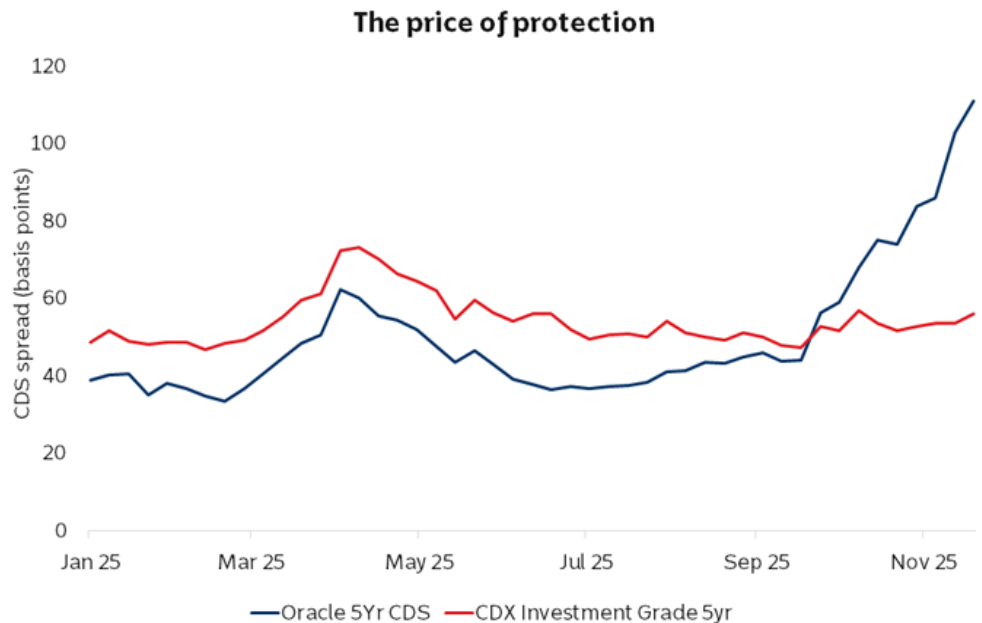


Protection racket

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Source: Bloomberg Finance L.P., Momentum Global Investment Management. Data to 21 November 2025.

What this chart shows

The chart shows in blue the five-year CDS (credit default swap) for Oracle Corp, the US software company. CDS is a type of OTC ('over the counter') derivative and is used primarily by sophisticated investors to take a long or short view on a credit, in the same way an equity investor might use equity futures to take a directional view on a stock or equity index. They are relatively liquid for large benchmark issuers and when traded in size can often be more liquid than the underlying issuer's bonds. Oracle's current CDS 'spread' or price – 110 basis points – refers to the cost of insuring against default on the company's debt. As such it would cost \$110,000 per annum to protect \$10m nominal of the company's bonds. The orange line shows the equivalent cost of insurance for an equally weighted basket of the 125 most liquid US investment grade issuers; this is the 5yr CDX IG index. The CDX 'spread' has remained relatively flat over the last two months whilst that of Oracle – which itself is investment grade rated – has gone up almost 3x. As the spread goes up – or widens – the cost of insurance gets more expensive. Someone who went long and bought protection on Oracle at 40 in August can close out their position today at a profit – effectively selling on the insurance contract they took out to someone else at a higher price.

Why this is important

Concerns have started to be raised recently around whether there is a bubble in AI related stocks. Their prices had until recently continued to climb ever higher against a backdrop of vastly increasing capital expenditure, to a level where analysts were starting to question the future level of return on invested capital. No one is saying that significant investment is not going to be required in the build out of data centres and IT infrastructure, but consensus increasingly seems to be that the winners in this IT arms race will win big, whilst others stand to lose. As these concerns have grown, and with Oracle perceived to be a weaker name amongst this cohort, some market participants that are able to undertake CDS transactions have used Oracle's CDS as a hedge against this AI bubble risk. As demand for protection has grown, so the price of it has risen, to a level that probably does not reflect the true underlying credit default risk associated with the company. It is important as it reminds us that not everyone thinks big tech is a one w-AI trade.



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