

Research note 04 — Who is paying for protection on the AI capex chain, who holds the paper, and what the collateral is worth

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Summary

Over three months the credit market repriced the companies building AI capacity, one name at a time, on a tape almost nobody reads. Oracle's five-year protection went from 37 basis points in June 2025 to 318 on 20 October 2026; Broadcom from 31 to 156; Nvidia, Meta, Alphabet and Apple acquired single-name CDS markets they did not have before this spring; the month's widening table, among names with enough prints to measure, is the chain and nothing else. Equities noticed on 21 October; the index caught up on the 22nd and 23rd. The repricing crossed a regulatory boundary on the way — single names report to the SEC's file, the indices to the CFTC's — so neither regulator's public tape shows it whole.

The statutory blanks show who holds the paper. Across eight life-insurance books parsed, at least \$1.2bn of Oracle at NAIC 2, about \$3bn of hyperscaler bonds, \$1.4bn of chip makers, and roughly \$3.9bn of data-centre securitisations — leases to the same names, carried at NAIC 1–2 — against \$48m of the leveraged tier itself. The tier has now said publicly it intends to borrow from insurers.

The reason the names moved first is the collateral. The leveraged end of the chain is financed against processors with a three-to-five-year life set by their maker, no residual history, no independent secondary market, value only while energised in a building the borrower often does not own, and a backstop from the party that sells them. Aircraft finance spent decades learning what that structure costs; the comparison is the centre of this note. Aircraft are prime mortgages; GPUs are subprime — not as an insult, as a statement about data.

1. The question

The AI build-out is financed down a chain: model owners and hyperscalers at the top; chip and equipment makers; data-centre landlords and their securitisations; power; and a leveraged tier of neoclouds, developers and private money at the bottom. If revenue lags the capacity being built — and the binding constraint has turned out to be grid power, not chips or demand — who takes the first loss, and is the market already pricing it?

Two public records answer different halves. The swap data repositories' public files say who is paying for protection and at what price. The NAIC statutory statements say who holds the paper. This site reads both.

2. The tape: who is paying for protection

Source and method. Single-name CDS are security-based swaps and report to the SEC's public file; the CFTC file carries only a few dozen a day with no reference-entity names. We read the SEC file from October 2024 (1,741 reference entities, around 400–800 corporate prints a day), key entities by RED code, and take the daily median traded spread of prints with 4.4–5.6 years to expiry as the five-year. Names that quote in points upfront on the 500 coupon are converted to a running spread with a flat hazard and 40% recovery and flagged; because the tape does not sign the upfront, that conversion is trusted only for names trading well above the coupon, which in the chain means CoreWeave. The index series come from the CFTC file as elsewhere on the site.

What it shows.

The chain is where the single-name market is. Over the twenty sessions to 21 October the busiest reference entities in the whole market were Oracle (229 prints), Broadcom (116), Nvidia (102), Amazon (90) and Meta (89); seven of the fifteen busiest were chain names. The month's widening table — names with six or more priced prints in each of two twenty-session windows — was Oracle 196 – 250, Broadcom 118 – 136, Meta 88 – 101, Alphabet 62 – 73, Intel 75 – 86, Amazon 65 – 74, Nvidia 82 – 88, and no one else qualified.

