

MARKET SIGHT LINES



Financing the AI Buildout: How Is the Growth Being Funded? Who Bears the Risk?

By **Michael O'Keeffe, CFA**
Stifel's Chief Investment Officer



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We recently discussed how **competition is advancing artificial intelligence**, alongside concerns about misuse and regulation. And in February, we wrote about how **AI can disrupt industries** like software, reminding investors to look beyond broad enthusiasm or fear and do the work on each company's fundamentals and role in an AI-driven world. That discipline also applies to the buildout of infrastructure supporting AI. Building data centers, adding power, and installing computing equipment requires substantial capital, and while much of the initial spending was funded from operating cash flow, companies are increasingly turning to borrowing and other financing arrangements. In this Sight|Lines, we examine who is providing that capital, what supports repayment, and why confidence in AI's long-term potential is only one consideration when evaluating the investments financing its growth.

THE TAKEAWAY: HOW AI GROWTH IS FUNDED MATTERS FOR INVESTOR RISKS AND RETURNS

Evaluating investments in the AI buildout requires a thorough understanding of how capital is being deployed, what could support returns, and who bears the risks. In summary:

- The AI buildout is increasingly drawing on borrowing and outside capital, alongside cash generated by existing businesses.
- Companies seeking debt funding must compete with governments and other businesses for investors' capital, which can increase their borrowing costs.
- Established technology companies and newer AI businesses can have very different financial profiles – with varying strengths and risks.
- The details of the funding arrangements can determine what supports repayment and how risks and rewards are shared.
- The useful lives of equipment and infrastructure should align with the financing and expected returns.
- An increase in borrowing does not automatically signal trouble, but investors should carefully assess financial strength and financing terms.
- AI investment can remain substantial while contributing less to economic growth if the pace of spending growth slows.
- Confidence in AI's long-term potential is only one consideration in a thorough assessment of each investment's risks and potential returns.

IN-DEPTH: HOW CAPITAL IS DEPLOYED TO FUND AI GROWTH WILL INFLUENCE INVESTOR RISKS AND RETURNS

Evaluating investments in the AI buildout requires a thorough understanding of how capital is raised and deployed, whether the resulting revenues and cash flows can support returns, and how funding arrangements distribute risks and rewards. Going deeper:

- The AI buildout increasingly combines business cash flow with borrowing and outside capital:
 - While companies have been funding projects from operating cash flow, many are turning to outside funding.
 - This funding includes corporate bonds, private loans, and financing tied to specific data centers or equipment.
- Competition for debt funding can increase borrowing costs:
 - Government borrowing and other companies' financing needs are competing for the same pool of investors' capital.
 - When they have more lending opportunities to choose from, investors can demand higher yields and/or stronger protections.
- AI-related businesses will have different financial strengths and risks:
 - Established technology companies can draw on diversified revenues and cash flows from existing businesses.
 - As of September 1, 2026, AI-related debt was estimated at 4% of the high-yield bond market (\$62 billion) and 1% of the leveraged-loan market.
- Funding terms shape repayment support as well as the sharing of risks and rewards:
 - Some debt is supported by the company's broader financial resources; other financing depends on specific assets, leases, and customer contracts.
 - The terms determine lenders' claims on those assets and cash flows, and how much risk remains with the company and its equity investors.
- An asset's useful life should align with financing and expected returns:
 - Computing equipment can become outdated well before the buildings and power infrastructure supporting it.
 - Expected cash flows should support repayment before assets need replacement, without relying too heavily on resale values or future refinancing.
- More borrowing by a company calls for careful assessment, but does not automatically signal trouble:
 - Based on second-quarter 2026 data, major cloud and AI infrastructure companies' earnings covered interest expense about 50 times, versus nine times for the average investment-grade company.
 - We believe investors should assess whether debt levels remain manageable if revenues disappoint or financing costs rise.
- Continued AI spending may contribute less to economic growth if spending growth slows:
 - Economic growth depends on increases in spending, not simply on spending remaining at a high level.
 - Slower growth in AI spending could reduce support for construction, equipment suppliers, and related industries, even as investment continues.
- AI's long-term potential is only one consideration in assessing investment risks and returns:
 - AI can create economic value in aggregate without every company or project earning an attractive return.
 - For those investing through asset managers or funds, this means understanding how these investment teams assess cash flows, financing terms, and valuation.

WHAT WE THINK

How capital is being deployed in the AI buildout – and what supports the return on those investments – is an important consideration when evaluating investment opportunities. We remain constructive on AI's long-term potential, but that does not mean every investment tied to its growth is equally attractive. The important questions are how that capital is being used, whether the resulting revenues and cash flows can justify the investment, and how the funding arrangements distribute the risks and the rewards. For investors, the approach is familiar: Look beyond the broad theme, do the work on each investment, and assess whether the potential return adequately compensates for the risks. We will continue to keep these concepts in focus as we guide clients in this environment.

Michael P. O'Keeffe, CFA 

Chief Investment Officer

michael.okeeffe@stifel.com | StifelInsights.com

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