Coffee Break

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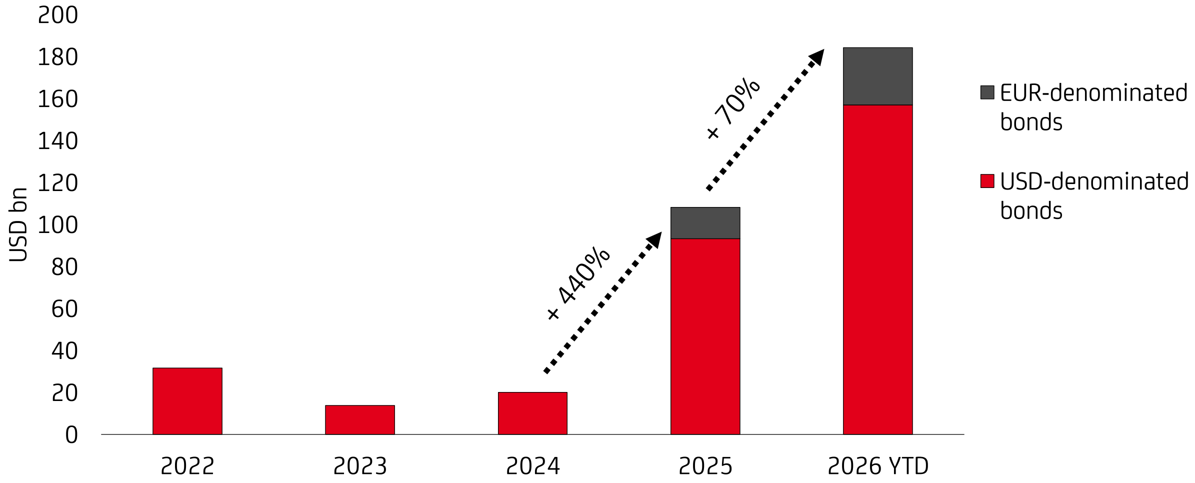
Hyperscaler borrowing needs continue to weigh

26 August 2026

Continued borrowing by hyperscalers will likely remain a headwind for the technology sector.

USD AND EUR NEW-BOND ISSUANCE BY HYPERSCALERS

EUR-DENOMINATED ISSUANCE PLAYS A LIMITED ROLE BUT MORE PAPER IS EXPECTED GIVEN LOWER FUNDING COSTS



Source: Bloomberg, The Investment Institute by UniCredit
Note: Issuance includes all USD- and EUR-denominated bonds issued by Amazon, Google, Meta, Microsoft and Oracle

THE CONTEXT

While new-issuance activity by hyperscalers has paused over the summer, we are likely to see more bond issuance in the coming weeks, as their capex plans call for more funding. Earlier this year, the five major hyperscalers – Amazon, Meta, Oracle, Microsoft and Google – increased their capex forecasts for this year and next year by 25% and almost 40% to almost USD 1tn and USD 1.1tn, respectively. As we expect these companies to place more bonds also in the European market, funding pressure will likely continue to create technical pressure in the European technology sector in the coming months. Given the huge amount of USD-denominated funding requirements, hyperscaler issuance is likely to continue to weigh also on USTs, notably the long end of the curve, as most hyperscalers issue long-dated bonds.

THE DATA

Hyperscalers provide cloud computing and data-management services for organisations requiring large-scale processing and storage capacity. The term derives from hyperscale computing, which enables infrastructure and software architectures to expand efficiently as demand grows using scalability, i.e. capacity can be expanded by adding more servers, storage facilities and network resources. Although no universal definition exists, Amazon, Meta, Oracle, Microsoft and Google are widely regarded as the leading hyperscalers.

Our chart shows bond issuance in USD and EUR by the five hyperscalers over the past five years. Historically, their funding needs have been low due to their strong cash positions, which kept borrowing activity low in the past. This changed last year, when they issued more than USD 90bn in bonds, followed by nearly USD 160bn this year. The European bond market has played only a limited role so far: after having been largely absent from the primary market since 2013, issuance by hyperscalers reached EUR 13bn last year and EUR 24bn YTD. This implies that less than 15% of their bond issuance has been placed in EUR.

OUR VIEW

EUR-denominated issuance will likely remain relatively low compared to bonds denominated in USD. However, cheaper funding costs in euro will make the issuance of reverse Yankee bonds appealing in the coming months. USD-denominated issuance is expected to see another USD 70-90bn in bonds and EUR-denominated issuance around EUR 15-20bn until the end of the year. However, demand for new issues by hyperscalers is likely to remain muted, for a number of reasons.

The new issues placed by hyperscalers on the European market YTD have shown a bid-to-cover ratio of 1.9x on average, well below the 3.5x bid-to-cover cover ratio for all other issues placed YTD. This means the issues were still oversubscribed but were not cheered by investors to the same extent as most other issues, despite the fact that they offered above-average new-issue premiums of 6bp on average vs. 3bp on average for other issues.

From a fundamental point of view, the huge capex has started to weigh on fundamentals; free cash flow has started to shrink and will continue to decline further. It is expected to turn negative on average for the mentioned five hyperscalers next year.

Moreover, hyperscalers' capex profitability is surrounded by a veil of uncertainty regarding their future revenues, margins and duration of current demand. Against this backdrop, and given the rapidly improving efficiency of AI models, there is a risk of overcapacity.

Bottom line, the technology sector has underperformed YTD both in Europe and the US, with an almost flat total return in both markets vs 0.3% for investment grade non-financials overall. We expect the continued borrowing by hyperscalers to remain a headwind for the technology sector, which we continue to underweight. Moreover, given the high USD-denominated issuance amount, hyperscalers' primary market activity will likely continue to adversely affect long-dated USTs.

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