



When the AI Bubble Bursts

Painful Correction or Potential Crisis?

Corey Frayer

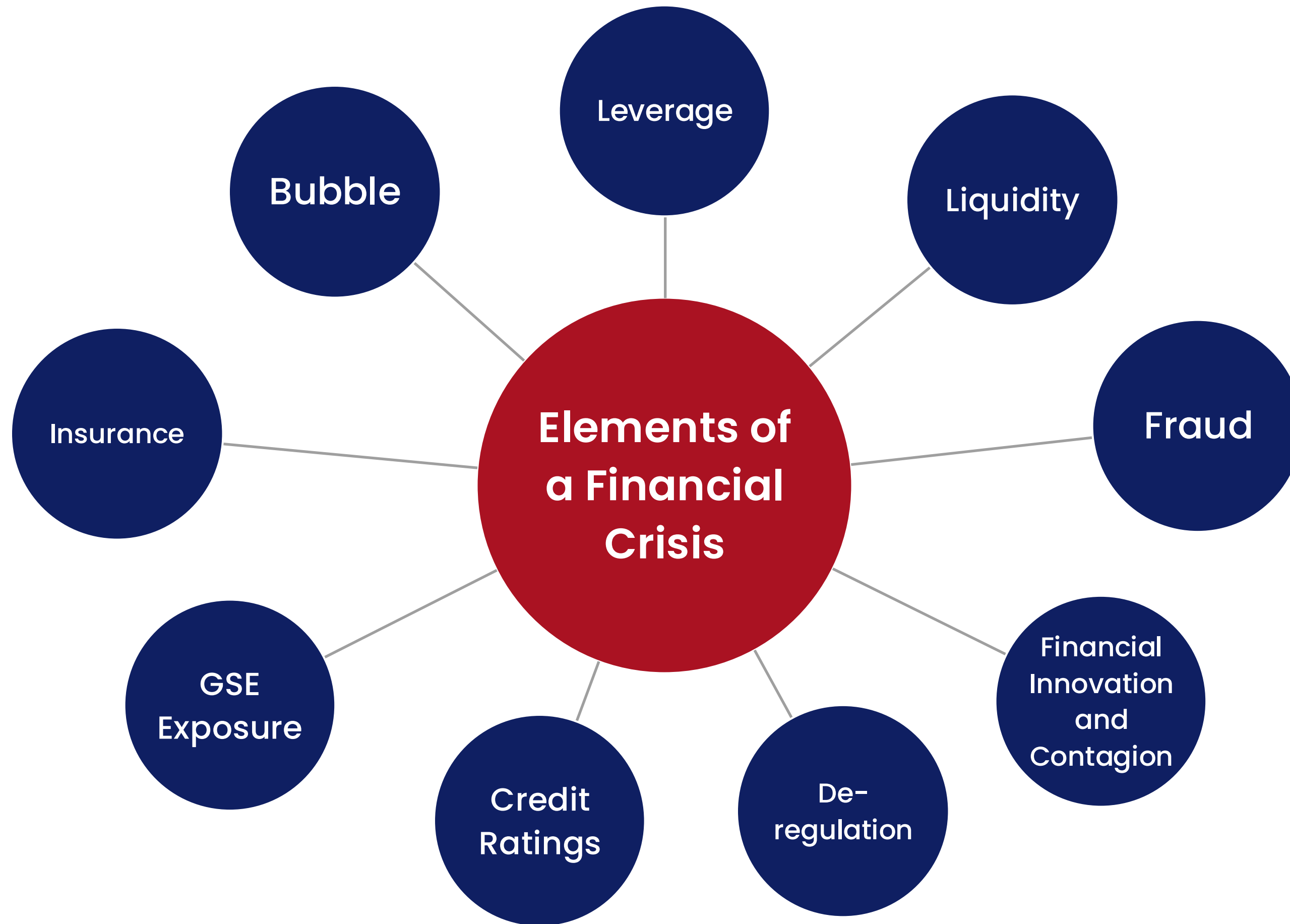
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October 14, 2026

