



Q1 2026

# Active Fixed Income Outlook:

Crowding out?



# Crowding out?

With massive issuance from governments and companies – most notably hyperscalers, is there a crowding out theme emerging in bond markets?



**Colin Reddie**  
Head of Active Strategies  
/ Co-Head of Global Fixed Income

We have firmly entered a new year and the key question on investors' minds is: what does 2026 have in store? As I started to put some initial thoughts down on paper, what surprised me the most is how little I mention growth, inflation, monetary policy or any other classic market drivers. Instead, it's clear that this year will be shaped by the continued rise of artificial intelligence (AI) and sovereign debt dynamics.

As I touched on in our last outlook, we're seeing AI capital expenditure (capex) at extraordinary levels, and this has a significant macroeconomic impact – both for the US and globally. So, I find it hard to get too bearish on US growth expectations when most of the positive impact from this AI spending is still ahead of us – we believe we should start to feel some of this when the big tech companies continue to raise debt and redeploy it back into the economy, supporting activity and growth.

There is also one small glimmer of hope in economic fundamentals: a sign that growth expectations outside of the US might be quietly improving. The Commodity Research Bureau's Spot Raw Industrials Index, a leading indicator of economic activity, tracks basic materials used directly in manufacturing and industrial processes. The underlying prices come from actual traded spot transactions, giving a better picture of real-world supply/demand pressures for these materials. We believe this points to an improving environment globally as we enter 2026.

Commodity Research Bureau Index: prices over five years pointing to better economic conditions



Source: Bloomberg, as at 6 January 2026

Another noteworthy development is the onset of US bank deregulation nearly 20 years after the global financial crisis. Any student of economic cycles with their booms and busts will tell you that while they all differ, there is one common theme: we tend to see a particularly challenging period once every few decades.

So this raises an important question: are we late cycle or approaching it? If we are, then we believe we should acknowledge it in our investment decisions and risk taking as the odds for the investor changes significantly depending on where you are in the cycle.



## Big tech bonds

There is, however, a circularity to all this. To date, the hyperscalers have financed this investment through their own cashflow, alongside a very willing private credit market. Going forward, the public markets are going to have to step up because the sums involved are so much bigger now and the technology sector needs to broaden out its investor base.

We got a little taste of what this might feel like in October and November 2025, when in relatively short order, we saw around \$85 billion of issuance from Oracle\*, Amazon\*, Meta\* and Google\*. There was some indigestion, which has now largely passed. Most of the bonds – aside from Oracle – currently trade modestly tighter or around the level where they were issued<sup>1</sup>. Microsoft\* is notably the only hyperscaler that has yet to announce a bond issuance to fund its AI spending, but we believe this is only a matter of time.

This circularity matters. If there are any signs that credit markets aren't willing to finance this, or step back because tech companies are not spread sensitive, or if the debt becomes progressively cheaper, then this could seriously undermine the AI capex tailwind for growth.

Perhaps unsurprisingly given how dominant the theme is, we explore AI-related issuance in more detail in the following pages: on page 7 our Global Unconstrained Bond team focuses on positioning implications and on page 23 our Research and Active Engagement team details the Meta\* mega data centre deal.

## M&A matters

But substantial levels of bond issuance and capital raising extend beyond the AI and technology sector – it's a trend affecting companies more generally. After hitting its lowest level in more than 30 years in 2023, merger and acquisition (M&A) activity is making a comeback. The third quarter of 2025 saw announced deal volumes surge by 43% year on year and crucially large strategic transactions leading the way – this tells you that corporate confidence has also returned.

This is particularly relevant considering the current stage of the economic cycle. Credit investors tend to sleep easier at night when M&A activity is muted because there is less risk of companies taking on too much debt which could affect their credit ratings.

Paramount's\* high-profile hostile takeover bid to acquire Warner Brothers Discovery\* in December 2025 only fuels the comparisons between the current cycle and the late 1990s dot-com bubble. I'm sure many of you will remember AOL's\* disastrous takeover of Times Warner in 2000 – I certainly do. The increase in M&A activity across sectors will be something credit investors need to monitor carefully.

