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GLOBAL IDEA

October 25, 2026 06:00 AM GMT

Sunday Start | What's Next in Global Macro

AI Financing: The Quality Divide

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AI infrastructure, and how it gets financed, has been the defining market theme of 2026, particularly in credit. The sheer scale of investment has drawn in hyperscalers, semiconductor companies, data center developers, neoclouds, and virtually every channel of public and private credit. Just as the need for capital is accelerating, higher interest rates and wider spreads are raising borrowing costs. In this week's *Start*, we analyze what elevated borrowing costs could mean for the pace of investment and the volume and composition of credit issuance needed to finance it.

Our core premise remains unchanged: demand for compute vastly exceeds supply, and that imbalance is likely to persist for years. Combined with demonstrable progress in AI adoption and monetization, this imbalance continues to drive AI infrastructure capex projections higher. Our equity research colleagues now estimate that total capex for the four largest hyperscalers (Alphabet, Amazon, Meta, and Microsoft) will rise over 50% in 2027 versus 2026. These projections reflect strong conviction that the highest-quality players in the AI ecosystem have a line of sight to 25%+ returns on invested capital. Against that return potential, the question is whether borrowing costs have risen enough to materially alter the economics of the next dollar of AI investment.

The answer varies across the AI ecosystem. Consider first the four high-quality hyperscalers. With average credit ratings of roughly AA, average market capitalizations exceeding $3 trillion, diversified businesses, and long track records of profitability, they have ample capacity to issue more debt. Their high initial ratings also provide a meaningful cushion, creating additional balance-sheet flexibility. Weighed against prospective 25%+ ROIC, higher borrowing costs alone are unlikely to materially alter their commitment to AI-related capex. For these issuers, we expect price to adjust before quantity, with wider spreads, not meaningfully lower issuance. This distinction matters for the aggregate outlook. As these four hyperscalers directly or indirectly account for more than 75% of expected AI-related capex, we think a rise in borrowing costs from here is unlikely to meaningfully slow the bulk of the AI buildout.

The calculus changes materially as we move down the credit quality spectrum. Lower-rated hyperscalers, neoclouds, and other participants lack the ratings cushion, market capitalization, and, in many cases, long track records of profitability of the higher-quality players. These vulnerabilities have surfaced in recent weeks, as some issuers have faced more limited capital market access and sharp declines in their bond prices. For them, higher funding costs can become a binding constraint. As borrowing costs rise, both AI-related capex and the credit issuance required to finance it from lower-rated players are likely to become more sensitive to price.

Credit markets have been notably discerning through the recent volatility. Sharp

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price declines have been concentrated in unsecured debt from lower-quality AI issuers, while the reaction in loans secured by chips and/or lease payments from high-quality hyperscalers has been far more contained. At the same time, unsecured bond spreads for the highest-quality hyperscalers have remained relatively stable (unlike over the summer, when they led the widening). The market is differentiating not only among issuers, but also by credit quality, collateral and financing structure.

This differentiation has two important implications. First, lower-quality issuers may increasingly need to rely more on secured, asset-level financing. Second, accessing that financing may require greater credit support from the highest-quality participants in the AI ecosystem, including highly rated semiconductor companies, through contractual commitments, backstops, or other forms of support. Higher funding costs, therefore, may not just affect how much these issuers invest in capex but also reshape how that investment is financed.

The bottom line is that higher borrowing costs are unlikely to derail the AI infrastructure buildout, but they will increasingly determine who finances it and how. For the highest-quality participants, strong balance sheets, ratings flexibility, and prospective returns well above borrowing costs mean that price is likely to adjust before quantity. Further down the credit spectrum, higher funding costs can constrain both capex and market access, forcing borrowers into secured structures and greater reliance on support from stronger counterparties. As the AI capital cycle matures, credit quality, collateral, and structure will matter more, not less. The capital will be there, but increasingly on different terms for different borrowers.

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Powered Shell Providers: Addressing the Biggest Misconceptions

Asia Economics: The Viewpoint: Asia amid higher US rates – A comparison with past cycles

US Equity Strategy & GVAT: Following AI's $1.6 trillion Money Trail: Mapping the Revenue Generated by the Capex Boom

US Public Policy: Midterms FAQs: Two Weeks Out

What We Are Watching This Week

TUESDAY, OCTOBER 27

South Korea 3Q GDP: We expect 3Q GDP at 3.6%Y. Strength in exports and capex activity should keep the growth momentum strong, especially driven by the surge in export volume growth in September. Consumption also likely remains stable and shows a solid underlying recovery trend, despite weakness in the summer and recent market correction.

