MARKETS

CoreWeave credit default swaps hit distress levels as investors sour on AI debt

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KEY POINTS

- Signs of distressed deepened in CoreWeave on Thursday.
- Yields on its 2031 bonds topped 15%.
- Spreads in credit default swaps, which is insurance against defaults, widened to levels generally viewed as distressed.

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CoreWeave's credit stress continued to spiral on Thursday amid a broader sell-off in AI-related names.

CoreWeave — a so-called neocloud company — has taken on more than $51 billion of debt and obligations to finance its AI infrastructure build-out. It's now facing a rebellion from stock and bond investors as concerns mount about AI overspending and debt levels.

Yields on CoreWeave debt have continued to climb, with the yield to maturity on its 9.75% bond due in 2031 reaching 15.78%. Bond yields move inversely to prices. Meanwhile, the spread on its five-year credit default swaps, which are insurance against default, at one point soared above 1,140 basis points. It last stood at nearly 1,038 bps — a 16% week-over-week jump and 164% higher than a year ago.



Coreweave's 5-year credit default swap spread

Credit concerns are spreading into AI equities too. CoreWeave's stock dropped during trading Thursday before recovering and closing 5.94% higher. The moved followed Wednesday's 15.5% nosedive.

Other neocloud stocks were under similar pressure. Nebius also sank before climbing higher to close 1.29% and and Iren ultimately ended the day down less than 1%.

Anxiety about AI overspending is also spreading. For instance, shares of Micron Technology and Advanced Micro Devices sold off following a big sell-off in South Korean chip stocks. Micron closed up 1.87%, while AMD fell 1.5%.

While AI debt worries have been rising steadily, investors have suddenly grown skittish about the underlying finances of companies borrowing heavily to buy chips, build data centers, and rent out computing power.

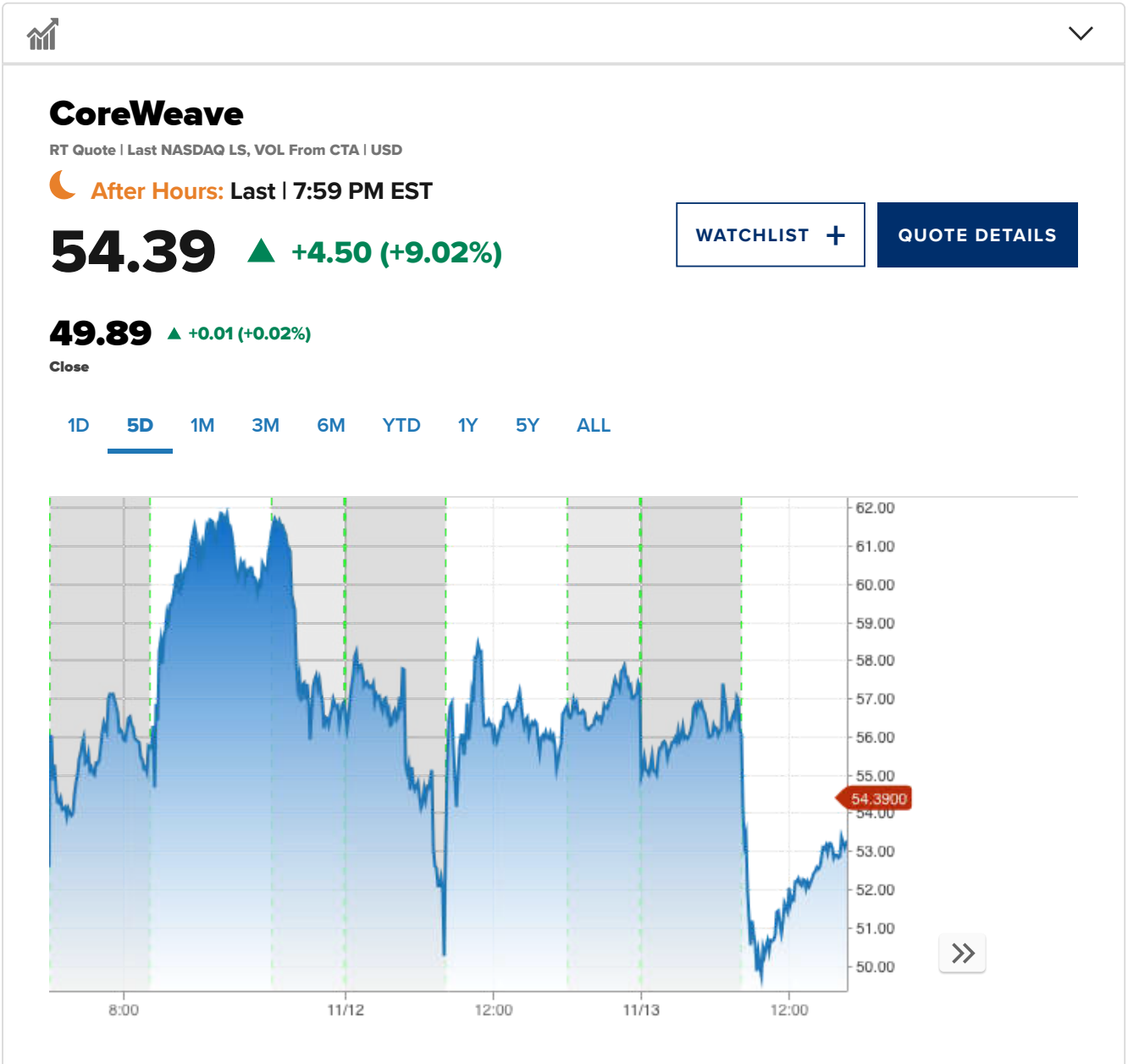
Coreweave's credit default swaps are one place to see that stress.

