Onex Credit Perspectives: AI & Credit

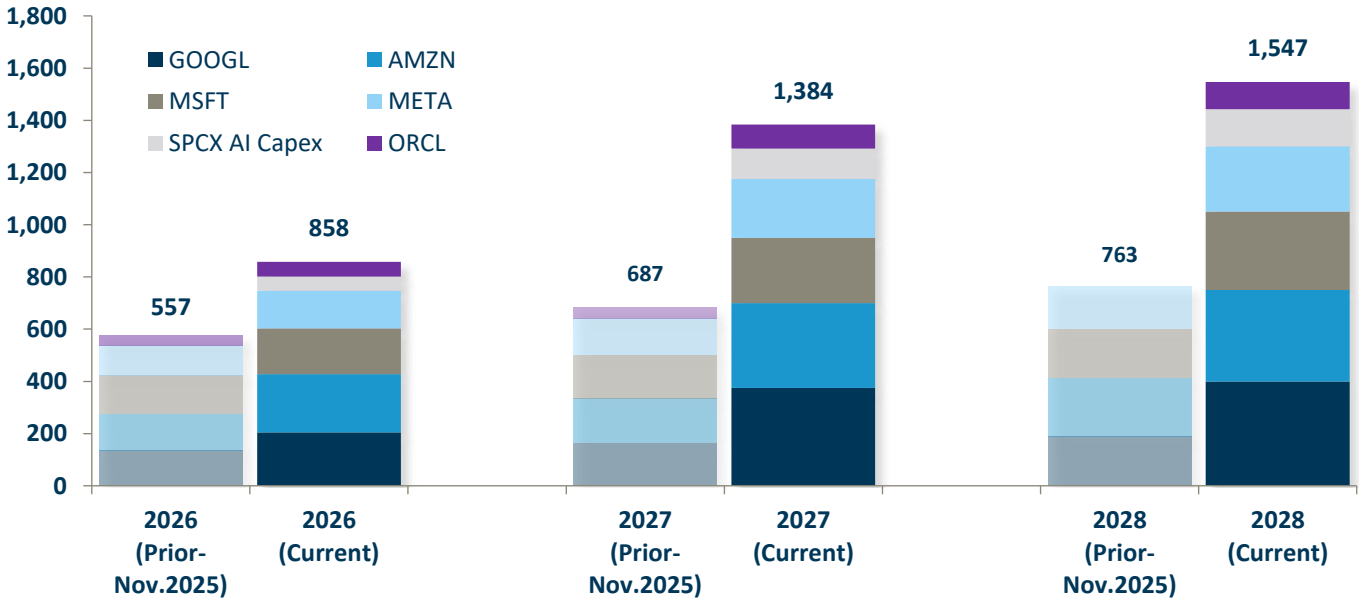
October 2026

- While AI is transformational for the economy, that does not make every AI-related asset a good investment.
- The sheer scale of the AI buildout is straining financing markets.
- Project-level details matter - tight pricing between safe and risky investments today could prove costly later.
- Credit underwriting should heed the lessons of prior capital investment cycles.
- Attractive opportunities will exist in AI and AI-related infrastructure for careful, disciplined underwriters.

How AI Debt is Reshaping Credit Markets

AI has been a dominant theme across financial asset classes in 2026. Hyperscalers and semiconductor companies represent 30%+ of the S&P 500 by market capitalization[1] and have driven the majority of year-to-date earnings growth. Notably, analysts estimate 20%+ 2027 EPS growth for AI-related companies vs 4% for non-AI issuers.[2] Hyperscalers and neoclouds are expected to invest $1.6tn in 2027 and $1.8tn in 2028 through capital expenditures and leases to support their AI buildout, nearly double last year's estimates.[3] Debt is funding an increasing share of this AI investment; notably, BAML estimates total debt issuance of over $800bn in 2026, with issuance expected to grow further in 2027 as capital spending rises.[4]

Exhibit 1: 2027 Hyperscalers' Capex Estimates ($bn)[5]

