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# Oracle AI bet faces 'Russian roulette' moment as Alphabet leads hyperscaler earnings round (9fin)

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[Oracle Corporation](#) faces a "Russian roulette" scenario starting this week, say 9fin sources, as a series of hyperscaler earnings, particularly from [Alphabet](#), threaten to expose the risks of its massive debt-funded AI infrastructure strategy.

Oracle, a major AI infrastructure provider, looks particularly susceptible to a big credit and equity move this week as hyperscalers ultimately fuelling the AI buildout come under their own pressure to validate further spending. Alphabet is the first in line and due to report after the closing bell tomorrow (22 July).

According to 9fin sources, if it or other reporting hyperscalers indicate a slowdown in AI spending that could trigger a valuation collapse and demand squeeze, further pressured by OpenAI's precarious financials, [Meta's](#) competitive threats, and the efficiency of Chinese start-up [Moonshot's new Kimi 3 model](#).

"I'd say it's unlikely Alphabet would cut back on AI spend given how much it's already committed and after it increased 2026 and 2027 guidance in April," said one buysider. "But you only have to look at the recent performance of AI capex beneficiaries to know that people are getting wary that one of the hyperscalers may pull back."

Oracle entered this week in a precarious position, with five-year credit

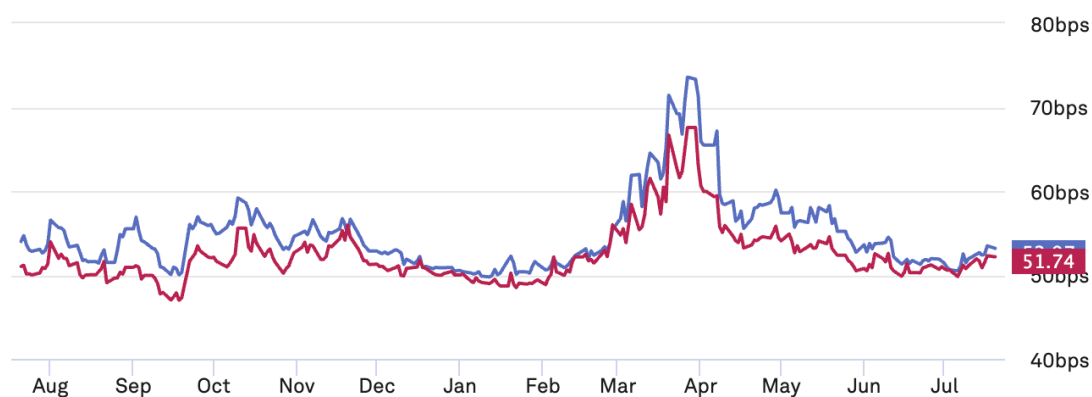
default swaps referencing the company's debt hitting a new high of 206bps on Tuesday (21 July), according to S&P data. That's about 50bps wider than a month ago, and even beyond the level they hit during the first weeks of the US/Israel war with Iran.



*Oracle five-year CDS keeps hitting new wides — Source: S&P*

"Oracle is back at the wides and this time they can't blame it on the overall market," said another buysider. "Yes, other AI names have widened lately on headlines like the Kimi 3 launch, but investment grade credit as a whole is a long way inside March levels."

For context the CDX IG investment grade credit default swap index, of which Oracle is a prominent constituent, is quoted today at 51bps by S&P — some 16bps tighter than the 30 March peak this year. The only constituent wider than Oracle in the index is [DXC Technology](#) at 274bps — that cloud and data center name having gapped wider in May after [releasing its Q4 earnings](#).



