Markets Edition: How Does Debt Demand Affect AI Investors?

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Research @ Citi Markets Edition: How Does Debt Demand Affect AI Investors? Recorded: Aug. 31, 2026 Published: Sept. 1, 2026 Host: Scott Chronert, Head of U.S. Equity Strategy, Citi Guest:Daniel Sorid, Head of U.S. Investment Grade Credit Strategy, Citi Transcript: Opening Teaser: (00:00) Research @ Citi Markets Edition. Scott Chronert (00:03) Hi, I'm Scott Chronert, Head of U.S. Equity Strategy at Citi Research. Welcome to Research @ Citi Markets Edition, covering various topics at work within the U.S. equity markets — and, in this session, the fixed-income markets as well. With me today is Dan Sorid, the Head of U.S. Investment Grade Credit Strategy here at Citi Research. I've invited Dan here today to talk about AI in terms of a bond investor's perspective. Welcome, Dan, and thanks for joining us. Daniel Sorid (00:30) Nice to be here, Scott. Scott Chronert (00:31) All right, so big picture: AI obviously kicking in as an ongoing theme within the markets. From an equity perspective, the way this has been unfolding is that we've talked about the AI-influence part of the S&P 500 approaching as much as 55% of the index capitalization. Now, we know one of the big ongoing storylines has been the surge in AI-related capex. Generally speaking, we're looking at roughly a trillion by the global AI influence this year — perhaps tripling, if not quadrupling, by the end of the decade. So we're looking at some big numbers. Now, we know that going into this year, the view was, Hey, the companies that are spending a lot of this capital are doing it out of free cash, which is great. But as the year’s unfolded, we've seen the metrics such that free cash generation is now falling significantly, and the pivot has been to debt financing as a way to finance a lot of this capex spending.

What this is doing, in our view, is creating some stress points within the markets that we need to be attentive to, presumably from your perspective, as we continue to look at this AI-related cohort and its influence on the broader markets. So Dan, help us kick it off with some context around the aggregate size of the AI-related debt issuance thus far and how that fits into your investment-grade narrative. Daniel Sorid (02:01) Sure. Scott, first of all, the investment-grade market in dollars is extremely deep. We issue more than a trillion dollars of debt every year and the market as a whole has more than $10 tillion outstanding. The market trades anywhere in the order of $50 billion a day. And this really creates what I would call the most liquid spread-product market globally. So it's a market that has the capacity to absorb an enormous amount of debt when there's an opportunity for an industry to build new income-generating assets. That's really what's gotten the market very, very focused this year. And what we're seeing is some strains, but not really cracks at this stage. To give you a sense of it, when we look at the on-balance sheet funding of the hyperscalers, we've had more than $200 billion issued year to date just from a handful of names. That's running at more than twice the pace of last year for those names. And they're spreading it not only in U.S. dollar markets across tenors, but also in euros, in sterling, in Swiss franc, in CAD, in yen, and now in Aussie dollars. And so it's a story with a handful of names triggering a massive debt raise across the globe. What's really also quite interesting is the way in which the AI boom is being funded, not only in traditional on-balance-sheet debt, but in data-center project financing across both IG and high yield, where we see on the order of $100 billion of financings already. That has begun to strain valuations a bit in the investment-grade market, where the index might trade around 80 basis points over Treasuries, a 10- or 20-basis-point underperformance is notable. From an equity perspective and probably from the issuer perspective, it's a small price to pay for what looks like an incredible opportunity from their eyes. There are going to be ups and downs. There's a lot of variety in the names. There's a lot of different types of risk. There's geographic risk, there's structure risk. There's questions around liquidity and, of course, just regular cyclicality of the economy. And that leaves aside the broader questions around how soon, and to what extent, to what magnitude, the AI-driven investments are going to create free-cash-flow growth. So these are some of the questions that I think the market's grappling with right now. There are certainly a lot of big numbers, but we're managing it OK, with a bit of strain.

Scott Chronert (04:23) OK, so when you think about this, one of the issues that's coming up for equity investors is this notion of circular financing, where the capex spenders are actually, in many ways, become part of the conviction that there's an ultimate payment structure on the interest expense to keep all of this together. How would you say, at this point, fixed-income investors are looking at, considering, and assessing the circular-financing component that is so topical right now? Daniel Sorid (04:51) There are really a lot of questions about how the money is going to get raised because there's so many different types of assets that need to get built. And there's a lot of dependency. So the dependencies really start with the fact that in order to create a data center, you need power, you need chips, you need land and permits. You also need customers. And one of the things that's really challenging is that for many of the adopters of AI, the costs associated with developing new products are also substantial. And so the inference costs are also high. There's also a knowledge distribution as well, where firms are attempting to adopt AI into their workflows, develop new workflows, develop new startups and new approaches. And that also takes time and money. So there's a lot of money that's going to need to be raised. And we are getting a variety of issuance patterns. I think the data-center financing is probably the most interesting in terms of the way in which these deals are being structured because the conventional toolkit is probably getting stretched. As I mentioned, off-balance-sheet data-center financings are creating a little bit of confusion, and because there's risks here that the IG credit markets are not typically prepared or focused on. So there's tenants, there's guarantors, there's different types of lease structures, there's different amortization schedules, and there's different construction risk. Pricing these deals has created some challenges. And there's definitely been ups and downs as the market tries to figure out which players are going to have the strongest projects and which projects are the most secure. But I would say more broadly speaking, the circular financing is something that really comes down to whether the chips can get produced, the data centers can get built, and the cash flow can start to get generated. And I think we're probably at the period of greatest opacity in how this all is shaking out. Over the next few quarters, I think we'll start to get a much clearer sense of the cash- flow potential, the cash-flow growth rates, and start to see whether all of this will work. So I think the circularity is somewhat inherent in that we're trying to build something from scratch and there's a lot of interdependent parts.

