APOLLO

2026 Midyear Credit Outlook

Adoption, Financing, and Investing in the Age of AI

August 2026

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Key Takeaways

Credit fundamentals remain resilient, but the margin for error is narrowing.
Growth, earnings, and default trends remain supportive, while spreads are still near historic tights and rates are likely to stay higher for longer. Limited room for further spread compression, as well as growing dispersion across sectors, ratings, and individual issuers should create a more idiosyncratic opportunity set, increasing the importance of disciplined credit selection and relative value.

AI adoption is creating a new divide across credit markets.
AI is beginning to draw a clearer line between businesses that remain insulated from adoption and those vulnerable to direct replacement, labor displacement, or faster-moving AI-native competitors. Software has provided the first clear example, but similar pressures are emerging across business services, healthcare administration, and other workflow-driven industries. The near-term test will be refinancing, with more than $100 billion of software and services loans maturing between 2027 and 2029.

Financing the AI buildout has become a market-capacity issue.
Public IG markets have absorbed record issuance, but hyperscaler spreads have widened, new issues have required larger price concessions, and concentration and ratings constraints may limit future capacity. The result is a supply-driven repricing—not a deterioration in credit quality—that could place upward pressure on spreads across a broader range of fixed income assets.

Private investment-grade credit will be essential to closing the AI funding gap.
As public-market capacity becomes more constrained, financing should increasingly migrate toward private placements, infrastructure debt, asset-backed facilities, equipment financings, and project-level structures. These transactions can offer stronger collateral, greater structural protection, and more attractive spreads than unsecured public debt.

AI factor risk is changing the nature of diversification.
Portfolios that appear diversified across sectors and asset classes are increasingly exposed to the same underlying driver: the pace of AI adoption and infrastructure spending. Sectors such as cloud computing, power, and real estate, as well as asset classes including leveraged finance, equities, and IG credit may therefore be more correlated than traditional classifications suggest. As this concentration grows, genuine diversification should become more valuable, increasing the appeal of investments tied to alternative capital cycles and economic forces.

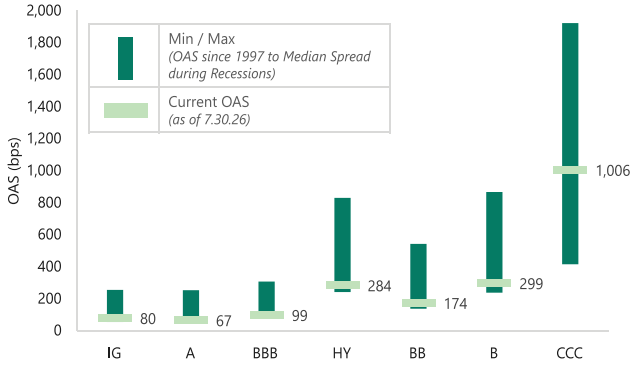
Introduction

A strong half of returns

The first half of 2026 followed a script reminiscent of 2025: Markets began the year on firm footing, were tested by a series of unexpected disruptions, but, in the end, proved more resilient than many investors expected. At the start of the year, credit spreads sat near record tights and major equity indices hovered near all-time highs, supported by strong fundamentals, enthusiasm around the AI investment cycle, and the return of large-scale M&A activity.[1] That optimism was challenged by a prolonged conflict with Iran, renewed inflationary pressures, and growing concerns around AI-driven disruption. The Middle East has served as the largest source of market volatility as the conflict with Iran has kept the Strait of Hormuz effectively closed for ~145 days,[2] triggering sharp moves across energy, rates, and currency markets. At the same time, rapid advances in AI capabilities and accelerating enterprise adoption forced investors to reassess the beneficiaries and the potential casualties of the technology, with software hit particularly hard as billions of dollars of leveraged loans fell into distressed territory.

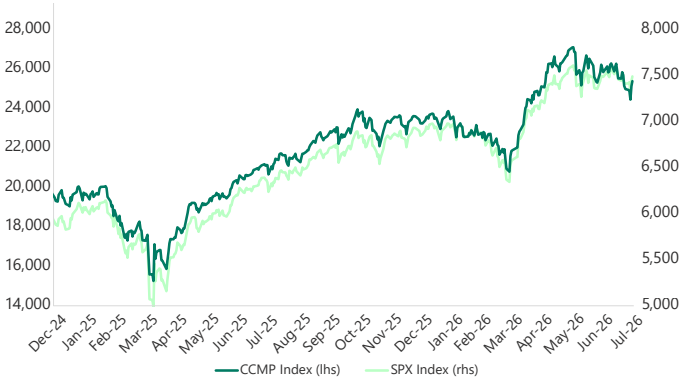
Despite these headwinds, the US economy continued to perform well. GDP grew at a 2.1% annualized pace in the first quarter,[3] supported by continued investment in AI infrastructure and data centers, while the labor market remained remarkably strong, with unemployment holding steady at 4.2%.[4] Consumer spending moderated but still grew 0.5%,[5] and 62% of S&P 500 companies beat consensus estimates,[6] propelling equity markets to new highs and anchoring credit spreads near historically tight levels **(Exhibits 1, 2)**.

Exhibit 1: Headline Spreads Close to All-Time Tights



Data as of July 31, 2026.
Source: ICE Data Indices, via FRED

Exhibit 2: S&P 500 Index, Nasdaq Reach Record Levels

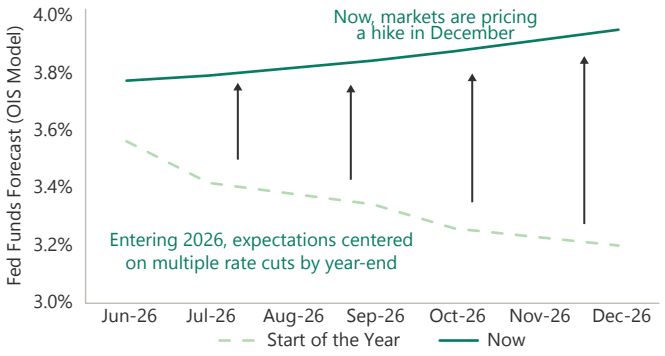


Data as of July 31, 2026.
Source: Bloomberg

1. Bloomberg, December 2025.
2. IMF PortWatch. Strait effectively closed to commercial shipping since Feb. 28, 2026 (~145 days as of July 24, 2026); "closed" reflects commercial navigability, not a physical block.
3. US Bureau of Economic Analysis, June 2026.
4. US Bureau of Labor Statistics, July 2, 2026.
5. US Bureau of Economic Analysis, June 2026.
6. Bloomberg, June 2026.

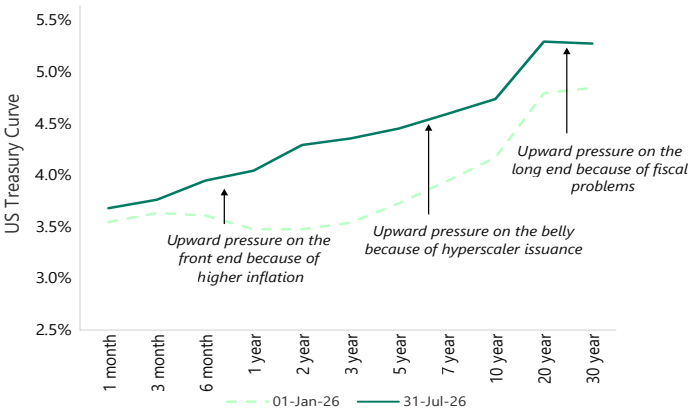
The notable exception was rates. Higher energy prices, resurgent inflation, strong labor markets, and persistent fiscal concerns pushed both front-end and long-end yields higher, reinforcing our view that interest rates are likely to remain higher for longer **(Exhibits 3, 4)**.

