AI AND DATA CENTERS: NOT JUST AN EQUITY STORY

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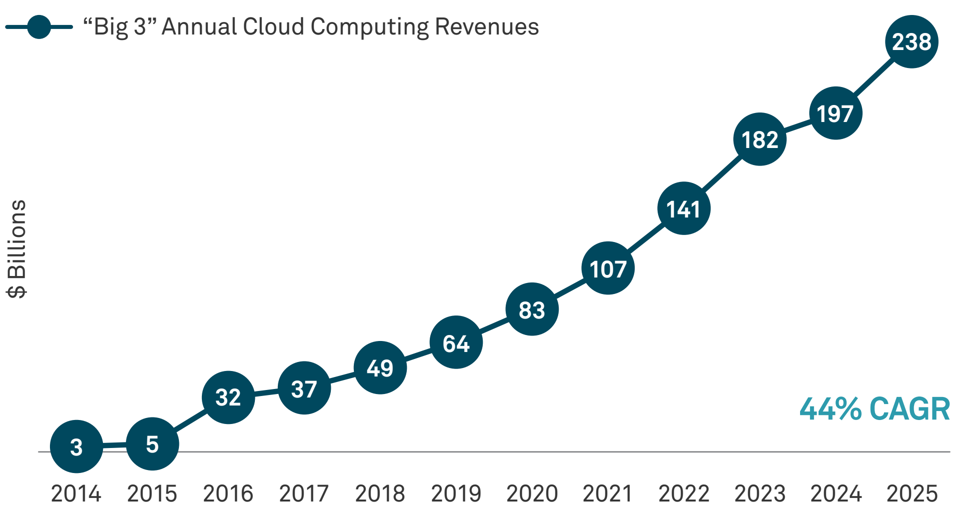
As the world braces for a potential “AI revolution,”[1] digital infrastructure, which includes data centers, cell towers and fiber-optic cables, is hungry for finance. The structured credit market, including asset backed securities (ABS), may be playing a key role.

Data centers are the backbone of the internet. The “cloud” is in fact a network of physical facilities that store, process and distribute millions of gigabytes per second. They make technologies like 5G, big data, real-time analytics and video streaming possible.

Cloud computing has been a key driver of the data center build-out in recent years. As 89% of large businesses embark on digital and AI transformations, migrating in-house computing systems to cloud providers has become a key step.[2] Companies can lease anything from data center shelf space (known as retail “colocations”) to entire buildings (known as “hyperscale” data centers). Asset-backed securities (ABS) deals tend to be secured against leases from multiple tenants and other assets while commercial mortgage-backed securities (CMBS) deals tend to be secured against a single borrower’s mortgage on a hyperscale property.

DEMAND FOR DATA CENTERS HAS BEEN GROWING[3]



Past performance is not indicative of future results. Charts are for illustrative purposes only. The “Big 3” = Amazon Web Services (AWS), Microsoft Azure and Google Cloud Computing. CAGR = Compound Annual Growth Rate.

[1] Artificial Intelligence (AI) refers to computer systems that can perform tasks typically requiring human intelligence, such as visual perception, speech recognition, decision-making, and language translation.

[2] McKinsey, March 2024.

[3] Bloomberg, Insight, February 2025. Big 3: Amazon Web Services (AWS), Microsoft Azure and Google Cloud Computing.

The next phase of investment is being driven by computationally hungry generative AI systems like ChatGPT. For example, the Trump administration's "Stargate" initiative explicitly seeks private data center finance for AI development.[4] Energy generation may be a limiting growth factor but could still bode well for fixed income investors given potential for rising rental premiums.

Notably, however, the development of China's competitor model DeepSeek raised questions on whether generative AI programs can run more efficiently than previously thought, negating some of the investment needed around data centers and the energy to power them. If it is the case, we believe it would impact newer properties, particularly those in areas with questionable energy infrastructure. Our focus is instead on areas with well-established leases and infrastructure — particularly North Virginia, the undisputed "data center capital of the world" with over four times as much data center inventory, and an advanced fiber optic infrastructure network.[5]

Conclusion

Data centers and cloud computing may offer investment opportunities not typically seen within traditional fixed income. We believe a core plus strategy has the potential to offer attractive yields through exposure to securitized sectors and may provide a way for investors to add value to their portfolio while being intentional with their fixed income investments.

About Insight Investment

Insight Investment is a leading global investment manager and fixed income specialist firm within BNY Investments.

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For more information and a deeper discussion, read our full report: **Structured Credit: Interesting Investments from Fast Food to Cloud Computing**.

[4] The Stargate initiative, announced by President Trump in 2025, calls for several major technology companies to invest at least $500 billion in artificial intelligence and data centers at a number of US locations.

[5] CBRE, North America Data Center trends, August 2024.

IMPORTANT INFORMATION

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Past performance is not necessarily indicative of future results.

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Bonds are subject generally to interest-rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. **Investment grade** is a rating of fixed-income bonds, bills, and notes by credit rating agencies. **Equities** are subject to market, market sector, market liquidity, issuer, and investment style risks to varying degrees.

Mortgage-Backed Security (MBS) is an investment similar to a bond that is made up of a bundle of home loans bought from the banks that issued them. Investors in MBS receive periodic payments similar to bond coupon payments. **Asset-Backed Security (ABS)** is a financial security such as a bond or note which is collateralized by a pool of assets such as loans, leases, credit card debt, royalties, or receivables. **Commercial mortgage-backed securities (CMBS)** are fixed-income investment products that are backed by mortgages on commercial properties rather than residential real estate. **Core-plus** strategies are investment funds that primarily invest in investment-grade US fixed-income issues, but can also include noncore sectors.

Asset class comparisons such as comparing equities to bonds have limitations because different asset classes may have characteristics that materially differ from each other. Because of these differences, comparisons should not be relied upon solely as a measure when evaluating an investment for any particular portfolio. Comparisons are provided for illustrative purposes only. Although stocks have greater potential for growth than bonds, they also have much higher levels of risk. With stocks, the prices can rise and fall for a variety of reasons, including factors outside of the company's control. Bonds may be considered relatively safer. Because they're a debt security, they function as an IOU. The company pays interest to the bondholder, and once the bond matures, the bondholder receives the principal bank. Bonds aren't completely risk-free; there is the possibility of the issuer defaulting on its bonds, and if sold prior to maturity the market value may be higher or lower than the purchase value. But compared to stocks, historically there's been less volatility.

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