The Liquidity Squeezes That Pop the AI Bubble

For years, the AI boom has run on the assumption that capital would always be readily available, whether through cheap debt, bottomless private-credit, or an IPO window to cash out and raise billions more.

However, as the realities of the AI race grow clearer, that assumption is being stress-tested across all funding sources.

As the AI companies' off-balance sheet hidden debt surpasses the net exposure in the credit default swap market prior to 2008, investors must ask themselves: at what point does "smart" money stop throwing capital at a cash burning endeavor? If the answer to that question is anytime in the foreseeable future, then investors must prepare for the consequences of no more fresh capital to continue the AI spend.

What's the Problem: 20-45% Downside in Stocks

If AI liquidity dries up, and there are clear signs it is, we see large, 20%, downside risk in the S&P 500, with most of that concentrated in the valuation of AI-related stocks. How do we quantify the risk?

We start with the $1.4 trillion of hidden earnings expectations (detailed in The New Constructs Most Wanted List: Worst AI Earnings Manipulators). We assume that the AI companies meet 50% of the that expectation, or $700 billion. We multiply that by the forward P/E of the S&P 500 (21x) to get $14.7 trillion, or the value of those lost hidden earnings expectations. That's roughly 21% of the aggregate market cap of the S&P 500 and ~45% of the market cap of the 15 largest AI companies. If economic returns on AI spending end up higher, then the downside is lower. And, vice versa.

The Government Can't Save Us This Time

Unlike the Great Financial Crisis and the COVID crisis, a government bailout is not a solution for many reasons, but primarily because the U.S. government has largely maxed out what it can spend, as evidenced by the recent treasury selloff. Even if the government were in good standing with bond investors, we don't think it would have the means to fill the hole of $700 billion to $1.4 trillion of unfulfilled earnings on AI investment.

Mounting Warning Signs of the Retreating Liquidity

In hindsight, it's easy to pinpoint an exact moment a major liquidity squeeze begins. Predicting that moment in real-time is much more difficult. We're not here to try and predict exactly when the market pulls the plug, but we are seeing enough small liquidity squeezes emerging across the market to believe the liquidity tide has turned and is starting to go out. It will not be long before, as Warren Buffet says, we will see who's wearing a bathing suit. In the meantime, we think the risk/reward of the AI trade has shifted, and investors should take their profits now.

Warning Sign #1: Delayed IPOs

The clearest sign of tightening liquidity is also the most public facing. AI and AI related companies are delaying their IPOs due to investors balking at lofty valuations. Private market AI investors are telling public investors that these companies are worth billions, and investors are saying "no."

First, the two "elephants in the room" continue to delay their IPOs. Anthropic has delayed its IPO from an originally expected October 2026 launch to November 2026. OpenAI has ruled out an IPO in 2026 entirely, after original expectations for a public offering in 2026.

Anthropic and OpenAI are not the only ones hitting the pause button.

SB Energy, a Softbank Group subsidiary and NVIDIA investment is reportedly putting its IPO on hold as it failed to find enough buyers at its targeted $50 billion valuation.

Holtec, a nuclear energy firm with plans centered around providing power for AI data centers, announced on September 17, 2026 it was indefinitely postponing its IPO. The company noted the postponement is a result of an "unusual confluence of developments that has impaired investor confidence in the market for new public offerings."

Aggreko, a provider of power generation, heating, cooling, and energy services, and is growing directly in the AI data center space is reportedly slowing down its IPO process because of the challenges facing the data center sector.

Warning Sign #2: Skyrocketing Borrowing Costs

CoreWeave (CRWV) is a perfect case study in what happens when a leveraged AI infrastructure company meets a less liquid credit market. In August 2026, CoreWeave closed a $2.6 billion delayed-draw term loan. The loan cost 100-125 basis points more than originally floated, which pushed the total borrowing cost to ~10.4% a year.

In addition, lenders extracted real concessions and protections. Under the terms, CoreWeave has to keep a cash cushion on hand, maintain income at specific levels above debt payments, and pay down the loan steadily through 2031, rather than all at once.