Exhibit 3: Interest Rate Expectations



Data as of June 2026.
Source: Bloomberg

Exhibit 4: Upward Pressure on US Yields

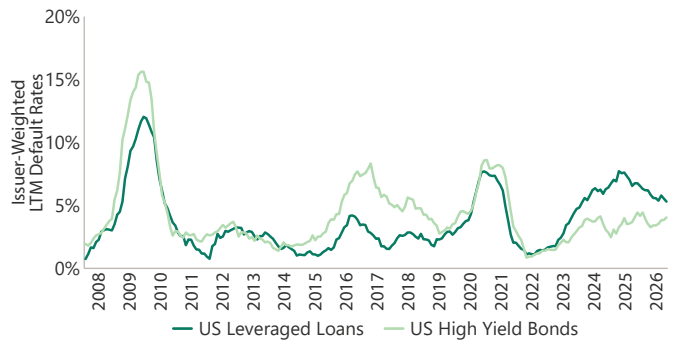


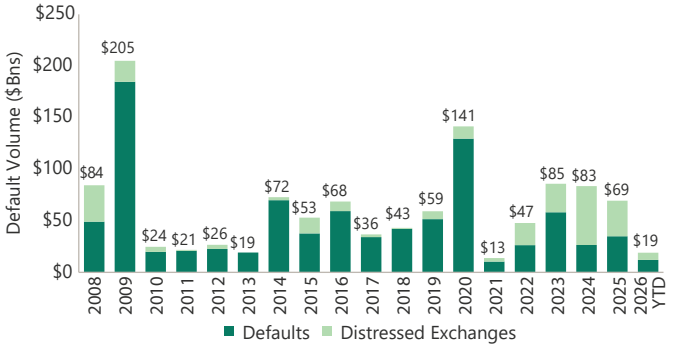
Data as of July 2026.
Sources: Bloomberg, Apollo Analysts

Second Half Outlook: Widespread Impact of AI Issuance

Entering the second half of the year, credit fundamentals remain intact. Corporate balance sheets are healthy, earnings trends are positive, and default activity sits well below levels typically associated with a late-cycle environment. First-quarter high yield (HY) earnings exceeded expectations, with aggregate EBITDA approximately 7% above consensus and upward guidance revisions outnumbering negative revisions by more than two-to-one.[7] Meanwhile, trailing 12-month default rates remain below their historical averages at 2.67% for HY bonds and 2.29% for leveraged loans, with May marking the first month since August 2018 without a single HY bond or leveraged loan default, distressed exchange, or liability management exercise **(Exhibit 5).**

Exhibit 5: HY and Leveraged Loan Default Activity



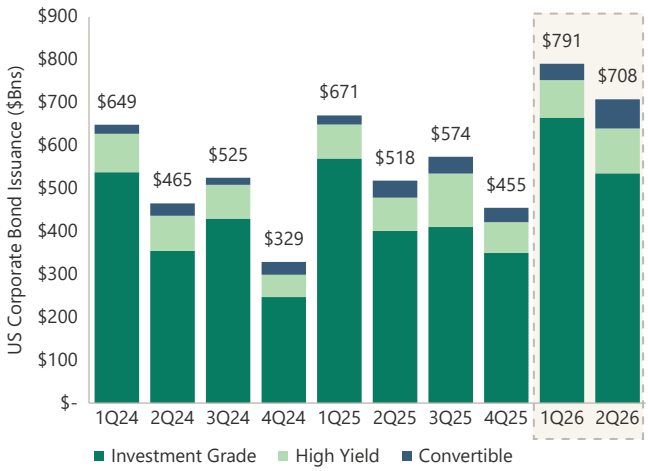


Data as of June 2026.
Source: JPMorgan Default Monitor

7. JPMorgan, May 2026.

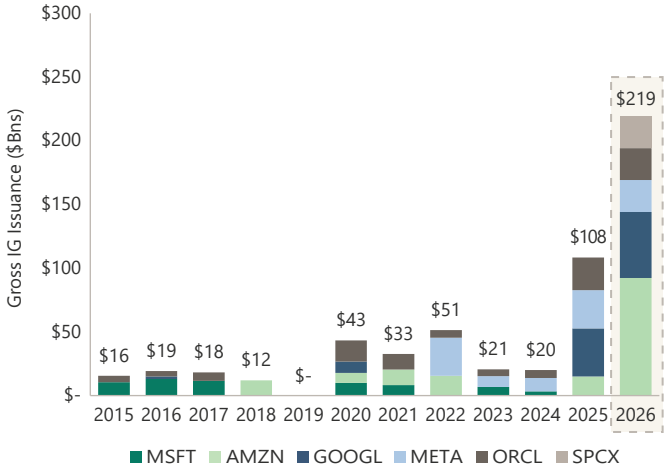
Technicals have been more of a headwind. We noted in our 2026 Credit Outlook that AI-related financing would fundamentally reshape investment-grade (IG) credit as hyperscalers[8] stepped up debt issuance. That thesis has largely played out. Net IG issuance is on pace to hit $1 trillion this year, rivaling net Treasury supply, while Amazon, Alphabet, Microsoft, Meta, Oracle, and SpaceX have issued more than $200 billion **(Exhibits 6, 7)**.

Exhibit 6: US IG Issuance Surging in 2026



Data as of June 2026.
Source: SIFMA Research

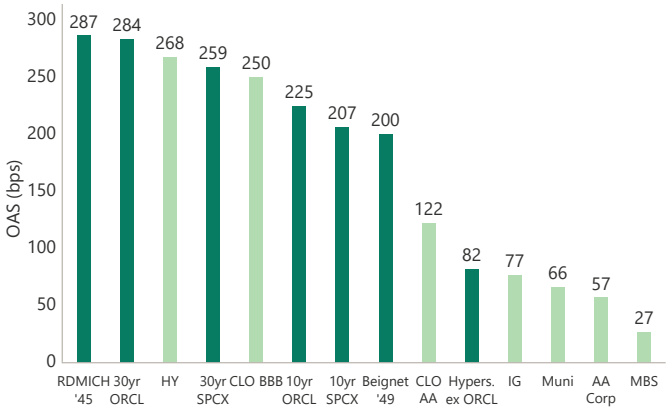
Exhibit 7: Hyperscaler IG Issuance



Data as of July 2026.
Source: Bloomberg

Initially, the market absorbed record issuance remarkably well, supported by elevated all-in yields and robust investor demand. But with hyperscaler funding needs measured in the trillions, we believe continued issuance will increasingly compete for capital with other high-grade fixed income markets. As hyperscaler spreads widen relative to the IG index and offer more attractive compensation, the cohort's strong credit fundamentals may encourage investors to reallocate capital from other fixed income asset classes such as mortgages, CLOs, municipals, and other corporate debt. In our view, this competition for capital could place upward pressure on spreads across a broader range of fixed income assets **(Exhibit 8).**

Exhibit 8: Fixed Income Spreads

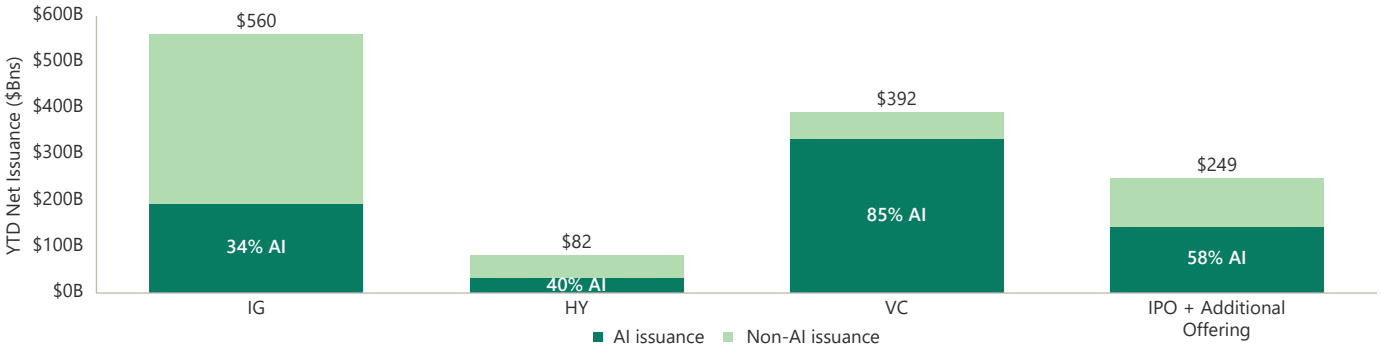


Data as of July 2026.
Sources: ICE BofA, Bloomberg

8. The term hyperscalers refers to operators of global-scale data center fleets supporting AI and cloud workloads, whether that capacity is sold to third parties or consumed internally. For purposes of this paper, hyperscalers include Amazon (AWS), Microsoft (Azure), Alphabet (Google Cloud), Oracle (OCI), SpaceX, and Meta. Meta has historically consumed its capacity internally, but it said in July 2026 that it was considering selling excess compute to third parties.

This dynamic is visible beyond IG credit. In the first six months of the year, more than $30 billion of data center-related debt has been issued in the HY market, while CoreWeave completed a $3.1 billion facility backed by GPUs in the broadly syndicated loan market.[9] The same dynamic is now extending across the private and public equity markets: SpaceX completed the largest IPO on record, raising roughly $75 billion, Alphabet upsized its recently announced equity raise to approximately $85 billion,[10] and OpenAI and Anthropic continue to attract private capital at valuations approaching $1 trillion.[11] As more AI companies mature and access public equity and debt markets, we expect AI will be a growing driver of issuance across the capital structure **(Exhibit 9)**.

