AI Debt Is Getting Its Own CDS Market. Should We Be Worried?

From mortgage-backed securities in 2008 to AI infrastructure today, what the growing use of credit derivatives tells us about the risks beneath a financing boom.

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There is something familiar about the current discussion around AI financing.

Companies are spending enormous amounts on data centres, GPUs, computing infrastructure and the power required to run them. Investors are providing the capital, lenders are financing the expansion, and the market is trying to work out whether the expected returns will justify the spending.

In an earlier Inside Private Credit article, *Private Credit Finds Its Next Asset Class: AI Infrastructure*, we looked at how private-market firms, including KKR, Apollo and BlackRock, were positioning themselves to finance this expansion. We discussed how AI compute is moving beyond technology spending and becoming an infrastructure financing opportunity, with data centres, GPUs and computing capacity creating new avenues for private capital.

That article focused on the opportunity and the underlying financing structures. This time, I want to look at another side of the same development: what happens when the amount of credit flowing into an industry starts attracting attention from investors looking to hedge against potential losses.

Another part of the credit market is becoming increasingly active: credit default swaps, or CDS.

Investors are increasingly buying and trading protection against the possibility that some major technology and AI-linked companies could struggle to meet their debt obligations. Recent Financial Times reporting, citing Barclays data, put net notional CDS exposure linked to AI-related companies at nearly $30 billion, compared with less than $7 billion a year earlier.

The activity largely relates to CDS referencing major technology companies and semiconductor firms. And it should not be confused with protection written directly against a pool of privately originated AI infrastructure loans.

That is a significant increase in activity. It also brings back memories of 2008, when CDS played an important role in the financial crisis surrounding mortgage-backed securities.

Are we looking at something similar developing around AI?

Before drawing that comparison, it is worth understanding what is happening in both markets.

First, what exactly is a CDS?

A credit default swap is a financial derivative that allows one party to transfer the credit risk of a borrower or debt instrument to another party.

Think of it as a form of protection against a credit event, such as default.

Suppose an investor owns $10 million of bonds issued by a technology company. The investor is concerned that the company's debt could deteriorate as it continues borrowing to fund its AI expansion.

It can enter into a CDS contract with another party. The investor buying protection pays a periodic premium to the protection seller. In return, if a defined credit event occurs, the seller must compensate the buyer according to the terms of the contract.

The premium is generally quoted as a spread in basis points. For example, a CDS spread of 150 basis points represents an annual premium of approximately $150,000 on $10 million of protected notional in a simplified example. Actual payment arrangements depend on the contract's terms and market conventions.

A higher CDS spread generally indicates that the market is demanding more compensation to take on the credit risk.

There is another important point: the investor buying CDS protection does not necessarily have to own the underlying bonds. It can also take a position based on its view that the borrower's credit quality will deteriorate.

This means CDS can be used both for hedging and for taking a speculative position.

What happened in 2008?

Before the financial crisis, banks and financial institutions were heavily involved in originating and distributing mortgage loans.

Those mortgages were pooled together and converted into mortgage-backed securities (MBS). More complicated structures, including collateralised debt obligations (CDOs), were created using exposures to mortgage-related securities.

CDS added another layer to this market. Investors could purchase protection against the default of mortgage-backed securities without necessarily owning those securities. Financial institutions could also sell

protection and collect premiums, taking on the risk that the underlying mortgage-related instruments would suffer credit losses.

As US housing prices began falling, borrowers increasingly struggled to repay their mortgages. Mortgage defaults rose, the value of mortgage-backed securities deteriorated and uncertainty spread across the financial system.

The problem was no longer limited to the original mortgage lenders.

Financial institutions had entered into CDS contracts with one another, creating large interconnected exposures. Some institutions had sold substantial amounts of protection and faced significant obligations as the underlying securities deteriorated.

AIG became one of the most prominent examples. Its financial products division had sold large amounts of CDS protection on mortgage-related CDOs. As the underlying securities deteriorated and AIG's own credit condition weakened, contractual requirements triggered substantial collateral calls from counterparties. These demands placed enormous pressure on AIG's liquidity. The US government eventually intervened to prevent a disorderly collapse.

The problem was not simply that AIG had made losses on mortgage-related securities. Its CDS contracts required it to provide collateral as conditions deteriorated, creating an immediate funding problem even before all the underlying securities had defaulted.

CDS did not create the bad mortgages. But they helped distribute and, in some cases, magnify the financial consequences when those mortgages went wrong.

What is happening with AI financing today?

The underlying assets are different, but the scale of financing is worth watching.

The AI buildout requires enormous investment in physical infrastructure. Data centres need land, buildings, power connections, cooling systems, networking equipment and expensive computing hardware.

Some of this investment is funded directly by large technology companies through their cash flows and corporate bond issuance.

But an increasing share is also being financed through private credit and more complex structures.

For example, a private credit fund might provide debt financing to a project-level special purpose vehicle (SPV) established to develop or own a data centre.

The SPV may be funded through a combination of sponsor equity and debt. It owns or develops the facility and may lease it to a large technology company under a long-term contractual arrangement. The lease payments generate revenue for the SPV, which can then be used to meet operating expenses and service its debt.

