

The Sterling Capital VAULT

AI Datacenter Risk: Choose Your Own Flavor



Artificial intelligence (AI) and the related datacenter buildout have been the predominant themes in capital markets over the past several years, driving capital expenditures and powering certain large-cap equities into mega-cap status. However, gaining exposure to AI datacenters in the fixed income market is not as straightforward as simply owning the “Magnificent Seven” stocks. The fixed income market offers investors over \$300B worth of options, ranging from corporate debt to club deals to various flavors of securitized products. How investors choose to gain datacenter exposure can be as custom as toppings on an ice cream sundae. Let’s dig in.

Investment-Grade Hyperscaler Corporate Debt:

- Frequent, multi-tranche corporate bond deals from Amazon, Google, Meta, Microsoft, and Oracle.
- Historically, hyperscalers have not been active issuers. However, hyperscaler issuance increased from \$17B in 2024 to \$121B in 2025. \$82B has already been issued in 2026.
- Despite the rapid increase in debt issuance, credit quality has remained. Four of the five hyperscalers are rated AA or higher.
- Issuance has been across the curve in multiple currencies. Google was able to issue a 100-year bond in GBP.
- Some issuers are also creatively issuing debt through special purpose vehicles (SPVs) that are off-balance sheet, such as last year’s Beignet deal and, most recently, the Quality Technology Services (QTS) deal. These deals tend to offer additional spread relative to what their ratings would otherwise suggest.

High Yield and Leveraged Loans:

- Issuers are also using the SPV model to issue in the high yield market.
- These are differentiated structures where the debt is issued out of a SPV and the hyperscaler provides various forms of credit enhancement and structural protection such as parent guarantees, funded reserve accounts, and amortizations.
- These deals are effectively a form of project finance. First-lien AI infrastructure bonds are backed by long-term hyperscaler cash flows rather than traditional unsecured high yield bonds issued against a volatile operating business.

Asset-Backed Securities (ABS):

- These securities are backed by the operating cash flows of the datacenter, primarily tenant lease receivables.
- Collateral typically includes leases, physical infrastructure, and operating contracts, with a focus on the durability of the operating platform rather than pure property value.
- Datacenter ABS tenant types are primarily segmented into hyperscalers and colocation. Hyperscalers include larger, more highly-rated technology companies, while colocation deals have multiple tenants of mixed credit profiles which may be more commercially oriented.
- Funding datacenters in the ABS market began in earnest in 2020. As of YE 2025, datacenter ABS outstanding was \$36.6B, which represented 4.6% of all ABS outstanding. The datacenter market share has doubled from 2.3% in 2023 as the sector has rapidly expanded.
- ABS datacenter issuance totaled \$16B in 2025 and is expected to increase to \$25-30B in 2026, according to Deutsche Bank.

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Commercial Mortgage-Backed Securities (CMBS):

- Secured by a mortgage on a specific property or campus, usually structured as a single-asset, single-borrower (SASB) loan.
- The underlying data centers are typically stabilized, fully-leased assets located in major demand hubs with strong power availability and supporting infrastructure.
- Key considerations include:
 - Newer facilities that may be well positioned to benefit from growing AI-driven demand with limited risks of technological obsolescence.
 - Assets with long-term leases in place with high-quality, credit tenants, where lease terms extend close to or beyond loan maturity and tenants are likely to renew.
- SASB CMBS datacenter issuance totaled \$11B in 2025 and is expected to exceed \$15B in 2026, according to Deutsche Bank.

AI-Related Issuance by Asset Class

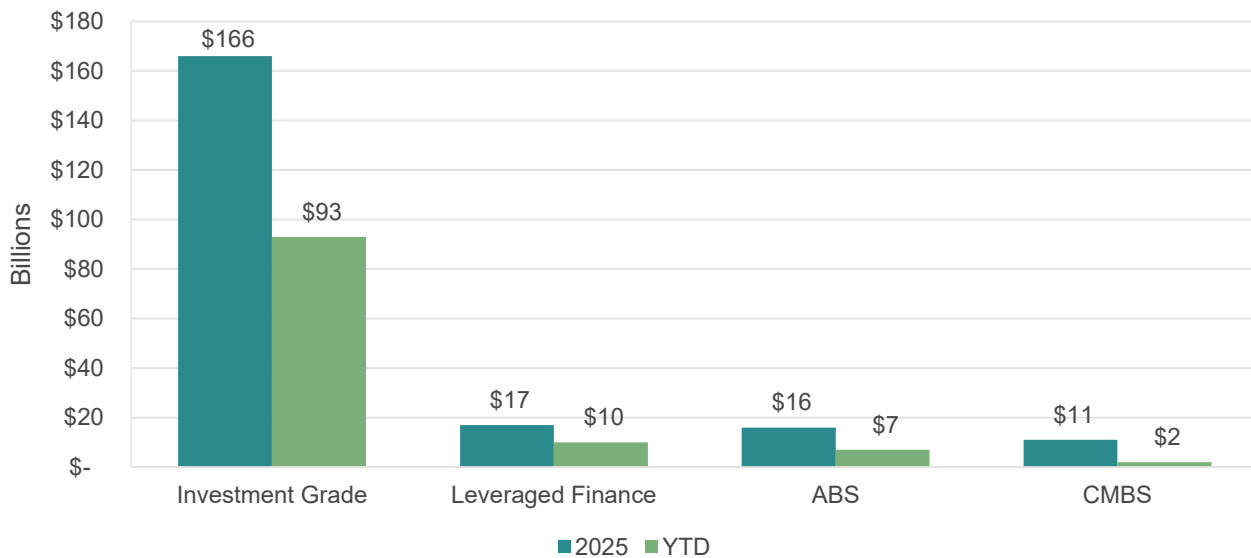


Chart data is as of 03.31.2026. Chart source: Morgan Stanley. The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees these methods will be successful. This information must be read in conjunction with the definitions and disclosures on the last page.

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Technical Terms: the technical terms below are sourced from Corporate Finance Institute.

Asset-backed securities (ABS) is a type of financial investment that is collateralized by an underlying pool of assets—usually ones that generate a cash flow from debt, such as loans, leases, credit card balances, or receivables.

Commercial mortgage-backed securities (CMBS) are fixed-income investment products that are backed by mortgages on commercial properties rather than residential real estate. CMBS can provide liquidity to real estate investors and commercial lenders alike.

A hyperscaler is a company that provides massive-scale cloud computing, storage, and networking services. These providers operate, manage, and expand data centers designed for near-infinite scalability to meet the demands of millions of users.

The "Magnificent Seven" refers to a group of high-performing U.S. technology and growth stocks: Apple, Microsoft, Alphabet, Meta, Amazon, NVIDIA, and Tesla.

A Single Asset Single Borrower (SASB) loan is a large-scale commercial real estate loan (\$200 million+ to over \$1 billion) securitized into a Commercial Mortgage-Backed Security (CMBS) that is backed by only one property or a few properties owned by a single borrower.

A special purpose vehicle (SPV) is a separate legal entity created to hold specific assets or liabilities and isolate financial risk.

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