## Fiscal is fab?

Our central investment thesis since the COVID-19 pandemic is that there has been a seismic global shift from monetary policy to fiscal policy. Governments that are currently sitting on large deficits will need to focus on growth – austerity is not an option.

We have left 2025 with Germany and Japan joining the 'Fiscal Is Fab' club, with the former releasing their debt-brake and the latter electing a pro-fiscal policy prime minister. This on top of the US's own fiscal expansion with the One Big Beautiful Bill – are we seeing a new paradigm?

Fiscal sustainability is firmly on the market's radar. The challenge for investors is determining whether we're seeing a plausible path to a crowding out theme developing in bond markets – where increased borrowing can lead to a surge in the supply of bonds. This in turn can push up interest rates, making it more expensive for other borrowers to raise funds. Issuance will be coming at us from governments, companies across sectors, but most notably hyperscalers. Credit investors will need vigilance and agility to navigate the next chapter unfolding in bond market history.

**\*For illustrative purposes only. Reference to a particular security is on a historic basis and does not mean that the security is currently held or will be held within an L&G portfolio. The above information does not constitute a recommendation to buy or sell any security.**

## Credit Scorecard

▲ Upgraded ▼ Downgraded — Unchanged

Strategy	Score	September		December			
		September	December	September	December		
US Credit	-3	-2	-1	N	+1	+2	+3
EU credit	-3	-2	-1	N	+1	+2	+3
UK Credit	-3	-2	-1	N	+1	+2	+3
Global credit	-3	-2	-1	N	+1	+2	+3

Source: L&G as at December 2025 - can be subject to change

These scores reflect the view of the US credit, EU credit, UK credit and Global credit teams in relation to the expected credit returns in their market in the next 1-3 months. These may differ from the views from the Unconstrained team who score each market on a relative basis.

### Key risk

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# Unconstrained strategies: keeping an eye on AI

How can unconstrained bond investors  
navigate AI-related issuance?



**Mat Rees**  
Head of Global  
Unconstrained Fixed  
Income



**Enda Mulry**  
Portfolio Manager –  
Global Bond Strategies



**Amelie Chowna**  
Senior Fixed Income  
Investment Specialist



**John Daly**  
Senior Solutions  
Strategy Manager



## The past – what just happened?

In recent years, the world's largest technology firms have been pouring significant sums into artificial intelligence (AI) related spends. The competition for capital is set to intensify in 2026. According to a recent McKinsey report, hyperscalers will spend nearly \$7 trillion in AI-related capital expenditure by 2030, while Morgan Stanley estimates a spend of \$3 trillion over the next three years.

Even with hyperscalers funding a healthy portion of this from their free cash flow, the implication is \$500-800 billion of additional debt annually, or \$2-3 trillion cumulatively by 2030.

Companies like Microsoft\* and Amazon\* have already been committing tens of billions annually to AI-related capex, largely funded from retained earnings. Despite their sizeable current commitments, forecasts suggest that to meet demand, over half of the required investment will need to be sourced from alternative funding methods – debt, for example.

Towards the end of 2025, four hyperscalers (Microsoft\*, Amazon\*, Meta\* and Alphabet\*) were expected to have spent a combined \$250 billion in 2025<sup>2</sup>.

<sup>2</sup> Source: [Reuters](#), November 2025

### Key risk

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## Present – positioning and performance

These substantial funding requirements and expected increase in issuance have the potential to exert widening pressure on spreads. This is something we have already started to witness as the US investment-grade technology index has underperformed the US aggregate credit index since May 2025, amid record tech debt issuance (c. \$100 billion in the fourth quarter of 2025 alone).

As a result, we continue to be cautious over investment grade credit as spreads have limited room to compress. We prefer to own higher income-generating assets such as subordinated bank debt, as we believe banks remain strongly capitalised and their margins are benefitting from the upward sloping yield curve.

Emerging markets are another area we currently like. Although valuations are not as attractive as in the past, we believe fundamentals are improving in contrast to deteriorating government deficits in many developed markets.

## US technology sector spreads have underperformed US credit spreads



Source: Bloomberg, as at 11 December 2025. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.