*CDX IG and iTraxx Europe five-year spreads over past 12 months — Source S&P*

Oracle's gross capex has ballooned to a projected \$95bn for this year,

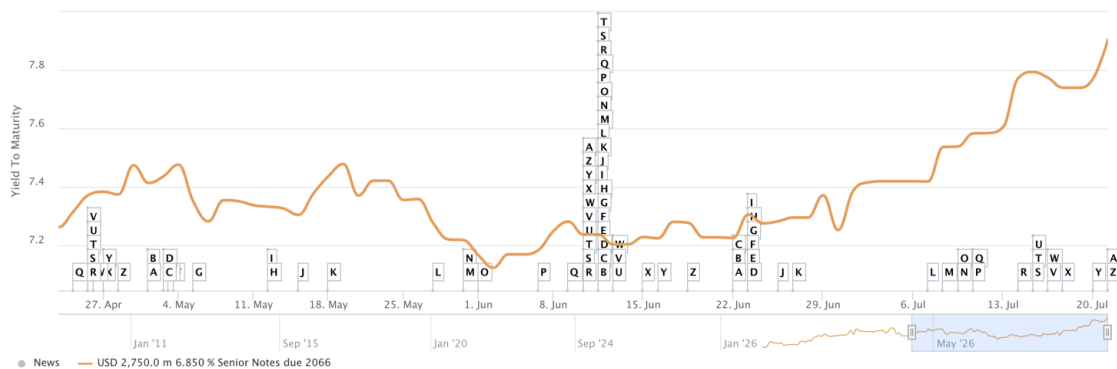
driving a massive financial imbalance. Hedging against Oracle credit risk picked up this month as S&P [downgraded its long term issuer credit rating](#) to BBB-, one notch above junk, on 9 July and warned of further deterioration due to its exposure to OpenAI.

"OpenAI's ability to meet its contractual obligations and raise external financing will be contingent upon AI tailwinds continuing and its models being market leaders," said S&P at the time. "If OpenAI were unable to pay Oracle, we believe Oracle could be left with massive data center leases that it might be unable to exit or have to re-lease to new tenants under less-favorable terms."

Oracle is the second-largest non-financial debt issuer in the Bloomberg US Corporate Bond Index, carrying an absolute mountain of outstanding debt. It has also been among the most traded names in the global single name CDS market this year, with only the newly tradable [SpaceX](#) CDS having perhaps had [busier trading runs](#).

But if Oracle receives another downgrade, it faces ejection from the investment grade index into junk territory. Because Oracle makes up about \$117bn of the high-grade corporate bond index, a slide to junk would trigger mandatory, institutional mass-selling by conservative pension and index funds, severely choking off its access to affordable capital and forcing extreme, even more dilutive equity issuance to survive.

For Orlando Gemes, CIO at Fourier Asset Management, high profile issuers of long, callable bonds like Oracle, SpaceX and [TeraWulf](#) raise important questions over the assumptions that go into relative value trading. Oracle's longest dated maturity is its [\\$2.75bn 6.85% February 2066](#), issued in February, which is yielding 7.9%. But it also issued 2036, 2046 and 2056 maturities, with z-spreads of 280bps-320bps, while CDS is a flat 280bps area along that part of the curve.



Oracle 2066 bond yield — Source: 9fin

Given the notes are callable, that raises concerns about whether investors are accounting for the disconnect between z-spread and option-adjusted spread when comparing the bonds to CDS levels. In the case of SpaceX's callable bonds, it looks as if negative convexity is being handed to investors as pure rates-and-optionality, dressed up as spread.

"The credit and convertible bond markets are being reshaped by the vast issuance flowing from AI, hyperscalers and space," said Gemes. "Banks are building new, untested structures that let companies like TeraWulf leverage off the order books of the Mag7. The result is huge volatility, not just in the equity but in the bonds and CDS too. This is great for hedge funds, but is likely to cause problems for other investors."

Indeed, Oracle has left some big CDS players in a very difficult position, with at least one well known US fund manager said to have gone long Oracle CDS risk "in the low 100s", say sources.

Oracle by its own definition provides AI infrastructure, data management platforms, and enterprise applications that allow businesses to train, manage, and deploy generative AI agents and models at scale. It has come under intense investor scrutiny because roughly half of its multi-hundred-billion-dollar backlog relies on a single \$300bn contract with OpenAI. This has left Oracle highly vulnerable to financial strain, negative free cash flow, and potential stranded capacity if OpenAI misses growth targets or fails to fund its massive infrastructure commitments.

Meta, which reports next week, already rocked the AI industry at the start of July when it suggested it [might lease out some of its spare AI capacity](#) —

raising concerns about the ultimate customer demand and profitability of AI for hyperscalers. For Oracle, it also threatens to turn Meta from customer into rival, along with SpaceX.

