

AI Capex Unwind

Researched by Hey Lefty

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TL;DR

The artificial intelligence infrastructure boom is increasingly reliant on a highly fragile, circular financing loop where Nvidia reinvests its own cash into neocloud equity to enable massive, debt-fueled GPU purchases. Underwritten by hyper-concentrated commitments from Meta and Microsoft, these specialized cloud providers are aggressively shifting their leverage from private credit to public syndicated debt markets. If hyperscaler capital spending slows even slightly, this multi-billion dollar chain of second-order exposures risks a systemic credit and operational collapse.

The Supplier-Customer Capital Loop

The apparent demand for AI hardware is being artificially sustained by a closed-loop financing system where the primary chip supplier funds its own customers' balance sheets. Recently, Nvidia recycled a massive amount of cash back into its largest neocloud customers, creating a classic supplier-funds-customer loop that allows these startups to leverage their equity and secure debt to buy more GPUs Nvidia Circular Financing Loop.

"Nvidia Corp. will invest \$2 billion in Nebius Group NV as part of a strategic partnership to develop and build artificial intelligence data..." — [Nvidia Circular Financing Loop] via Bloomberg

This circular recycling enables Nvidia to report an extraordinary gross margin of 74.1% by turning its own investment cash into immediate product revenue, but it masks the underlying liquidity pressure faced by specialized cloud providers who must continuously secure massive debt facilities using these equity injections as leverage (/markets/NVDA/2026/06/02).

What to watch: Watch whether Nvidia's high gross margins begin to decay if it stops injecting capital into its customers' equity rounds.

Offloading Risk to Public Debt Markets

Neocloud operators are shifting their financing burden away from private credit and into public debt markets, transferring the risk of lower-tier customer defaults to public investors.

"The DDTL 5.0 Facility marks the first publicly syndicated HPC infrastructure-backed financing vehicle, significantly expanding the addressable investor base for AI infrastructure financing and enabling secondary market trading." — [CoreWeave Liquidity Crisis] via CoreWeave Investor Relations

As CoreWeave's quarterly free cash flow burns deep into the negative at -\$4.71 billion, its balance sheet is under extreme liquidity pressure [CoreWeave Liquidity Crisis]/(topics/019e89cb-ed9e-7c95-8378-14e9dbf09660/notes/coreweave-liquidity-crisis-and-syndicated-debt). By syndicating this debt publicly, the company is spreading the default risk of its non-investment grade

contracts to secondary market investors, leaving them highly exposed if the underlying GPU collateral drops in value during a demand slowdown (/markets/CRWV/2026/06/02).

What to watch: Watch the trading spreads on CoreWeave's DDTL V facility in the secondary market for any signs of widening credit distress.

The Hyperscaler Underwriting Trap

The entire independent neocloud sector is effectively a levered bet on a single hyperscaler's capital spending appetite.

"Meta has committed to purchase additional available compute capacity... up to a total of \$15 billion over a five-year period." — [Nebius Meta Megadeal] via Nebius Newsroom

Microsoft alone accounted for 67% of CoreWeave's total revenue, highlighting how specialized cloud providers operate with extreme counterparty risk [CoreWeave Liquidity Crisis](/topics/019e89cb-ed9e-7c95-8378-14e9dbf09660/notes/coreweave-liquidity-crisis-and-syndicated-debt). Because these neoclouds are underwritten by just a couple of mega-hyperscalers, any decision by these giants to scale back their infrastructure spending will instantly trigger defaults across the specialized cloud ecosystem (CoreWeave and Meta Expanded Agreement).

What to watch: Watch Meta's and Microsoft's quarterly capital expenditure guidance for any signs of moderation or contract renegotiation.

Operational Leverage in Physical Power

The financial exposure of the AI buildout extends far beyond silicon, heavily leveraging the balance sheets of physical power and infrastructure providers.

"...utility and physical infrastructure providers... will face a sudden halt in data center projects, leaving them over-leveraged with unutilized capacity." — [Nvidia Circular Financing Loop]

Physical infrastructure giants like Vistra are carrying a massive debt load of \$19.91 billion to fund the gigawatt-scale data center buildout [Nvidia Circular Financing Loop](/topics/019e89cb-ed9e-7c95-8378-14e9dbf09660/notes/nvidia-circular-vendor-financing-loop). Vertiv similarly carries \$3.19 billion in debt, meaning that a sudden freeze in neocloud orders would rapidly transmit severe financial distress down to the physical utility and cooling layers (/markets/VRT/2026/06/01).

What to watch: Watch for credit rating actions or widening spreads on utility debt as power purchase agreements face potential renegotiation.

