# Investors Hedge Tech AI Debt as Companies Borrow Billions

*Source: AI Investment Boom Spurs Tech Debt Hedging with Credit Default Swaps - News and Statistics - IndexBox*

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*According to Bloomberg, lenders and investors are increasingly using derivatives to hedge against potential defaults as technology companies prepare to borrow hundreds of billions of dollars for artificial intelligence investments.*

Banks and money managers are trading more credit default swaps that offer payouts if individual tech companies, known as hyperscalers, default on their debt. The cost of credit derivatives on Oracle Corp. bonds has more than doubled since September. Trading volume for credit default swaps tied to Oracle jumped to approximately $4.2 billion over the six weeks ended November 7, up from less than $200 million in the same period last year, according to Barclays Plc credit strategist Jigar Patel.

"We're seeing renewed interest from clients in single-name CDS discussions, which had waned in recent years," said John Servidea, global co-head of investment-grade finance at JPMorgan Chase & Co. "Hyperscalers are highly rated, but they've really grown as borrowers and people have more exposure, so naturally there is more client dialogue on hedging."

A representative for Oracle declined to comment.

Traders said the trading activity remains small relative to the expected flood of new debt. However, the growing demand for hedging indicates how technology companies are becoming increasingly dominant in capital markets as they pursue artificial intelligence projects to reshape the world economy.

JPMorgan strategists estimate investment-grade companies could sell approximately $1.5 trillion of bonds in the coming years. Recent weeks have seen several major AI-related bond sales, including Meta Platforms Inc. selling $30 billion of notes in late October, which was the largest corporate issue of the year in the United States, and Oracle offering $18 billion in September.

A JPMorgan report from last month shows that technology companies, utilities, and other AI-related borrowers have now become the largest segment of the investment-grade market, displacing banks that previously held that position. Junk bonds and other major debt markets are also expected to see significant borrowing as companies construct thousands of data centers worldwide.

Traders indicated that banks are currently among the largest buyers of single-name credit default swaps on technology companies, as their exposure to these firms has surged in recent months.

Source: IndexBox Market Intelligence Platform