US Durable Goods Orders: We expect continued strength, reflecting ongoing real capex and ongoing price increases for capital goods. (In the PPI, prices of private capital equipment rose 0.35% per month in the three months through September.) Aircraft orders are likely a small drag on overall orders. We expect continued rapid gains in core capital goods orders

and shipments.

US Consumer Confidence: Consumer confidence fell to its lowest level in over 10 years in September, with declines in both the present situation and expectations. Still, consumer confidence and sentiment have not been good indicators of consumer spending since the pandemic. We pay attention to the labor market differential, which fell to 1.7% in September, its lowest level since 2021. We will watch to see if that fall is sustained, as other labor market indicators including claims have held up better.

US New Home Sales: We expect a 2.7% m/m decline in new home sales to 665k. Housing starts were weak in September, and homebuilder confidence recently reached its lowest level since 2012. Higher rates are adding more pressure.

Chile BCCh Monetary Policy Meeting: We expect the BCCh to hold at 4.50% as weak activity keeps hikes off the table, but sticky core inflation and firmer near-term expectations leave little room to cut.

WEDNESDAY, OCTOBER 28

Australia Inflation: We expect headline CPI for September to increase 4.1%Y, a tick up from the prior month, predominantly on higher fuel prices. We expect a similar sequential increase in core inflation as the prior month (0.2%M), which would see annual growth tick down from 3.6% to 3.5% - with market services and housing inflation most in focus. On the latter, we expect to see some strengthening in rents offset by some slowing in new dwelling prices. We expect this monthly print would see the full Q3 core inflation print increase at 0.9%Q, 3.6%Y above the RBA's prior forecast (0.8%Q), but enough to see a hold at the November meeting, in our view. An increase larger than this would be more difficult to look through.

Thailand BoT Monetary Policy Meeting: We expect the BoT to keep rates on hold. Inflation remains supply-side driven while recovery remains uneven. Against this backdrop we see the need for accommodative monetary conditions to nurture the recovery.

US FOMC Meeting: We expect the Fed to hold rates unchanged in October while signaling that further tightening remains likely. Persistent inflation argues for additional hikes, but risks of overtightening favor a gradual approach. We see two more 25bp hikes in December and March, with risks skewed toward additional tightening. No dissents, financial stability concerns, or a benign inflation assessment would be dovish signals. Three or more hawkish dissents, explicit tightening guidance, or heightened concerns about inflation and energy spillovers would be hawkish.

US Trade Balance in Goods: We forecast a further slight widening in the nominal deficit in goods in September, albeit with the widening due to faster-rising import prices rather than volumes. The wider deficit of the past two months has been predominantly driven by stronger investment demand for AI-related capital goods imports.

THURSDAY, OCTOBER 29

ECB Rates Decision: We expect the ECB to remain on hold next week, as more data is required to re-assess the policy stance. We expect the communication to once again point to a meeting-by-meeting approach, and clear data dependency. Risks are firmly on the upside for inflation and to the downside for growth. The balance sheet could also receive some attention due to the Operational Framework Review which is due this year. We expect the ECB to signal that it is closely monitoring developments in sovereign yields, but is not concerned enough to warrant a policy response (yet).

Egypt CBE Meeting: We continue to expect the CBE to keep its benchmark policy rates unchanged at its October 29th meeting, leaving the overnight deposit rate at 19%. We expect the higher oil prices, renewed pressure on the EGP and weaker EM sentiment in October to keep the CBE cautious for longer.

Sweden GDP: We expect September activity to grow but at a muted rate due to indications of flat industrial productivity from surveys, but household spending should be supportive. On 3Q26 data, we expect a correction after a strong 2Q26, primarily due to government spending and weaker household spending at the beginning of the quarter.

UK BoE Money and Credit Data, Mortgage Approvals: We expect further softness in the mortgage approvals data, given higher interest rates and uncertainty around fiscal measures. We will focus on the savings data too, which thus far flags no material inflection in the savings rate.

