Global Markets Daily: Hyperscaler Credit vs. Equity: More Issuance, a Higher Beta, and a Different Focus on Cash Flow

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- Heavy AI-related capex has reshaped how hyperscaler credit and equity co-move. As these firms increasingly fund investments with debt, equity values have become more tethered to fluctuating asset valuations, while structurally imposing a higher cost of credit.
- Credit's beta to equity returns should increase with bond maturity, given an upward-sloping term premium. While elevated yield-based demand has dampened the beta for long-duration credit in the broader market, the AI capex cycle has *lifted it* for hyperscaler credit—especially as spread volatility has been felt acutely in the long-end of the curve.
- Credit spreads have widened alongside a deterioration in forward free cash flow yield for hyperscalers. As a result, the path ahead for credit likely hinges on some improvement in forward estimates of free cash flow generation.
- That said, the *manner* of improvement matters more for credit vs. equity relative value. A scenario of free cash flow gains from declining capex would likely favor credit, while a scenario of rising net income and operating cash flow would likely favor equity, as investors may read it as an inflection point for additional value accrual across the AI stack (with equities more exposed to that potential upside).

Hyperscaler Credit vs. Equity: More Issuance, a Higher Beta, and a Different Focus on Cash Flow

Increasing focus on AI-related capex has driven a few themes in markets. In equities, rising capex estimates have begun to dominate future revenue generation leaving infrastructure and "picks and shovels" names such as energy providers, semiconductor and chip manufacturers more supported than the hyperscaler equities investing in capex and presumed ultimate beneficiaries. Credit markets have focused first on the scale and speed of investments, given they are increasingly funded by debt capital, and second on clarity over returns on investment that can offset the significant expenditure.

Credit is more senior to equities, has finite duration and has upside largely limited to payment of interest and repayment of principal. Historically, this has meant a departure from the longer-term terminal values increasingly dominating equity returns, as credit investors focus instead on near-term cash flow and earnings for debt service. Yet, large AI investments are increasingly changing that picture. In this *Global Markets Daily*, we take stock of the relationship between hyperscaler long

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bonds and their equity, using a range of metrics including the beta of spread changes to equity returns. We find that hyperscaler long-end spreads have widened in tandem with the dramatic decline in cash flow yield, underperforming an evolving equity beta in periods of heavy supply. Recently, this underperformance has been more pronounced in the long-end of credit spread curves, compared to shorter tenors. Improvement in cash flow may lead to a rally in spreads, but the manner—for example, if the improved cash flow is driven by a paring back of spend, or an acceleration in monetization/profitability—will likely matter more for credit/equity relative value.

AI is changing the credit-equity relationship for hyperscalers

An upward-sloping credit term premium and increasing spread duration typically mean that long-duration credit co-moves more with equity prices—mechanically, a higher beta. However, the rise of liability-driven investors searching for yield, together with elevated policy rate volatility during the 2022-2023 Fed hiking cycle, has lowered long-end credit beta, predominantly through lower volatility (Exhibit 1).

Exhibit 1: Long-end credit spread beta to equity returns has moved lower in recent years, predominantly because of lower volatility

Monthly beta regressing USD IG spread changes across tenors on S&P 500, italicized decomposes beta into correlation and volatility ratios

