affect securitizations through two channels.

The first is direct exposure to tenants. Large cloud and technology companies lease facilities whose rental income supports securitized bonds. Their financial strength matters because those payments help service the debt.

But a disappointing corporate announcement does not automatically translate into missed rent or a cash flow shortfall. Existing leases create contractual obligations, and a company can face investor concerns about its spending while continuing to meet those obligations. For bondholders, the more relevant question is whether changing financial conditions materially affect a tenant's ability to pay.

Assessing that exposure is not always straightforward. Barclays notes that tenants in data center securitizations are often undisclosed, making it difficult for investors to distinguish transactions by tenant credit quality. Limited visibility may also contribute to investors pricing the sector more broadly rather than differentiating individual deals.

The second channel is through the broader economics of data center demand. Even without direct exposure to a particular company, securitized properties could eventually be affected if cloud providers become more selective about capacity commitments, lease renewals or the rents they are willing to pay.

How Data Center Securitizations Work

Data-center securitizations are backed primarily by rental income from operating, leased facilities. They generally take two forms:

> **ABS:** Typically structured as master trusts that can add properties over time. Hyperscale facilities are often leased to a few large technology tenants for 10–15 years, while colocation facilities serve multiple smaller tenants on shorter leases of roughly 2–8 years. **CMBS:** Backed by mortgage loans on individual properties or portfolios, often leased to one or a few large tenants.

Most transactions pay interest only until an anticipated repayment date (ARD), typically around five years for ABS. Repayment generally relies on refinancing, often with less time remaining on tenant leases. If refinancing fails, ABS bonds may extend with excess cash directed to principal repayment, while CMBS loans may enter special servicing.

Market snapshot: Approximately $67 billion is outstanding ($45 billion ABS; $22 billion CMBS). Nearly 70% is leased to hyperscalers, primarily for traditional cloud computing rather than AI.

Source: Barclays Research, October 8, 2026.

These effects may take time to emerge. Existing leases can support current income even as expectations for future demand change. The distinction becomes especially important at refinancing. A facility may continue collecting rent, but its ability to refinance outstanding debt depends partly on expected future income, remaining lease terms, property values and financing conditions.

As Barclays observes, rapid industry expansion leaves limited visibility into market conditions several years ahead, when today's transactions may need to refinance. The question for investors is whether the facilities supporting securitized debt will retain sufficient earning power and value over time.

Selectivity Is Showing Up in Data Center Securitization Pricing

Recent pricing in data center ABS and CMBS suggests that investors are demanding greater compensation for exposure to the sector, even as underlying collateral performance remains stable.

The pricing has become particularly visible in ABS since September. According to Morgan Stanley Research's October 27 report, data center ABS spreads have widened across the ratings spectrum since mid-September and are now wider than those of comparable securitizations in other commercial sectors, including fiber networks.

Recent new-issue pricing provides another indication of how investors are valuing data-center ABS risk. Morgan Stanley reports that recent data center ABS transactions have priced at some of the widest spreads in years:

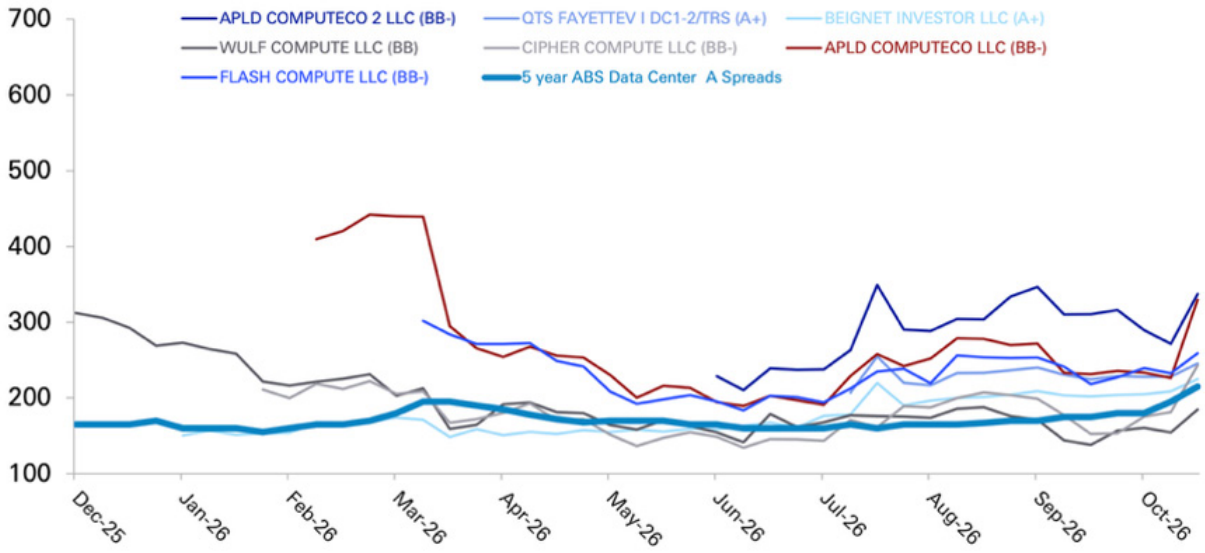
- *AAA: Approximately 200 basis points, a record level.*
- *Single-A: As wide as 325 basis points, the widest since mid-2023.*
- *BBB: A short-dated tranche priced at 375 basis points, the widest since fall 2023.*