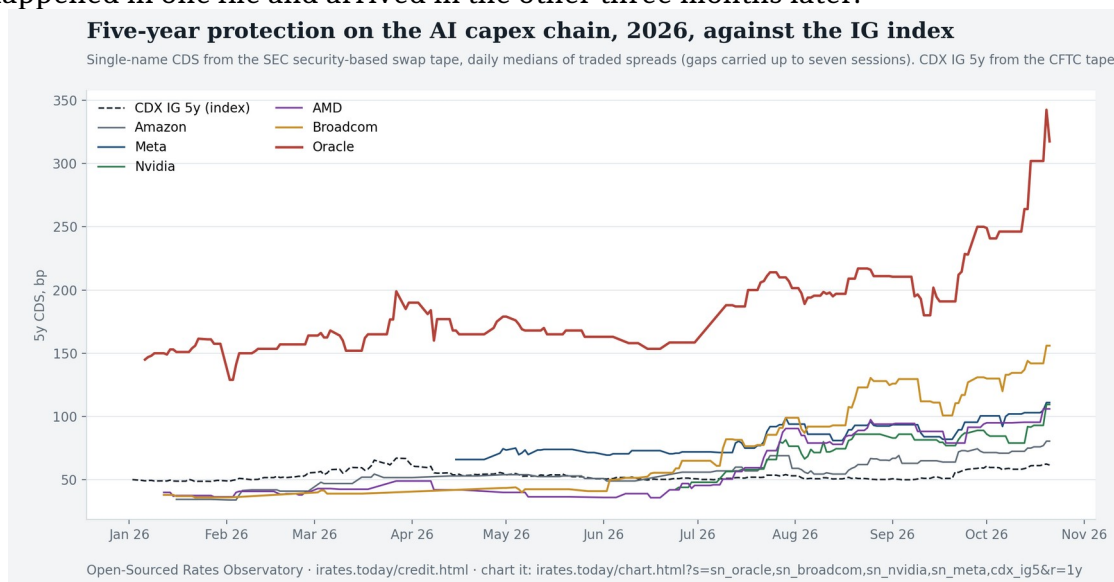
The levels, with dates. Oracle 37 (June 2025) – 191 (16 September) – 250 (end September) – 302 (15 October) – 342 (20 October) – 314–318 at the week's end. Broadcom 31 (September 2025) – 156. Nvidia 43 (June 2026) – 128 (23 October). Meta 73 (April 2026) – 124. AMD 53 – 110. Alphabet 50 – 87. Amazon 26 – 85. Microsoft 27 – 51. Apple 30 – 43. Against CDX IG at 61–64, Meta trades at twice the index, Broadcom at two and a half, Oracle at five.

Market creation. Nvidia, Meta, Alphabet and Apple had no single-name prints to speak of before March–June 2026. Dealers built a hedging market in them this year because clients asked for one.

Convention as signal. Every standard CDS exchanges an upfront, so an upfront by itself says nothing; the coupon a dealer writes the name on does. CoreWeave has been on the 500 — the high-yield coupon — from its first print in September 2025, with an implied five-year that ran 520–610 in the spring, 820 on 22 September, 960 on 13 October and 1,110–1,150 in the week of the 19th. Oracle at 318 is still written entirely on the investment-grade 100: priced like crossover, conventioned as IG. AMD, rated A, had no prints on the 500 in January and has had about half of them there since July — a reclassification in progress with no rating action behind it. Further out, AES (power) went from none to 48% of prints on the 500 in three months, and United Rentals (construction equipment) from a third to all.

The index moved last. CDX IG 61.2 → 62.8 → 63.9 over the week of 19 October; iTraxx Crossover 296 → 322; CDX EM 163 → 173 — 90th-percentile weekly moves, after the names had done the work. The 60-day correlation of CDX IG with the ten-year Treasury fell from +0.56 on 18 September to 0.05 on 22 October, the lowest since March: credit stopped trading as a rates product.

Two files, two regulators. Anyone watching only the CFTC tape saw credit do little until 22 October; anyone watching only the SEC tape saw a sector reprice over a quarter. The move happened in one file and arrived in the other three months later.



3. The blanks: who holds the paper

Source and method. Schedule D Part 1 rows from the FY2025 statutory statements of eight life insurers parsed to date (Athene, Corebridge, MetLife, New York Life, Pacific Life, Jackson, Securian, Genworth), matched to issuer by description. The parse is partial for the largest filers, so every figure below is a floor.