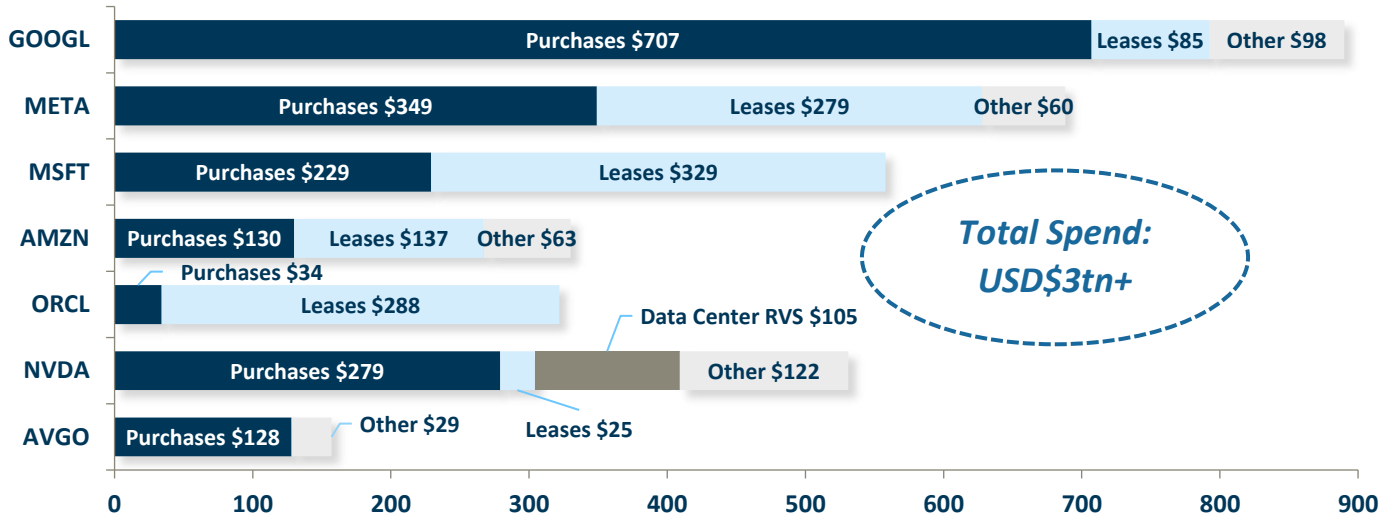


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Hyperscalers, NVIDIA, and Broadcom have taken on $3tn+ in off-balance sheet commitments and guarantees.[6] Large hyperscalers generally buy chips directly, given their lower cost of capital relative to intermediaries. Most of the financial engineering has occurred in datacenters, where lease structures can keep certain obligations off balance sheet. Developers with permitted sites can also offer faster speed to market. Credit support varies by project, with some structures relying on conditional guarantees, such as residual value guarantees that apply once a project is operationally delivered. If a guarantee is currently deemed "not probable," the hyperscaler does not have to record a liability against it. [7]

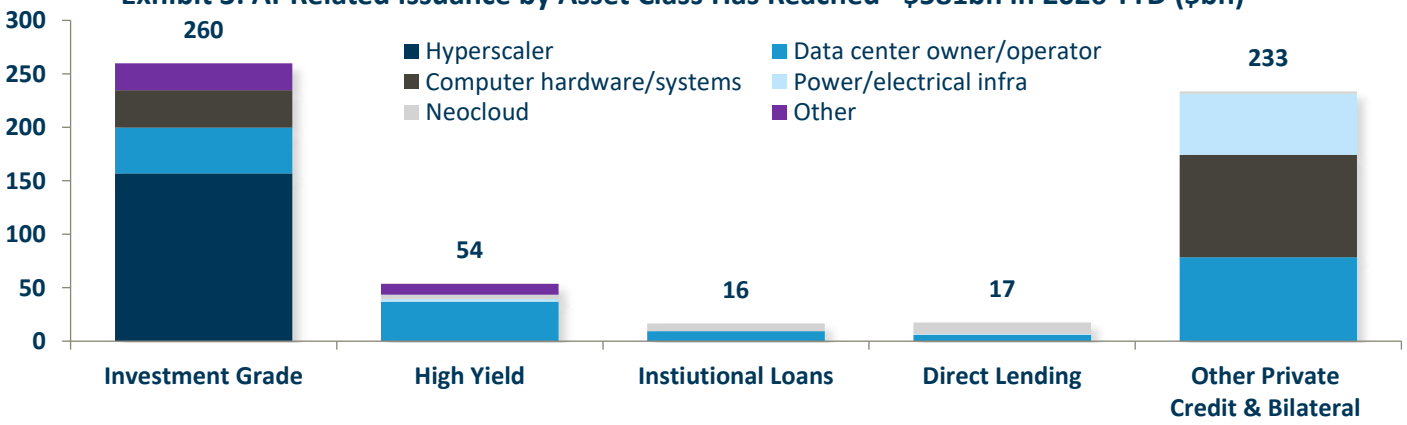
NVIDIA is an exception. As a chip manufacturer, it has a direct interest in supporting neoclouds and has gone beyond standard chip contracts and guarantees by making equity investments in companies such as CoreWeave[8], Nebius[9], Lambda[10], and IREN[11]. These arrangements help diversify NVIDIA's customer base beyond the hyperscalers while providing financing-constrained customers with access to chips they might not otherwise be able to secure.