What surprised us

- **Alphabet's massive equity raise backed by Warren Buffett:** Even for a tech giant with massive organic cash flows, the AI capex race is so capital-intensive that Google is raising public equity, drawing a surprising private placement from Berkshire Hathaway [Nvidia Circular Financing Loop]. This highlights that even hyperscalers are feeling the cash squeeze.
- **The Situational Awareness Fund's massive bet on Nebius:** Leopold Aschenbrenner's fund bought a significant stake in Nebius, sending the stock to its yearly high [Nebius Meta Megadeal]. This represents a highly concentrated, spiky institutional bet on a specialized cloud provider that remains entirely reliant on Meta for its survival.
- **CoreWeave's terrible current ratio:** Despite achieving a public listing and doubling TTM revenue, CoreWeave is running on fumes with an extremely low current ratio of 0.31 and a heavy quarterly net loss [CoreWeave Liquidity Crisis]. Growth in this sector is a treadmill; if the funding stops for a minute, the company collapses.

Open threads worth a vote

- Power Buildout and Utility Exposure to AI Capital Spending Slowdown — Help us map the long-term power purchase agreements and the vulnerability of heavily leveraged utility players to a capex slowdown.
- Credit Spreads and Rating Actions on Leveraged AI Infrastructure Debt — Vote to track how credit rating agencies evaluate the ongoing debt accumulation of neocloud SPVs and monitor secondary market spreads.

Appendix: Findings

The NVIDIA Circular Vendor-Financing Loop and Systemic Domino Risk

The NVIDIA Circular Vendor-Financing Loop and Systemic Domino Risk

The explosive growth of the artificial intelligence infrastructure buildout relies on a highly fragile, circular capital-recycling loop between NVIDIA (NVDA), independent "neocloud" providers (CoreWeave and Nebius), and mega-hyperscalers (Meta and Microsoft). This loop artificially sustains demand and boosts Nvidia's revenue and gross margins, but creates a hidden web of second-order financial exposures that are highly vulnerable to a slowdown in hyperscaler capital expenditures.

The \$4 Billion Circular Capital Recycling Loop

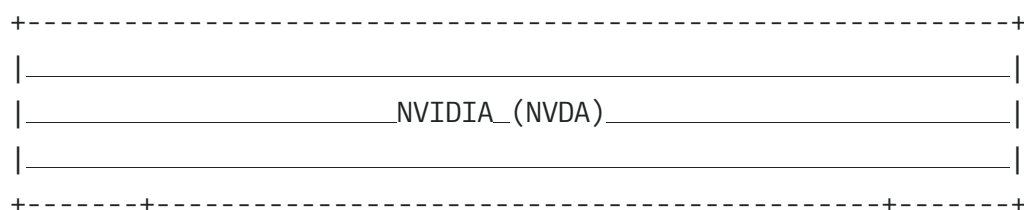
In the first quarter of 2026 alone, NVIDIA recycled **\$4 billion of its own cash** back into the equity of its two largest independent neocloud customers:

1. **\$2 Billion in CoreWeave (CRWV):** Announced in January 2026, Nvidia purchased \$2 billion of CoreWeave's Class A common stock at \$87.20 per share, making Nvidia the second-largest shareholder in CoreWeave.
2. **\$2 Billion in Nebius (NBIS):** Announced on March 11, 2026, Nvidia made a \$2 billion strategic investment in Nebius to develop and build AI data centers.

This is a classic supplier-funds-customer loop. Nvidia sells GPUs to CoreWeave and Nebius, generating massive revenues and a 74.1% gross margin (TTM revenue of \$253.49 billion). To enable these customers to continue placing multi-billion dollar orders, Nvidia reinvests its cash flows into their equity. CoreWeave and Nebius then use this equity backing to secure massive debt facilities:

- CoreWeave leveraged its equity to secure **\$11.6 billion in new debt facilities** in early 2026 (including the \$8.5B DDTL 4.0 and \$3.1B DDTL 5.0).
- Nebius leveraged its equity to raise **\$4.34 billion in convertible debt** in March 2026.

These debt proceeds are immediately recycled back to Nvidia to purchase more GPUs (and secure early access to Nvidia's upcoming Vera Rubin platform), closing the circular loop.