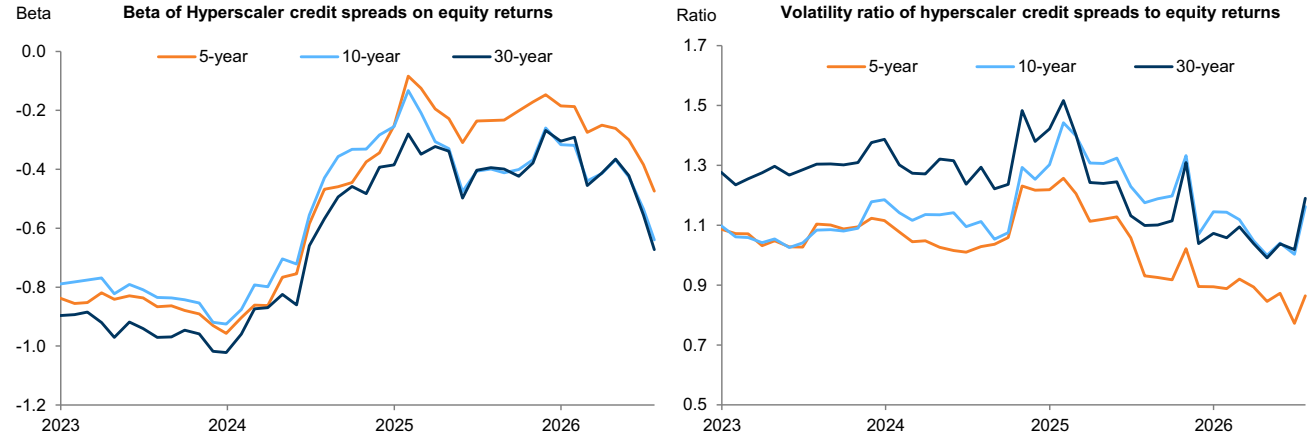
Sample	3-5 years	7-10 years	15+ years
2015-2019	-2.5	-3.1	-2.6
correlation	*-0.7*	*-0.8*	*-0.7*
volatility ratio	*2.0*	*2.3*	*2.2*
2021-2025	-1.7	-1.9	-1.7
correlation	*-0.6*	*-0.7*	*-0.7*
volatility ratio	*1.6*	*1.6*	*1.4*

Source: iBoxx, Bloomberg, Goldman Sachs Global Investment Research

Heavy investment in AI has further altered the credit vs. equity relationship for these credits. Credit investors are effectively short a put option on firm solvency while equity holders are long, which helps explain why heavy investment is increasingly driving return differentials across the capital structure. As hyperscalers have committed more to investment, equity values have become more tethered to increasingly uncertain asset valuations, and, through the structural model of equity, so too has the price of credit.

AI-related spreads have therefore seen a modest rise in their beta, echoing the broader trend we've noted in the credit/equity relationship. Mirroring the broader trend, long-end betas have increased on the back of higher long-end spread volatility—particularly relative to the more muted front-end (Exhibit 2).

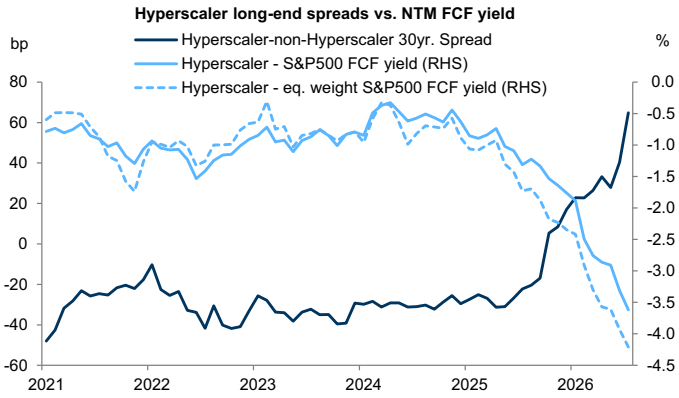
Exhibit 2: Long-end hyperscaler bonds have a higher beta, given the elevated volatility in back-end spreads
Trailing 2-year beta of monthly changes in hyperscaler credit spreads by tenor on monthly hyperscaler equity returns



Source: iBoxx, Bloomberg, Goldman Sachs Global Investment Research

This acute widening in back-end hyperscaler spreads has coincided with an eroding forward free cash flow yield across the cohort, a signal of growing funding needs (Exhibit 3).

Exhibit 3: Hyperscaler credit has sold off as the aggregate free cash flow yield advantage has eroded