As Bruce Richards, chief executive officer of Marathon Asset Management, put it, guardrails like amortization and covenant controls are something "you haven't seen in a very long time."

CoreWeave isn't alone. Bloomberg reported that three other, non-AI companies also had to offer better terms to complete their issuances, as the entire leveraged-loan market tightens.

Then, in late September, SoftBank Group closed on $11.1 billion in "the largest corporate junk-bond offering on record", including a 3.5-year bond at a yield of 8.625% and a 7.5-year bond at a yield of 9.75%. Bloomberg reports "the yields are the highest-ever for SoftBank dollar bonds."

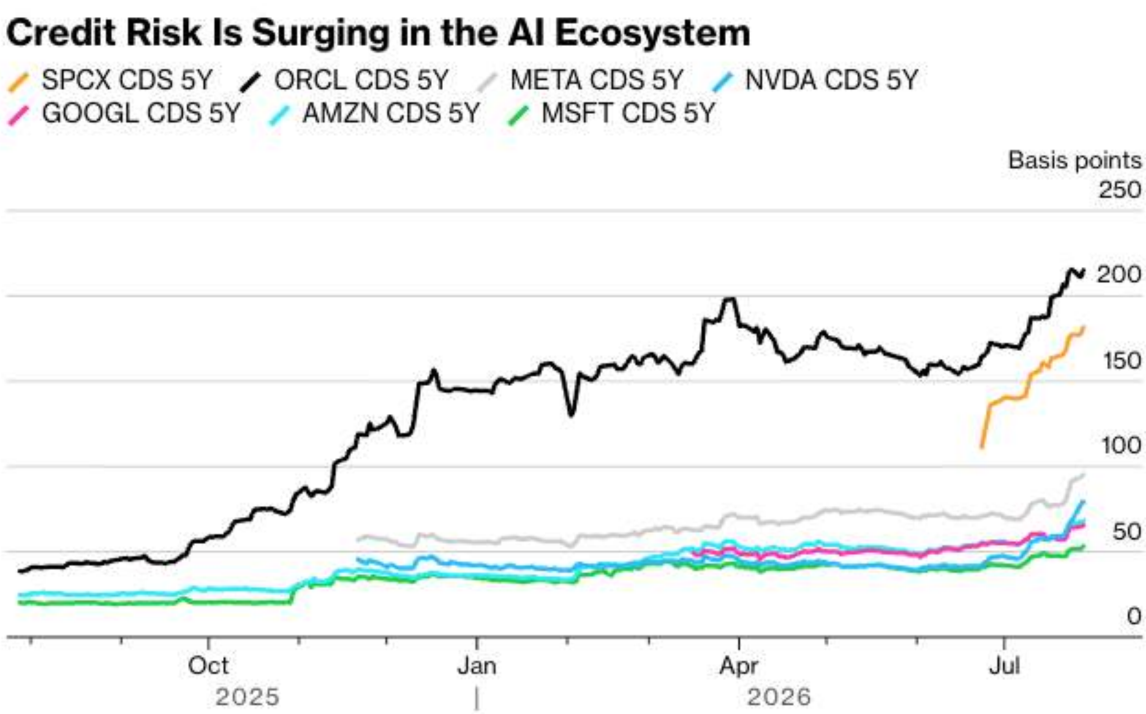
Bond markets are speaking, and loudly. AI financing is getting riskier, and bond investors are demanding higher yields and concessions to provide additional capital.

Warning Sign #3: All-Time Highs for Hyperscaler Credit Spreads

Credit default swaps spreads tied to Alphabet (GOOGL), Amazon (AMZN), Meta (META), NVIDIA (NVDA), Oracle (ORCL), SpaceX (SPCX), and Broadcom (AVGO) have all risen sharply over the past year. In fact, Alphabet's five-year CDS spread hit a record high in July 2026.

Higher spreads indicate increased concern about a company's ability to pay down its debt. With trillions on the line, it's not surprising concerns are rising.