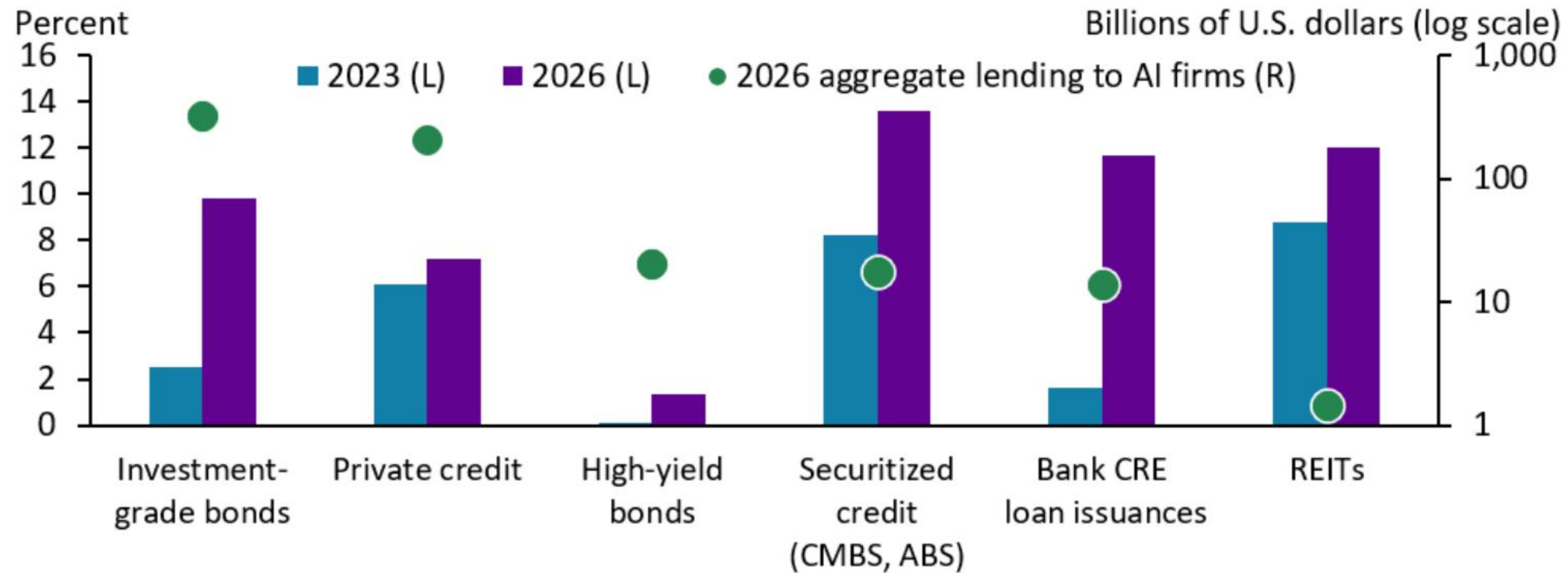




Leverage

*Shares of AI debt across various financial markets
2023 – Q2 2026*

Chart 1: Lending to AI firms has expanded in a variety of financial markets



Source: Federal Reserve Bank of Kansas City (2026)

