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Sunday Start | What's Next in Global Macro

Credit Markets and the AI Financing Gap

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Gen AI and technology diffusion is rapidly reshaping the global economy and remains a key theme for markets across sectors and geographies. That said, its transformative potential hinges on substantial capital expenditure, with data centers at its core. We forecast roughly $2.9 trillion of global data center spend through 2028, comprising $1.6 trillion on hardware (chips/servers) and $1.3 trillion on building data center infrastructure, including real estate, build costs, and maintenance. On an annual basis, this translates into investment needs of over $900 billion in 2028. For context, the total capex spending by all companies in the S&P 500 index combined was about $950 billion in 2024. Such large potential spending has significant macro consequences as well. Our economists expect that investment spending related to data center construction and power generation will add up to 40bp to US real GDP growth between 2025-26.

By any measure, the capital requirements to support this level of investment are staggering, and mobilizing efficient and scalable capital becomes increasingly critical. We did a deep dive into this topic, exploring alternative avenues of capital to finance this expenditure, in a collaborative report published a few days ago. The key takeaway from the report is that credit markets – secured, unsecured, and securitized in both public and private markets – will play a growing role in financing data centers.

To be clear, capex related to AI and data centers has been in motion for the last few years. Spending from the hyperscalers alone has gone from ~$125 billion two years ago to ~$200 billion in 2024 and the consensus expectation is that it exceeds $300 billion in 2025. Internal operating cash flows from the hyperscalers have been the source of this spending. However, our equity analysts expect the investment needs for data centers to rise sharply over the next few years (see here and here). While cash flows from hyperscalers will remain a key source of capital to finance data center-related spending, we think that these alone will no longer be adequate, after accounting for cash build and shareholder capital returns. Leveraging our equity analysts' projections, we estimate that $1.4 trillion of hyperscaler capex may be self-funded with cash flows, leaving a sizable $1.5 trillion financing gap.

We think that credit markets, broadly defined to encompass both public and private markets of different flavors, will gain traction as more efficient providers of capital to bridge this gap. In our view, there is a favorable alignment of significant and growing dry powder across credit markets with attractive real yields on offer with appeal to a sticky end-investor base (e.g., insurance, sovereign wealth funds, pension funds, endowments and high net worth retail) looking for scalable, high-quality asset exposures that can provide diversification benefits. We think that this alignment of needs of capital and investment will pave the way for bridging the $1.5

trillion financing gap.

We size the different financing channels as follows: unsecured corporate debt issuance from issuers in the technology sector (~$200 billion); securitized markets in the form of data center ABS and CMBS (~$150 billion), private credit markets in the form of asset-based financing (~$800 billion), and other capital sources across sovereign, private equity, venture capital, and bank lending (~$350 billion). Of these, we think that private capital – in particular credit – will play a key role in meeting a majority of the remaining financing gap as it sits optimally at the intersection of significant expansion in AUM in a higher rate environment and the complex, global, and customized financing needs that are associated with AI build-out.

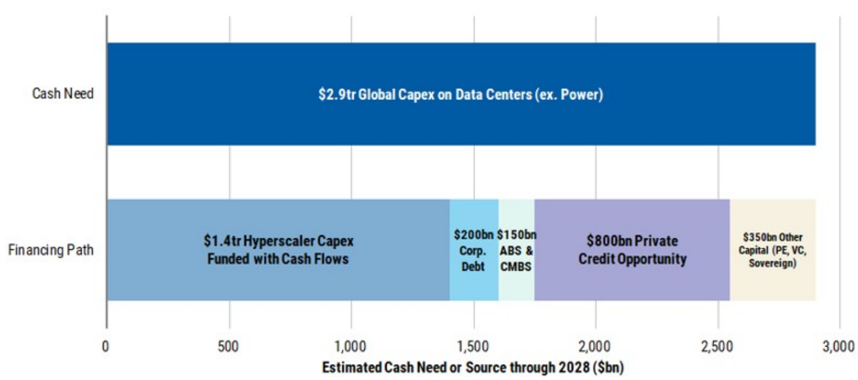
It goes without saying that sizing the different channels comes with considerable assumptions and admittedly some guesswork. Clearly, the premise that underlies our assumptions can shift dramatically over the horizon. Certain forms of financing like sovereign spending are especially hard to estimate. In addition, over a long horizon like we are predicting, financing can shift from one form to the other (e.g., from asset-based financing to asset-backed securities) depending on several factors, which might mean "undercounting" certain forms of capital deployment.