US PCE Prices: We estimate a 0.33% m/m rise in core PCE inflation. Headline PCE prices rise 0.50% m/m. We are expecting a downward revision of -4bp to August core PCE due to PPI revisions to hospital prices. Including those revisions, the 3-month and 6-month annualized core PCE pace as of September comes to 2.70% and 2.82%, respectively (vs. 1.88% and 2.66% in August). The y/y rate is expected to be 3.07% in September (vs 2.97% in August). Trimmed mean PCE is expected at 0.23%m/m. As we have been highlighting in recent reports, skewness is a key indicator that determines how useful the Dallas trimmed mean is as a measure of the underlying trend – a negative skewness suggests that Dallas trimmed mean is a useful signal. Our measure of skewness moved to positive territory in August and remained there in September, which may put a question mark on the informational content of this measure at this time. Other measures of breadth: Chair Warsh has talked about the share of market categories with prices rising at more than a 3% annual rate as an indicator of the breadth of inflation pressure. We have approximated these breadth measures using the 192 categories included in our PCE translation model. We expect the share of categories with inflation above 3% y/y in September to come down to 45.3% from 49.5% the month prior. Similarly, the share of categories running above 3% on a 6-month annualized basis is projected to decrease from 43.8% to 41.7%.

US Personal Income and Spending: We expect real personal spending rose 0.1% m/m in September, a moderation after a strong August. Real goods



spending is flat on the month while services rises 0.2%. We expect nominal personal income up 0.3% m/m with a similar rise in labor compensation. With high headline inflation, real disposable personal income declines 0.2% m/m. The saving rate falls from 4.1% in August to 3.8% in September.

US 3Q GDP: Growth is likely to show broad strength: a 3.1% q/q increase (a.r.) and even stronger demand growth. Private final domestic purchases (consumption plus investment) rise at a 4 ½% pace, almost a point faster than its earlier pace. Consumption continues to expand rapidly (3.7%) and nonresidential fixed investment—led by AI—even faster (10.2%). Business inventories also rose sharply: we estimate a 1.7% contribution to GDP growth, and this was the first expansion after about a year and a half of decline. With demand so strong, it's unlikely that this was involuntary inventory accumulation, rather that businesses are stocking up anticipating strong demand growth. The flip-side of strong AI-related investment is strong imports, which we estimate subtracted about 2 pct pt from growth.

US Jobless Claims: Jobless claims probably rose slightly in the latest week, and our forecast of 198k puts them in line with their 4-week average and down slightly from a week earlier.

FRIDAY, OCTOBER 30

Japan BoJ October MPM: We expect the BoJ to keep the policy rate unchanged at 1.25% and maintain our view that the next rate hike will come in December. The BoJ is likely to judge, for the first time since the price stability target was introduced in 2013, that underlying inflation is around 2%.

Japan Tokyo CPI: We project headline Tokyo CPI for September at +2.8%Y, with Japan-style core (all items less fresh food) at +2.7%Y and core-core (all items less fresh food and energy) at +2.7%Y.

Japan Industrial Production: We forecast September industrial production to increase by +1.2% MoM and increases by +0.9%YoY.

Japan Retail Sales: We forecast retail sales to increase by +3.3% YoY in September.

Japan Housing Starts: We expect new housing starts to increase by 2.9%YoY in September.

Japan Unemployment rate & New Job Offers/Application Ratio: Unemployment rate is expected to be at 2.5% in September and new job offers/application ratio is expected to be at 1.18 in September.

Taiwan 3Q GDP: We expect 3Q GDP at 12.1%Y. Strong tech exports and broader AI supply chain-related demand should lift exports and investments altogether. Spillovers to the domestic services sector and consumption are likely to be sustained, reflected by the recent surge in services inflation amid strong demand.

US ECI: We expect that the ongoing slowing in services wages translates to a 0.8% change in the ECI in the three months through September. The labor market generally appears stable, with decent job growth and a sideways-

moving unemployment rate. However, average hourly earnings have slowed from 3.9% y/y in 3Q 2025 to 3.1% in 3Q 2026, with services slowing from 3.9% to 2.9%. Average hourly earnings for goods-producing industries rose 3.9%y/y, little different from the year earlier pace.

Colombia BanRep Monetary Policy Meeting: We change our call and expect a final 25bp hike to 12.50%, as higher near-term inflation expectations, Villar's recent tone and the September minutes point to a more hawkish board, in our view.

Euro Area GDP 3Q26 (flash): Growth is expected at 0.2%Q in line with solid business surveys but see downside risks from hard data.

Germany CPI: We forecast a decline in headline CPI to 3.1%Y as a fuel tax cut weighs on energy inflation.

SATURDAY, OCTOBER 31

China NBS manufacturing PMI: We expect the mfg. PMI to slip to 49.9 in Oct (vs. 50.1 in Sep).

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1599	43%	455	48%	28%	783	44%
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Not-Rated/Hold	2	0%	1	0%	50%	1	0%
Underweight/Sell	570	15%	96	10%	17%	227	13%
Total	3,734		946			1774	

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