Exhibit 2: Hyperscalers Off-BS Commitments and Guarantees ($bn)[12]



As illustrated in **Exhibit 3**, AI-related debt issuance is adding significant supply and pressuring spreads in investment grade and has begun to add supply to high-yield credit markets with the potential to pressure spreads.

Exhibit 3: AI-Related Issuance by Asset Class Has Reached ~$581bn in 2026 YTD ($bn)[13]

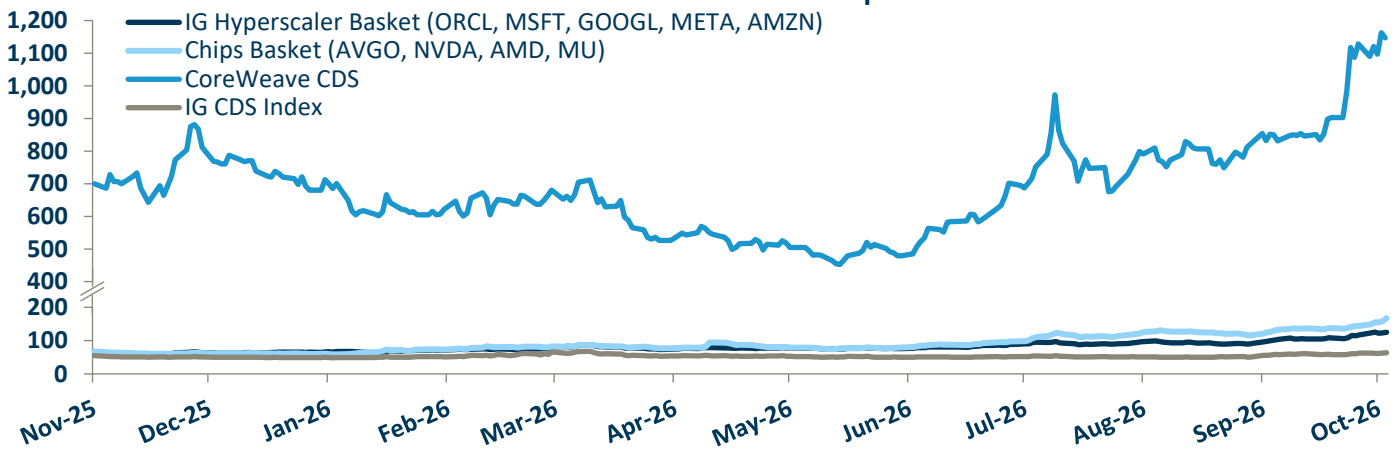


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Emerging Credit Risks Amid the AI Buildout

Hyperscaler credit spreads have widened modestly but the market continues to view these companies as high-quality investment grade counterparties, supported by highly cash-generative, non-AI businesses and substantial market capitalizations. Even if their AI investments fail to deliver expected returns, a credit event at Microsoft, Meta, or Google remains unlikely. Oracle has experienced more pronounced spread widening, but its CDS ("credit default swap") spread is trading relatively orderly at a ~300 bps spread, suggesting limited near-term default risk.[14] CDS spreads serve as a useful proxy for the market's perception of credit risk associated with a borrower, with higher spreads indicated greater implied risk. Volatility year-to-date has been concentrated in data center developers and neoclouds sub-sectors, which lack non-AI businesses to support their credit profiles.