Scott Chronert (06:47) OK. So to cut to the chase on this, from my approach anyway. I guess there's some question ultimately in terms of how deep the market is for AI data-center-related debt. You addressed some of that earlier, that this is still small within the broader investment- grade construct out there. But I guess it does beg the question from an asset-allocation perspective, You know, I have to contend with the AI influence on U.S. equities, but increasingly when we look at whether it's a 60-40 portfolio or other stock vs. bond decision points, increasingly it seems like what we're going to see is the AI influence percolating further and further across the fixed-income spectrum as well, potentially changing the way we think about traditional asset-allocation approaches. Do you have any wrap-up views on that, Dan? Daniel Sorid (07:35) Sure. There are certainly a lot of questions around the concentration of risk in AI in a combined stock and bond portfolio, when credit is really seeing a lot of issuance in portfolios that have fixed-income exposure, whether it's in IG or high-yield or in securitized debt, are seeing a greater concentration in tech. But I think it's also helpful to look at the extent to which tech is one of many sectors, and is actually not one of the largest sectors in the market. When we look at the Bloomberg Barclays Global Ag Corporate Index, banks represent 22% of that index in dollars. Insurance represents 7%. Electrical utilities represent around 9%. And consumer non-cyclical represents about 14%. Tech is only about 9% or so. And so the base from which this debt is growing is relatively low. This is not a sector that already dominates the market. And that's really important to highlight, because when we have periods of time when the banking sector is issuing a lot of debt all at once, and it's already one of the largest in terms of the amount of debt in portfolios, that can create some challenges as investors have to determine what the opportunity cost is of participating in a new issuance when they view that another deal is going to come just after, potentially cheaper. Now, what's really interesting, Scott, is that if you look at the portfolios of non- U.S. investors in the credit markets, technology is much lower as a proportion of their holdings today than it is for U.S. investors. So, in the non-U.S. dollar portion of that Global Corporate Ag Index, technology represents only around 3.6% of their holdings. What that means is that probably some of the strongest interest and strongest appetite for exposure to tech and to U.S. tech in particular is coming out of Europe. It's coming out of Asia, Australia and elsewhere, where existing credit portfolios are not heavily exposed to tech.

I would say the global economy is tied very closely to the fate of these AI investments. In other words, if these AI investments pan out well, we could see significant productivity improvements. If there's overbuilding, there could be some challenges there, and that also raises questions around contagion risk and financial stability the longer this goes on. I think maybe that the most interesting perspective that I hear from clients is not so much around the risk of growing exposure to tech companies, but really about the risk to incumbents of a transformative technology like generative AI and the agentic buildout that we're seeing, that's likely to disrupt industries from healthcare to the energy sector, to retail and consumer, to media. This is a technology that has captured so much interest in C-suites in virtually every industry because of its potential to change the way these businesses operate, and could potentially leave a lot of downside for incumbents that have built businesses and built competitive advantages that AI could potentially chip away at. So I think investors have to think of this really from both ends, which is, one, How much exposure do they want to add in their credit portfolio when their equity book is already increasingly tilting towards tech? But, alternatively, Can you afford in a credit book to avoid this sector when incumbents in the IG market across other industries may end up needing to spend an awful lot of money on R&D to build and maintain parallel infrastructure while they determine how they can incorporate AI into their workflows or their product lines, and potentially see margin compression as pricing pressure drops, or pricing pressure increases? Scott Chronert (10:54) Got you. OK, that is awesome. So we're at our time. I'm just going to wrap this up real quickly. What I'm hearing from you, Dan, is that we're going to be contending with AI for some time to come now in the equity side and fixed-income markets. What I think I'm hearing is that there's still sufficient demand out there, but the burden of proof is going to continue to be on the issuer to demonstrate that the cash generation is there to fund the debt issuance. And that will be an ongoing decision point. This notion of disruption in terms of what you get out of AI may be at some other part of the market's negative dynamic is something that we're going to have to keep an eye on here. But all told, it sounds like we're in a place right now where the demand construct is in a sufficiently good place that we can keep an eye on debt and the debt financing for AI, but not lose sight of that it's going to be an ongoing, evolving, changing narrative. So, thank you, Dan. I really appreciate your time. This podcast was recorded on Aug. 31, 2026. Thanks for joining us today. And be sure to be on the lookout for our next Markets podcast featuring Dirk Willer, Citi's Head of Global Asset Allocation. Also, be sure to watch for our

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