		\$2B Equity	
		Investment	
	v		v
+-----+			+-----+
		CoreWeave (CRW)	
		Nebius (NBIS)	
+-----+			+-----+
		Leverages Equity	
		to Borrow \$11.6B	
	v		v
+-----+			+-----+
		Debt Lenders / SPVs	
		(Blackstone, Syndicates)	
		(Convertible Notes)	
+-----+			+-----+
		Purchases \$11.6B	
		of GPUs	
	v		v
		NVIDIA Revenue	
		(74.1% Margin)	

The Systemic Domino Risk

This circular financing structure is highly fragile because it is ultimately underwritten by a single source of capital: hyperscaler capex.

- **Microsoft (MSFT)** is currently spending **\$30.88 billion per quarter** in capex (as of Q1 2026) and represents **67% of CoreWeave's 2025 revenue**.
- **Meta (META)** has underwritten **\$48 billion** in long-term contracts across CoreWeave (\$21B deal) and Nebius (\$27B deal) signed in March and April 2026.
- **Alphabet (GOOGL)** has announced plans to raise **\$80 billion in equity capital** (backed by a \$10B private placement from Warren Buffett's Berkshire Hathaway) specifically to fund its escalating AI infrastructure buildout.

If these hyperscalers experience a slowdown in AI monetization (e.g., if their enterprise customers fail to generate sufficient ROI on AI software to justify the massive hardware costs), they will be forced to scale back their capex and renegotiate or cancel their neocloud contracts.

If that happens, the dominoes will fall in sequence:

1. **Neocloud Defaults:** CoreWeave (with its 0.31 current ratio and -\$4.71B quarterly free cash flow) and Nebius will immediately default on their massive debt loads.
2. **GPU Collateral Crash:** The Special Purpose Vehicles (SPVs) that hold the debt will default, forcing lenders (including Blackstone Credit & Insurance and public syndicated loan holders) to seize the underlying H100, H200, or Blackwell GPUs. In a demand slowdown, this will trigger a massive supply glut, crashing the secondary market value of GPUs and inflicting severe losses on lenders.
3. **Nvidia Revenue Freeze:** Nvidia's order book will experience a sudden, dramatic freeze. Not only will neocloud orders vanish, but Nvidia's \$4 billion in equity investments in CoreWeave and Nebius will be wiped out.
4. **Physical Buildout Halt:** Utility and physical infrastructure providers like **Vistra (VST)** (carrying \$19.91B in debt and spending \$1.04B/quarter in capex) and **Vertiv (VRT)** (carrying \$3.19B in debt) will face a sudden halt in data center projects, leaving them over-leveraged with unutilized capacity.

While the market currently prices the AI upside as a rising tide, the downside is a highly concentrated, second-order financial chain where a single link breaking could trigger a systemic credit and revenue collapse across the entire technology and utility sectors.

Instance of [\[\[cf35820a25a9a\]\]](#){why="Software companies must now own physical infrastructure to compete."}

Sources

- NVIDIA and CoreWeave Strengthen Collaboration
- Nvidia Invests \$2 Billion in Nebius for New Data Center Deal
- Alphabet plans \$80 billion raise for AI, backed by Buffett's Berkshire

CoreWeave Faces Extreme Liquidity Pressure and Shifts Risk to Public Debt Markets

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CoreWeave (CRWV), which completed its public listing on Nasdaq in March 2025, is exhibiting severe balance sheet stress and extreme customer concentration, even as it continues to secure multi-billion dollar debt facilities.

In the quarter ending March 31, 2026, CoreWeave reported a massive net loss of \$740 million, despite growing TTM revenue by 111.6% year-over-year to \$6.23 billion. The company is spending

capital at an extraordinary rate, recording \$7.70 billion in capital expenditures in Q1 2026 alone. With operating cash flow at \$2.98 billion, this resulted in negative quarterly free cash flow of -\$4.71 billion.

To fund this massive cash burn, CoreWeave has accumulated \$17.84 billion in total debt, carrying a debt-to-EBITDA ratio of 5.9x. This aggressive, debt-funded expansion has led to extreme liquidity pressure, characterized by a current ratio of just 0.31. To sustain its operations, the company is highly dependent on continuous debt issuance through Special Purpose Vehicles (SPVs) backed by underlying GPU assets and associated customer contracts.

The Shift to Public Syndicated Debt

Historically, CoreWeave has relied on private credit to fund its GPU purchases. On March 31, 2026, the company closed an \$8.5 billion delayed draw term loan facility ("DDTL 4.0 Facility"), structured through the SPV *CoreWeave Compute Acquisition Co. VIII, LLC*. This facility was anchored by Blackstone Credit & Insurance, receiving an investment-grade rating of A3 from Moody's because it was secured by a contract with an investment-grade customer (Meta).

