Brake Check on the AI Trade

"In the short run, the market is a voting machine but in the long run, it is a weighing machine."—Benjamin Graham

Markets have spent much of this year asking how high rates can go and how much debt AI-related companies can issue before something breaks. October offered a few signs of breaking points. US Treasury yields eased from September's highs as investors grew more cautious on parts of the AI trade and issuance to fund the AI-related build-out came to a pause. Demand for AI compute remains strong, but investors are differentiating more sharply on financing—which projects, contracts and structures can withstand a higher cost of capital and the delays that come with building at this scale. In our view, this is not a breakdown but rather a brake check—providing investors a healthy repricing of risk rather than a bookend of the cycle. That backdrop favors portfolios built on quality, diversification and active selection.

Key Takeaways

1. **Investing in AI requires nuance.** The market is no longer treating the AI trade as monolithic. Hyperscalers, project finance, neoclouds and chip financing fund the build-out in very different ways. Investors need to be nimble around the different avenues of the AI market.
2. **The test is financing, not demand.** Compute demand remains strong, but a higher cost of capital and costly project delays are forcing markets to price who bears the risk when timelines slip.
3. **Dispersion creates opportunity.** Pushback on weaker names is healthy and likely prolongs the cycle. With yields still attractive, selective investors are being paid to focus on quality, structure and diversification.

Market Recap: What Has Happened in Markets Recently?

Last week the Fed held its policy rate unchanged as was widely expected. This did little to sway expectations of future hikes with the markets still pricing in likely one more hike this year and more in 2027 (*Display 1*). Treasury yields have moderated in recent weeks after the drastic sell-off that occurred to close out the summer. After touching 5.3% in early October—the highest level since 2002—the yield on the 10-year Treasury has fallen to 4.9% as of the end of October (*Display 2*).

The decline in US yields has coincided with a slowdown in AI-related issuance that had once been a deluge to corporate bond markets. As seen in *Display 3*, the hyperscalers had issued roughly $250 billion of bonds in the first eight months of 2026 and then came to a virtual standstill for September and October (with Microsoft's bond issuance on October 29 as the first time a hyperscaler had come to the new issue market in over two months). While the lack of recent issuance can be attributed to the fact that hyperscalers may have already met their 2026 funding needs, there is no doubt that there has been a considerable increase in concern around the AI trade in recent weeks. Specifically, higher funding costs and the return on investment have weighed on both equity and credit valuations in October.

One of the most topical names to face pressure has been CoreWeave, a leading AI cloud provider with a simple but highly leveraged business model: borrowing to buy chips, leasing the computing capacity to customers and servicing the debt with contracted lease payments over many years. Unlike the investment-grade-rated hyperscalers (such as Meta Platforms, Microsoft or Google), CoreWeave has no large, profitable legacy business funding its build-out, which leaves it far more exposed to a higher cost of capital. In mid-October, those borrowing costs became a market story, with yields on the company's bonds increasing significantly and the company's stock dropping over 40% in a matter of a few days.

Data center projects also faced growing challenges. Community opposition, permitting fights and grid constraints have slowed several large sites, which has had a significant impact on financing. For example, "Project Jupiter," a data center in New Mexico financed with roughly $18 billion of debt and supported by Oracle, shows how this plays out. After repeated permit denials delayed a gas pipeline needed to power the site, Oracle sent the developer a force majeure notice in late September, invoking a contract clause that can excuse delays caused by events outside its control, in this case power availability. If upheld, it could let Oracle defer the start of full rent by up to three years should the site miss its 2028 target, shifting more of the cost of delay onto the developer. While just one example, this highlights the need for deep analysis on a project-by-project basis.

Combined, these pressures have weighed on valuations across AI-related companies in the fixed-income space. As seen in *Display 4*, our subset of AI-related companies trades with greater yield than peers in both the investment-grade and high-yield bond markets.

Portfolio Manager Perspectives: What Does AB's Portfolio Management Team Think?

October demonstrated that the AI trade isn't monolithic—and that investors differentiating borrower types is a good thing. Our view is that AI remains one of the most important themes across both investment-grade and high-yield credit, but the conversation has evolved

from one of pure demand growth to one increasingly centered on financing, execution and cash-flow durability. Demand for compute continues to be exceptionally strong, and we have not seen meaningful evidence that the economics of contracted AI infrastructure have deteriorated. Instead, investors are becoming more selective as the scale of required capital has grown dramatically. The market is moving beyond treating "AI" as a single investment theme and is increasingly differentiating between hyperscalers, data center and infrastructure projects, chip manufacturers, neocloud providers, frontier model companies, and the various financing structures supporting them.