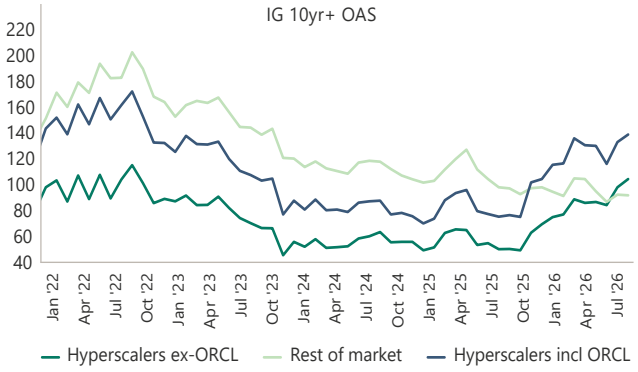
Exhibit 9: AI-Linked Issuance Is Redefining Every Funding Channel



Data as of June 2026.
Source: Goldman Sachs, JPMorgan, Bloomberg, Crunchbase, Apollo Analysts

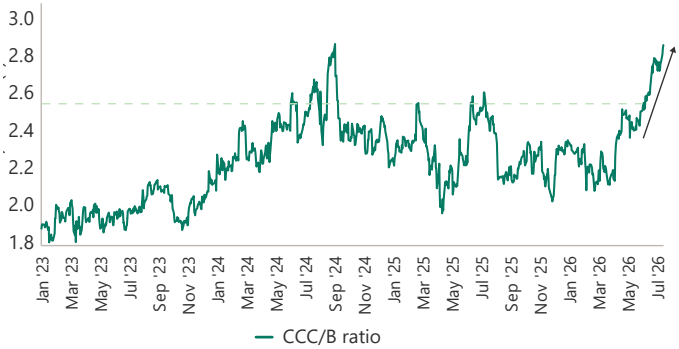
Looking ahead, we expect credit fundamentals to remain robust, supported by a healthy economic backdrop. Investor demand absorbed the initial wave of issuance, but the scale of AI-related supply has started to overwhelm the market and drive spreads wider. Dispersion across sectors, ratings, and individual issuers has steadily increased **(Exhibit 10)**. Traditional sector classifications are proving less informative as AI exposure cuts across industries, making bottom-up credit analysis more important than broad macro positioning. Investors are also growing more discriminating across the capital structure, with lower-quality credits and companies facing structural disruption increasingly separating from stronger issuers **(Exhibit 11)**. In our view, this growing differentiation is likely to be a defining feature of credit markets over the second half of the year.

Exhibit 10: Hyperscalers' Debt vs. Rest of IG Market



Data as of July 2026.
Source: ICE BofA

Exhibit 11: CCC/B Ratio Highest Since July 2025



Data as of July 2026.
Source: ICE BofA

9. Bloomberg, June 2026.
10. Bloomberg, June 2026.
11. OpenAI, Anthropic, May 2026.

Against that backdrop, we believe the margin for error is narrowing. With credit spreads near historic tights, there is limited room for upside from further spread compression. Solid fundamentals should help contain the risk of a broad-based selloff. Instead, the opportunity set should become more idiosyncratic. We see the following opportunities across major credit sectors:[12]

- **Public IG credit will likely bear the brunt of elevated AI-related supply,** and we remain cautious on valuations and spread duration in public markets, particularly among the tightest-trading serial issuers. With the AI factor risk increasing, the pressure is likely to extend beyond the AI segment as investors reprice risk across the broader market. We prefer a defensive positioning, leaning toward higher quality non-AI credits.
- **AI risk issued in private markets can offer a more attractive risk/reward profile** and stronger downside protection than public unsecured corporate debt. In addition, as more IG companies across different sectors look to private markets to meet bespoke funding needs, private IG debt offers a diverse opportunity set at spread levels meaningfully wider than public markets.
- **Across high yield and leveraged loans,** we are shortening duration exposure and maintaining a defensive posture, with spreads ex-software trading near five-year tights and offering limited compensation for downside risk.
- **Software credits remain an area of caution.** As of the end of June, software loan spreads were approximately 800 basis points, compared with 436 basis points for the rest of the leveraged loan market.[13] Dispersion within software has also increased, with stronger issuers trading in the mid- to high-$90s while trading levels for much of the sector have moved closer to the $80s. Although software companies' fundamentals remain intact for now, valuation multiples have compressed, leaving many issuers more exposed to refinancing risk as maturities approach over the next two years. The key test will be how the market absorbs refinancing needs in a sector facing structural risk from AI-driven disruption.
- **Differentiated assets are increasingly important to portfolio construction.** European credit, hybrid credit, and sports-related financings can offer high-yield-plus returns with less risk of crowding from capital moving down the quality spectrum (a theme we expand on in the final section of the outlook).

As AI emerges as the defining force shaping credit markets, investors face two key questions: how will the trillions of dollars required to build and deploy AI be funded, and what will the implications be for economies, markets, and investors?

In this Midyear Credit Outlook, we examine the implications of AI through three lenses:

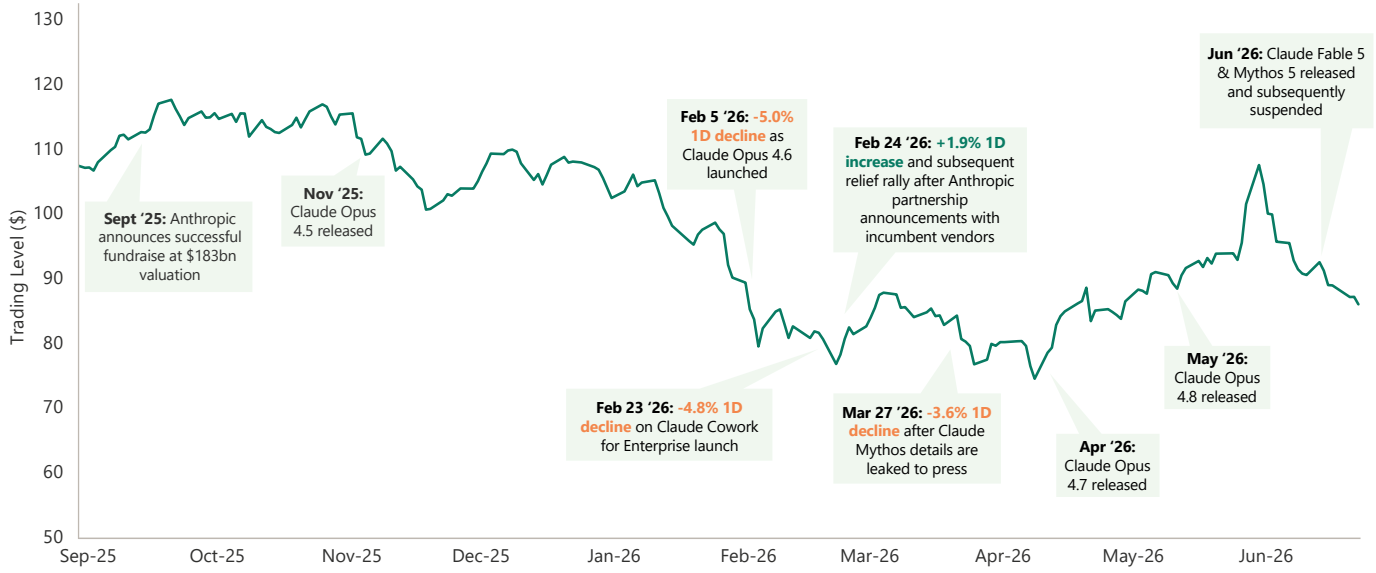
1. **Adoption**
   How AI-driven disruption is creating winners and losers across industries and business models, and what this can mean for credit fundamentals.
2. **Financing**
   How the scale of the AI buildout is driving a new wave of credit formation, testing the capacity of public markets, and expanding the role of private capital in financing the broader global industrial renaissance.
3. **Investing**
   How rising concentration, growing factor exposures, and evolving benchmark composition are forcing investors to rethink traditional approaches to diversification, portfolio construction, and risk management.

12. Apollo Analysts.
13. JPMorgan, June 2026.

Theme 1: AI Adoption and the New Credit Divide

What a difference six months can make. When we published our 2026 Credit Outlook, AI was already leaving its imprint on capital spending, credit issuance, and investment flows. Since then, the pace of technological progress has accelerated dramatically. OpenAI's GPT-5.6, Anthropic's Claude Code and Mythos, and a growing ecosystem of AI agents have pushed AI beyond content generation toward workflow automation, with systems now capable of writing software, conducting research, executing business processes, and interacting directly with digital environments **(Exhibit 12)**.