Exhibit 4: Credit Default Swaps[15]

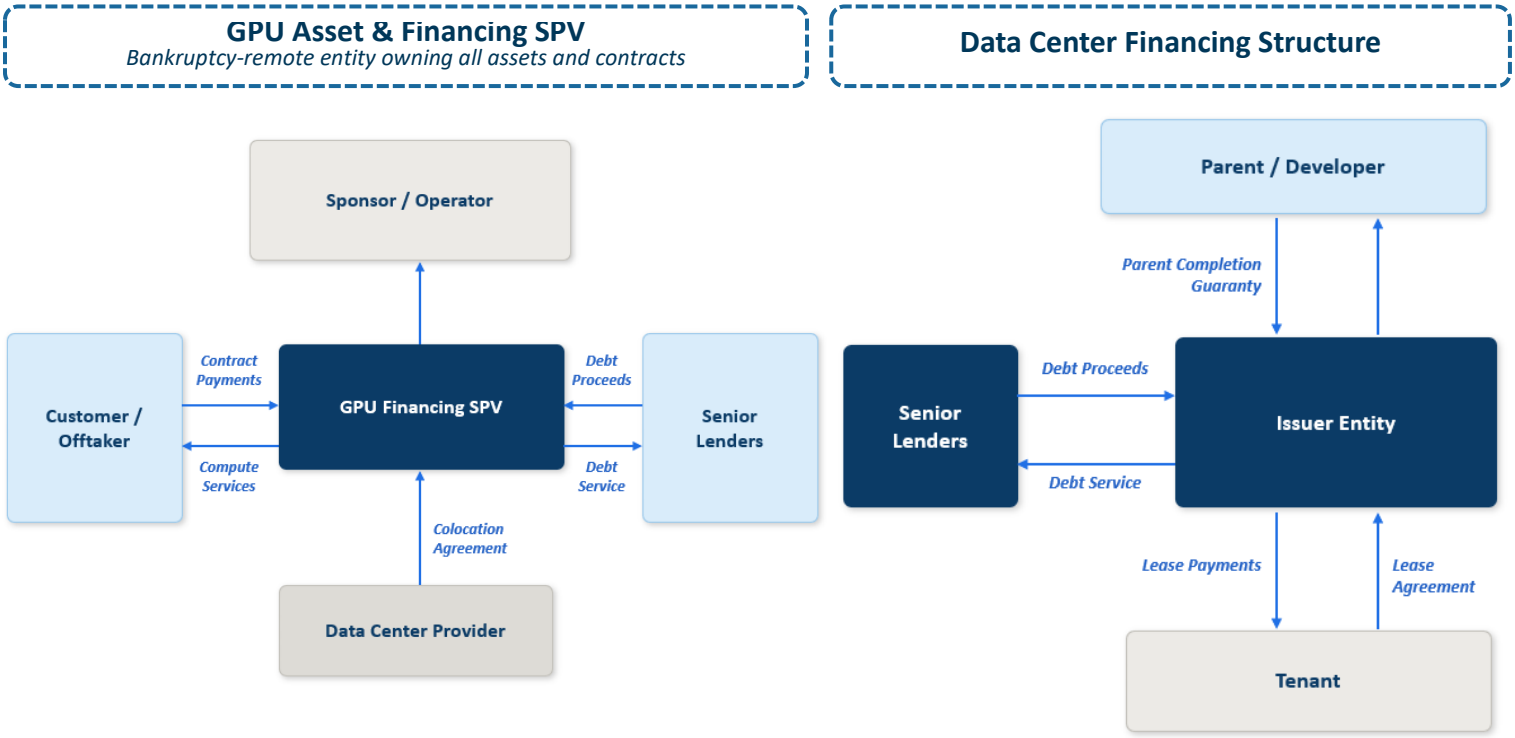


Investor scrutiny has increased as questions emerge around the long-term profitability of AI business models, financing needs, competitive pressure from cheaper open-weight models, uncertainty around the timing of IPOs for leading AI companies, and concerns around the circularity of certain financing arrangements. At the same time, permitting challenges, growing local opposition to new data centers, and delays in securing power and critical infrastructure can push back construction and jeopardize customer commitments. These concerns have coincided with widening credit spreads across certain AI-related issuers, with CoreWeave unsecured debt recently trading at yields of approximately 15%.[16] Access to financing has also become increasingly selective, particularly for more highly leveraged issuers, despite the significant additional capital required to support the AI buildout over the coming years.

