AI Investment Sector Analysis

MBA 541: Managerial Finance, Final Synthesis | Nima Sherpa Lama, Evann Warner, Harry Werber | June 11, 2026

Thesis. The AI investment sector as a whole is overvalued, but we expect the deflation to happen at two speeds. At the credit-financed edge of the sector (CoreWeave, Applied Digital), the valuation gap is due to mispricing, and a credit shock will close this quickly and severely.

The core companies in the sector (Microsoft, Alphabet, Amazon, NVIDIA,) are accumulating increasing levels of debt to finance their buildouts, but at a relatively slower pace. Here, the valuation gap will close more gently, through gradual re-rating or via growth catching up to the price.

Oracle has significantly accelerated its accumulation of debt, and now sits somewhere between the core and the edge.

We expect the repricing to begin between late 2026 and the end of 2027. The trigger will come from a credit pullback rather than a demand shock, and we suggest three tests: whether OpenAI's IPO prices at or above its $852B private mark, whether the investment-grade market keeps absorbing more than $200B a year of new AI debt, and whether hyperscaler capital spending guidance for 2027 holds.

The mechanism has two stages. First, the core re-rates together, because all of it is priced on one belief: that AI revenue catches up to AI spending before lenders and shareholders lose patience. Second, stress travels down the credit chain that now links OpenAI, Oracle, CoreWeave, Applied Digital, and the private lenders behind them.

Section One: The Gap - Mispricing or Model Limitation?

The DCF model underprices almost all these companies because investors are paying for the buildout itself, not the cash flows that would justify their investments. The hyperscaler models cannot reach market prices unless AI monetization accelerates within three to five years. The infrastructure models reject the assumption that AI-era lease pricing and 2026 multiples persist into the 2030s, where 55% to 88% of those companies' value sits. The processing models treat the 2024 to 2026 spending cycle as a peak; the market prices it as a floor. The modeler valuations require terminal margins near 34%, even though a price war is currently pushing margins in the other direction.

Where companies depend on outside money, the mispricing is plainest, and recent reporting sharpens it. OpenAI's $852B mark stands against model values of $35B to $67B, and its IPO preparation has surfaced cash burn rising from roughly $27B this year to $63B in 2027, with positive cash flow projected only by 2030 (CNBC, June 2026). DeepSeek, which one team values at $1.4B to $1.9B on $202MM of revenue, is raising at a reported $45B to $59B (TechCrunch, May 2026). CoreWeave at $108 trades at just above our valuation of $103, which is based on 70% utilization. A rational buyer would need to believe the company can achieve the consistent 90% utilization it projects. AMD and NVIDIA trade roughly 70% above Gordon Growth values that already assume aggressive growth. Each of these prices needs several favorable outcomes to land at once, and the market is charging nothing for the chance that one of them misses.

At the core, the evidence has moved toward the market even in the weeks since our teams gathered our research. Microsoft's AI business reached a $37B annual run rate, up 123% in a year, with Azure growing 40% (GeekWire, April 2026). AWS accelerated to 28% growth, its fastest in fifteen quarters (Amazon 8-K, April 2026). Alphabet's Search revenue grew 19% with queries at record levels (Alphabet 8-K, April 2026). NVIDIA printed a 74.9% gross margin on $81.6B of quarterly revenue, where our processing model assumed margins falling toward 62% (NVIDIA 8-K, May 2026). Anthropic reached a $47B revenue run rate and its first profitable quarter, then raised capital at a $965B valuation (Fortune, June 2026). For these companies, the DCF gap looks less like a price waiting to fall and more like the limit of a model that forces a hypergrowth business into a mature shape by year ten.

The five reports disagree on some valuations where they overlap. Alphabet appears at $381.23 in one report and near $165 in another, Oracle at $145 and at $233.45, and one report misstates Meta's market capitalization as $17.5B. We defer to the cluster that owns each company and use the duplicate as a directional check. Most reports are already stale on capital spending: they model 2026 capex of $80B for Microsoft and $81B for Meta, while current guidance is $190B and $125B to $145B (CNBC, February 2026; Yahoo Finance, April 2026). Our conclusions use the updated figures.

Section Two: Deflation - Will It Happen and How Would the Gap Close?

Most of the sector's overvaluation, measured in dollars, sits at the core, and those companies can afford a mistake. The four large hyperscalers fund the bulk of roughly $725B in 2026 capital spending from their operating cash flow. NVIDIA holds about $76B of net cash. A repricing there results in lower share prices, not failing companies.

However, their cushion is thinner than our reports assumed. Meta sold $25B of bonds on May 1 while raising its capex guidance to $125B to $145B (Yahoo Finance, April 2026). Barclays expects hyperscaler debt issuance to pass $200B this year (Bloomberg, May 2026). In Bank of America's May survey, 34% of fund managers called hyperscaler capex the most likely source of the next systemic credit event, double the April share (Bloomberg, May 2026). The hyperscaler report's claim that financing risk is essentially absent no longer holds. The core is becoming a borrower, and that raises the odds that a gradual repricing turns severe.

Oracle has crossed the line between the two groups. Its trailing operating cash flow of $23.5B stands against $48.3B of capital spending, putting free cash flow at negative $24.7B, and its debt reached $134.6B, up 45% in nine months (Fortune, March 2026). Its growth backlog is dominated by a $300B five-year contract with OpenAI, a customer that is burning massive amounts of cash. CoreWeave remains the likelier first casualty: its $24.9B of debt is roughly twice expected 2026 revenue, and quarterly interest expense reached $536MM (CoreWeave 10-Q, May 2026). The difference is in who holds the risk. CoreWeave borrows from specialist lenders who priced it, against contracts with Microsoft, Meta, and Nvidia. Oracle borrows from the investment-grade market, against promises from OpenAI. The probability of a break is highest at CoreWeave. The consequence of a break is largest at Oracle.