Layer	Holdings (book value, at least)	Designat ion	Held by
Oracle	\$1.2bn	all NAIC 2	all eight
Hyperscalers (Amazon 986m, Meta/Hyperion 747m, Microsoft 746m, Alphabet 322m, Apple 207m)	~\$3.0bn	NAIC 1	all eight
Chips (Broadcom 582m, Intel 564m, Micron 163m, Nvidia 114m, AMD 11m)	~\$1.4bn	1–2	all eight
Data-centre ABS (Vantage 753m, Compass 632m, Switch 535m, QTS 409m, CyrusOne	~\$4.2bn	mostly 1–2	five; about half at one

313m, Flexential 263m, DataBank 261m, Aligned 239m, Stack 233m, Sabey 219m, TierPoint 206m, EdgeConneX 126m)			carrier
Power (AES 411m, Vistra 234m, Constellation 207m, NRG 66m)	~\$0.9bn	2–3, some AES at 5	most
Private-credit vehicles (Blue Owl)	~\$2.0bn	1–2	seven
Neoclouds (CoreWeave)	\$48m, a NAIC 3 term loan	3	one
Applied Digital, Crusoe, Lambda, Nebius, Core Scientific, Galaxy	none	—	—

Three readings. First, the insurers are not the leveraged edge: the neocloud credits are essentially absent. Second, their lower-stack exposure is the real estate — securitised colocation leases whose tenants are the chain, including operators (Flexential, TierPoint, EdgeConneX) that have hosted the leveraged tier — carried as investment grade and repriced only when leases are. Third, Oracle: \$1.2bn of BBB paper in every book while the protection market prices the name at five times the index.

4. The collateral: GPU finance through an aircraft lessor's eyes

This section is written in the first person. I spent several decades in contingent-claims valuation — equity derivatives, then rates, then credit, then hybrids — and the last structure I worked on was aircraft: valuing residual-value guarantees, and treating leases as financings with a residual-value guarantee embedded. I built those models at a manufacturer, then built the insurance models for a market-based insurance product that wraps aircraft lease payments, did guarantee analysis for an export-credit agency, and restructured a life insurer's derivatives book through 2008. I say this not as a story but so the reader knows where the judgements below come from.

4.1 What made aircraft financeable

In any credit structure the question I always came back to is recovery: what do you get back if it goes wrong. So the asset carries a large part of the valuation. Aircraft earned their financing on five things.

Maturity and data. The market is mature and there is a lot of information: transaction prices, lease rates, and a regular appraisal process by the industry's appraisal houses from which values can be inferred, with residual curves standing on several cycles.

Standardisation and redeployment. A plane is a plane. It can be redeployed almost anywhere, demand for it is fairly consistent, and given an aircraft you can estimate the revenue it generates. The same airframe also has several lives — frequent-flight passenger service first, later a freighter flying twice a day at lower revenue, but still with value.

A secondary market. Not incredibly liquid, but real and priced.

Foresight. Developing and certifying an aircraft takes years, so you can see the competing equipment coming long before it flies. Nobody is surprised by what their collateral will compete with.

The maintenance reserve. To me the biggest single thing. The lease or financing specifies that the reserve for the next C check or D check is funded regularly by the airline, so an operator cannot run the aircraft down to a hull and keep the maintenance money as residual profit before defaulting. The collateral is kept at a deliverable value at all times, by contract.

4.2 The manufacturer's guarantee, and British Aerospace

In the 1990s the asset-value guarantee and the residual-value guarantee became common: the maker stood behind the asset's future value for buyers who could not otherwise finance it. One of the reasons the manufacturer I worked for cared about modelling this was British Aerospace. It had built an aircraft that was not economic and sold it on financing favourable enough that many operators took it, mostly on leases of seven to ten years; when the leases ended and the choice was buy or give back, they gave it back. The financing hid for years that the production line was making a product without value, and by the time the returns carried the signal home a great many had been built and financed. The loss was twice over — the production revenue going forward, and the revenue from everything already delivered. The regional-aircraft business took a £1bn write-off in 1992, then the largest in British corporate history, with the Hatfield plant closed and the group reporting a £970m loss for the year [1]; the financing side of that episode is what I saw from the manufacturer's desk. The lesson the industry drew was that support from the party that sells the asset is correlated with the downturn that triggers it, and should be discounted accordingly. The market-based insurer was the answer: a wrap independent of the manufacturer, priced on data.