Exhibit 12: Software ETF (IGV) Trading History & AI Model Announcements



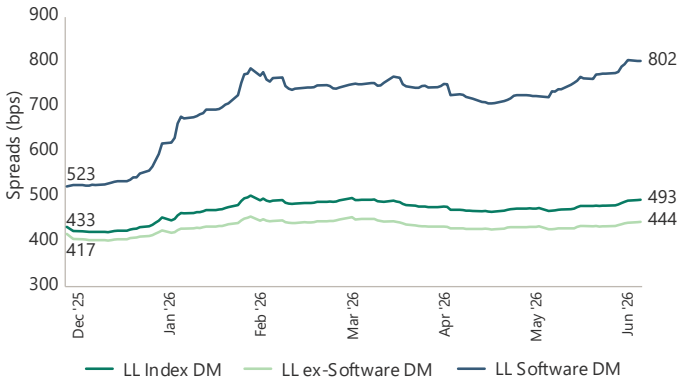
Data as of June 2026.
Sources: Bloomberg, Apollo Analysts

The first major casualty of the AI disruption narrative was enterprise software, where public equities experienced a sharp repricing that was quickly labeled the "SaaSpocalypse." More than $1 trillion of market value was erased[14] as investors debated whether AI could fundamentally reset software economics. The repricing quickly spread into leveraged loans and private credit—where software represents one of the largest sector exposures **(Exhibit 13).**

Software loan spreads widened relative to the broader leveraged loan market, lenders grew more selective, and documentation standards tightened after years of covenant erosion **(Exhibit 14).**

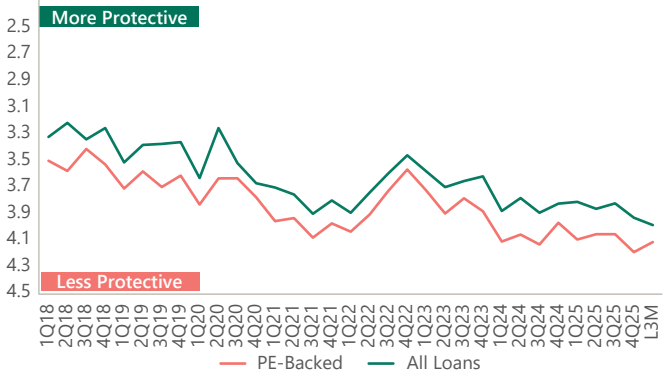
14. Reuters, "US Software Stocks Slammed on Mounting Fears Over AI Disruption, Lose $1 Trillion in Week," February 5, 2026.

Exhibit 13: Software Leveraged Loans Underperform



Data as of June 2026.
Sources: Apollo Analysts, Bloomberg

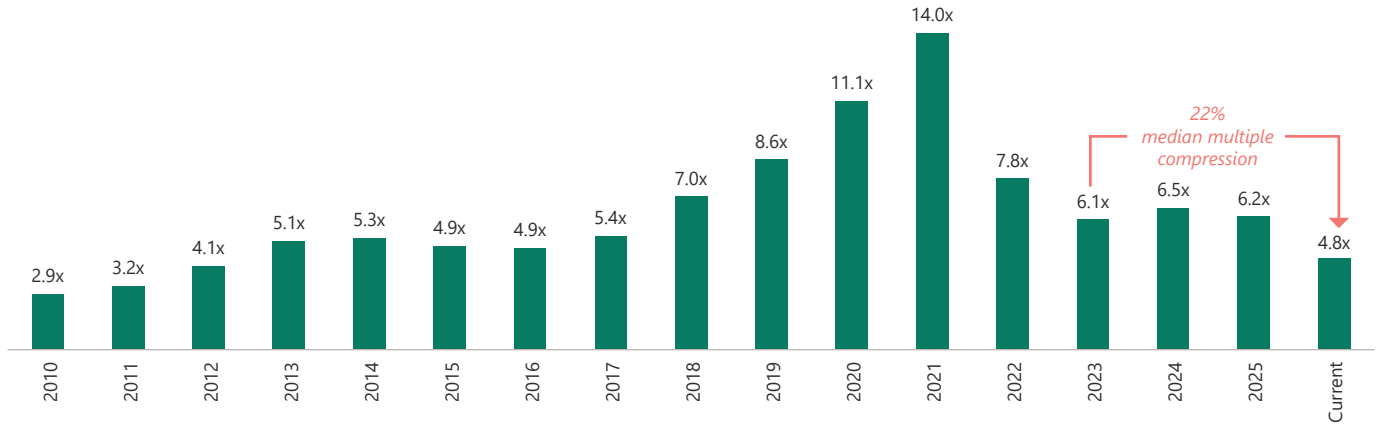
Exhibit 14: Average Covenant Review Document Score for Loans



Data as of March 2026.
Source: Covenant Review

Enterprise software valuations had already reset meaningfully before the recent AI-driven repricing, compressing roughly 22% over the past three years as higher interest rates and slowing growth weighed on the sector **(Exhibit 15).** AI has introduced a new source of uncertainty around long-term software economics, further reducing the equity cushion supporting existing debt structures and forcing lenders to reassess their underwriting assumptions during the 2021-2023 buyout boom.

Exhibit 15: Software EV/NTM Revenue Multiples



Data as of July 2026.
Sources: Bloomberg, Apollo Analysts

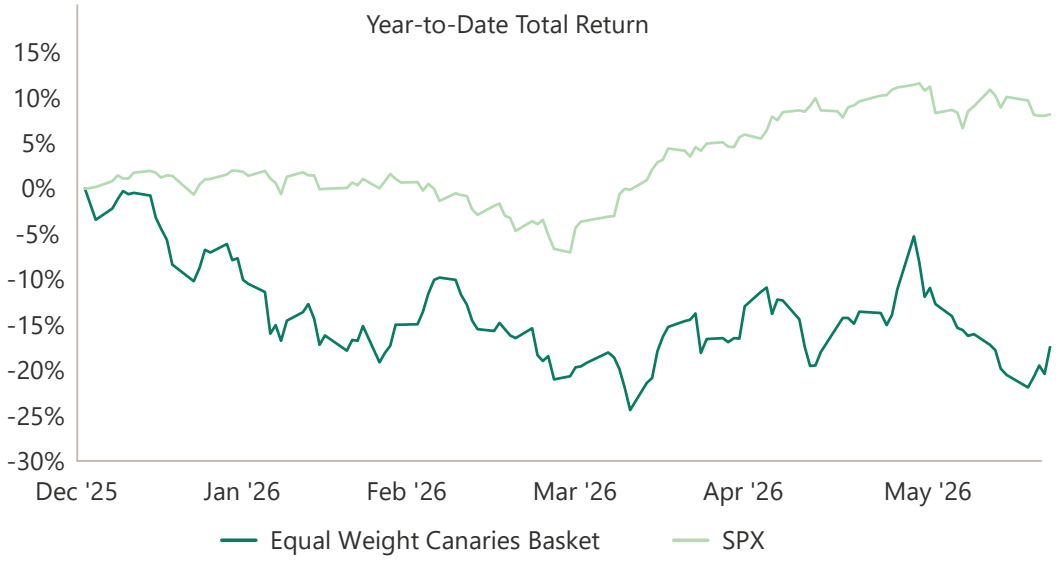
That repricing carries a broader message for credit investors. AI is beginning to bifurcate the credit market into two groups: business models that are enhanced by or agnostic to AI adoption, and those that are vulnerable because of it. We believe software is simply the first sector where markets have begun to price that distinction.

Since the initial selloff, software markets have partially recovered, supported by stable operating fundamentals. Revenue growth remains positive, margins have improved through cost reductions, and fears of AI disruption have moderated as rising token costs and implementation challenges raise questions about the pace of AI enterprise adoption. First-quarter results were strong, with software vendors posting record combined profits and median revenue growth of 14%.[15]

We do not view this recovery as a reversal of the underlying thesis, but rather as a shift from indiscriminate selling toward greater differentiation. First-half performance across public software equities was sharply divided by subsector, with AI infrastructure, security, and broader infrastructure software generating market-cap-weighted returns of 21%, 67%, and 64%, respectively, while HR/payroll/back-office and design software providers declined 36% and 39%.[16]

The other side of that divide is beginning to emerge among what we term "AI Canaries"—companies whose business models are particularly exposed to AI-driven changes in competition, pricing, or demand. Early pressure has appeared across several categories: creative software providers facing greater competition from lower-cost AI tools; website-building platforms experiencing weaker demand from design agencies as AI-assisted creation improves; tax and financial software providers confronting price-sensitive customers migrating to lower-cost alternatives; and IT services firms experiencing softer bookings as agentic AI reduces demand for more labor-intensive consulting work. While these pressures remain uneven, they provide some of the first tangible evidence that AI is beginning to influence operating fundamentals **(Exhibit 16).**

Exhibit 16: Canaries vs. S&P 500 Index Returns

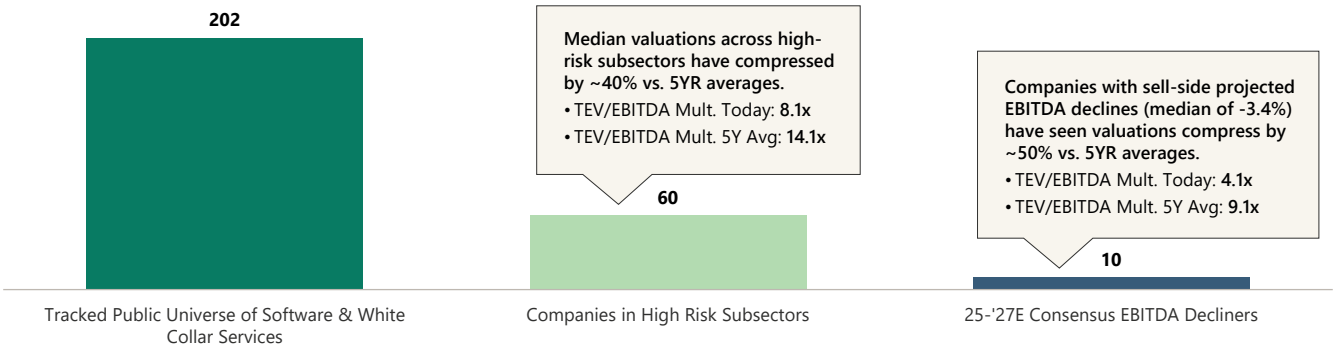


Data as of June 2026.
Sources: Bloomberg, Apollo Analysts

15. Jefferies, May 2026.
16. Barclays, July 2026.

Perhaps one of the clearest indications that markets continue to underestimate AI's potential impact is that consensus expectations of earnings still imply relatively limited disruption. Of more than 200 publicly traded software and white-collar services companies tracked by Apollo, only 10 are currently expected to experience both revenue and EBITDA declines over the next two years **(Exhibit 17)**. In our view, investors have begun pricing in the possibility of disruption without fully incorporating its potential impact on earnings, margins, and long-term credit fundamentals.