## Outlook

Despite the staggering scale of investment required to support AI infrastructure, the largest hyperscalers appear well positioned to manage the financial burden in the short term. Strong free cash flow, benefitted by tax incentives, strong credit ratings, and diversified financing strategies (including private credit and securitisation) give these firms the flexibility to scale rapidly, in our view.

While risks like overcapacity and tech obsolescence remain, the current financial and policy environment suggests that it is possible that the aggressive hyperscaler expansion may also be financially sustainable, at least for the Big Tech players.

However, timing is key, and constant issuance could weigh on credit spreads. Some prominent deals have underperformed shortly after primary issuance, and the Global Unconstrained Bond team has selectively added exposure through both primary and secondary markets. As those issuers continue to turn to the public credit market for their funding needs, their weight in key indices such as US credit will continue to increase. Currently expectations vary from \$200 billion to \$400 billion of increased public market AI issuance for 2026. This would be an increase of c. 20% from 2025 gross US investment grade issuance figures from one sector alone. If you add in funding pressure from the energy/utility sector required to power this AI initiative, this may weaken the technical balance within US credit spreads which are already entering 2026 at very compressed levels.

## What could go wrong?

Away from the public market pressure, increasingly we've seen hyperscalers accessing private credit markets, particularly for bespoke or off-balance-sheet projects; Meta's\* recent \$29 billion public/private credit deal is a notable example – and our colleague Ken Berlin has explored this in more detail on page 22. Some operators are exploring securitisation, packaging long-term lease income from data centres into asset-backed securities (ABS) to raise capital while keeping debt off the parent company's balance sheet. Given the size of the private credit and securitised markets they are likely unable to absorb all of the proposed issuance. We expect that hyperscalers may increasingly need to use hybrid deals to source funding. This diversified capital stack may enable hyperscalers to maintain flexibility, manage risk, and scale rapidly in response to surging AI compute demand.

The rapid expansion of the market will inevitably create winners and losers. In this environment, the case for an active approach is compelling, in our view. Active strategies, leveraging bottom-up credit selection, can selectively own stronger issuers and exploit opportunities created by constrained investors who may lack flexibility to avoid crowded trades.

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## Credit Scorecard

Strategy	Score	September		December			
		Upgraded	Downgraded	Unchanged	Upgraded	Downgraded	
Global IG USD	-3	-2	-1	N	+1	+2	+3
Global IG EUR	-3	-2	-1	N	+1	+2	+3
Global IG GBP	-3	-2	-1	N	+1	+2	+3
US Securitized	-3	-2	-1	N	+1	+2	+3
Subordinated Debt	-3	-2	-1	N	+1	+2	+3
Global High Yield	-3	-2	-1	N	+1	+2	+3
Emerging Market Debt	-3	-2	-1	N	+1	+2	+3
Cash	-3	-2	-1	N	+1	+2	+3
Duration	-3	-2	-1	N	+1	+2	+3

Source: L&G as at 31 December 2025 – can be subject to change at any point.

This scorecard represents the views of the L&G Global Unconstrained Bond Team when investing across key markets shown in the scorecard. Their scores may differ from the scores shown in the subsequent sections of the outlook, which express views on individual markets on a stand-alone basis.

### Key risk

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# Euro credit: steady as fiscal support strengthens

Europe benefits from a stronger fiscal impulse and tentative signs of political cohesion, but caution prevails.



**Marc Rovers**  
Head of European Credit



**Magdi Yasin**  
Fixed Income Investment Specialist

## The past – what just happened?

The final quarter of 2025 saw European markets navigate a mix of stabilisation and surprise. After two interest rate cuts earlier in the year, the European Central Bank (ECB) paused in October, signalling a more cautious, data-driven approach as headline inflation eased but core measures remained sticky. This shift tempered expectations for further easing and added volatility to rates. Comments from Isabel Schnabel, one of the ECB members who is typically viewed to be more on the 'hawkish' side of spectrum, that she is "comfortable with investor bets that the ECB's next interest-rate move will be an increase" appeared to confirm the end of the easing cycle, and pushed five-year German rates back up to 2.5%.