Credit default swaps are contracts where buyers pay for protection in case the borrower

debt as riskier.

The market is "basically saying 'no mas' to AI debt without operating cash flow support," the Evercore ISI trading desk said.

A spread level of 1,000 basis points or above is generally a sign of credit distress, said Gavan Nolan, executive director of fixed income pricing at S&P Global Market Intelligence.



CoreWeave's five-day performance

No one is questioning whether demand for CoreWeave's services is real, since the company

"It's obviously heavily negative free cash flow at the moment, and it needs that cash flow to arrive really to justify all the capex that it's spending," Nolan said.

'Self-fulfilling prophecy'

CEO Mike Intrator dismissed the market moves on Wednesday, according to a memo obtained by CNBC.

"When you are building a new type of technology company there will be periods of time when the market misunderstands and acts irrationally," he wrote. "We are confident in our backlog which more than supports all of our debt obligations."

The backlog is over $100 billion, with around two-thirds of it with investment-grade counterparts including Microsoft, Meta, IBM and Caterpillar, Deutsche Bank said in a note Thursday. The firm reiterated its buy-rating on the stock Wednesday, calling the dislocation a buying opportunity.

"The problem is this kind of concern can prove to be a self-fulfilling prophecy, and risks triggering broader issues in other AI-related names," said Jim Reid, global head of macro and thematic research.



Domino effects may already be happening. Oracle's five-year CDS spread also spiked this week. It was last at 282 basis points, a roughly 10% increase in one week.

"A downgrade from its BBB rating would risk pressuring IG-only investors into forced sales," Reid said.

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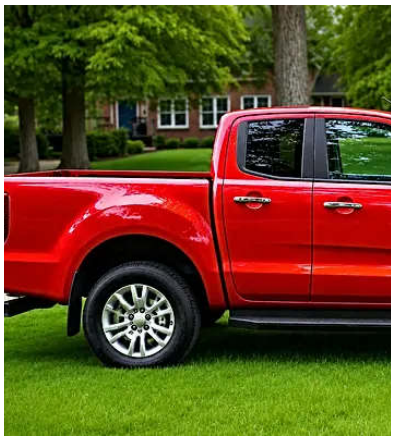

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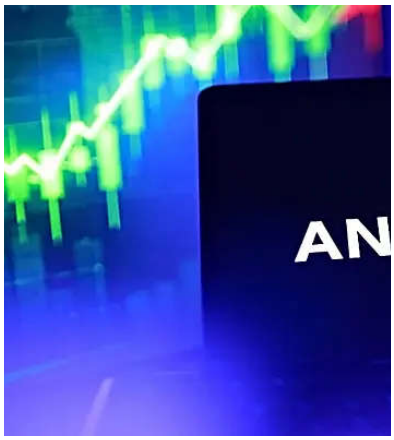

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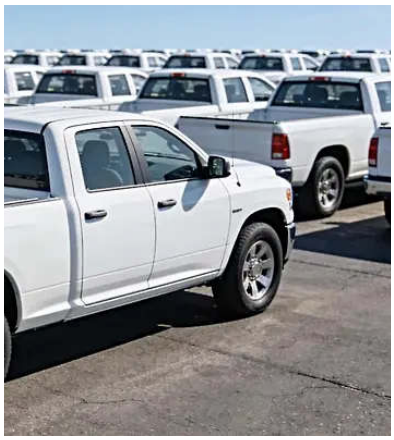

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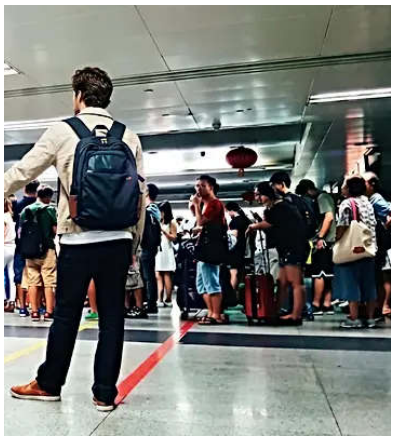

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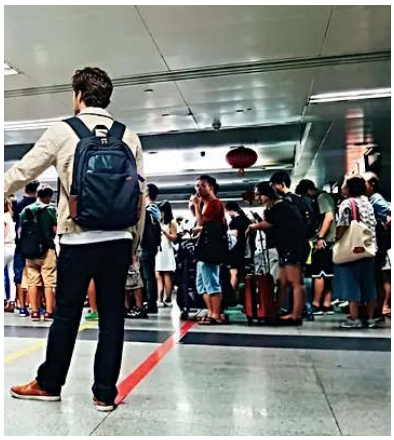

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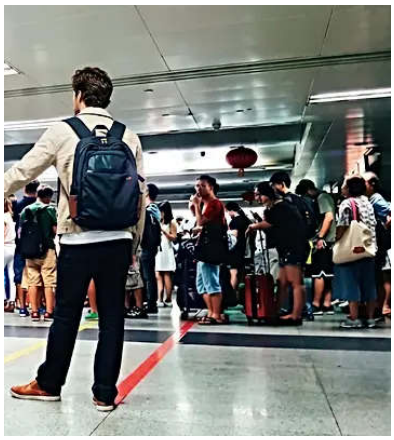

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