The question I raise here — as a question, and explicitly not a conclusion — is whether Nvidia's capacity backstop and its equity stakes in its own customers are the same instrument. In substance they look like one: the maker of the asset standing behind the asset's economics for a buyer who could not otherwise finance it, with the maker's own order book depending on the buyer's survival. Whether it differs in size relative to the maker's balance sheet, and in what the contracts actually oblige, is a matter for the filings. The instruments on the public record are Nvidia's agreement of September 2025 to buy about \$6.3bn of CoreWeave's unsold capacity and its equity holding [2]; the contractual detail sits in the two companies' filings.

4.3 The GPU asset, pillar by pillar

	Aircraft	GPU cluster
Economic life	25+ years	3–5 years, set by a vendor cadence that is annual; the maker controls obsolescence
Secondary market	Global, priced, months to remarket	None independent; value contingent on the building, the power feed and the networking fabric, which is destroyed on removal

Appraisal basis	Decades of transactions, several cycles	No cycle in the data; the asset class is younger than its loan tenors
Condition	Records travel with the airframe; maintenance reserves keep it deliverable	Utilisation and thermal history degrade the asset; nothing in the structure reserves against it
Foresight	Certification makes competing equipment visible years ahead	Nobody can see where the next generation lands
Default	The aircraft flies away from a bankrupt lessee	The cluster stays in someone else's building; who runs it, and how?
Manufacturer support	Guarantees written in the 1990s, written down after 2001	Backstop and equity from the maker, at the centre of the structure rather than its edge
Insurance wrap	Proven, by a market-based insurer	Requested ("borrow from insurers"); no residual curve to price it on

I do not know how I would underwrite a residual on an asset whose maker can obsolete it on a short schedule. What are the secondary uses? Is there a market? How do I get the asset to it — or does it stay where it is and the data centre gets repurposed to some lesser revenue? At high utilisation these things burn out; thermal history is a real component of value, and nothing in the structure reserves against it. And the asset only earns while it is energised, cooled and networked in a building. An aircraft can fly away from a bankrupt lessee. What does the GPU do? If it stays, who takes it over and how do they run it? If the party leasing the centre for capacity is the same party exercising its support from the manufacturer, what does that even mean? If someone had brought me a GPU-secured delayed-draw term loan at the manufacturer in 2005, I would have laughed.

4.4 What I got wrong a year ago, and what the driver actually is

Someone asked me about one of these structures in October 2025. My first response was that the equipment's half-life was two to three years and that the threat was obsolescence — by new hardware, or by software becoming efficient enough that utilisation fell and the demand never showed up. The efficiency argument was a bad assumption on my part: as the models get cheaper to run, utilisation goes up, because more applications become economic. The obsolescence argument was wrong in a more interesting way — the chips never got the chance. They are being manufactured and delivered, and they are sitting there, because there is nowhere to plug them in. Land and building permits are in hand; connecting the energy is the slow step — the Lawrence Berkeley study of interconnection queues puts the median time from request to commercial operation at more than four years for generators connected in 2018–2024 and above five in its latest release, and large-load connections are a newer and thinner record still [3]. An unplugged processor generates nothing, and that is a major gap for anyone whose financing assumed the revenue would be there on delivery. I had the sword right and the hand wrong: it was always the collateral; what swings it is time.

The second problem is the customer mix. The hyperscalers can pay large amounts up front while they are scaling, but when the leases come due they do not necessarily renew at similar rates, because in the meantime they have been building their own capacity. The premium a Microsoft or a Google pays is for the interval until its own build-out covers the uses it has identified; after that, the party in the middle, without an end user of its own, is trapped.