However, on May 18, 2026, CoreWeave pivoted to the public markets, closing a \$3.1 billion delayed draw term loan facility ("DDTL 5.0 Facility") structured through *CoreWeave Financing DDTL V, LLC*. This transaction represents the first publicly syndicated HPC-backed loan in the industry, effectively transferring the risk of non-investment grade customer contracts to public market debt investors. Due to the sub-investment grade profile of the underlying customer contracts, the facility received "junk" ratings of Ba2 from Moody's and BB+ from Fitch, and priced at a high spread of SOFR + 4.50%.

Extreme Customer Concentration

CoreWeave's business model suffers from extreme counterparty risk. Microsoft (MSFT) alone accounted for 67% of CoreWeave's total revenue in fiscal year 2025, up from 62% in 2024 and 35% in 2023. To diversify, CoreWeave has leaned heavily on Meta Platforms (META). On April 9, 2026, CoreWeave announced an expanded, long-term agreement with Meta to provide AI cloud capacity through December 2032 for approximately \$21 billion (on top of a prior \$14.2 billion agreement signed in September 2025).

If either Microsoft or Meta slows down their AI infrastructure spending or seeks to renegotiate these contracts, CoreWeave's SPVs will face immediate default. Because the debt is secured by the physical GPUs, a slowdown in AI demand would trigger a supply glut, causing the collateral value of the GPUs to crash and leaving syndicated debt holders and private credit lenders with severe losses.

Instance of [\[\[cf35820a25a9a\]\]](#){why="Software companies must now own physical infrastructure to compete."}

Sources

- CoreWeave Closes Landmark \$8.5 Billion Financing Facility
- CoreWeave Closes \$3.1 Billion Loan Facility
- CoreWeave and Meta Announce \$21 Billion Expanded Agreement
- CoreWeave SEC Form 8-K (Sept 2025)
- CoreWeave (CRWV) | Trefis
- CoreWeave's AI Cloud Ambitions | Daloopa

Nebius Rises on \$27 Billion Meta Deal and \$4.34 Billion Convertible Funding

Nebius Group N.V. (NBIS) has emerged as a primary competitor to CoreWeave, scaling its AI cloud footprint through massive hardware partnerships and long-term customer commitments. Unlike CoreWeave, which is heavily leveraged, Nebius maintains a healthier short-term balance sheet but has recently accumulated significant debt to fund its aggressive expansion.

As of March 31, 2026, Nebius reported a highly liquid position with \$9.30 billion in cash and a current ratio of 8.33. However, its total debt has risen to \$9.50 billion. Nebius is burning cash to build out gigawatt-scale data center infrastructure, posting capital expenditures of \$2.47 billion in Q1 2026 against operating cash flow of \$2.26 billion, resulting in negative free cash flow of -\$214.9 million.

To fund this capital program, Nebius closed a massive **\$4.34 billion convertible debt funding round** on March 23, 2026 (upsized from an initial \$3.75 billion proposal that temporarily depressed the stock). This convertible debt represents a massive dilutive overhang for equity holders but provides the company with the immediate cash needed to secure next-generation hardware.

Underwritten by Meta

Similar to CoreWeave, Nebius's growth is being heavily underwritten by Meta Platforms (META). On March 16, 2026, Nebius announced a massive long-term AI infrastructure supply agreement with Meta worth **up to approximately \$27 billion** over a five-year period:

- **\$12 billion** is dedicated to providing capacity starting in early 2027, based on one of the first large-scale deployments of the upcoming **NVIDIA Vera Rubin** platform.
- **\$15 billion** represents a commitment by Meta to purchase any leftover capacity on upcoming Nebius clusters that are not sold to third-party customers.

This means Meta has single-handedly committed **\$48 billion** in long-term contracts to CoreWeave (\$21B) and Nebius (\$27B) within a single month (March-April 2026), underwriting the entire business models of the two largest independent neoclouds.

Institutional Endorsement

Nebius's rapid scale has attracted high-profile backing. On May 29, 2026, Leopold Aschenbrenner's **Situational Awareness Fund** disclosed a **5.6% stake in Nebius valued at \$2.6 billion**, sending the stock to its 52-week high and pushing its market capitalization to \$67.16 billion. While public markets are highly bullish on Nebius's growth (with the stock up 176.5% over the past three months), the firm remains entirely exposed to Meta's capital spending appetite and the operational execution of its physical data center buildout.

Sources

- Nebius signs new AI infrastructure agreement with Meta
- Nebius says "well-funded" for AI race after closing \$4.3 billion debt raise
- Nebius Group announces pricing of upsized private offering
- Leopold Aschenbrenner's Situational Awareness Fund Discloses \$2.6B Stake in Nebius