While we would not be too wedded to the specific size estimates in the broad constellation of financing channels, the point we want to drive home is that credit markets will play a major role in enabling AI-driven technology diffusion. As always, there will be winners and losers, but data center financing as a theme for credit investors is here to stay.

Enjoy your Sunday.

Send Us Feedback

Exhibit 1: Estimated financing breakdown for total capex, 2025-28



Source: Morgan Stanley Research estimates

What I'm Reading This Week

The Viewpoint: The Rebalancing Debate – To Diversify or Not to Diversify

Global Insight: Global Data Center Capacity Growth to Increase 6x

US Public Policy: Fiscal Over the Finish Line

G10 FX Strategy: FX Hedging Can Push EUR/USD to 1.25 and Beyond

What We Are Watching This Week

TUESDAY, JULY 22

US Fed Chair Powell is giving opening remarks at a regulatory conference, but it's during the Fed blackout period and so very unlikely he will talk about monetary policy.

WEDNESDAY, JULY 23

Euro Area Consumer Confidence: We expect consumer confidence to be stable at a low level in July (-15.3).

US Existing Home Sales: We forecast that existing home sales fell 0.7%M to a 4.0 million unit annual rate.

THURSDAY, JULY 24

Euro Area PMI: We expect stable euro area composite PMI in July, at 50.6.

Euro Area ECB Rates Decision: We think the July meeting should bring a pause. We don't expect a change in the ECB's communication, sticking to data dependency and the meeting-by-meeting approach. The risks to the growth outlook should continue to be characterized as skewed to the downside.

US Jobless Claims: Last week's decline in new jobless claims was broad-based across different states, which gives it more credibility. We expect a slight reversal – an increase to a still-low 230k.

US S&P Manufacturing PMI: The S&P measure will be the first national measure for the month. In general, the factory sector has held up well in the face of tariffs and tariff-related uncertainty, with the ISM near neutral and the S&P pointing to continued growth. However, the S&P price measures suggest that tariffs are having an impact.

UK PMI (Flash): We pencil in a modest improvement in UK Composite PMI to 52.2 in July. Our models suggest a decent uptick in Services PMI, although we think that a lot of the improvement they are pointing to in the July reading likely already materialized in June.

Turkey CBT Rates Decision: We expect the CBT to deliver a 250bp cut in the one-week repo rate to 43.50%.

FRIDAY, JULY 24

Japan Tokyo CPI: We project the headline Tokyo CPI for July at +2.9%Y, the Japan-style core (all items less fresh food) at +2.9%Y, and the core-core (all items less fresh food and energy) at +3.0%Y.

Germany ifo Business Climate: We expect an uptick in business confidence in July, at 89.0 from 88.4 previously.

US Durable Goods Orders: Orders probably fell sharply in June (Morgan Stanley estimate -10.0%M), with a sharp reversal in aircraft but strengthening elsewhere. We expect that orders excluding transport rose 0.3%M, core capital goods orders were unchanged, and core capital goods shipments rose 0.3%M.

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(as of June 30, 2025)

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
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Equal-weight/Hold	1632	44%	380	46%	23%	776	45%
Not-Rated/Hold	4	0%	0	0%	0%	2	0%
Underweight/Sell	593	16%	79	10%	13%	233	14%
Total	3,726		831			1713	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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