Given the growing complexity of AI-related financing, it is important to distinguish between the creditworthiness of the underlying customer and the actual collateral and contractual protections available to lenders. Many of these financings are structured through special purpose vehicles ("SPVs"), with lenders relying on contracted cash flows and underlying assets rather than direct recourse to the hyperscaler.

The most common SPV financing structures have been built around (a) datacenters as real estate assets and (b) chips as rental assets. In both cases, the SPV owns the underlying assets and enters into long-term lease agreements with customers. Typically, these SPVs are bankruptcy-remote entities and may benefit from a parent or corporate guarantee provided by the project sponsor. Importantly, most of these deals are **NOT** guaranteed by a hyperscaler counterparty.

Exhibit 5: Illustrative Financing Structures



There is a notion that GPU-backed loans provide downside protection because even if the contract counterparty defaults on payments, lenders can foreclose on their collateral and sell the chips. As the lender is not the ultimate user, the ability to recover their principal supposes a liquid and defined market to sell this collateral in the future.

Typically, capital goods are viewed as depreciating assets – assets suffer wear, and new product cycles render existing assets economically obsolete. Many other capital assets – airplanes, ships, cars – have depreciation curves that are better understood based on historical standards. Even with more conventional collateral, valuations remain highly sensitive to economic cycles.

As a rapidly evolving technology, we don't have data on what a realistic depreciation curve will look like for these assets. Bulls will point to GPU rental prices having increased as evidence these concerns are overblown, but we think this is just a function of today's shortage of compute and hardly a sustainable economic outcome. If the compute shortage were to ease, its likely obsolete GPUs will provide limited resale value to foreclosing creditors. And in a world where there are defaults on GPU loans, we believe they likely would not be one-off, further impacting recovery.

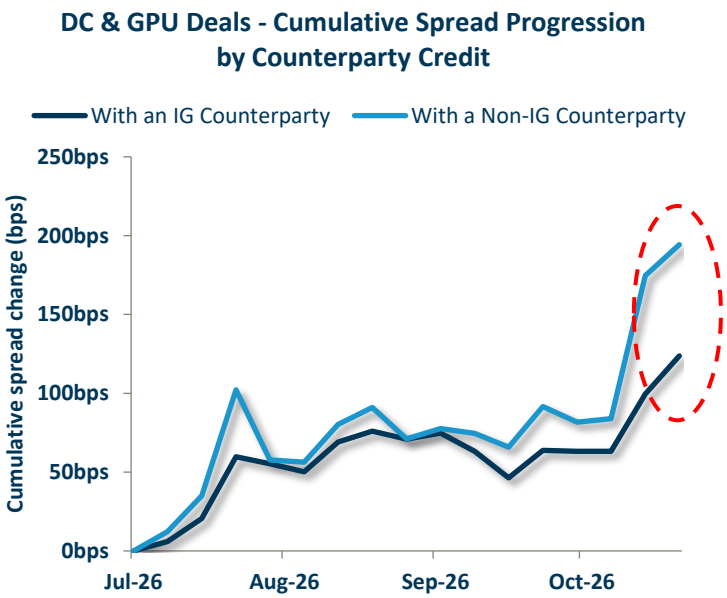
Therefore, when pricing credit risk, we believe it is prudent to place significantly more weight on the counterparty risk rather than relying on the residual value of chips.

