RBC BlueBay Asset Management

Generating alpha in the AI deal wave

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With capital expenditure in AI infrastructure showing no signs of slowing, we look at the importance of being highly selective when picking AI deal structures.

Key takeaways:

- **Financing the AI infrastructure build-out:** AI is creating one of the most significant capital formation cycles in modern economic history, requiring unprecedented levels of capital investment across a growing and interconnected debt-financed ecosystem.
- **A reshaping of credit markets:** the resulting deluge of debt supply is structurally reshaping bond markets as financing moves beyond hyperscaler balance sheets into high yield, leveraged credit, and securitized debt.
- **Alpha-generating opportunities:** in our view, the current situation presents opportunities to generate alpha and boost total returns for fixed income clients, and particularly those who can withstand bouts of volatility and adopt a medium-term outlook.

AI, not geopolitics, is dominating markets

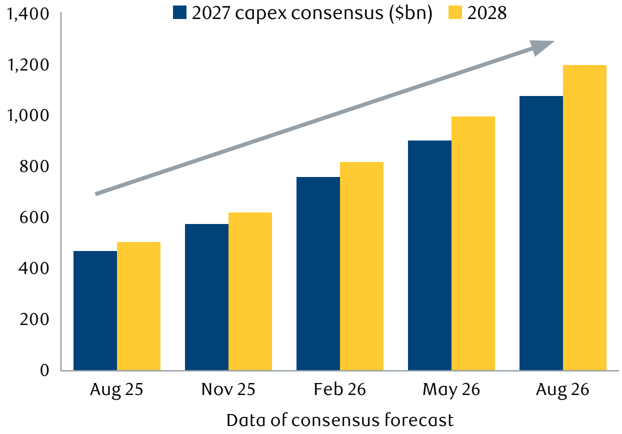
For better or worse, credit markets have largely moved on from following Middle East-related headlines. Instead, fixed income investors' focus is on tech earnings and issuance expectations across the AI stack.

> "Investors' focus is on the next wave of upcoming tech earnings and sector issuance expectations."

From an earnings performance standpoint, there's not too much to complain about. Data is showing increasing AI adoption, and a robust pipeline of business and strong delivery so far. What is concerning, however, is the never-ending increase in capex expectations. Partly to do with cost inflation and partly to do with huge data processing needs, the race to raise capital to fund AI development continues to accelerate. We see a strong chance of AI-related capex approaching $1 trillion in 2026 alone, with further increases slated for 2027.

Exhibit 1: Big revisions to hyperscaler capex spending

Consensus hyperscaler capex for 2027 increased 127% between August 2025 ($480 billion) and August 2026 ($1,088 billion)



Source: BofA, as at August 2026.

An increasing reliance on debt financing

This presents credit markets with an issue – in the absence of large-scale equity raising, all of this needs to be funded by internal cash flows and debt. As capex budgets move upwards, debt has to play an ever-increasing role in this exercise. This is what we're currently witnessing.

Earlier in the year, investors sought relief in the knowledge that hyperscalers are starting to tap markets other than the US dollar to fund their needs. They also welcomed Google's large equity raise. However, since then issuance fears have returned as capex budgets keep moving higher. Furthermore, Google was not followed by other issuers with large-scale equity raises, and hyperscaler issuance is now happening in addition to large deals from specific data center projects and, shortly, GPU financing vehicles.

> **"We are confident that when we look back at the markets a few years from now, this time will be seen as a unique opportunity to pick up high-quality assets at attractive valuations."**

This recognition that the issuance wave would not be relieved by equity raises led to a sell-off in AI-related debt across both investment grade and high yield. Issuers were forced to offer higher concessions to get their deals done and that, by extension, repriced spreads of existing deals. When there is a flood of deals hitting the tapes, markets need wider spreads to find a new equilibrium. This process might last for a while as there is a large pipeline of deals yet to hit the market.

Wider spreads create opportunity

Over the medium term, however, that same widening is creating an opportunity for debt investors to capture an "AI supply premium" as spreads move wider to compensate investors who are starting to feel saturated. Additionally, over the longer term, we believe this is creating an opportunity for investors to not only earn incremental spread and carry but also:

- Benefit from greater dispersion as capital intensity and access to capital widens the divide between the "haves" and "have nots".
- Capture term structure spread premium and relative value across credit curves.
- Take advantage of opportunities across the AI debt financing market, which is expected to grow to north of $2 trillion (and by some estimates meaningfully higher) in the coming years, creating an investable opportunity set that is larger than the entire U.S. high yield market today.

Attractive valuations, selective exposure

In terms of our portfolios, we are moderately and selectively overweight the space as valuations are getting to undoubtedly attractive levels, in our view. However, there are a few important caveats. In investment grade, we're underweight most high-quality hyperscalers, as we see the least resistance to their spreads converging towards the likes of Oracle with each successive wave of issuance. We like select data center deals, but only those with either fully amortizing structures where you face no refinancing risk in the future, or those with strong residual value guarantees from high quality tenants.

In high yield, our preference is for deals that we strongly expect to be called in two years' time, once the projects are built and refinanced in either investment grade corporate or ABS markets.

We can easily see extended periods of elevated volatility in the AI-related space ahead, and for that reason, we prefer to size our positions conservatively, run a diversified book of holdings and avoid weaker structures at all costs, irrespective of their valuation appeal.

Summary

We are confident that when we look back at the markets a few years from now, this time will be seen as a unique opportunity to pick up high-quality assets at attractive valuations, to be rewarded for in-depth credit underwriting work that separates the "haves" from the "have nots," and to capture opportunities through actively, nimble portfolios as markets adjust.

Authors

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Andrzej is head of the BlueBay U.S. Fixed Income team based in Minneapolis and Stamford. He assumed this role in 2021 following the alignment of BlueBay's U.S. business with RBC GAM (U.S.) in the same year. Andrzej moved to this position after an 8-year stint as a senior portfolio manager on the Developed Markets team, where he was responsible for global leverage finance and investment grade & rates. Prior to joining BlueBay in 2005, Andrzej had worked for an investment bank as a credit analyst covering European investment grade telecom, media, and utility sectors. He started his career in the investment industry in 2001.

Andrzej holds a BSc (Hons) in Management and International Business Economics from the University of Manchester Institute of Science and Technology, and is a CFA charterholder.

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Anne is an Institutional Portfolio Manager at RBC GAM-US, specializing in U.S. Fixed Income. In this role, she leads efforts to position the firm's fixed income capabilities with investors and supports U.S. Distribution teams in engaging with clients, consultants, and prospects. Acting as a representative for the investment teams, Anne manages internal and external engagements and serves as the primary contact for strategy-related inquiries and initiatives. Before joining RBC GAM in 2025, Anne was an Investment Director at Wellington Management Company, focusing on Liability-Driven Investing and U.S. Investment Grade Credit. Prior to her tenure at Wellington, Anne held various positions at J.P. Morgan Asset Management (JPMAM) from 2010 to 2022. As Executive Director and Global Credit Investment Specialist, she managed JPMAM's global credit client relationships. Anne holds an A.B. in Sociology from Princeton University. She is a CFA charterholder and holds FINRA Series 7 and 63 certifications.

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