Exhibit 17: Sell-Side Estimates Still Show Limited Disruption



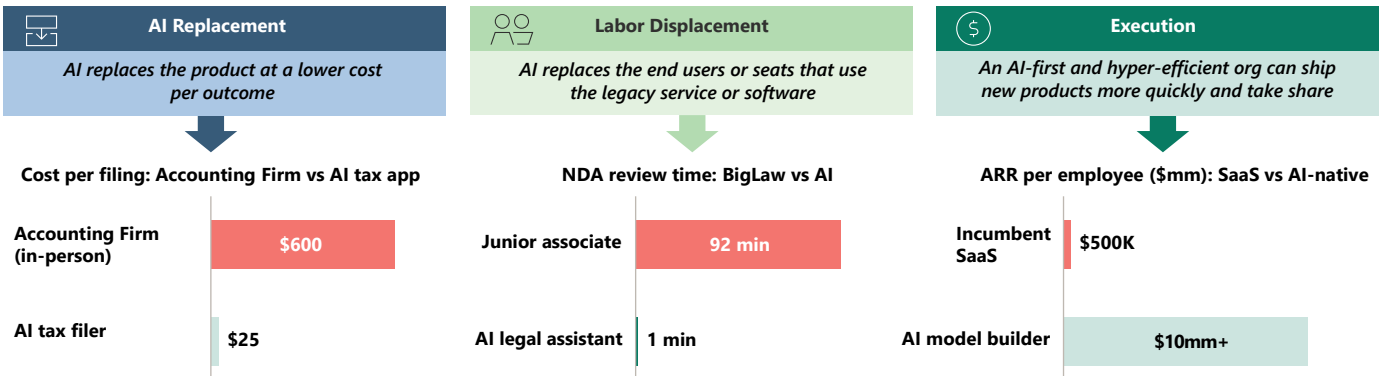
Data as of June 2026.
Source: Capital IQ, Apollo Analysts

As we said earlier, we believe software is only the first impacted sector of a much broader repricing. To evaluate these risks, we frame AI disruption through three distinct channels:

1. **Direct Replacement:** AI performs the same task as an existing product or service at lower cost.
2. **Labor Displacement:** AI reduces demand for the employees, contractors, or users that support a company's revenue model.
3. **Execution Risk:** AI-native competitors innovate, iterate, and gain market share more rapidly than incumbents.

Business services—including staffing, consulting, contact centers, and business process outsourcing—remain vulnerable as AI reduces the labor, billable hours, and seats required to deliver many knowledge-based services. Similarly, while healthcare delivery itself remains difficult to automate, much of the industry's administrative infrastructure is highly workflow-driven and susceptible to AI. In both sectors, we believe AI is likely to shift value away from businesses that monetize labor and toward those providing the data, software, and infrastructure that enable automation **(Exhibit 18)**.

Exhibit 18: AI-Driven Pressure May Take Several Forms

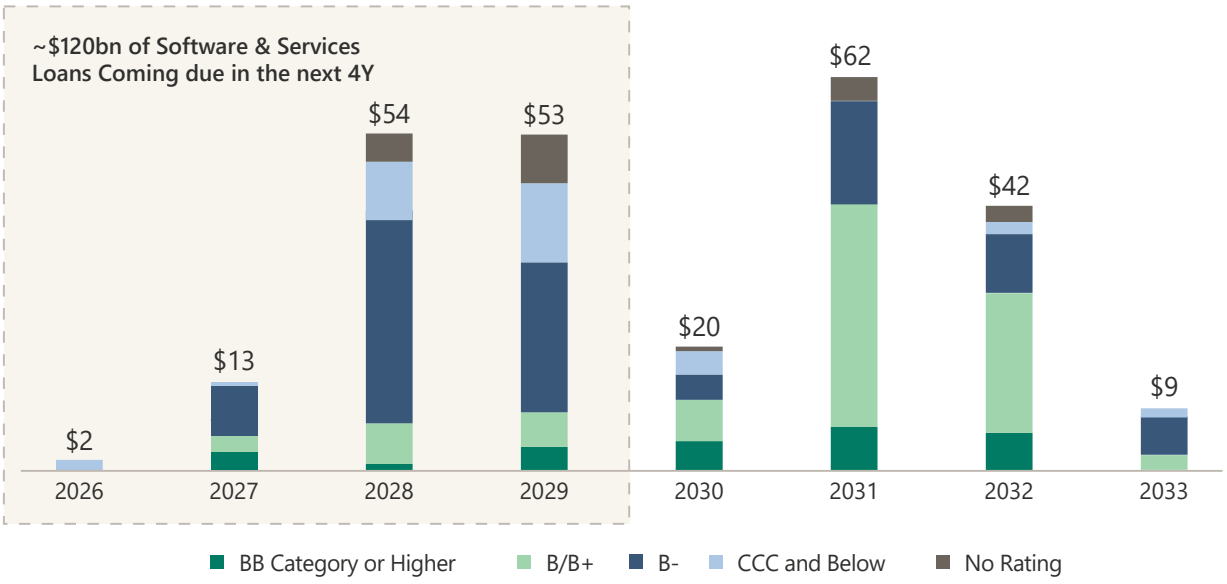


Data as of March 2026.
Source: Apollo Analysts

The next major test will come during the upcoming refinancing cycle. Approximately $120 billion of software and services leveraged loans mature through 2029, including more than $100 billion between 2027 and 2029, representing roughly 17% of all leveraged loan maturities over that period **(Exhibit 19)**. More than half of those software maturities already trade below 90 cents on the dollar, suggesting investors have begun pricing in a more difficult refinancing environment well before maturities arrive. Companies refinancing over the next several years may face lower enterprise values, more demanding lenders, higher financing costs, and uncertainty around AI's long-term impact. Recent refinancing activity offers an early read, but only for the stronger end of the cohort.

Imprivata, an identity and access management software company, amended and extended its $1.2 billion term loan by two years to December 2029 at SOFR+375, with a 0.50% floor and 99 original-issue discount, versus SOFR+300 on the prior loan.[17] The transaction illustrates that higher-quality software borrowers can still access the refinancing market, albeit at a higher cost and with meaningfully tighter documentation, while leaving unresolved the more important question of how weaker credits will address their upcoming maturities. **In our view, refinancing event risk is the most likely mechanism by which AI disruption translates into negative credit outcomes, either through payment defaults or liability management.**

Exhibit 19: Software & Services Maturity Wall by Credit Quality



Data as of March 2026.
Sources: JPMorgan, Bloomberg

17. Bloomberg, Apollo Analysts, June 2026.

Theme 2: Financing the AI Buildout Is Reshaping Credit Markets

The scale of AI's ambition is matched only by the magnitude of capital required to build the technology's supporting infrastructure. As the investment cycle outstrips internal corporate funding capacity, the industry is reaching across markets, geographies and asset classes for financing, employing an all-of-the-above strategy. The implications for credit investors are clear: Expect more issuance and upward pressure on spreads, while borrowers increasingly turn to private credit as an alternative source of capital.

Unlike previous technology cycles, which were largely asset-light and financed through venture capital, public equity and internal free cash flow, AI requires sustained investment in chips, servers, data centers, networking equipment and power. Estimates of the ultimate cost vary widely depending on how much computing capacity is built and the cost of bringing it online.[18] Current projections for global AI-related capital expenditures through 2030 range from near $5 trillion to more than $11 trillion **(Exhibit 20)**.