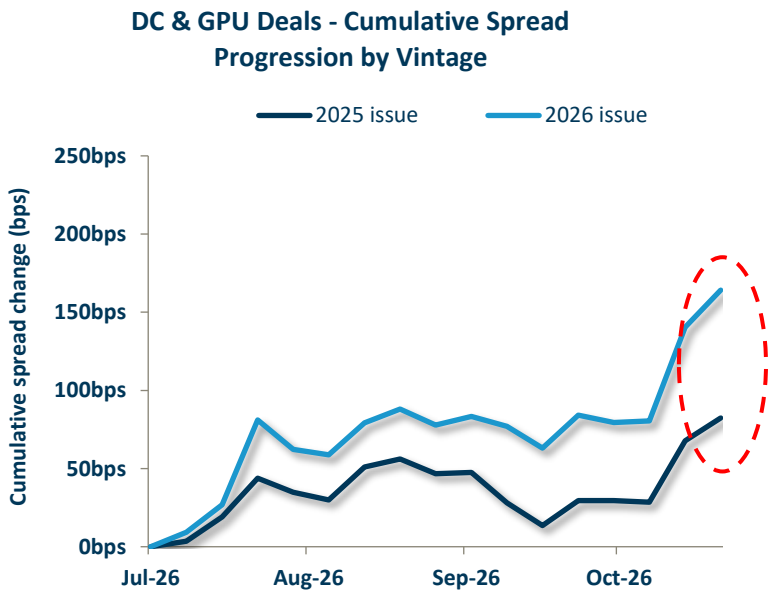
Our Approach to Underwriting AI Risk

Technology is finally undergoing a major capital cycle, and there are many parallels to prior investment cycles across other sectors such as energy and telecom. High capital intensity and long investment lead times have historically contributed to multiple boom-and-bust cycles. If demand for compute and datacenters continue to outstrip supply, most investments being made should remain performing. However, deal structure and unit economics at the project level could also produce highly divergent outcomes if demand falls short of lofty projections. When the tide goes out, weaker counterparties may face elevated default risk, while development delays or weak contracts could result in cancelations and, ultimately, impairments in weaker projects. AI is evolving quickly, and our (or anyone's) ability to predict development even a few years out should be viewed with caution.

As lenders, we are mindful of the asymmetric risk return profile of credit investments. As such, we are not focused on the ultimate upside economics of AI which remain unknown. Instead, we are focused developing frameworks that mitigate risks unique to AI infrastructure credit investments. Shifting narratives in equity markets have contributed to greater volatility, and it remains uncertain which parts of the AI value chain will emerge as the longer-term winners. These concerns are compounded by uncertainty around the long-term economics of AI business models, which could challenge pricing power and the profitability assumptions underpinning significant infrastructure commitments.

Exhibit 6: Cumulative Spread Progression by Counterparty & Vintage[17]





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As a lender, we view key risks falling under 3 buckets:

#1. Counterparty Risk	#2. Execution of Borrower	#3. Deal Structure
Risk on ability to pay contracted cash flow stream	*Borrower's ability to deliver promised product*	*Contract and deal structure*

#1. Counterparty Risk

A contract is only as strong as its counterparty, and credit worthiness varies significantly across potential counterparties. We consider the large, publicly traded and highly profitable big-tech businesses (such as Microsoft, Google, Amazon) to be the best counterparties. Risk is significantly higher elsewhere, particularly among private, often venture-backed counterparties with limited financial disclosure. Even leaders in the space such as Anthropic (filed for IPO in October 2026) and OpenAI have yet to go public, and disclosures prior to S1 filings have been limited. Importantly, most of these businesses don't have established businesses that we can rely on for credit support (unlike the hyperscalers), which makes their equity story a bet on the long-term economics of AI. We think that bet is better financed with equity capital that sufficiently participates in the upside if that bet pays off. Yet, the capital-intensive AI buildout has made them key counterparties with hundreds of billions in lease commitments. Anthropic's S1 has over $450bn in cloud computing commitments over seven to ten years, mostly non-cancelable. Including other commitments that haven't been finalized, those commitments may top $600bn.[18] The significant ramp-up in future compute spending will ultimately translate into cost of goods sold ("COGS"), raising an important question: can revenue growth keep pace with these rising costs and generate sufficient returns to support long-term profitability? The answer remains uncertain, and one we don't pretend to have today.

#2. Ability to Deliver the Promised Product

On paper, a 10-yr contract with Microsoft is great – Microsoft bonds provide an ~30 bps spread to treasuries and are rated AAA.[19] However, a Microsoft contract with payments subject to borrower performance obligations is a very different asset from generic Microsoft corporate debt or debt with a Microsoft payment guarantee. Even where the underlying counterparty is investment grade, delays in bringing a project online can materially impact the contracted cash flow stream supporting the financing. Hyperscaler customers generally seek to shift as much execution risk as possible to the project sponsor/borrower. Most contracts include termination provisions if the borrower misses contractual completion or in-service deadlines. Even once a project is complete, uptime requirements can affect the cash flow stream available to service the debt.

These are physical assets and the associated real-world risks need to be factored in the calculus of investing in them. The political environment and increasing backlash to datacenter projects further elevates these risks. There are ways to mitigate some of these exposures, the risk is never zero. Key characteristics we consider when evaluating and pricing these risks include:

- **Cross collateralization** of assets, which we generally view more favorably than single asset risk.
- **Project sponsor and EPC (contractor) track record.**
- **Operating assets** are not exposed to the same construction risks of new projects.