Figure 1: Rising CDS Spreads for Hyperscalers



Sources: Bloomberg

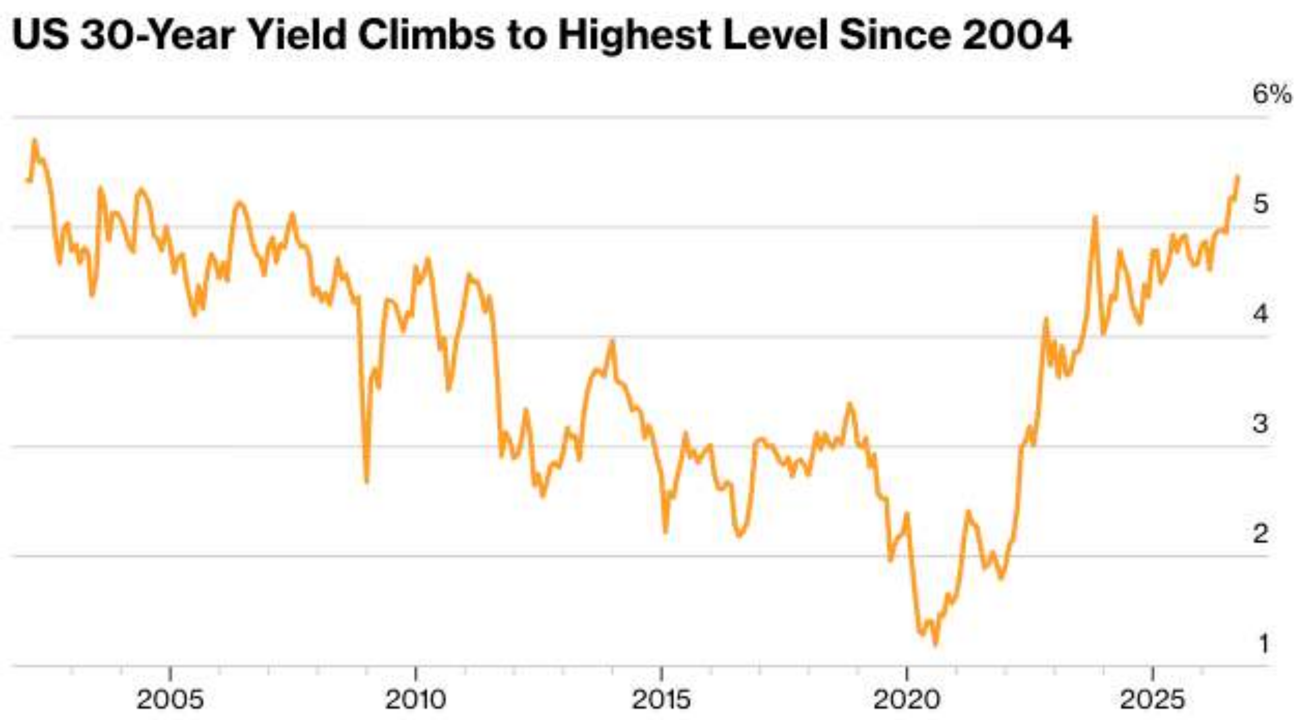
Warning Sign #4: Rising Risk-Free Rate

When the baseline risk-free-rate rises, borrowing costs for every company, AI included, rise too.

Low demand for a five-year Treasury auction pushed yields above 5% for the first time since 2007 while the 10-year rate increased the most since "Liberation Day" in April 2025. The swaps market now implies that investors expect three quarter-point hikes over the next year. Just a day later, the 30-year treasury yield rose to its highest level since 2004.

In other words, the floor under all borrowing costs is rising, and AI companies raising debt on top of that floor are financing the buildout at a higher cost than they were a year ago.

Figure 2: Rising 30-Year Treasury Yield



Sources: Bloomberg

Warning Sign #5: Private Credit Firms are Limiting Withdrawals

Private credit funds are one of the primary funding sources for data center and AI-infrastructure in recent years. However, investors in those funds have attempted to pull their money out faster than the funds are structured to return it. These investors want their money back, not a good sign for future funding.

In late September, Apollo Debt Solutions limited redemptions for its flagship private credit fund for the third consecutive quarter. The firm capped withdrawals at 5% of outstanding shares yet received redemption request for ~15% of its stock.