At one end of the spectrum, hyperscalers (such as Microsoft, Meta Platforms and Google) benefit from substantial financial flexibility, strong cash generation and access to multiple sources of capital. For these issuers, the key questions are not about access to funding, but about capital allocation, returns on investment and maintaining balance-sheet strength as spending increases. While the market will likely continue to absorb significant AI-related hyperscaler issuance, the scale of this supply should continue to weigh on spreads for these issuers. Instead, we find better value in select data center and AI infrastructure credits, particularly where cash flows are supported by long-term contracts with high-quality counterparties.

Project finance and data centers sit somewhere in between. Special purpose vehicles and leases can provide investors with attractive contracted cash flows from high-quality tenants while helping hyperscalers preserve balance-sheet capacity. But Project Jupiter is an example that demonstrates that construction delays, power availability and contract terms can materially change who ultimately bears the cost when a project goes wrong.

In the leveraged finance space, we view the range of outcomes as wider, with success depending more heavily on execution. Investors are placing greater emphasis on factors such as contract quality, customer concentration, refinancing risk and project completion timelines. These worries have fed into bond valuations, leading to a repricing of credit risk. Despite these moves, we have not seen evidence of weakening demand for AI compute. In fact, many AI infrastructure credits and GPU-backed financings have remained relatively resilient despite the broader market sell-off, reinforcing our view that the long-term AI build-out remains intact.

That dispersion creates opportunity for fixed-income investors. Overall, we remain constructive on the long-term opportunity presented by AI but understand that greater nuance is required in finding the correct opportunities.

Investment Implications: What Should Investors Consider when Positioning Fixed-Income Portfolios?

October reinforces the case for portfolios that don't depend on a single outcome. With yields still elevated, bonds are paying investors for both income and diversification. In fact, the yield to worst of the high-yield bond market—which has served as a strong predictor of future returns—is well above the median level it has traded at since the global financial crisis (GFC) (*Display 5*). Just as important, October showed that a higher cost of capital is producing differentiation in credit underwriting outcomes instead of indiscriminate selling. For patient investors, a diversified allocation to select higher-quality structures and names makes sense.

That same dispersion rewards an active, global approach. Fiscal and supply pressures differ widely across government bond markets, stress in credit has so far stayed concentrated in specific sectors rather than the broad market, and the pressure that has emerged is concentrated among leveraged, lower-quality borrowers. Here's where we see opportunity:

- **Global Bond Exposure Hedged to USD:** A global eye is attractive because economies are at different points in their inflation and policy cycles. Government-bond curves offer different combinations of real yield and duration, and issuance pressures are not uniform across markets. Hedging currency exposure back to the US dollar allows the portfolio to focus more directly on those bond market differences rather than making foreign exchange direction the dominant source of risk. A dynamic global allocation can, therefore, move toward markets where policy has more room to ease, real yields are better compensated or curves offer more attractive roll-down while reducing exposure where fiscal or supply risks are not adequately priced.
- **Globally Diversified High Yield:** Credit fundamentals remain generally supportive, but opportunities are becoming increasingly dispersed across regions and sectors. A global approach broadens the investable universe while reducing dependence on any single economy or credit cycle. Active global credit selection allows us to allocate across US, European and emerging-market opportunities, emphasizing the most attractive risk-adjusted income while avoiding sectors where valuations no longer adequately compensate investors.
- **Higher-Quality, Shorter-Duration High Yield:** With government yields elevated and credit spreads near historical averages, we believe investors can continue earning attractive income while limiting exposure to the two largest sources of high-yield volatility: lower-quality issuers and longer-duration bonds. Active security selection within this allocation seeks to maximize income while managing downside risk through disciplined issuer selection, fundamental credit research and thoughtful duration management.

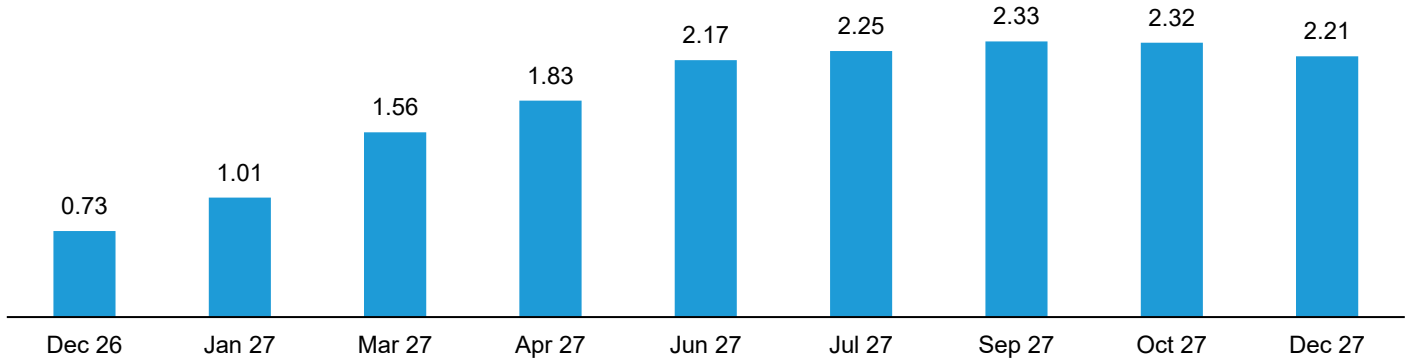
Bottom Line: October looks more like a brake check on the AI trade than the end of it. Demand remains strong, but lenders are becoming more selective about which projects they finance and on what terms. The near-term test is whether developers can deliver capacity on schedule, secure funding at workable rates and generate enough cash to service their obligations. We expect stress to remain concentrated in leveraged projects, and we view that pushback as healthy—it is more likely to prolong the cycle than end it. With yields still attractive, investors are being paid to stay patient and selective.