A similar repricing has been underway for several months in CMBS, according to Trepp. Senior AAA bonds in single-asset, single-borrower (SASB) CMBS deals backed by data centers have widened 60 basis points this year for fixed-rate deals and 32 for floating-rate deals, while comparable bonds in other SASB and conduit deals have barely moved. The widening began in early summer, and the October 22 sell-off in AI-linked stocks accelerated it.

The gap is widest among investment-grade CMBS. Fixed-rate data center AA and single-A SASB bonds are 76 and 105 basis points wider this year, while the same ratings in other SASB deals are roughly unchanged.

Data center ABS is also showing greater sensitivity to corporate credit markets. Deutsche Bank Research finds that data center ABS spreads have moved more closely with corporate data center debt than is typical for other ABS sectors. In late October, single-A data center ABS spreads widened approximately 15 basis points in one week alongside weakness in high-yield corporate data center bonds.

Data Center ABS Spreads Have Widened Alongside Corporate Data Center Debt, Suggesting Growing Sensitivity To Broader AI Infrastructure Concerns



Sources: Deutsche Bank, Bloomberg Finance LP

Deal structures are evolving as well. Some lower-rated bonds have also been issued with much shorter expected maturities, reducing the period investors are exposed to uncertainty about future market conditions. The ratings composition of issuance is also changing. According to Barclays, approximately 30% of data center ABS issued this year has been rated AAA, compared with 7% last year, as Moody's and Fitch beginning to assign AAA ratings in this market.

Why the Line Remains Dotted

Investors have not turned away from AI, but their focus has shifted from enthusiasm for growth to greater scrutiny of spending, returns and financing risk. That selectivity has reached data center securitizations, although analysts differ on what is driving the repricing. Deutsche Bank Research emphasizes broader concerns about AI infrastructure, while Morgan Stanley points to heavy issuance and investors' growing preference for structures that reduce reliance on refinancing. Both factors may be contributing, particularly as today's supply reflects financing decisions made months earlier.

The underlying collateral also provides some separation from the investments attracting the greatest scrutiny. Much of the securitized market consists of stabilized facilities serving traditional cloud computing needs rather than projects under construction or dedicated exclusively to AI. Still, these properties remain exposed to the financial decisions of major technology tenants.

Trepp's CMBS data points the same way. Nearly every data center bond has widened, yet every loan behind those deals is current and none is with a special servicer. That pattern, Trepp writes, "looks like investors repricing exposure to the sector, not a verdict on any one property."

Conclusion

For now, the shift is visible in bond pricing and deal structures, not in documented deterioration in rental income. The November 3 midterm elections may add another dimension to investors' reassessment of AI infrastructure. Following Democrats' victory in Congress, shares of some AI infrastructure companies declined amid expectations of greater political scrutiny of the data-center buildout, Reuters reported. CoreWeave's bonds and credit default swaps also weakened, although the extent to which the election contributed to those moves remains unclear.

These developments reinforce a broader shift in sentiment, even as the connection to securitized cash flows remains indirect. Whether changing expectations about AI investment returns, financing conditions and now the political environment eventually affect lease renewals, rental income, property values and refinancing remains the question for securitization investors.