Bund yields moved down sharply in October following concerns about US credit and JP Morgan's Jamie Dimon's warning about "cockroaches" and future losses in the private credit sector. However, we saw this begin to reverse in November as fiscal policy stayed in focus with Germany accelerating infrastructure spending under its revised debt brake and France announcing a €15 billion green investment plan. These measures reinforced the theme of fiscal support as a counterbalance to monetary restraint.

Credit spreads proved resilient despite episodic volatility. Euro investment grade (IG) tightened by roughly 10 basis points over the quarter, supported by strong technicals and steady inflows even as supply remained heavy in September. October brought some widening on geopolitical risk and weaker guidance from cyclical sectors, but November stabilised as global risk appetite improved and US-EU trade rhetoric softened. Political noise persisted around EU budget negotiations and UK fiscal manoeuvres, but markets largely shrugged it off thanks to resilient fundamentals and demand for quality carry.

### Key risk

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## The present – positioning and performance

Momentum in European credit remains strong, and we are leaning into opportunities with conviction. Technicals are supportive, with inflows expected to continue through year-end and into early 2026. November was a blockbuster month for primary issuance, with over €108 billion of new deals, making it the highest November number ever and the third-busiest month on record. Despite the surge in supply, demand was strong, reflecting deep investor appetite and confidence in the European growth story.

Our strategy has been highly active and selective. We captured value in new issues that have already delivered solid performance, while tactical single-name positions such as Lanxess\*, SES\* and WPP\* have added meaningful alpha. Closing credit default swap (CDS) shorts ahead of December reduced negative carry and positioned us for a cleaner start to the new year. Across portfolios, risk exposure mostly remained somewhat elevated at 5-10% but with a tilt towards better quality and defensive sectors.

We are not standing still. Sector rotation is in full swing: Autos have rallied hard and now look expensive, so we are reallocating towards banks, where we believe fundamentals and capital strength remain compelling. Financials in the upper capital structure continue to drive outperformance, supported by robust buffers and regulatory clarity. Avoiding earnings disappointments has also preserved relative returns. Positive carry remains a consistent engine of performance, and we are positioning to capture it without compromising on quality.

In short, we are combining strong technicals, disciplined risk management and targeted alpha strategies with the aim to keep performance resilient and forward-looking.



## Outlook

At the start of 2026, Europe benefits from a stronger fiscal impulse and tentative signs of political cohesion aimed at sustaining growth through public investment. Volatility in risk markets, whether it is equity or credit, has largely settled down after the early April spike, and with rates now back to about 3.25% technicals are expected to remain supportive.

Some risks, however, remain unresolved. Tariff uncertainty, particularly around US-EU negotiations, continues to cast a shadow while geopolitical flashpoints could inject renewed volatility. The ECB's data-dependent stance adds complexity as any upside surprise in inflation could challenge the current policy narrative and reprice duration risk. In addition, AI investment plans by the so-called hyperscalers have increased dramatically over the past six to 12 months and it's increasingly clear that a substantial part will be financed through the debt markets. This is expected to mainly impact the dollar market, but the recent €12.5 billion issuance by Alphabet\* signals how part of the supply percolates into the Euro market.

Longer term, caution prevails. Valuations leave little margin for error and the interplay between fiscal expansion and monetary restraint will shape the landscape in 2026. External shocks such as trade, politics or energy could quickly shift sentiment while uncertainty remains about credit quality in private markets, the sustainability of government deficits, and the impact of AI on productivity.

As a result, we have maintained our score of -1.