4.5 Prime and subprime

I reached the life insurer in time for the subprime crisis, and mortgages — with their embedded options — were familiar ground. Subprime was new and I did not at first understand the furore. What I came to understand is that the underwriting was problematic because there was no data on subprime defaults, recoveries or behaviour, so all of it was modelled with parameters from the prime market, which had thirty or forty years of history. Prime behaviour did not manifest in subprime, especially at the concentrations that built up. Because prime parameters understated the risk, the product looked low-risk and high-income, it was over-levered, and everybody piled in. And when the documents were finally read closely, they contained things nobody had modelled — robo-signing, the features added to increase volume.

This is where I am with the GPU. There is no history and no knowledge of how it performs as an asset. It is in high demand now, but many factors can hinder its valuation or prevent its economic value being realised, and right now that value cannot be realised at all for units slotted for, or sitting in, data centres with no power or network attached — factors entirely outside the borrower's control. On top of that the structures carry new ways to lose that aircraft finance never had: unpowered shells and the interconnection queue; take-or-pay backlogs where the vendor is also the customer and the investor; loans secured on hardware two generations behind at maturity; leases signed into shells years ahead of power by private and politically placed money at the edge; and the backstop from the seller. The forms were imported from a mature market into an asset that had not earned them. Aircraft are prime. GPUs are subprime. I expect some of these contracts to contain terms that will look odd when they are read closely, and some of them to be litigated.

4.6 Could a wrap be written?

A market-based wrap on aircraft payments works because the lessee's credit, the asset's residual and the remarketing path can each be modelled on its own. For a GPU lease all three collapse onto one variable — does the capacity earn before it depreciates — and the power queue controls that variable, not the lessee. Having built that kind of wrap, I do not see how it could be written on the GPU. Whether Nvidia's support makes sense is a balance-sheet question for Nvidia's CFO, not an insurance question. If a financeable structure exists it is not based on the chip. It is a package: power secured, the asset already in an energised shell when the financing closes, and life-cycle guarantees — options to refresh the hardware against obsolescence — which only the manufacturer can offer. That is also where the manufacturer could step back and provide some strategy and leadership: a more mature structure than rolling out the current product on the current financing. There may be a structure here at some point. I do not think this is it.

4.7 Who gets hurt, in order

As I see it: equity; unsecured bondholders; landlords and their securitisations; GPU-secured lenders and anyone relying on a GPU-based guarantee, which I still question is strong enough; the manufacturer that gave the guarantee; the hyperscaler counterparties; and the lenders behind the private builders. The insurers sit in the middle today — Oracle at NAIC 2, the hyperscaler bonds, the data-centre ABS — and would move down the order if they say yes to the tier. Lehman is the wrong comparison in size (CoreWeave's roughly \$40bn of debt and \$16bn of leases against \$31bn of equity is a fifteenth of Lehman's balance sheet) and the right one in structure: Lehman's gross netted down to a fraction, CoreWeave's does not; the loss-given-default is concentrated and real in both; CoreWeave's lands on landlords, securitisations and GPU lenders rather than on money funds and counterparties. Lehman's holding company had estimated allowable claims of about \$362bn against an initial estimated recovery near 21% [4]; CoreWeave's debt and lease figures are from its second-quarter report and September financing [5].

One phenomenon from subprime is worth naming, because its GPU version is the open question in 4.3: jingle mail. People stopped making their payments and sent the keys back. What gets handed back here is a cluster nobody can move, in a building the lender does not own, drawing no power.

5. The tier turns to the insurers

CoreWeave's co-founder told the Financial Times in mid-October that the company hopes to borrow from insurers, who have "unlimited" capital, and that scale is the only defence [6]. In the same week a data-centre REIT postponed its listing and other neoclouds were trying to list without success. The public markets are closing to the tier and it is turning to statutory balance sheets — the same month the hyperscalers' own issuance (one of them is looking at raising hundreds of billions against \$825bn of spending agreements [7]) is widening the investment-grade index that the insurers are the natural buyers of. The chain's funding is arriving at the life balance sheet from above and below at once.