- **Contracted power and interconnection** are critical to project execution and delivery.
- **Permitting status and state/local regulatory environment.**
- **Alternate use cases** can protect the downside. Assets located in Tier 1 datacenter markets with strong fiber and carrier connectivity, along with adaptable building shells, may allow an asset to be repurposed as a traditional cloud datacenter. AI workloads (training and inference) can have lower connectivity requirements, which has led to development activity in remote markets.

#3. Contract and Deal Structure

When a contract is in the money to the purchaser, few focus on the finer details of its terms. However, in an overbuild or default scenario, each term will get scrutinized for any potential loophole that may allow the counterparties to walk away from excess capacity commitments. We will not go into the minutiae of contracts here, but each deal is different and requires significant diligence.

A non-exhaustive list of provisions worth understanding includes:

- **Remedies for delays / termination provisions**
- **Cost pass-through mechanisms** (a triple net lease is ideal, but that's not always the case)
- **Collateral quality**
- **Transfers of contracts to new counterparties**
- **Eligibility of new collateral**
- **Call structure / convexity**
- **Amortization schedule** and **back-end refi risk**
- **Corporate guarantees / cross-defaults**
- **Change of control / bankruptcy-related provisions**
- **SPV governance and creditor enforcement mechanisms**

These structures are far more complex than simply underwriting hyperscaler counterparty risk or AI demand. We have evaluated many transactions in the past 12 months but have participated in only a few. High-quality investment grade counterparties can borrow cheaply. With higher-spread deals, investors are typically taking meaningful additional risks to earn that spread, most commonly the counterparty, construction, power availability, ability to deliver, asset value, structure and other factors.

We do not want to be in a position where we are making a bet on the return on investment of AI. Rather, we seek to underwrite strong credits and let equity investors take the risk of the ROI of AI. Given the scale of capital required, increasing complexity of financing structures, and emerging signs of stress across parts of the market, we believe disciplined credit selection and a thorough understanding of collateral, contractual protections, and execution risk will be increasingly important.

The capital need in AI is massive, making the investment opportunity too significant to ignore. AI has been an important driver of the US economy, but we remain wary of the risk that lofty expectations go unmet. In many cases, we believe the most attractive opportunities may be tied to adjacent themes, such as power and infrastructure.

ENDNOTES

[1] Source: Bloomberg, SPY Index. As of October 27, 2026.
[2] Source: Morgan Stanley. As of October 15, 2026.
[3] Source: Morgan Stanley Research. As of October 15, 2026.
[4] Source: BofA Global Research. As of October 22, 2036.
[5] Source: Morgan Stanley Research. As of October 1, 2026.
[6] Source: Morgan Stanley Research. As of October 1, 2026.
[7] Source: Meta Platforms, Inc. Form 10k. As of December 31, 2025.
[8] Source: CoreWeave. As of January 26, 2026.
[9] Source: Nebius. As of March 11, 2026.
[10] Source: Reuters. October 6, 2026.
[11] Source: NVIDIA. As of May 7, 2026.
[12] Source: Morgan Stanley Research. As of October 1, 2026.
[13] Source: BofA Global Research. As of October 22, 2026.
[14] Source: Bloomberg. As of October 23, 2026.
[15] Source: Bloomberg. As of October 23, 2026. IG Hyperscaler Basket includes: ORCLCP CDS USD SR 5Y D14, MSFT CDS USD SR 7Y D14, GOOGL CDS USD SR 5Y D14, META CDS USD SR 5Y D14, AMZN CDS USD SR 5Y D14. Chips Basket includes: AVGO B CDS USD SR 5Y D14, NVDA CDS USD SR 5Y D14, AMD CDS USD SR 5Y D14, MU CDS JPY SR 5Y D14.
[16] Source: Bloomberg. As of October 27, 2026.
[17] Source: Bloomberg. As of October 27, 2026. Reflects issuers monitored by Onex Credit and excludes DC and GPU transactions not covered by Onex Credit in the ordinary course.
[18] Source: The Wall Street Journal. As of October 20, 2026.
[19] Source: Bloomberg. As of October 27, 2026.

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