

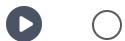
OPINION

Why the AI investment cycle, which works today, may turn into a trap

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Is there a bubble in the shares of [artificial-intelligence](#) companies? In the short run, maybe not, but investors need to focus in the long run as trillions of dollars are at risk and a possible burst of the bubble may hinder economic growth for years to come. For the disciplined investor, current liquidity is no replacement for a sizable margin of safety.

It is true that AI companies nowadays have proven track records of growth and cash-flow generation, which was not the case in the late 1990s. For example, hyperscalers, such as Alphabet, Amazon, Meta, Microsoft and Oracle, now generate a combined US\$692.291-billion in trailing twelve-month operating cash flow, reflecting a 29.69-per-cent annual surge and a June over March quarterly growth of 5.18 per cent.

But the other argument that proponents of a bull AI-driven market bring forth – namely, that these companies have solid balance sheets – is questionable. What we have now is companies that used to be light capex (capital

expenditures) are becoming heavy capex, and companies that used to have little or no debt are now heavily indebted. A wave of debt raising by tech companies investing in AI has blanketed the private and public debt markets.

But it also goes beyond this. For example, anchoring the aforementioned financial performance is US\$2.3375-trillion in Remaining Performance Obligations, or RPO – which is the value of contracted deferred and unbilled revenue expected to be recognized, a massive backlog that continues to underpin the credit profiles of these market leaders.

Opinion: Why the bursting of the AI bubble would be a much more worrisome event than many people think

It seems that debt and equity markets remain eager to underwrite nearly any expansion project related to AI. The overarching long-term risk is not a sudden lack of solvency, but a fundamental capital degradation fuelled by a relentless infrastructure race that is powered by the thirst to raise capital quickly.

Let me explain.

Analysts typically measure financial stability by analyzing reported debt and other on-balance sheet commitments. Under those standard accounting measures, the five hyperscalers report US\$810.748-billion in future buildout liabilities.

However, that figure covers only a fraction of their total debt exposure. The primary financial weight of the AI buildout remains off the balance sheet, where these five hyperscalers have committed to an additional US\$2.378-trillion in obligations.

These extensive off-balance-sheet arrangements consist of long-term Power Purchase Agreements, namely long-term contracts between an electricity generating company and a customer, such as an AI company; multiyear data centre lease agreements; property procurement of land and building sites necessary for data centre construction; hardware procurement commitments to purchase specific quantities of GPUs, servers and networking requirement at set prices, and other obligations such as specialized cooling systems.

Opinion: The AI boom isn't a replay of the dot-com bust

The collective burden of these industrial commitments has reached a staggering \$3.189-trillion, representing 4.6 times their consolidated trailing twelve-month operating cash flow of \$692.291-billion. While this leverage is serviceable in the current high-growth environment, the structural trap lies in the irrevocable nature of the agreements and the intensifying race for capital within debt and equity markets.

More importantly, the long-term risks and financial burden inherent in these obligations, ranging from multidecade facility leases to 15-year fixed-price power purchase agreements, have effectively shifted away from vendors and utilities, and have concentrated entirely and directly onto the hyperscalers. Should borrowing costs continue to rise or if generative AI demand hits an air pocket or cools off, these technology giants will find themselves tethered to locked-in, non-negotiable liabilities that offer little to no path for divestment or mitigation.

Furthermore, as neo-cloud entrants and smaller competitors aggressively tap capital markets, the cost to finance projects will rise and projected returns across the sector will erode. This landscape is further complicated by a circular revenue loop: hyperscalers deploy equity capital into major model developers such as OpenAI and Anthropic, who then recycle those same funds back to the hyperscalers to secure essential GPU compute capacity.

The stability of this investment thesis rests on a single pillar: Compute demand must continue to exceed supply. As long as this imbalance persists, the massive capital outlays appear justified. However, any inversion in this demand, where compute supply begins to exceed demand would prove catastrophic.

Market Factors: How to find the winners when the AI bubble bursts

Such a shift would trap hyperscalers in a low-margin utility model, forcing them to maintain expensive, underutilized assets. Investors should remain cautious: the primary long-term risk is not immediate insolvency, but a fundamental capital degradation as these technology giants evolve into capital-

intensive utilities with permanently diminished returns, even if the absolute dollar amounts are extremely large.

U.S. research firm Verdad, which examined financial metrics of light and heavy capex companies over the period from June, 1997, to June, 2025, suggests “by choosing to pursue earnings growth through aggressive spending on data centres with uncertain ROAs, [the hyperscalers] seem to be taking a gamble on their valuations.”

Moreover, it goes on to say that the hyperscalers’ transitioning from light-capex models to heavy-capex models with uncertain margins could cause their Return on Assets (ROA) on new investments in data centres to be lower than the ROA of their existing software business. And this will lead to lower stock returns for these companies going forward.

At that time, watch out, because the bubble will be bursting.

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