For each keystone company, these are the next reporting-cycle numbers that would change our read, and this is how the board stands today:

- NVIDIA: gross margin, which printed 74.9% against our 67% threshold, favoring the bull case.
- Microsoft: Copilot attachment, where twenty million paid seats is roughly 4% of the 450MM commercial base, below our 10% line, favoring the bear case.
- CoreWeave: the price of new debt, where its newest GPU-backed facility earned an A3 rating, the first investment grade for that asset class, so funding is getting cheaper for now (Bloomberg, March 2026).
- OpenAI: cash burn against $2B of monthly revenue, which is worsening.
- Anthropic: whether profitability repeats after DeepSeek's 75% price cuts.

The demand signals currently favor the market pricing. The credit signals favor our valuations. Our deflation call rests on increasing levels of leverage and risk, more than on a sudden drop in demand.

Section Three: Timing - When?

We expect the repricing window to open between late 2026 and the end of 2027, earlier than we would have said three months ago. The reason is the IPO calendar. OpenAI filed confidentially on June 8 seeking a valuation above $1T (CNBC, June 2026). Anthropic filed on June 1 near $1T (Fortune, June 2026). SpaceX, which absorbed xAI this year, seeks $1.8T. These listings are the first public-market test of private AI giants. If they price at or above their marks, the cycle extends. If they price below

them, or are cancelled or delayed, every contract and loan written against those names gets re-evaluated, starting with Oracle's backlog and the roughly $13B of SPV debt behind its OpenAI data centers (Quinn Emanuel, 2026).

The second clock is the bond market. On June 4, a Broadcom guidance miss of about $1B, landing on a hot jobs report, erased roughly $1.3T of chip-sector market value in one session, before prices recovered within days (CNBC, June 2026). A market this twitchy will struggle to absorb $200B a year of new AI paper.

The third clock is hyperscaler capex guidance for 2027, with Microsoft the company to watch. It decides CoreWeave's renewals, it is OpenAI's largest partner, and it is a $190B-a-year spender building its own chips. If guidance holds and monetization continues to strengthen, the repricing slips past 2028 and the core grows into its prices.

Section Four: Mechanism - How?

The first stage is a simultaneous re-rating of the core. June 4 was a small live demonstration: one disappointing guidance number from Broadcom repriced the entire chip sector in a day. Nothing defaulted, and most of the loss reversed within two sessions. A durable version of that event requires credit to crack, even while demand is still growing. Recent history shows that is possible.

See, for example, the telecom crash of 2000 to 2002. United States carriers invested more than $500B between 1996 and 2001, most of it borrowed. Capacity ran far ahead of traffic, bandwidth prices collapsed, revenue flattened under the debt, more than $2 trillion of market value disappeared, and roughly two dozen carriers went bankrupt (Federal Reserve Bank of Richmond, 2003). Meanwhile, internet traffic grew through the entire bust. Demand was real, but the sector failed anyway. The same math threatens the AI sector. Lenders are repaid from price times utilization, DeepSeek has already cut model prices 75%, and GPUs age out of usefulness on a two-to-three-year cycle while loan schedules assume longer lives.

The second stage runs down a specific chain. A disappointment at OpenAI re-marks Oracle's $300B contract and the SPV debt behind the Stargate sites. Bigger risk premiums on AI loans raise funding costs for CoreWeave and for Applied Digital, which depends on an $11B contract with CoreWeave for most of its future revenue. Falling GPU collateral values force write-downs across the more than $200B of private credit now secured by chips and data centers, impacting Apollo, Brookfield, and JPMorgan through loans such as Apollo's $3.5B GPU-lease financing (Quinn Emanuel, 2026). The financing report called its cluster the mechanism through which a slowdown spreads. That machine became much larger over the last three months.

Oracle belongs to both stages. Its software franchise re-rates with the core. Its debt and its OpenAI dependence tie it to the leveraged edge. The next two quarters of OCI utilization and its execution on Stargate construction milestones will tell us which side dominates.

What Would Prove Us Wrong

Four developments would break this thesis, and all four are observable within a year:

- The trillion-dollar IPOs price at their marks and trade well.
- Monetization keeps compounding: Copilot attachment passes 10%, NVIDIA margins hold near 75%, Anthropic stays profitable through the price war.
- A healthy secondary market develops for prior-generation GPUs, with chips changing hands at or above book value as a second tier of cloud providers buys used hardware to serve less demanding customers; that would validate the collateral under $200B of private credit and show the AI economy maturing into layers, the way used aircraft support airline finance.
- Hyperscaler capex guidance holds through 2027 while cloud growth accelerates.

If all four happen, the sector will grow into its prices. We predict the other outcome: the credit chain gives way first, the leveraged edge deflates severely between late 2026 and the end of 2027, and the core re-rates and survives. The sector's risk is concentrated where the borrowing is, and the borrowing keeps creeping closer toward its heart.

Override summary: Claude made an illogical suggestion for a test that would prove our thesis wrong: “The first forced sale of a GPU fleet clears near book value, validating the collateral under $200B of private credit.” We corrected this, by pointing out that a sale of assets by a distressed company would strengthen our pessimistic argument about the market. We suggested instead that a good test of an optimistic scenario would be the development of a robust secondary market for previous-generation GPUs.