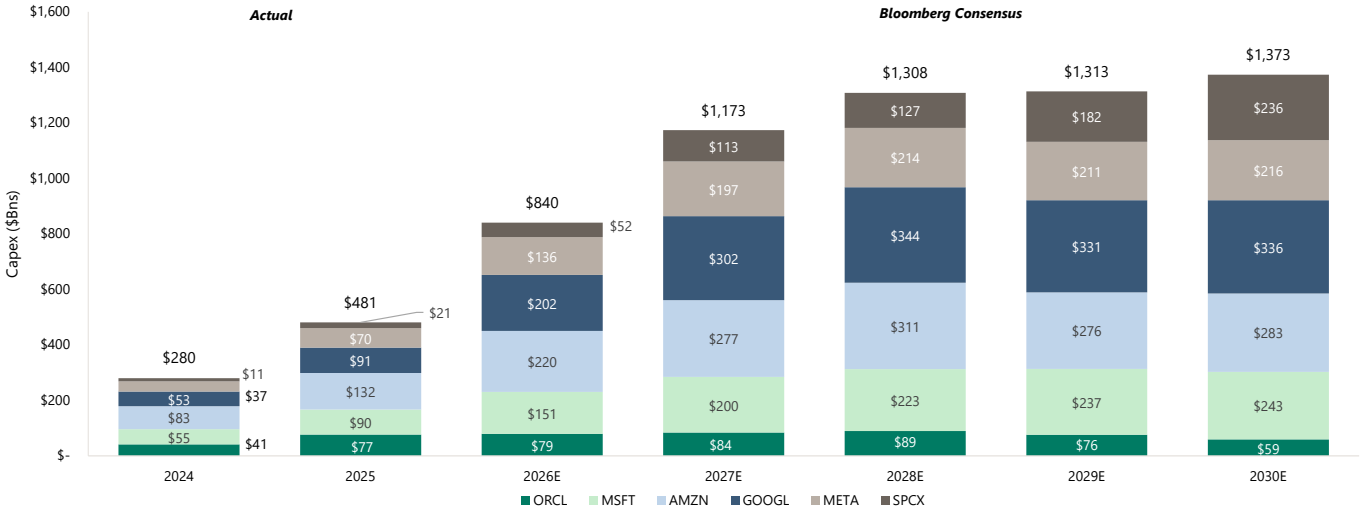
Exhibit 20: Global AI Capex Estimates Vary Widely

Source (As Of)	AI Capex estimate	Time period
SemiAnalysis (July 2026)	$11.1tn	2024-29
JPMorgan (June 2026)	$5.5tn	2026-30
Goldman Sachs Global Institute (April 2026)	$6.0tn	2026-30
McKinsey (April 2025)	$5.2tn	2025-30

Data as of July 2026.
Sources: SemiAnalysis, JPMorgan, Goldman Sachs Global Institute, McKinsey

Hyperscalers will account for a large share of this spending, but they will not finance the buildout alone. Bloomberg consensus estimates suggest annual capital expenditures by the largest hyperscalers could rise from approximately $500 billion in 2025 to more than $1 trillion in 2027 and surpass $1.3 trillion by 2030, with most of the spending expected to be driven by AI **(Exhibit 21)**.

Exhibit 21: Hyperscaler Annual Capex



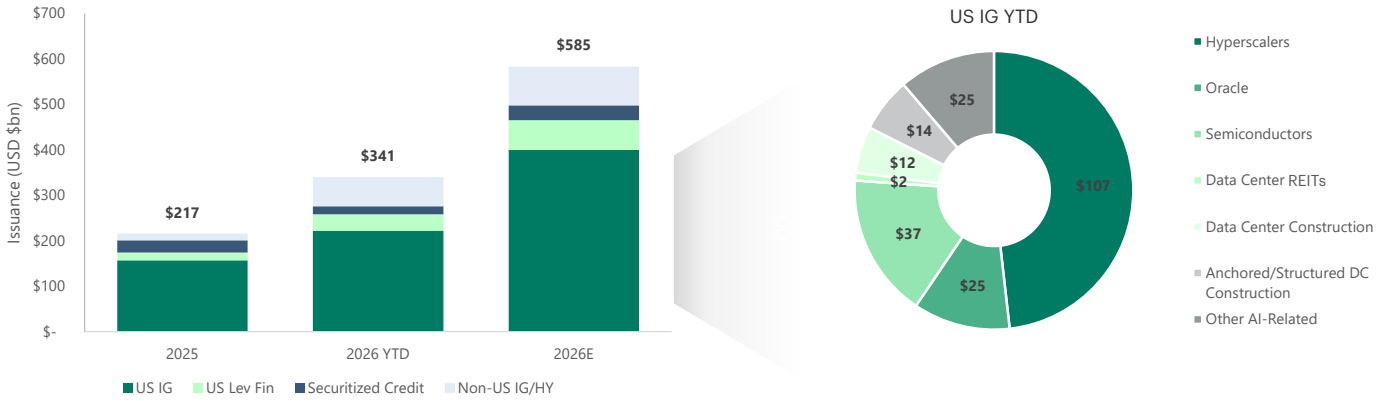
Data as of July 2026.
Source: Bloomberg, Apollo Analysts. Note: All data adjusted for calendar years.

18. Read more about the Balance Sheet Behind The AI Revolution and the Compute Shortage in our recent Apollo Thematic Investing articles here and here.

Strong operating cash flow will fund a meaningful portion of this investment, but not all of it. Hyperscaler borrowing is expected to peak in 2027, before new data center capacity comes online and the related revenue supports a greater share of future spending. Even then, we believe that aggregate lease-adjusted debt will be manageable.[19]

No single financing market will be large enough to meet these needs. The financing mix will depend on market conditions, rating considerations, asset type (e.g., GPUs, data centers) and the willingness of hyperscalers and chipmakers to provide contractual support to data center developers and other ecosystem participants. Ultimately, we expect Public IG to finance only a fraction of the capital required **(Exhibit 22)**.

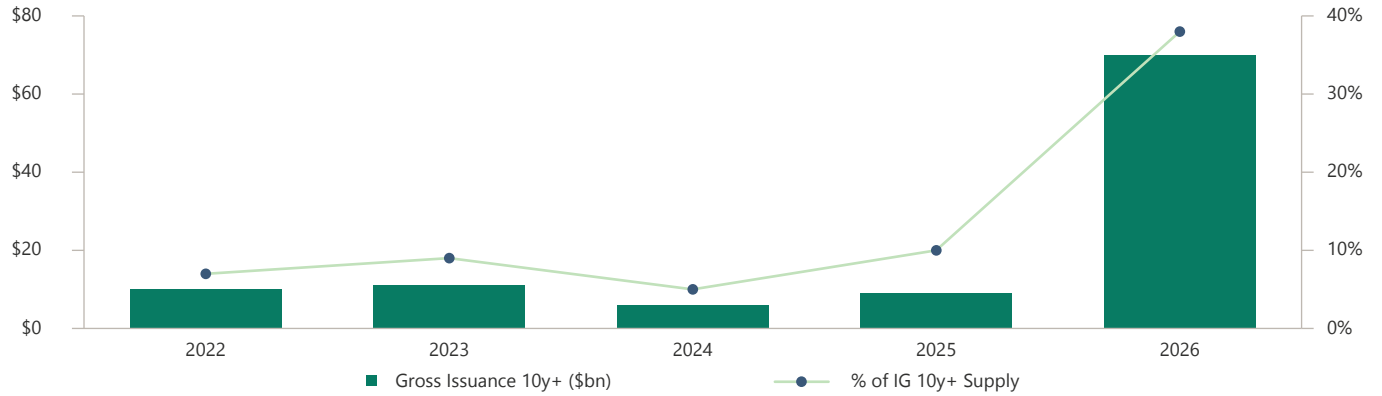
Exhibit 22: Mapping the AI Financing to Date



Data as of July 2026.
Sources: Morgan Stanley

The initial wave of AI-related issuance was met with strong demand. High-quality issuers, attractive all-in yields and demand for long-duration assets allowed hyperscalers to raise substantial amounts of debt without materially disrupting the broader IG market. Year to date, Amazon, Alphabet, SpaceX, Meta, Oracle and Nvidia have collectively issued about $220 billion of debt.[20] AI-related IG-rated public debt offerings have also accounted for nearly 40% of longer-duration corporate bond supply, concentrating their impact on the long-end of the curve **(Exhibit 23)**.

Exhibit 23: Tech and AI-Related Issuance Accounts for Nearly 40% of Longer-Duration Supply

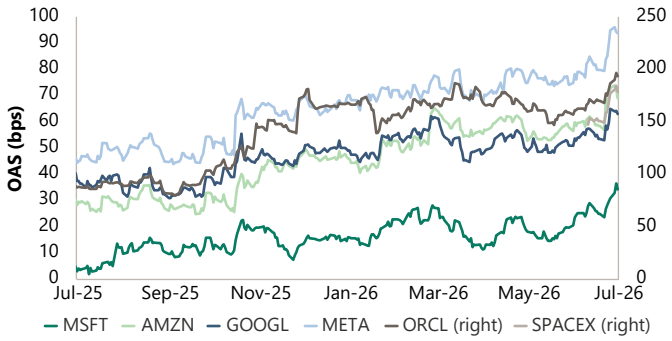


Data as of July 2026.
Sources: Bloomberg, Barclays, Apollo Analysts. Note: YTD issuance across years.