Earlier in the month, Blackstone Private Credit Fund enforced a 5% limit on redemptions even as redemptions hit 10% of shares. Redemptions have exceeded the standard limit for three straight quarters as well.

In early July, Blue Owl Capital also enforced its 5% redemption limit for two of its private credit funds as redemptions exceeded the cap in the quarter. In the first quarter, Blue Owl Capital reported Blue Owl Credit Income Corp received redemptions against ~22% of shares outstanding.

The enforcement of redemption limits comes after years of riskier loan issuances. S&P Global notes that private credit lending has exceeded broadly syndicated loan issuance for B- and below borrowers for four consecutive years. Additionally, U.S. maturities of B- and below debt will surge to $215 billion in 2028, up from ~$57 billion 2026, which will create additional refinancing headwinds for already leveraged borrowers.

Warning Sign #6: Delayed Revenues Due to Political Pushback

Beyond financing costs, political resistance is slowing data center projects and connections to the grid, which delays the revenues sorely needed from these huge AI investments.

On September 21, 2026, Texas Governor Greg Abbott directed the Texas Commission on Environmental Quality to "halt all permits sought by data centers." The latest move follows orders in both June and August when he directed the Public Utility Commission to require data centers fully fund the cost of electric infrastructure and announced a moratorium on the approval of data centers until public regulators could audit each data center's plan to connect to the state's electric grid, respectively.

A moratorium is a complete shift in stance since November 2025, when Greg Abbott noted "Texas is the epicenter of AI development, where companies can pair innovation with expanding energy."

Regulatory friction is slowing development in New Mexico too, and Oracle is now looking to shield itself from rising costs. According to Bloomberg, Oracle sent a notice citing force majeure in an attempt to put off payments should the Project Jupiter data center fail to come online in 2028. The project in New Mexico was part of the Stargate AI build out announced by President Donald Trump alongside Oracle, OpenAI, and SoftBank.

Bloomberg notes that the project "has hit serious setbacks including the denial of a permit key to its plans for energy resources."

Broadly, public opinion on data centers has declined throughout the year. The two examples above highlight how data center and AI projects now face longer, less certain permitting timelines on top of rising financing costs highlighted above. The last thing these AI projects need is delay.

Warning Sign #7: Rising Energy Costs Reducing Future Profits

Energy costs are rising, and money that has to cover those higher energy costs elsewhere is money that can't go toward AI infrastructure, debt servicing, or new funding rounds.

Diesel prices across the globe are reaching record highs amid ongoing global supply disruption. Europe, which is largely dependent on energy imports, is also facing a jet fuel supply deficit in 4Q26. In the U.S. the White House is considering diesel-export restrictions, rather than outright ban exports. Experts have warned that such actions could actually cause domestic producers to cut output and fail to address the actual issue driving higher prices, which is a global supply shortage.

When energy costs spike, capital must get diverted to cover them, which tightens the liquidity pool for other investments, including AI.

Why It Matters Now

Nearly every source of AI funding is showing signs of stress at the same time.

Meanwhile, the AI companies dependent on these funding sources are still trading as if "all systems go."

The reason we're not seeing immediate capitulation in these stocks is that it's in Wall Street's best interest to keep these names propped up as long as they can. Billions in fees are on the line with the Anthropic and OpenAI IPOs, and Wall Street needs time to unwind investments, transfer risk, and get institutional capital out of harm's way before the reckoning. Just like in the Shorts turn the tables on Wall Street scene in the Big Short.

How long they can delay the economically inevitable is not clear. But, as we see liquidity squeezes increase and continue, we inch closer to the "straw that breaks the camel's back."

This article was originally published on September 25, 2026.

Disclosure: David Trainer and Kyle Guske II receive no compensation to write about any specific stock, style, or theme.

Questions on this report or others? Join our online community and connect with us directly.

It's Official: We Deliver the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

In The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

Ernst & Young features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Harvard Business School. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are here.

DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, “New Constructs”) is an independent organization with no management ties to the companies it covers. None of the members of New Constructs’ management team or the management team of any New Constructs’ affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs’ Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first two days after New Constructs issues a report on that security.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs’ reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.