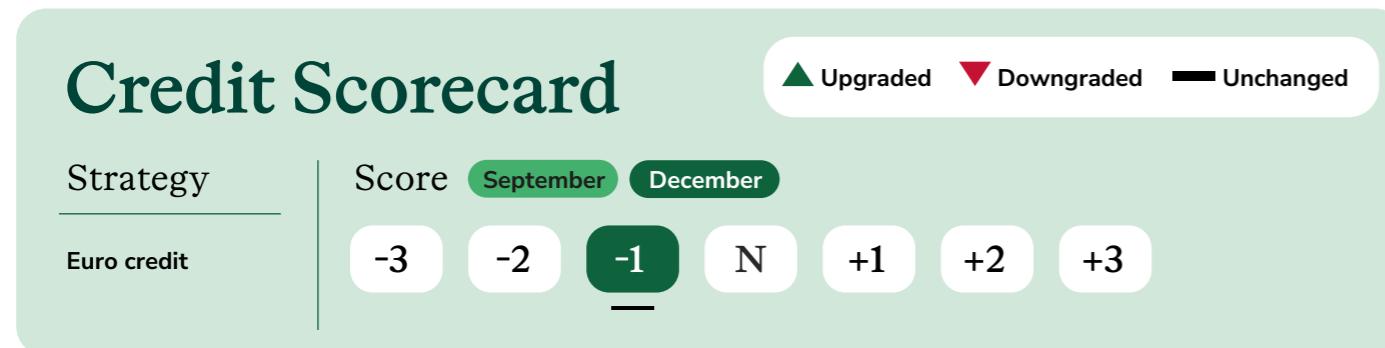
## What could go wrong?

- Growth risks: A sharper slowdown in global activity could reignite recession fears and pressure spreads.
- Inflation surprise: Any unexpected spike from energy shocks or wage dynamics could force central banks to pivot away from their dovish bias.
- Fiscal sustainability: Rising deficits and debt ratios may test investor confidence, with implications for sovereign spreads and funding costs.
- Geopolitical escalation: Conflicts in Ukraine or the Middle East, or new trade frictions, could disrupt markets and trigger risk-off behaviour.

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## Credit Scorecard



Source: L&G as at 31 December 2025 – can be subject to change at any point.

### Key risk

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# Emerging market debt: strength and selectivity amid global shifts

Emerging market fundamentals remain robust, but broader global macroeconomic developments are leading us to a more selective approach to positioning portfolios.



**Raza Agha**  
Head of Emerging Market Sovereign Strategy



**Viraj Nadgir**  
Senior Fixed Income Specialist

## The past – what just happened?

Despite recent equity market volatility, emerging market debt (EMD) has maintained its strong momentum over 2025, delivering strong returns. As of 31 December, EM hard currency sovereign bonds gained 14.30% year-to-date, while corporates were up 8.72%. These results have been driven primarily by movements in US Treasuries –benefiting sovereigns in particular –alongside additional support from spread tightening, especially within the high-yield sovereign segment. EM local markets outperformed over the same period, posting a 19.3% return, supported by a weaker US dollar.

## The present – positioning and performance

With resilient growth across emerging markets as per the International Monetary Fund, declining inflation and a robust external sector, we maintain our constructive stance on EMD. Our confidence is underpinned by structural improvements now being reflected in credit rating trends. Upgrades have outpaced downgrades in 2025, signalling positive momentum. There were no sovereign defaults in the last two years. We expect aggregate default probability to be very low in 2026 whereas EM corporate default is forecasted at less than 3% in 2026<sup>3</sup>.

From a valuation perspective, spreads have tightened steadily throughout the year, leaving us asking the recurring question: how tight is too tight as they approach historic lows?

Current sovereign spread levels are comparable to the early 2018 tights. That said, everything is relative; at these levels, EM spreads still provide a pickup over US investment grade (IG) credit, given that spreads in the US IG space have also compressed.

We've also observed improving investor sentiment towards EMD. Global liquidity conditions have strengthened, and after years of significant outflows EMD funds are now seeing renewed inflows. Notably, crossover investor allocations to EMD rose from 8% to 15% over the past three years<sup>4</sup>.

### Key risk

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## Outlook

Given this backdrop, we see limited risk of a sharp widening in EM spreads. Despite record issuance this year, spreads have compressed, indicating strong demand for the asset class. Even CCC-rated country issuers such as Suriname, Laos, and the Republic of the Congo have successfully accessed markets, underscoring investor appetite for EMD.

With subdued growth, a softening labour market, and weak oil prices in the US, we, like other market participants, also anticipate continued rate cuts by the Federal Reserve. This should help keep rates from rising meaningfully, supporting our expectation of mid-to-high single-digit total returns in EMD for 2026. As a result, we maintain our +1 credit score.