The test is dated. The eight books parsed hold \$48m of the tier today. The Q3 2026 quarterly statements are due 15 November and the FY2026 annuals in March; the site will parse both for neocloud names, GPU-backed facilities and data-centre private placements, particularly at NAIC 3–4 and inside private-credit vehicles. If the names appear, the question of who holds the edge has a statutory answer; if they do not, the tier's funding has gone somewhere less visible, which is a finding too.

6. What it means for a life insurer's book

Three things. A BBB Oracle position is carried at NAIC 2 while the market prices the name at five times the IG index; the statutory factor and the market price have diverged further than for any name in the book, and the asset-adequacy work should know it. The data-centre ABS is a lease on the chain's revenue, not on the chain's balance sheet, and reprices at renewal — the tenant schedules in those shelves are the exposure, and they are public in the presale reports. And an indexed-annuity or variable-annuity hedge programme is long

this chain through the equity index it buys calls on; the credit and the hedge are correlated in a way the two desks rarely see together.

7. Method, limits, and what comes next

Single-name medians are one to twenty prints a day for most names; print counts are shown everywhere. The upfront conversion is unsigned and used only where it is unambiguous. The Schedule D parse is partial and every holding is a floor. The 2008 comparisons use the public post-mortems cited below. Next: the FFIEC call-report test of whether small banks in the data-centre counties carry the construction lending (the edge's lenders); the ABS tenant schedules; the EMMA search for campus financings; and the Q3 statutory parse on 15 November.

Liquidity is good until it isn't, a Barron's columnist of long memory used to say. This October the tape showed the order in which it stops: at the bottom of the capital stack first, in the names before the index, and in the Treasury market last of all.

Sources

1. British Aerospace plc, 1992 results and restructuring of the regional aircraft division (£1bn write-off; Hatfield closure; £970m loss), as recorded in company histories and the contemporary record.
2. Bloomberg News, overview of the AI financing web (October 2025), as excerpted in Noahpinion, 22 October 2025: Nvidia's agreement to buy about \$6.3bn of cloud capacity from CoreWeave; OpenAI's \$350m equity stake and contracts of up to \$22.4bn.
3. Lawrence Berkeley National Laboratory, *Queued Up: 2025 Edition* (December 2025) and the 2026 release: median time from interconnection request to commercial operation above four years for 2018–2024 projects and above five years in the latest data (generators and storage; large-load queues are reported separately and less completely).
4. Federal Reserve Bank of New York, *Economic Policy Review*, December 2014, "The Failure Resolution of Lehman Brothers"; Lehman Brothers Holdings Inc. Plan Trust 8-K filings (2021–2025); SIPC, 28 September 2022 (LBI liquidation concluded, 41.3% recovery to general unsecured creditors).
5. CoreWeave, Inc.: Q2 2026 results (revenue \$2.575bn, interest expense \$640m, free cash flow –\$5.7bn, depreciation \$1.39bn) as reported by The Information, 11 August 2026; principal debt of about \$35.6bn at 30 June 2026 per the Q2 10-Q as summarised; \$4.2bn convertible notes, September 2026; operating lease liabilities of about \$16bn as reported.
6. The Information, *The Briefing*, 14 October 2026, quoting the Financial Times: CoreWeave's co-founder on borrowing from insurers; stock –15.5% on 14 October; 35m-share programme; AirTrunk REIT listing postponed.
7. Bloomberg, "AI Tech Fears Push Global Credit Spreads to 17-Month High", 22–23 October 2026: global corporate OAS 129 bp, widest since May 2025; CDX IG highest

since March; Meta's financing plans against \$825bn of spending agreements; PGIM comment on issuance.

8. DTCC Data Repository (U.S.) public price dissemination: CFTC Part 43 credit file (indices) and SEC security-based swap credit file (single names), October 2024 – October 2026; derivation described on the Credit page's Method section.
9. NAIC statutory statements, Schedule D Part 1, FY2025, for Athene Annuity & Life, Corebridge (American General Life), Metropolitan Life, New York Life, Pacific Life, Jackson National, Securian (Minnesota Life) and Genworth; parsed by the Observatory, partial for the largest filers.

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