19. Apollo Analysts.
20. Bloomberg, July 2026.

Recently, investors have grown more selective. Hyperscaler spreads have more than doubled since the middle of 2025 and, excluding Oracle, the group has gone from trading tight to the broader IG index to trading wide of it, despite maintaining substantially higher average credit quality. New issues have required greater price concessions, and several long-dated transactions have widened meaningfully since issuance **(Exhibit 24).**

Exhibit 24: Record AI Issuance Is Contributing to Wider Spreads



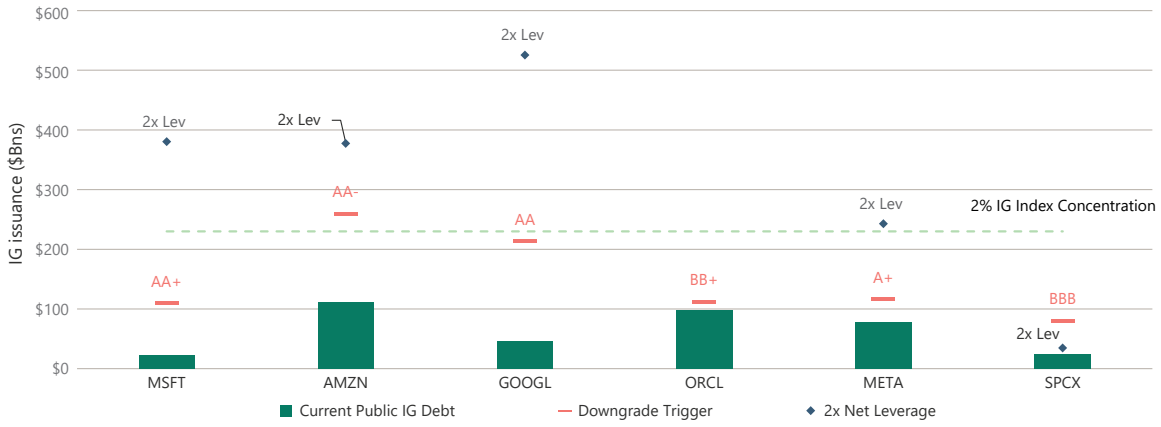
Data as of July 2026.
Sources: Bloomberg, Barclays, ICE BofA Index, Apollo

We view this as a supply-driven repricing rather than a sign of weaker credit fundamentals. Public markets are being asked to absorb an unusually large volume of long-dated issuance from a relatively small group of borrowers. Even investors that remain constructive on the credits may be constrained by single-name limits, technology-sector exposure, spread-duration budgets or factor-risk limits, making each subsequent transaction more difficult to absorb**.**

The financing challenge is not primarily one of leverage. The largest hyperscalers entered the investment cycle with exceptional balance sheets and substantial operating cash flow. Leverage remains broadly consistent with IG ratings even under more adverse capital-expenditure scenarios.

Instead, the binding constraint is likely to be capacity. Apollo estimates that the AI ecosystem could fundamentally support more than $2 trillion of additional IG debt, particularly when chipmakers and other highly rated companies providing guarantees or contractual backstops are included. Public IG markets, however, may be able to absorb less than $1 trillion of that amount through 2030 **(Exhibit 25).**

Exhibit 25: Public IG Capacity Is Constrained by Concentration and Ratings



Data as of July 2026.
Sources: Bloomberg, Apollo Analysts

Large technology issuers are already becoming significant components of IG benchmarks. Additional borrowing would increase both single-name and sector concentration, particularly on a duration-adjusted basis, a topic we address further in the next section. Ratings may provide another constraint. Although some issuers could borrow substantially more while remaining below 2x leverage, doing so could result in multiple-notch downgrades, increasing financing costs and reducing demand from ratings-sensitive investors.

The gap between fundamental borrowing capacity and public-market capacity creates a substantial role for private credit. Apollo estimates that private IG will likely provide more than $1 trillion of financing.[21] Capital can be supplied through infrastructure debt, asset-backed finance, data center loans, equipment financings and other structured solutions.

Private markets can reduce dependence on benchmark demand and avoid some of the concentration limits facing public bond investors. Maturities, amortization, collateral and covenants can be tailored to the underlying assets and contracted cash flows. Financing can also be placed closer to the asset being built, allowing a data center, chip portfolio or power project to raise debt without requiring a hyperscaler to issue another benchmark-sized corporate bond.

Many transactions are supported by contracts or guarantees from IG hyperscalers and chipmakers. Google and Meta have provided lease commitments that have helped data center developers raise capital; Meta, Nvidia and AMD have supported compute-as-a-service arrangements with neocloud providers; Broadcom has provided residual-value support for chip financing; and Oracle has guaranteed obligations associated with a long-term power contract. Across transactions identified by Apollo, at least $90 billion of contractual backstops have supported tens of billions in associated debt **(Exhibit 26).**

These structures allow the credit strength of the largest technology companies to be transmitted across the AI value chain. They can help fast-growing AI labs or unrated borrowers access capital at more attractive costs, while allowing hyperscalers to secure compute capacity without directly owning the underlying assets. They can also create differentiated investment opportunities for private lenders that can assess contract durability, collateral values, technology risk, power availability and counterparty exposure.

Exhibit 26: IG Backstops Are Enabling Private Financing Across the AI Ecosystem

Backstopping	Backstop Providers	Backstop Beneficiaries
Data Center Leases	Meta, Google	HUT 8, FluidStack, TERAWULF, Cipher Digital, BLUE OWL + Meta (Hyperion JV), BlackRock + Meta (Sopaipilla JV)
Compute-as-a-Service *(Neoclouds)*	NVIDIA, Meta, AMD	CoreWeave, Lambda, firmus, NEBIUS, Crusoe
Chip Purchases & Leasing	BROADCOM	ANTHROPIC
Power-as-a-Service	ORACLE	VoltaGrid

Data as of July 2026.
Sources: Public filings, bond offering memoranda, Apollo. Note: The transactions shown are non-exhaustive and represent a selection of recent large-scale deals.

21. Apollo Analysts.

The opportunity is not without risk. Power and chip supply may not expand quickly enough to support projected construction, while higher memory, equipment and labor costs could weaken project economics. Technological progress could also change the amount or type of computing capacity required. The durability of contractual support, renewal economics and the ability to redeploy depreciating equipment will therefore matter as much as the headline credit rating of the sponsor.

Nevertheless, the direction of travel is clear. The AI buildout is part of a broader global industrial renaissance, characterized by unprecedented secular investment across digital infrastructure, power generation, utilities and other systems supporting the new economy.

Meeting these long-duration capital needs will require funding well beyond what corporate balance sheets, banks and public markets can provide individually. In an upside scenario for AI, higher capital expenditures would increase the financing requirement and intensify the need for private-market capacity despite higher cash flows. In a downside scenario, public-market risk appetite could decline even as companies continue funding projects already under construction, increasing the value of committed and customized private capital. Public IG will remain important—and wider spreads may create attractive relative-value opportunities—but it is unlikely to absorb every dollar required by the buildout.

Private credit is therefore positioned to play an essential role in the AI ecosystem's funding needs. As borrowing migrates from unsecured corporate bonds toward asset-backed facilities, equipment financings, project debt and contract-supported structures, the distinction between corporate and asset-based credit will continue to blur. For investors able to originate, structure and underwrite these transactions, we believe the AI buildout is likely to become one of the largest sources of credit creation in the coming decade.[22]

22. Apollo analysts, July 2026.

Theme 3: Portfolio Construction in the AI Era

Taken together, AI-driven disruption and AI-driven investment are recasting the opportunity set for credit investors—and with it, the approach to portfolio construction. As AI emerges as an important driver of credit issuance, fundamentals, and performance, traditional assumptions around diversification may need to be revisited. Historically, investors diversified across asset classes, sectors, ratings, and geographies. Today, however, many of these exposures are being linked by AI as a common underlying driver.

AI-related issuers account for roughly a third of net IG issuance year-to-date[23] and already represent a meaningful share of benchmark composition. We estimate hyperscalers alone could grow from approximately 5% of the IG index today to nearly 10% in the next four years **(Exhibit 27).**

Meanwhile, data center financing has developed into one of the fastest-growing segments of the HY market, with issuers such as Core Scientific and TeraWulf raising capital to transform existing bitcoin mining facilities into AI data centers. Almost overnight, direct data center exposure in the HY market has gone from virtually zero to nearly 5% of the index, which, as a standalone sector, would make it the sixth-largest sector constituent in HY **(Exhibit 28).**

At the same time, GPU-backed financings have tapped the leveraged loan market, most notably through CoreWeave's $3.1 billion offering. Private markets are funding everything from data center construction to power infrastructure, and record equity issuance is expected from the largest AI model builders as well as hyperscalers.