## What could go wrong?

Looking ahead, key risks for EM in 2026 are likely, in our view, to stem from US markets and macroeconomic developments – particularly a possible resurgence in inflation, elevated AI-driven equity valuations and high levels of AI issuance posing a headwind for US investment grade (and hence EM investment grade).

Recent volatility in US equities has already had spillover effects on EMD and broader risk assets in the fourth quarter of 2025, and we remain cautious of similar episodes in 2026.

Consequently, our positioning is more selective than in previous cycles, with a focus on idiosyncratic opportunities (for example, oil importers and precious metal exporters) rather than broad beta exposure.

This article was written before the US intervention of Venezuela. Read [our blog](#) to find our views on the potential impact on markets.



Source: L&G as at 31 December 2025 – can be subject to change at any point.

### Key risk

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# Global high yield: resilient fundamentals and strong demand for yield

Falling interest rate expectations and strong corporate fundamentals continue to underpin the market, even as risks persist.



**John Ryan**  
Head of Global High Yield



**Sophia Hunt**  
Senior Fixed Income  
Investment Specialist



## The past – what just happened?

Markets entered the fourth quarter of 2025 with a more cautious tone as prolonged uncertainty around the US government shutdown and limited economic data weighed on sentiment. Concerns over stretched valuations in AI-related sectors also contributed to volatility, prompting a modest widening in high-yield spreads since the end of September. Despite this, overall technicals remain supportive in our view, with steady demand for income and manageable new issuance.

Performance has been mixed across regions. Emerging markets and the US have led gains, supported by what we view to be resilient fundamentals and attractive yields, while Europe struggled in November amid weaker growth signals and political uncertainty. From a ratings perspective, BB credits outperformed as lower-rated cohorts lagged during periods of volatility.

## The present – capturing income opportunities with a focus on EM and Europe

We maintain a positive outlook on credit risk, while keeping duration neutral and favouring targeting spread premia to capture income opportunities. Although volatility may persist, we expect defaults to remain at historical averages rather than rise sharply. While spreads appear tight, it's important to recognise the improved quality of today's high yield market along with shorter duration – around three years versus the historical four – and reference government bonds are more volatile and lower quality than in previous cycles, making historical comparisons less relevant.

Regionally, we see the most interesting opportunities in emerging markets and Europe, where policy support and attractive yields stand out in our view, and we remain underweight the US. Sector-wise, we favour continental European real estate, US media and aerospace and defence, which we believe are well-positioned for current conditions. In contrast, we remain cautious on automotive original equipment manufacturer and utilities given structural headwinds and high capital requirements.

### Key risk

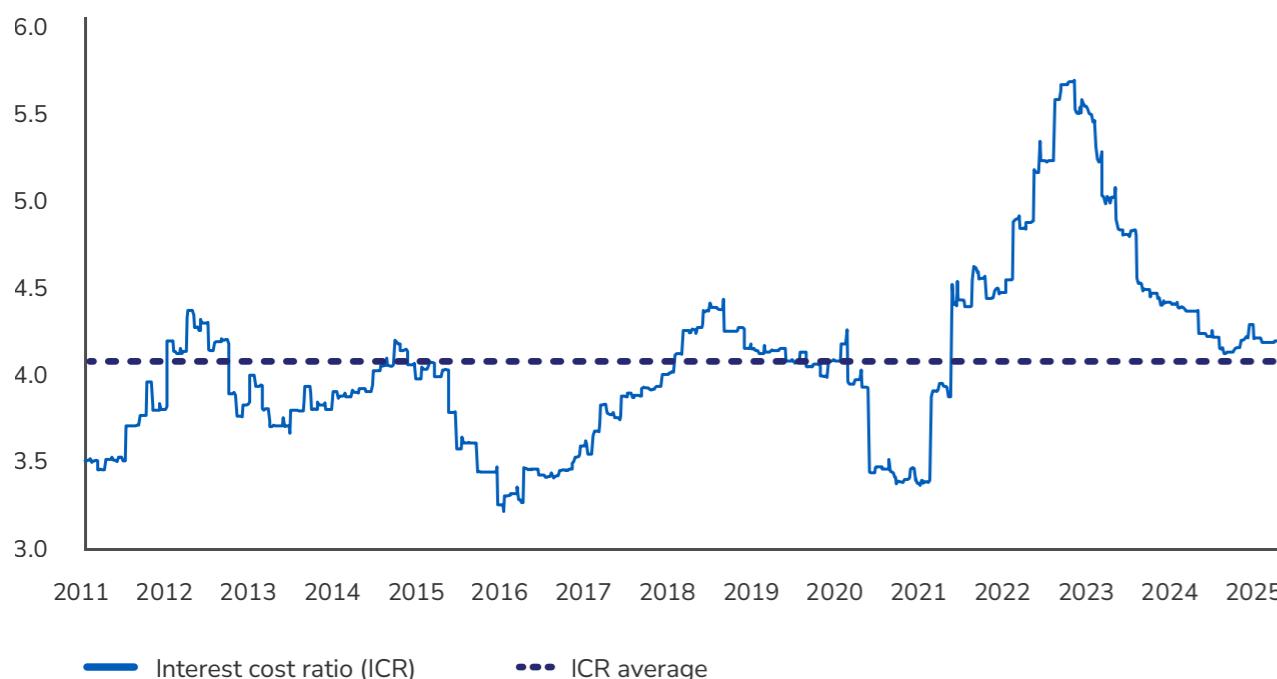
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## Outlook – why we believe high yield remains attractive