Wishing you success in your continued investment journey,

The AB Fixed-Income Team

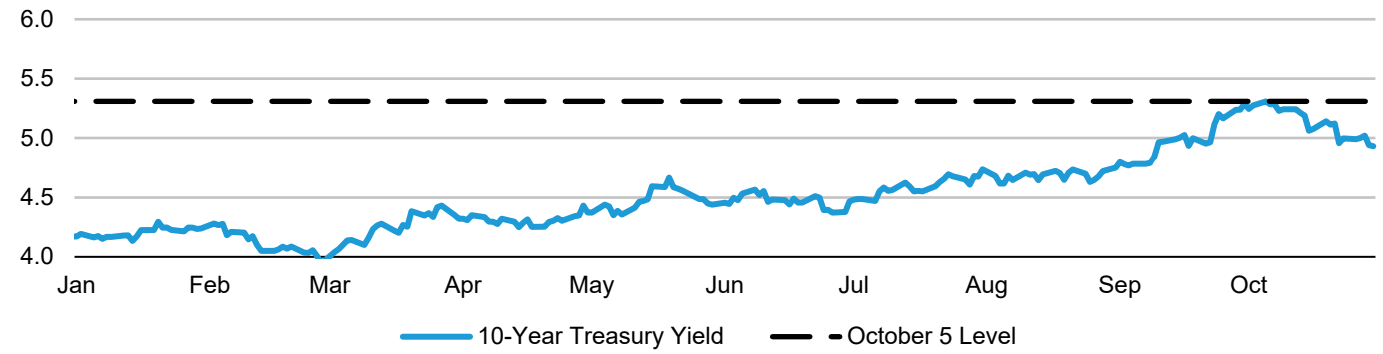
To learn more about AB's fixed-income solutions and access other market insights, visit Fixed-Income Investments \| AB.

Display 1: The Market Expects Two Additional Hikes Between Now and the End of 2027
Number of Hikes



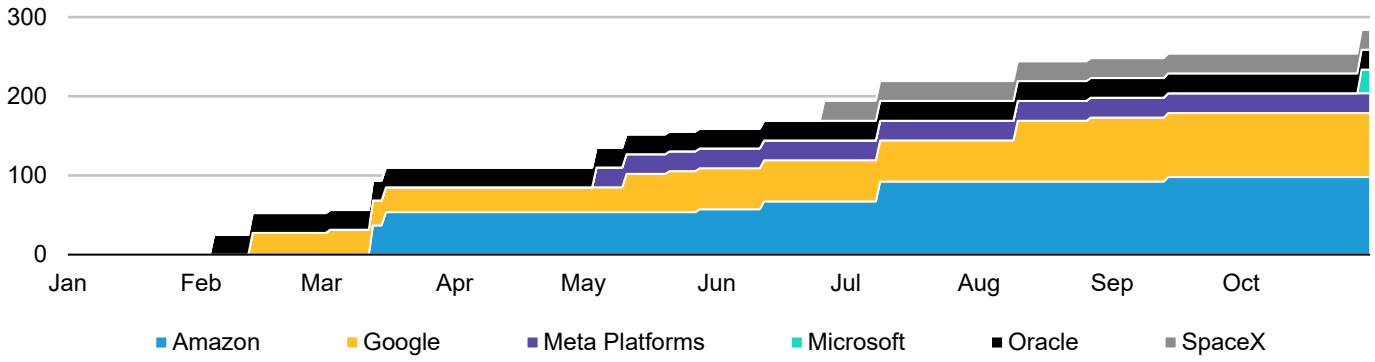
As of October 31, 2026
Source: Bloomberg and AllianceBernstein (AB)

Display 2: The Yield of the 10-Year Treasury Has Fallen in Recent Weeks
Yield (Percent)



