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TMT

# Expected 2027 TMT supply points to a new record

European TMT gross bond supply may reach €150bn in 2027, driven by tech funding for AI and data centres rather than traditional telecoms. Strong cash flows and credit quality support issuance, but disciplined funding will be key to market absorption

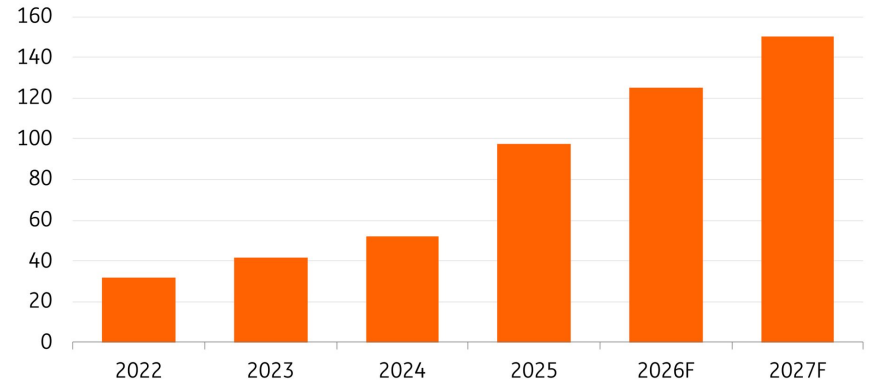


AI and data centre investment is expected to be the main driver of TMT bond issuance in 2027

We predict another year of strong supply for the European TMT sector. We expect €150bn of gross issuance and €103bn of net issuance, given €47bn of debt redemptions. The additional issuance is not coming from the traditional telecom or media issuers, but from global tech companies.

As we expect the data centre build-out to continue in 2027, issuers are likely to return to the European investment-grade credit market to raise part of the required funding. Meanwhile, we do not see a major reason for traditional sectors to reduce or increase indebtedness, as factors driving indebtedness higher are countered by factors driving debt lower, as we'll explain below.

## European investment-grade TMT supply (€bn)




Source: Dealogic, ING

## Telecoms supply

We will break down the main factors affecting debt issuance, starting with FY27 capex requirements. While we expect capex as a percentage of sales to decline, aggregate capex is likely to increase slightly. Companies such as Orange and Vodafone are integrating recent acquisitions and may need to invest additional capital to realise merger synergies. We therefore do not expect the lower capex-to-sales ratio to translate into less issuance. Nevertheless, BT and KPN are exceptions, as both clearly intend to reduce capex in FY27.

Low-single-digit EBITDA growth gives companies some capacity to issue additional debt while maintaining stable leverage. However, higher interest rates provide an incentive to keep debt levels in check. We therefore expect the increase in debt issuance to be driven mainly by M&A. Several debt-funded acquisitions of smaller networks could generate around €5bn of net issuance. A further €3bn could come from US operators raising euro-denominated funding for spectrum payments in 2027.

## Technology supply

In 2027, we believe the AI build-out will continue. Tech companies currently report healthy returns on investment, demand for AI services continues to outpace supply, and companies want to maintain their market positions. We therefore expect further capex growth in 2027, with the large hyperscalers investing close to US$1tr in fiscal 2027.

As in 2026, we expect these companies to finance their investments largely from operating cash flow, but also through debt issuance, with additional funding coming from European markets. We expect hyperscaler data centre operators to issue at least €60bn in 2027, somewhat above the approximately €35bn issued year-to-date in 2026, including issuance by NTT.

In addition to the €60bn of issuance from hyperscaler data centre operators, we expect €35bn

of net supply from other technology issuers. Companies are likely to pursue acquisitions and raise additional funding for investment, including semiconductor, software and payment services companies. Including €8bn from telecom issuers, this brings total TMT net supply to €103bn. This would translate into gross supply of approximately €150bn, which, in our view, is close to the amount the European market may be able to absorb.

## Supply discipline will be important

Companies will need to issue prudently and provide clear guidance on future funding plans, as spreads may only tighten once the market no longer expects substantial new supply. Nevertheless, current spreads look attractive relative to the issuers' high ratings, with much of the widening driven by supply and liquidity effects. Relatively wide CDS spreads also suggest that technical factors, rather than a material deterioration in credit risk, are weighing on valuations. This combination of high credit quality and attractive spreads should attract new money to the investment-grade market.

## Challenge 1: Does debt issuance reduce credit quality?

First, we expect the hyperscaler data centre operators Amazon, Microsoft, Alphabet, Meta and Oracle to grow their combined EBITDA by US$230bn, or 29%, in FY27, to around US$1tr. Moreover, with the exception of Oracle, these companies are expected to operate with limited net debt, with Microsoft holding more cash than debt. The main caveat is their significant lease commitments, many of which are not yet reflected in balance-sheet lease liabilities because the underlying leases have not commenced. Given our aggregate EBITDA projection of around US$1tr for fiscal 2027, alongside generally strong balance sheets and operating cash-flow generation, we are not yet concerned that these commitments materially weaken credit quality.

We prefer to wait for the 10-K filings before assessing the full impact, as annual reports provide more comprehensive lease and contractual-commitment disclosures. Over time, there is a risk that rating agencies will attach greater weight to these liabilities, particularly if returns on investment start to decline. In our view, this is not a material concern for 2027 and may never become one, given the sector's strong growth and ability to fund a significant part of investment from operating cash flow. Companies also retain flexibility to scale back future investment that has not yet been committed if returns start to disappoint.

## Challenge 2: Do credit benchmarks accommodate more supply?

Do European credit markets have the capacity to absorb additional supply from technology companies? We think the current share of technology issuers remains modest. Alphabet accounts for only 1.16% of the iBoxx € Non-Financials index, while Amazon and IBM account for 0.68% and 0.91%, respectively.

In the US, Oracle's share of more than 2% in the iBoxx $ Domestic Non-Financials index illustrates that individual technology issuers can reach materially higher benchmark weights, while several high-yield indices apply a 3% issuer cap. In addition, many large technology companies have not yet raised funding from European credit markets.

We therefore see significant room for technology companies to increase issuance in European investment-grade markets. The inclusion of eligible new bonds in benchmarks also creates a strong technical incentive for benchmark-aware investors to participate in new deals, as not owning the bonds could increase their tracking error.

## Benchmark sizes selected TMT names in Europe, USA (%)

| iBoxx € Non-Financials | | iBoxx $ Domestic Non-Financials | |
|---|---|---|---|
| Alphabet | 1.16 | Alphabet | 1.52 |
| Amazon | 0.68 | Amazon | 2.35 |
| Microsoft | 0.13 | Microsoft | 0.46 |
| Orange | 1.53 | Oracle | 2.16 |
| IBM | 0.91 | IBM | 0.63 |
| Prosus | 0.27 | Meta | 1.65 |
| Infineon | 0.25 | Apple | 1.15 |

Source: Dealogic, ING

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