Global high yield looks set to remain well-supported as we enter 2026. A stable macro backdrop, falling interest rates, and robust corporate fundamentals, in addition to historical interest cost ratios that are above historic averages, could collectively continue to underpin the market.

### Credit quality remains strong: US Interest Coverage Ratio above historic average



Source: BAML as of 31 October 2025

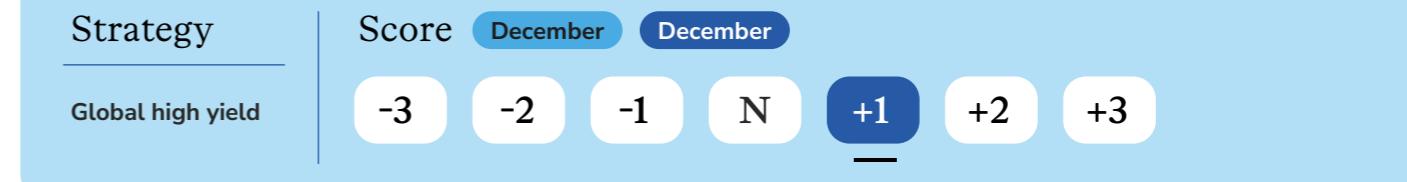
Default expectations are anchored at historically low levels, creating an environment where we believe selective risk-taking can be rewarded. We are leaning into higher-spread opportunities with limited levels of risk, while steering clear of structurally challenged sectors such as autos.

Global high yield has performed strongly in 2025, driven by resilient earnings and sustained demand for yield, both of which have reinforced confidence in the asset class. Against this backdrop, our outlook for the asset class remains constructive, reflected in our decision to maintain our positive score of +1.

## Key risks to watch

- Policy shifts and geopolitical tensions:** Unexpected changes in policy or global events could tighten financial conditions. A mild US recession on its own is unlikely to drive a surge in defaults, but a broader breakdown in credit transmission would present a more serious challenge, in our view.
- Resurgent inflation:** A renewed rise in inflation remains the key threat to yield demand and carry strategies. While high yield's shorter duration could help to provide relative resilience in a stagflationary backdrop compared to other fixed income sectors, we believe overall returns could be more muted.
- Supply may rise:** Issuance is expected to rise in 2026, a result of low and falling central bank rates, a solid economic backdrop and ongoing demand for yield. Mergers and acquisitions, leveraged buyouts and spinouts are likely to increase across developed markets. There is also the need to fund digital infrastructure, particularly data centres. While this will fall mostly on investment grade and private credit markets, expectations are for 5-10% of US high yield supply next year to be data-centre-related.

## Credit Scorecard



Source: L&G as at 31 December 2025 – can be subject to change at any point.

### Key risk

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# Research and active engagement: Case study – Meta's mega data centre deal

How we identified opportunities from the biggest ever private credit deal.