"SpaceX's recent decision to lease its compute capacity to Anthropic and Alphabet — and the potential for Meta to do the same — portend growing competition within the industry," said S&P when making its rating cut.

Further reports followed at the end of last week that Anthropic [could lease capacity from Meta](#) in a deal worth \$10bn, but these have done little to ease concerns about AI being a circular economy.

"If Anthropic or OpenAI rent Meta's excess compute it's not a great look," said the second buysider. "That makes people start to wonder whether there is actually any other buyer out there."

The worst scenario for Oracle tomorrow would be if Alphabet signals a deceleration in AI infrastructure spending or acknowledges a lengthening timeline for AI profitability. The earnings report catches Alphabet at its own historic turning point, as the market shifts from blindly rewarding AI spending to demanding immediate proof of profitability.

For US credit investors in particular, the primary anxiety coursing through this week's market tone stems from the sheer velocity of Alphabet's balance sheet transformation, where long-term debt has quadrupled to fund a staggering \$180bn-\$190bn capex cycle. While credit agencies remain comforted by a defensive \$84.75bn [equity raise](#) and a low 0.3x net leverage ratio, the bond market is showing clear tech fatigue, evidenced by recent AI related bond demand cover ratios plummeting from 5x to 2x.



*Alphabet five-year CDS has also been widening since the start of June — Source: S&P*

This aggressive debt accumulation forces fixed-income investors to become deeply attuned to equity and tech narratives. A 13% drop in Alphabet's stock from its all-time high reflects accumulating equity fears — including delayed Gemini 3.5 models, [defections of top-tier talent](#), and compressed search margins — that directly impact the credit profile.

One of the key concerns would be if Google Cloud misses its high 63% growth projection or if AI returns take longer to materialize, say *9fin* sources. That could put further downward pressure on Alphabet's long-duration instruments, like its newly issued [2126 century bonds](#), which are already down 9.5%.

Unlike Alphabet, which has a massive cash-cow advertising business to absorb its investments, Oracle is essentially front-funding a hyper-aggressive AI buildout. It is relying heavily on debt and dilution — recently [posting a negative \\$23.7bn free cash flow](#) after a \$55.7bn capex surge, pushing its overall debt load to \$156bn.

Oracle has arguably become the single highest-probability lightning rod for broader market turmoil within the technology sector. The macro risk has mutated from one company struggling into a threat to both the credit markets and the broader AI growth narrative.

Partly this is because Oracle is inherently embedded in the AI buildout narrative, and a good proxy for those wishing to take long positions on the industry's credit risk. But investors have also started to weigh this exposure against macro data that undermines the economic impact and return on

investment AI is making.

"I've been scratching my head as to how AI funding and valuations can continue going up while at the same time [unemployment continues to be very low](#)," said a third buysider. "It seems like it must be zero sum in order to justify such big numbers... so one or the other must be wrong."

What *9fin* sources worry about more though is that Oracle has become locked in a Catch-22 with OpenAI. On one hand Oracle cannot stop spending to meet OpenAI's massive data center infrastructure demands without destroying its own \$638bn growth narrative. But on the other hand, continuing to fund a negative \$42bn free cash flow deficit pushes its leverage ratio right against the IG ceiling.

OpenAI's [leaked financials](#) and [delayed IPO plans](#) have firmly raised the stakes in this leverage trap.

S&P and Moody's expressly state in their criteria that a rise in Oracle's leverage could trigger another ratings downgrade. Fitch for its part has suggested Oracle's leverage will peak this year but then improve in 2027 — an outlook that appears highly susceptible to what hyperscalers announce over the coming weeks and months.

S&P said it would lower its rating again if it expects Oracle to sustain leverage exceeding 4.5x, comes to believe that Oracle isn't on a path to generate positive FOCF by fiscal 2029, or takes a negative view of Oracle's AI strategy or that of the overall AI industry.

This is why Oracle, rather than issuing more debt, has instead resorted to pursuing \$20bn of equity dilution — an approach that has had its own negative impact with a massive drop in share price since June.