

AI growth intact despite rising debt funding

UBS House View - **Daily US**

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From the studio

Podcast: [Signal over Noise with Ulrike Hoffmann-Burchardi](#) on [Apple](#), [Spotify](#) (7 min)

Podcast: [What the US-China AI race means for energy markets](#) (9 min)

Video: [Our new AI capex forecast and its implications for the AI story](#) (4 min)

What to watch: 19 November

- Japan's October balance of trade
- UK October inflation
- US building permits, housing starts

Thought of the day

Big tech companies are increasingly tapping into the debt market in their race to build data centers that can power artificial intelligence. Amazon on Monday raised USD 15bn in its first US dollar bond offering in three years, with the proceeds topping initial estimates by USD 3bn. This follows Alphabet's USD 25bn bond sale earlier this month, Meta's USD 30bn bond issuance last month, and Oracle's USD 18bn debt placement in September.

The rapid pace of these debt transactions has added to investor concerns over the sustainability of the AI-driven equity rally amid elevated valuations, raising questions over big tech's ability to fund their AI expansion as monetization continues to lag. It also draws parallels to the dotcom era, which saw an abundance of credit-fueled excessive investment. The Nasdaq fell 0.8% on Monday, with the benchmark now standing 5.2% below its all-time high set at the end of October.

However, without taking any single-stock views, we believe the AI rally has been supported by solid fundamentals, and the financial health of big tech firms provides a strong foundation for continued investment.

Big tech companies are funding the majority of their capex with operating cash flows.

Today's leading tech firms generate substantial operating cash flows, and we estimate about 80-90% of their planned capex still comes from these cash flows. We view this mix of funding approaches as healthy. While major hyperscalers could become more frequent bond issuers, rising credit risk premiums can act as a self-correcting mechanism, in our view, limiting excessive balance sheet expansion by management teams. Additionally, the scale of vendor financing, a key factor in the formation and collapse of the dotcom bubble, has declined significantly. We estimate that the recent collaborations between NVIDIA, Oracle, and OpenAI represent only about 5% of NVIDIA's projected pretax earnings for 2026, well below the over 120% levels

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observed during the late 1990s.

The free cash flows and credit profiles of today's leading tech firms remain robust.

While there are important distinctions in the fundamentals of big tech companies now, most of them hold more cash on their balance sheets than debt, resulting in a net cash position. The average time until these companies' outstanding debt obligations mature is also considered long, as recent issuance has maturities extending up to 40 years—further supporting their strong liquidity positions. This provides substantial additional debt capacity relative to their existing credit profile ratings, and rating agencies generally view the increased leverage as manageable given their scale and cash flow generation.

Strong investor demand should absorb additional bond issuance.

Despite this fresh wave of bond sales, we believe investment grade credit markets have the capacity to absorb further AI capex-related funding amid persistent investor demand. This is especially true for long-dated tenors, as they are favored by insurance companies and pension funds, and new issuance has been scarce. Meta's USD 30bn issuance reportedly attracted a record USD 125bn in orders, while Amazon's attracted about USD 80bn in demand. We expect the spreads of investment grade bonds in the tech sector to trade in line with the IG index, suggesting limited impact on the broad IG credit market.

So, while we continue to monitor the pace and scale of debt-funded AI capex against revenue and earnings growth, we maintain our positive view on AI's structural growth story, which should drive further equity performance. Participation in transformative trends is often essential for long-term wealth preservation and appreciation, and we believe underallocated investors should add exposure.

Caught our attention

Japan-China tensions worsen. A diplomatic dispute between Japan and China intensified this week, with both governments issuing safety advisories and some Chinese state-owned enterprises restricting employee travel to Japan. Chinese visitors accounted for 24% of all inbound travelers to Japan in the first nine months of this year. Tourism-related Japanese stocks, including department stores and airlines, saw notable declines, with the Nikkei 225 falling around 2.9% at the time of writing. The decline follows recent comments from Japanese Prime Minister Sanae Takaichi regarding military intervention in Taiwan, as well as weakness in US stocks overnight.

Our view: While the dispute has led to increased volatility in Japanese equities, the market remains directionally more correlated with global risk sentiment, with AI-related stocks under pressure in line with the US session. On China-Japan tensions, we expect only a limited macroeconomic impact at this stage. Our base case is for only a short-lived disruption in Chinese tourism, which would likely present just a modest 0.1 percentage point drag on GDP. Japanese officials have traveled to China to in a bid to find a compromise to ease tensions. The outlook for Japan's equity market remains attractive, in our view, with improving corporate earnings, reasonable valuations, and solid government fiscal spending plans. On a sector basis, we continue to favor IT services and real estate in the near term, while defense, AI-related firms, industrials, machinery, and medtech should benefit from government policies over the medium term. With looser fiscal policy at least partially priced in, we anticipate a gradual yen

recovery versus the US dollar in 2026 as yield differentials narrow.

Market update

18 Nov 2025

Percent change. For volatility indices, net change in points.
For valuation, change in price to earnings per share. For
yields, net change in bps

	Current (*)	1D	5D	1M	YTD
VIX Index	23.6	+1	+6	+3	+6
S&P 500	6672	-0.9%	-2.3%	+0.1%	+13.4%
S&P 500 trailing P/E (**)	25.3x		+0.0x	-0.1x	+0.7x
S&P 500 forward P/E (**)	22.4x		+0.0x	-0.1x	+0.9x
S&P 500 forward P/E ex-Mag 7 (**)	19.9x		+0.2x	-0.2x	+1.0x
Russell 2000	2341	-2.0%	-4.7%	-4.5%	+5.0%
Euro Stoxx 600	564	-1.3%	-2.7%	-0.4%	+11.2%
Shanghai Composite	3940	-0.8%	-1.6%	+2.6%	+17.5%
US 10-year Treasury	4.11	-3	-1	+10	-46
US 2-year Treasury	3.57	-4	-2	+11	-67
Germany's 10-year Bund	2.70	-1	+4	+12	+33
Germany's 2-year Bund	2.02	-2	+2	+12	-6
EURUSD	1.160	+0.0%	+0.1%	-0.4%	+12.0%
EURCHF	0.92	+0.1%	+0.6%	+0.1%	+2.0%
USDCHF	0.80	-0.2%	-0.7%	+0.3%	-12.4%
USDJPY	155	-0.1%	+0.6%	+2.9%	-1.3%
Brent crude, USD/bbl	64	-0.5%	-2.0%	+4.2%	-14.4%
Gold, USD/oz	4024	-1.2%	-2.3%	-4.0%	+52.4%

(*) or last close if not available, (**) weekly update

Source: Bloomberg, Factset, UBS

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Appendix

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