**Ken Berlin**  
Senior Research Analyst

As we mention in our global outlook, there is a monumental amount of capital expenditure to support the AI boom. As a result, we're doing a deep dive – on an illustrative basis – into one of the deals to shine a light on the broader phenomenon.

## The past – what just happened?

In October 2025, US technology company Meta\* partnered with Blue Owl Capital to create a joint venture (JV) to develop and own a significantly large 2GW data center campus in Richland Parish, Louisiana, aimed at supporting Meta's artificial intelligence (AI) infrastructure needs. According to [Morningstar](#), this is the largest private credit deal in history.

The JV issued \$27.3 billion of senior secured amortising notes maturing in 2049 through Beignet Investor LLC, structured as project finance. Blue Owl Capital funds hold 80% equity in the JV, and Meta retains 20% equity and operational control through a lease with the JV entity. The notes were issued in mid-October 2025 after a 5-month structuring process with feedback from a select number of institutional fixed income accounts underwritten out of their private placement groups, including the L&G Private Credit team. The deal structure pivoted very late from a traditional private placement offering, where investment is typically limited to select private institutional investors, to a 144A structure, which allows for broader participation from public institutional investors. As a result, the deal was very closely syndicated with 2/3 allocated to Pimco and the remaining 1/3 allocated to a select group of institutional accounts heavily skewed to private placement focused mandates.

A key feature of the JV bond offering was a residual value guarantee where Meta must cover a shortfall between asset value and outstanding debt if the company does not renew the lease. Other key features of the deal include Meta assuming cost overruns/delay risks and offering payment guarantees on rent and termination payments.

This allowed the JV debt to be rated by S&P one notch below Meta's credit rating without having to offer collateral.

The Active Fixed Income team (AFI) worked with the L&G Private Credit (PC) team, using a well monitored compliance approach to help the PP team underwrite the JV risk by sharing its public side view of Meta's credit risk and its broader public side AI infrastructure views.

Once the deal structure pivoted to a 144A structure, the AFI team was able to get a unique opportunity to underwrite the risk for primary market purposes. It quickly concluded that in its view the JV opportunity offered a strong risk-adjusted return relative to other investment grade (IG) technology opportunities in the public market. The team was able to secure a small allocation in the primary offering. Early underwriting in collaboration with the L&G Private Credit team allowed the team to have a first mover advantage and source bonds in the secondary market from the lead underwriter before other public side investors. The team was able to generate a small profit by selling its position once price targets were met<sup>5</sup> and no longer holds any risk positions in the JV notes.



## The present

As we have fully sold our holdings, we currently do not hold any risk in this JV position. This is a 144a non index instrument so doesn't present tracking error for our AFI mandates. In our view, the current valuation for this JV deal does not look attractive enough to take an out of benchmark position at this time.



## Outlook

Our view is that IG mega cap technology companies will be in position to self-fund a decent portion of AI infrastructure spending from free cash flow. However, a material portion of this is likely to be funded in the IG debt capital markets (likely through a combination of unsecured public side debt, private placement debt and securitized debt) over the coming years.

We are carefully monitoring the broader AI infrastructure trends, including the rising trajectory of capital expenditures and the proportion of this being funded internally (from free cash flow) versus externally from debt capital markets. We are also carefully monitoring implications from credit rating differences, as the market pricing and risk appetite for sponsoring higher quality (AA or AAA rated) partially debt funded AI spending ambitions could end up distinctly different than AI debt funded ambitions deeper down the IG credit quality spectrum (BBB rated).

We believe L&G is well positioned to capitalise on this opportunity set going forward by partnering across these asset classes. Our AFI team is in a strong position to explore any potential opportunity by positioning portfolios to generate alpha from the underperformance of the IG technology sector and seek to realise gains from new issue concessions, as we have done previously for the recent Google\* new issue transaction<sup>6</sup>.

L&G, October 2025. \*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.



Unless otherwise stated all views expressed are by L&G as at December 2025.

## Contact us:

For further information about the Asset Management business of L&G, please visit [am.landg.com](http://am.landg.com) or contact your usual L&G representative.



### Key risk

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