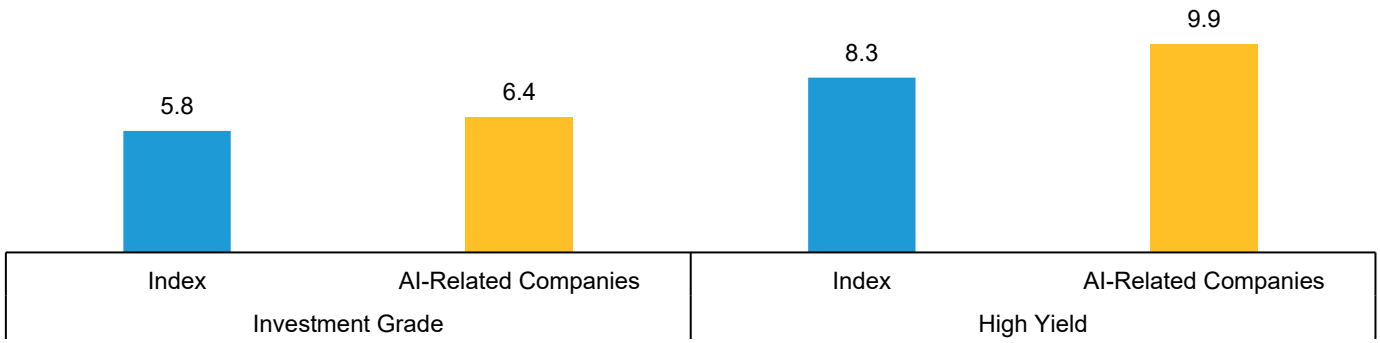
As of October 31, 2026
Source: Bloomberg and AB

Display 3: Hyperscaler Bond Issuance Plateaued in September and Early October
Bonds Issued (USD Billions)



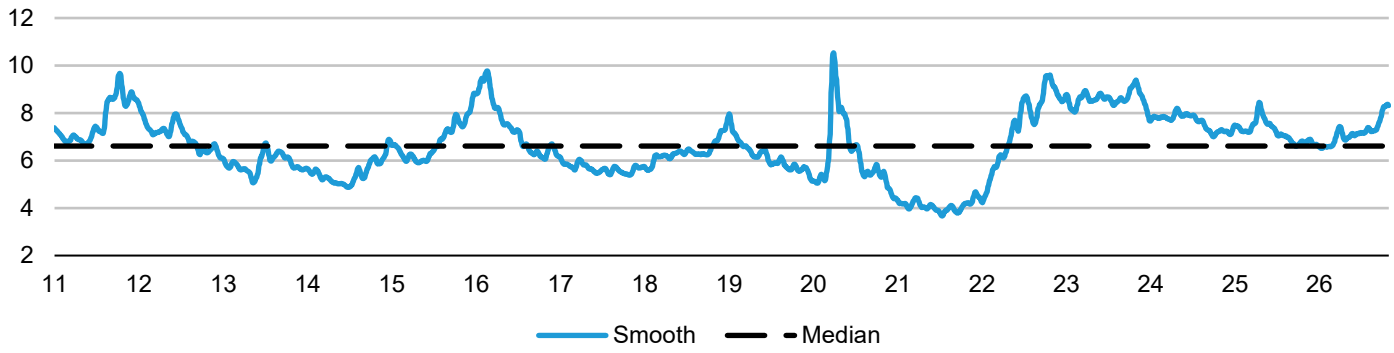
As of October 31, 2026
Source: Bloomberg and AB

Display 4: AI-Related Names Trade with Greater Yield than Other Corporate Bonds
Yield to Worst (Percent)



Investment grade index: Bloomberg US Corporate Bond Index. High yield index: Bloomberg US High Yield Index.
AI-related companies defined as Advanced Micro Devices, Alphabet Inc., Hut 8, Amazon, Broadcom, Meta Platforms, Microsoft, NVIDIA, Oracle, QTS Central Issuer, QTS Data Centers Fayetteville, RD Michigan Property Owner I, Beignet Investor, SpaceX and Sopaipilla Investor. AI-related issuers defined as APLD, BLKPRL, CIFR, CLSPRK, CORZ, CRWV, EDGCOM, ELKGVP, ELNFOR, FLASHC, GALAXY, MERIDI, PFORGE, SECMOS, STNGRY, TRACTC, TRACTD, WULF, YNDRDC and ZENARC.
As of October 31, 2026
Source: Bloomberg and AB

Display 5: The Yield to Worst of the High-Yield Market Is Well Above the Post-GFC Median Level
Yield to Worst (Percent)



As of October 31, 2026
Source: Bloomberg and AB

Investment Risks to Consider

The value of an investment can go down as well as up, and investors may not get back the full amount they invested. Capital is at risk. Past performance does not guarantee future results.

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