The technology company may not own the facility directly, but its contractual payment commitments can be an important part of the lender’s credit assessment.

This also connects to a point we discussed in our earlier article: lenders are not simply financing GPUs or data-centre buildings. They are assessing the cash flows that the infrastructure is expected to generate.

For example, a data-centre financing structure may depend on long-term leasing arrangements with technology companies. The lender needs to understand the strength of those contractual commitments, the

expected utilisation of the facility and whether the projected revenue can support debt servicing.

There is also an asset-value question. GPUs depreciate, technology evolves and equipment that is valuable today may have a much lower resale value a few years from now. If the expected business cash flows weaken, lenders may have to reconsider how much recovery value they can realistically obtain from the underlying equipment.

Not all these structures are private credit transactions. Some raise money through bond markets, while others involve private lenders, institutional investors and bank financing.

The Bank for International Settlements (BIS) has highlighted the growing use of off-balance-sheet financing in its research on AI infrastructure. It also points to the connections between hyperscalers, private credit funds, insurers and banks.

Banks may provide financing to the vehicles themselves or to investors holding their debt.

This is where the story becomes more interesting for private credit.

The risk is no longer confined to one company borrowing money. It can extend across a network of companies, infrastructure vehicles, lenders and investors that depend on the same underlying AI investment cycle.

Why are investors buying CDS on AI related companies?

AI infrastructure requires substantial upfront investment, while the revenue generated from that investment may take years to materialise.

Companies are spending heavily today based on expectations of future demand for computing capacity and AI services. This brings us back to some of the underwriting questions raised in our earlier article.

If a lender finances a data centre based on expected demand for AI computing, what happens if that demand grows more slowly than anticipated? Could falling GPU prices, faster technological obsolescence or lower utilisation affect the economics of the project?

These risks may not remain confined to the infrastructure owner. They can eventually affect the companies leasing the facilities, the vehicles borrowing to finance them and the investors providing the debt.

Investors holding bonds issued by these companies may want protection against that possibility. Others may simply believe that the market is underestimating the credit risk and want to take a position through CDS.

Recent market activity suggests that these concerns are being reflected in pricing.

Financial Times reporting in October and November 2026 highlighted a sharp increase in CDS trading linked to major technology companies. Oracle and CoreWeave have attracted particular attention, with protection costs rising significantly.

The reported $30 billion figure refers to estimated net notional exposure, not the total value of AI loans or the total amount of CDS transactions. It is a measure of the protection outstanding after offsetting positions, rather than a measure of the underlying debt itself.

However, a rising CDS spread should not automatically be interpreted as an imminent default. It reflects the price investors are willing to pay for protection, which can change with demand for hedging, market sentiment and perceptions of credit risk.

Is this the next 2008?

This is where I would be careful with the comparison. There are similarities, but the underlying structures are not identical.

In 2008, the problem was deeply connected to residential mortgage lending, securitisation and the distribution of mortgage credit risk through MBS, CDOs and CDS.

Today's AI financing cycle is built around corporate borrowing, data-centre infrastructure, equipment financing, private credit and long-term commercial commitments.

There is also a difference in the borrowers themselves. Several large technology companies involved in AI infrastructure have substantial existing businesses and cash-generating operations. Their credit positions cannot simply be compared with the weaker mortgage borrowers at the centre of the 2008 crisis.

But there are some questions worth asking.

- How much debt is being accumulated across the AI ecosystem?

Looking only at the balance sheets of large technology companies may not provide the full picture. Some financing sits in SPVs and joint ventures, while the associated payment commitments may extend over several years.

- How dependent are these structures on continued AI investment?

A data centre may be a valuable asset, but its economics depend on power availability, utilisation, technology requirements and the ability to attract customers. If demand weakens, the value of the underlying infrastructure and the ability to refinance its debt could come under pressure.

- How interconnected are the lenders and investors?

Private credit funds, insurers and banks are increasingly connected to the financing of AI infrastructure. If the same assumptions about future demand underpin multiple investments, a downturn could affect several parts of the market at once.

And finally,

- how much additional exposure is being created through derivatives?

This deserves attention because CDS can allow investors to take credit positions without directly financing or owning the underlying debt. That is not necessarily problematic. It becomes more concerning when exposures are leveraged, concentrated or difficult to identify across counterparties.

What should we watch next?

I don’t think the increase in AI-related CDS activity is enough to conclude that another 2008 is developing.

But it does tell us that investors are beginning to pay closer attention to the credit risks beneath the AI investment boom.

For private credit, the more immediate concern may not even be CDS. It could be the quality of the underlying loans, the assumptions used to finance infrastructure, the reliance on long-term contracts and the ability of borrowers to generate sufficient cash to service their debt.

CDS activity is one additional signal. It shows how investors are positioning themselves as those risks become more visible.

In 2008, the financial system discovered that the distribution of credit risk could become just as important as the original lending decision.

As AI financing expands, it is worth asking whether the market is building a similarly complex web of exposures around a different kind of underlying asset.

The assets have changed. The financing structures have evolved. But the basic credit question remains:

If the expected cash flows do not arrive, who ultimately bears the loss?



Sources and further reading

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5. Federal Reserve historical material on AIG's CDS exposures and the Maiden Lane III transaction.

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