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Daily Commentary

Let's Take Stock of the Technology Sector

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Let's Take Stock of the Technology Sector

Over the past few days there has been a lot of news on the technology sector and let's admit it, it is easy to lose the thread.
The elections, Texas changing color, hyperscalers rising while semiconductors fall, Korea collapsing, CoreWeave sliding.
Pieces of a puzzle that, taken one at a time, seem to tell different stories.
That is not so: they tell the same story and today we try to put it in order, starting from a point that is usually overlooked, **bonds**.

Building data centers takes billions, and many of those billions come from somewhat unusual bonds.
They are not issued by a large company, but by a company created for a single warehouse, and the only way to repay the loan is the rent that the tenant will pay, which however only starts paying when the building is finished and connected to the power grid.
It is like buying a house with a mortgage in order to rent it out.
Until the works are finished and the electricity connection arrives, the tenant does not move in, but the mortgage installment is still paid every month.

In the US high yield market there are **20** bonds of this type, for about USD **45.6** billion.
They finance a little over **4,000** megawatts of capacity, but today only **808** are operating.
The rest has to arrive between 2026 and 2028.
On Tuesday evening, the elections handed to Democratic governors the states where **53**% of these bonds are

Source: Bloomberg, Reuters, Yahoo Finance, Financial Times, ECB, CNBC, The White House
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located, Texas first among them, where the new administration wants to freeze new permits at least until **May 31, 2027** and make data centers pay for the grid costs.

The reaction was clear: **the further the construction site is from the finish line, the more the bond trades at a discount**.
Galaxy, a Lubbock campus, leased to CoreWeave and expected in 2028, went from 97 to **90.75** and each quarter of delay costs it about USD **87** million in interest with not a dollar of rent.
Those that already have the building switched on, by contrast, trade near **100**, even in Texas.
This is the key to reading everything else.
The market is not asking "who fails?", but is asking "who can afford to wait?"

The first and most fragile link is **CoreWeave**.
It is the tenant of **7** of these 20 bonds and the market treats its warehouses as "CoreWeave risk plus construction risk".
Its unsecured bonds are worth between **78.5** and **83** USD cents, with a yield of around **15.5**%.
They have already crossed the threshold that conventionally separates "expensive" debt from troubled debt.
If construction sites slip, revenues slip too, while the roughly USD **35** billion of debt continues to cost.
On November 10 the quarterly results will tell us a lot.

The second link is the **former bitcoin miners,** who have become data center builders, and here the story splits in two.
Those who already have power become

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more valuable, because switched-on megawatts are the scarcest commodity in the sector.
However, the Texas pause hits precisely new permits and new connections.
Riot, with Rockdale and the large Corsicana project for Anthropic, is the most delicate case.
Cipher had already hit bottom and has little to lose.
TeraWulf is building in New York and Kentucky, far from politics, but still has to find financing for Hawesville in a market that has become selective.
IREN, which besides the warehouses also owns the GPUs, remains the furthest from the floor of the worst case.
A signal on the credit market is already there, because in Texas banks found themselves holding a bridge loan of USD **14.2** billion for a campus linked to Anthropic that they wanted to refinance with a bond and were unable to place.
When the paper stays on the banks' balance sheets, new projects have a harder time getting started.

The third link is **chip producers** and their **suppliers.**
For those who produce chips, a delayed warehouse is not a cancelled order, but an order pushed out.
However, three things deserve attention.
The first, Nvidia has guarantees of over USD **100** billion on third-party projects and supply commitments that have risen to USD **279** billion.
If the buildings are not ready, the GPUs wait in storage.
The second, memory chips live a paradox,

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because scarcity pushes prices up today, but the market fears that the pause in construction will cool future demand (on Thursday, Samsung lost **7.6**% and SK Hynix **9.5**%).

The third, suppliers of networking and components are paid when the racks are installed and those with swollen inventories and few customers (Credo, Coherent and Celestica) are the most exposed to a slippage in deliveries.

The point, however, is that semiconductors today are pricing a slowdown as if it were an end, but it is not.

As we wrote yesterday, it is **growth postponed, not cancelled**.

The hyperscalers (almost all of them) are the only ones that can wait.

Why do Amazon, Microsoft and Alphabet rise, while everything else falls?

For them a postponement is a saving.

Pushing construction sites further out means spending later, issuing less debt and fewer shares, and those who already have capacity switched on have more pricing power.

The market did the math and bought free cash and buyback (repurchases of own shares).

With one exception, Oracle, because it depends more than the others on third-party builders, has a rating at the edge of investment grade and an enormous order backlog that has to turn into revenue.

For Oracle a delay is not a saving, **it is revenue that slips, while the debt remains**.

What to expect?

The movement of these days tells us that

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investors have sold everything in the middle of the chain and bought those who have the cash.
It is a sensible move, but it has a limit.
If you pull the plug on data centers, in the long run you also pull the plug on the growth of the hyperscalers themselves, because those warehouses serve them, and this explains yesterday's widespread selling across the whole technology sector.
The most likely scenario is not a chain of bankruptcies, but **a long season of delays, higher costs and renegotiations**.
A "costly pause", which weighs on those who have to pay interest, while leaving relatively calm those who can wait.

For those who invest, **in this phase selection matters more than direction,** looking at balance sheets, tenants and delivery dates.
To understand which way the wind is blowing, even before equities one has to look at credit, where the spreads of data center bonds and those of CoreWeave are the most honest thermometer.
The next dates to mark are November 10 with **CoreWeave**'s quarterly results and November 17 with **Nvidia's, because, in every debt bubble, the first part to deflate is usually the one that has not yet been built.**

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