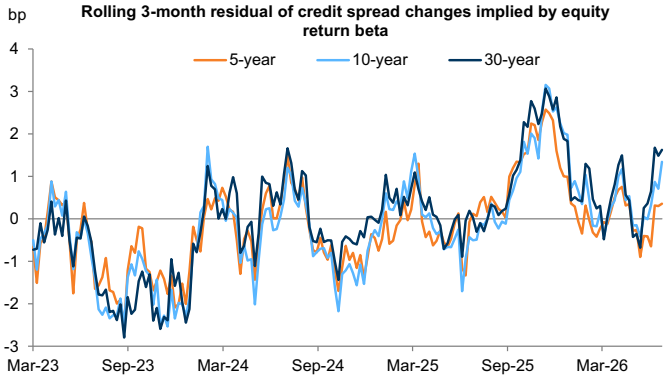


Source: iBoxx, Bloomberg, Goldman Sachs Global Investment Research

The drivers of improving free cash flow matter

Credit has, on average, underperformed its historical equity beta this year, with the most acute underperformance recently felt in the long-end (Exhibit 4). That much of this has come during waves of new debt issuance over the past few quarters is not surprising. We anticipate more credit curve steepening for AI-related issuers, as this multi-year issuance cycle extends.

Exhibit 4: Credit spreads have underperformed their beta to equities recently
Rolling 3-month average residual of weekly spread change time-varying beta to hyperscaler equity returns



Source: iBoxx, Bloomberg, Goldman Sachs Global Investment Research

Still, cross-asset investors are increasingly focused on the path from here for long-end credit and equity relative valuations, especially as hyperscaler earnings multiples are now at multi-year lows relative to the broader index. The volatility-suppressing technical for back-end hyperscaler bonds is firmly in the rear-view mirror, given heavier supply and marginally softer demand as debates around portfolio concentration take on greater importance. We think an improvement in free cash flow generation would support the case for spread tightening, but the manner of that improvement will likely drive the relative value between owning hyperscaler equity vs. credit.

Free cash flow improvement achieved by reducing capex and scaling back investment would likely depress terminal values for hyperscalers, as investors might fear that returns will not validate the investment—an outcome that would tend to favor credit. On the other hand, growth in net income and operating cash flow while investment spending remains robust could favor equities, as returns become more visible and signal an inflection point in where value is accruing across the AI stack.

TRADE IDEAS

Best Trade Ideas Across Assets

For pricing, charts, and a list of previous recommendations, please visit our Trade Ideas page.

1. Stay short SGD/MYR, opened January 24, 2026, at 3.13, with a target at 2.90 and a stop at 3.30, currently trading at 3.17.
2. Stay long TRY, NGN and KZT against the USD, as an equally weighted [illegible] February 18, 2026, at 0%, with a total return target of 7.5%, and a r[illegible] 1.5%, currently trading at 4.8%.
3. Stay long 3y SOFR swap spread, opened 17 April 2026, at -22.6bp, [illegible] target at -15bp inclusive of carry; and a revised stop at -20bp, curre[illegible] -18.8bp.

4. Stay short USD/EGP, opened 24 April 2026, at 0%, with a revised total return target at 12% and a revised stop at 5%, currently trading at 7.4%.
5. Stay long 5y Receivers on 3m 2s5s10s Receiver Fly (bp running), opened 09 May 2026, at 1bp, with a target at 10bp and a stop at -5bp, currently trading at 0bp.
6. 1y forward 2s10s GBP OIS steepeners, opened 29 May 2026, at 0.38, with a target at 0.55 and a stop at 0.25, currently trading at 0.29.
7. Stay short THB/INR, opened 12 June 2026, at 2.91, with a target at 2.70 and a stop at 3.05, currently trading at 2.85.
8. Stay long INR 30y bonds, opened 27 June 2026, at 7.34%, with a target at 6.90% and a stop at 7.65%, currently trading at 7.41%.
9. 2s10s NZD steepeners, opened 03 July 2026, at 72bp, with a target at 90bp and a stop at 50bp, currently trading at 73bp.
10. 2s10s CAD steepeners, opened 10 July 2026, at 53bp, with a target at 80bp and a revised stop at 50bp, currently trading at 52bp.
11. Stay short AUD/NZD, via 6m (14 Jan 2027) 1.1650 puts, opened 14 July 2026, at 1.2000, currently trading at 1.2107.
12. Stay long NIFTY Banks vs. short NIFTY Pharma, opened 15 July 2026, at 100 in local currency (INR), with a target at 115 and a stop at 90, currently trading at 99.
13. Stay short GBP/USD, opened 17 July 2026, at 1.3452, with a target at 1.3250 and a stop at 1.3400, currently trading at 1.3289.