This evolution matters because it changes the nature of diversification. Traditionally, investors managed portfolio risk and concentration by allocating across sectors and asset classes that were influenced by different economic drivers. Technology, industrials, utilities, and real estate responded to distinct industry fundamentals, while IG credit, HY bonds, private credit, real estate, and equities often behaved differently during periods of stress.

Today, those distinctions are beginning to blur. AI exposure is growing across markets, often in ways that are not immediately obvious. Data centers require power, power requires generation and transmission, semiconductors require manufacturing capacity, and infrastructure projects require financing from both public and private markets. A portfolio with hyperscaler bonds, data center debt, power infrastructure, semiconductor exposure, GPU-backed financings, or AI-related equity issuance may appear diversified but contains assets highly related to the same underlying factor.

Exhibit 27: Largest US IG Issuers

July 2025

Ticker	Rank	Weight
JPM	1	2.4%
BAC	2	2.4%
MS	3	2.0%
C	4	1.7%
WFC	5	1.6%
GS	6	1.6%
HSBC	7	1.2%
T	8	1.0%
ORCL	**9**	**1.0%**
CMCSA	10	1.0%
AMZN	**26**	**0.6%**
MSFT	**41**	**0.5%**
META	**60**	**0.4%**
GOOGL	**149**	**0.2%**
Hyperscaler Total:		**2.7%**

July 2026

Ticker	Rank	Weight
JPM	1	2.3%
MS	2	2.2%
BAC	3	2.2%
GS	4	1.7%
WFC	5	1.4%
C	6	1.4%
ORCL	**7**	**1.3%**
HSBC	8	1.2%
AMZN	**9**	**1.2%**
T	10	1.1%
META	**11**	**1.0%**
GOOGL	**26**	**0.6%**
SPCX	**82**	**0.3%**
MSFT	**85**	**0.3%**
Hyperscaler Total:		**4.8%**

As hyperscalers seek to fund capex through debt issuance, the composition of the investment grade market is likely to evolve.

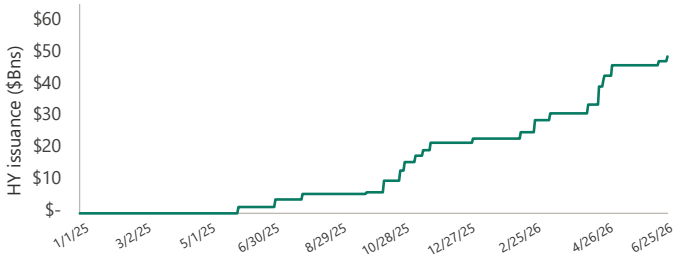
2030 Estimate

Ticker	Rank	Weight
JPM	1	2.1%
MS	2	2.1%
BAC	3	2.0%
META	**4**	**1.8%**
MSFT	**5**	**1.6%**
SPCX	**6**	**1.6%**
GS	7	1.6%
ORCL	8	1.4%
WFC	**9**	**1.4%**
AMZN	**10**	**1.4%**
GOOGL	**15**	**1.0%**
Hyperscaler Total:		**8.8%**

Data as of July 2026.
Sources: Bloomberg, Apollo Analysis

23. Goldman Sachs, June 2026.

Exhibit 28: AI-Related HY Issuance



Data as of June 2026.
Sources: ICE BofA

Meanwhile, AI-related spending and broader macro forces have contributed to shifting cross-asset correlations, making traditional sources of diversification—such as the relationship between equities and bonds—less reliable. Bonds have often sold off alongside risk assets rather than providing a stabilizing role. These developments are unfolding amid a period of heightened capital demand, as governments finance defense spending, industrial policy initiatives, energy security, supply-chain reshoring, and persistent fiscal deficits while the private sector undertakes an unprecedented AI infrastructure buildout. Together, these forces are creating intense competition for capital across global markets.

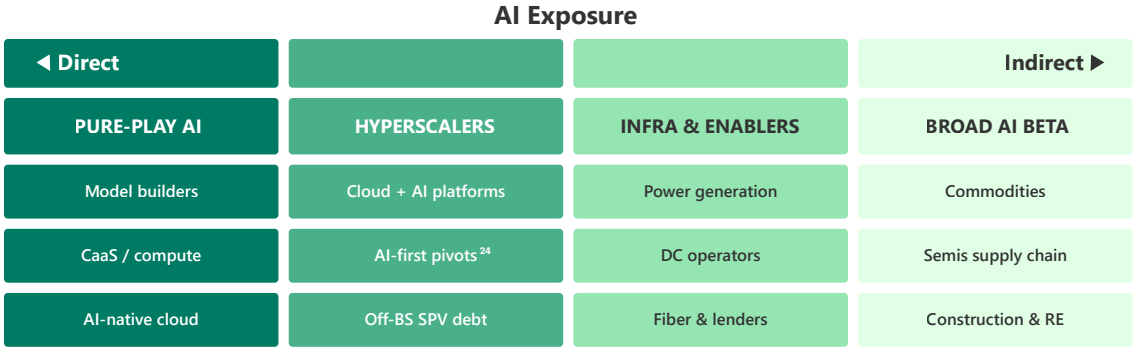
The result is an unusual combination: rising real yields are increasing the cost of capital, yet have done little to restrain risk appetite, with equity valuations near all-time highs and credit spreads near historic tights. While this environment has been supported by resilient economic growth and optimism around AI-driven investment, it also suggests that traditional diversification strategies may offer less protection if equity and fixed income markets correlate to the same underlying drivers of inflation, investment, and capital demand.

For credit investors, this raises a more pressing question: How much AI exposure already exists within a portfolio? The answer is often larger than traditional sector labels suggest. Understanding the nature of these exposures—and the interactions between them—matters more as AI-related investment accounts for a growing share of economic output and capital markets activity. In our view, investors will need to be more deliberate about allocating a finite AI risk budget and more precise about what constitutes an AI-related investment **(Exhibit 29).** Given the scale of capital flowing into the ecosystem, a broad range of industries are developing what we would describe as "AI beta"—a sensitivity to the pace of AI adoption and infrastructure spending that may not be immediately obvious from traditional sector classifications.

This is why we believe the value of true diversification is likely to increase. Investments whose performance is less dependent on hyperscaler spending, AI adoption, or the broader infrastructure buildout should be more valuable in a portfolio. Yet many of these opportunities do not appear to trade at a meaningful premium today.

One implication of this framework is that investors may need to take a more intentional approach to diversification. Understanding which investments offer genuine diversification away from the AI factor will play a larger role in portfolio management.

Exhibit 29: Assessing AI Exposure



Data as of July 2026.
Source: Apollo analysts

24. Companies such as Meta and Oracle, which are AI-core, but also have diversified revenue.

Two areas we continue to find particularly attractive are European private credit and sports financing. Both offer attractive risk-adjusted return potential and, more importantly, remain less dependent on the broader AI adoption cycle than many traditional credit sectors. In addition, hybrid credit offers another source of diversification away from AI-related exposure.

- **European private credit.** While AI investment is now a dominant force in US capital markets, Europe is defined by a different set of priorities: defense spending, energy security, infrastructure investment, and the need to finance economic modernization after years of underinvestment. At the same time, European banks continue to face regulatory pressure to operate with less balance-sheet intensity, creating opportunities for alternative lenders to fill the financing gap. Unlike the US, where a growing share of issuance is directly or indirectly tied to the AI ecosystem, European private credit remains more heavily influenced by traditional corporate financing needs and region-specific investment themes. AI-related IG issuance totaled ~€30 billion ($34.2 billion) in the first six months of the year,[25] compared with ~$220 billion in the US. In our view, that makes Europe valuable not simply because it has less AI exposure, but because it offers exposure to a different capital cycle altogether.
- **Sports-related financing can** provide an even more distinct form of diversification. Unlike many sectors currently benefiting from or threatened by AI, the economics of sports are driven by media rights, fan engagement, and the value of live experiences. AI may change how content is produced, distributed, or consumed, but it cannot replicate the underlying product itself. In fact, demand for live sporting events is readily illustrated by the recent FIFA World Cup, which broke historical attendance and broadcast records, with a final match that drew more than 60 million viewers in North America alone.[26]
- **Hybrid credit.** Financings that sit between traditional debt and equity, combining contractual downside protection with the potential for upside participation. Hybrid credit returns are often driven by negotiated terms, structural protections, and company-specific events such as M&A, recapitalizations, or balance-sheet optimization. Accelerating M&A activity, higher interest rates, and growing demand for flexible capital are expanding the opportunity set.

Rather than attempting to identify every hidden AI linkage across a portfolio, investors may benefit from allocating capital to sectors and asset classes whose cash flows are driven by fundamentally different economic forces. In a market where a growing share of assets are linked—directly or indirectly—to the same underlying theme, diversification itself may become increasingly valuable.

25. Barclays, July 2026.
26. The Guardian, July 18th 2026.

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