Liquidity

Highest Withdrawal Request Rates

Blackstone

10%

BlackRock®

13.3%


BLUE OWL

21.9% • 40.4%

APOLLO

11.2%

 CLIFFWATER

14%

Morgan Stanley

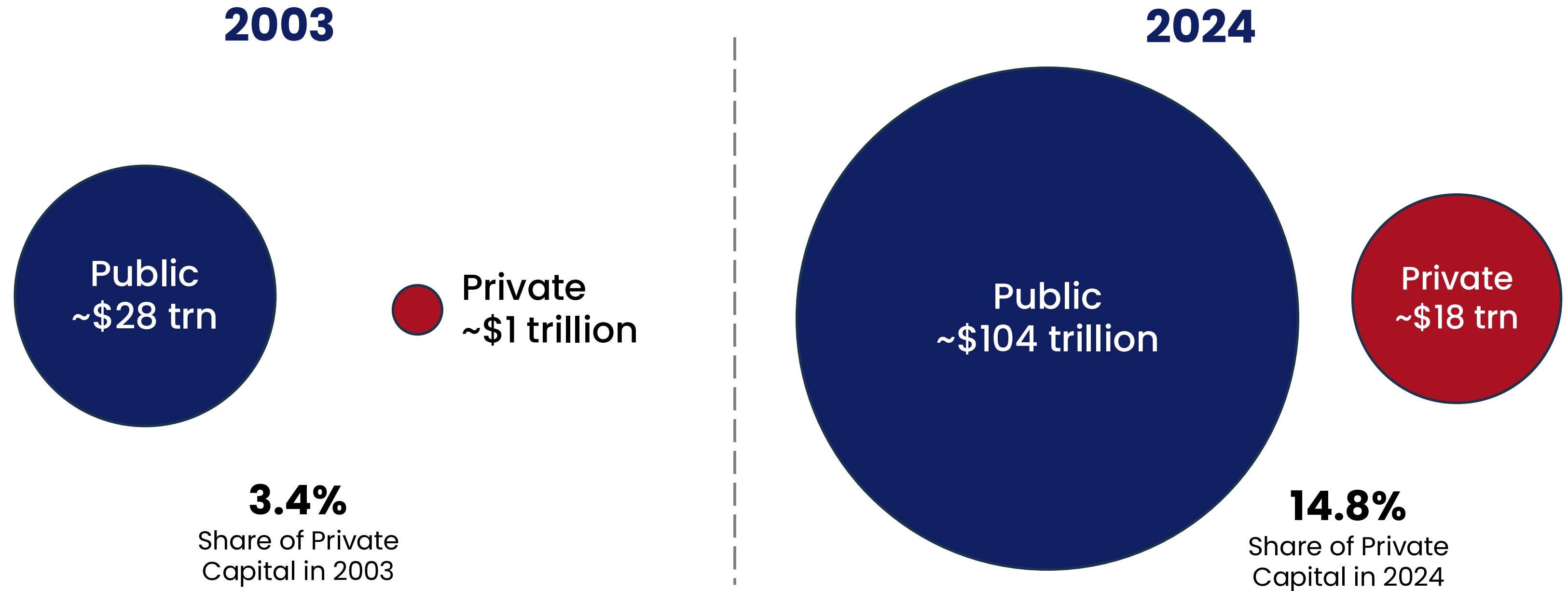
11.4%



Fraud



Growth of Private Markets



Sources: CFA Institute (2026), Frankle et al. (2025); Heredia et al. (2020).
Note: Bubble size is proportional to AUM value.

“Financial Innovation” and Contagion

Private Credit

+61%

\$1.6 trillion → \$2.5 trillion
2021–2025

SRTs

+76%

~\$160 bn → \$283 bn
2021–2024

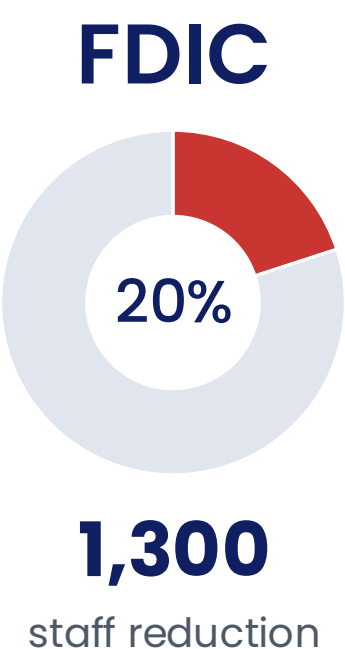
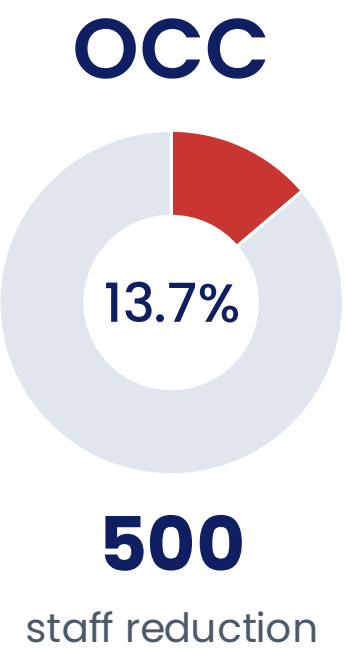
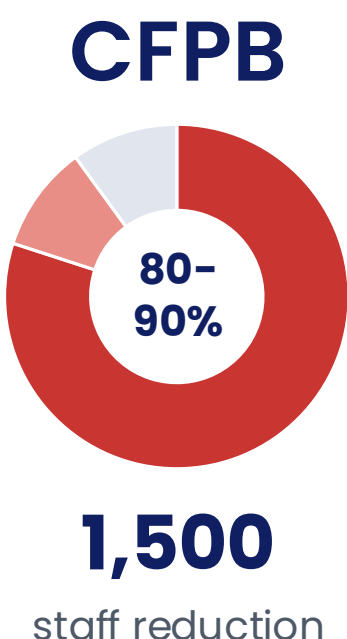
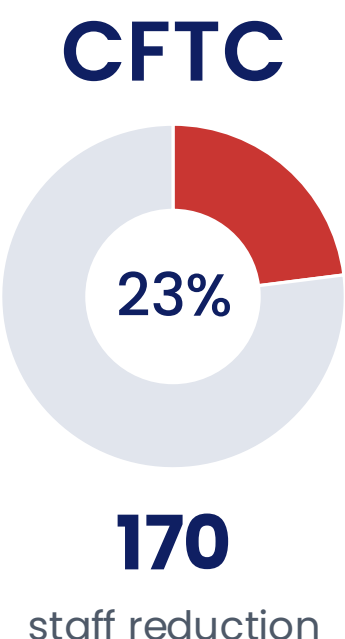
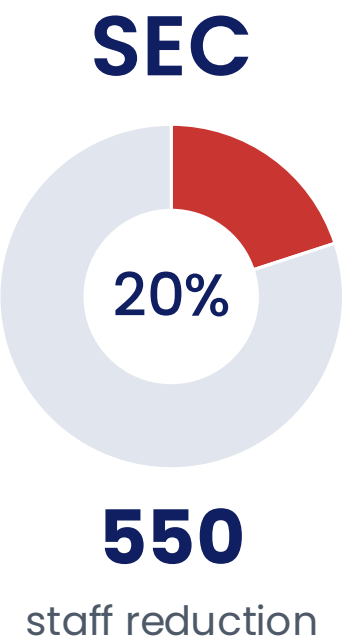
FABN Issuance

+83%

\$153 bn → \$280 bn
2021–2025

Sources: Pitchbook (2026), Bank for International Settlements (2026), NAIC (2026).

Deregulation



Credit Ratings

S&P Global
Ratings

MOODY'S
RATINGS

FitchRatings

 **KBRA**

Egan-Jones
ESTABLISHED 1995

MORNINGSTAR | **DBRS**



Government Sponsored Enterprises (GSEs)

*Federal Home Loan Banks &
Private Equity Owned Insurance Companies*

\$23 bn

Borrowed from FHLBanks
by Apollo/Athene in 2025
as the 2nd largest borrower

26%

Insurance Companies'
Share of the \$677 billion in
FHLB advances

Source: FHLBank System 2025 Annual Report

Insurance Regulation

Private Equity Owned Insurance Companies

139

PE-owned U.S. insurers
identified by NAIC

June 2025

\$704.3B

Total cash and invested
assets of PE-owned
insurers

Year-end 2024

7.8%

PE-insurers % of all U.S.
insurers' total cash and
invested assets

Year-end 2024

Source: NAIC Capital Markets Bureau (2025)

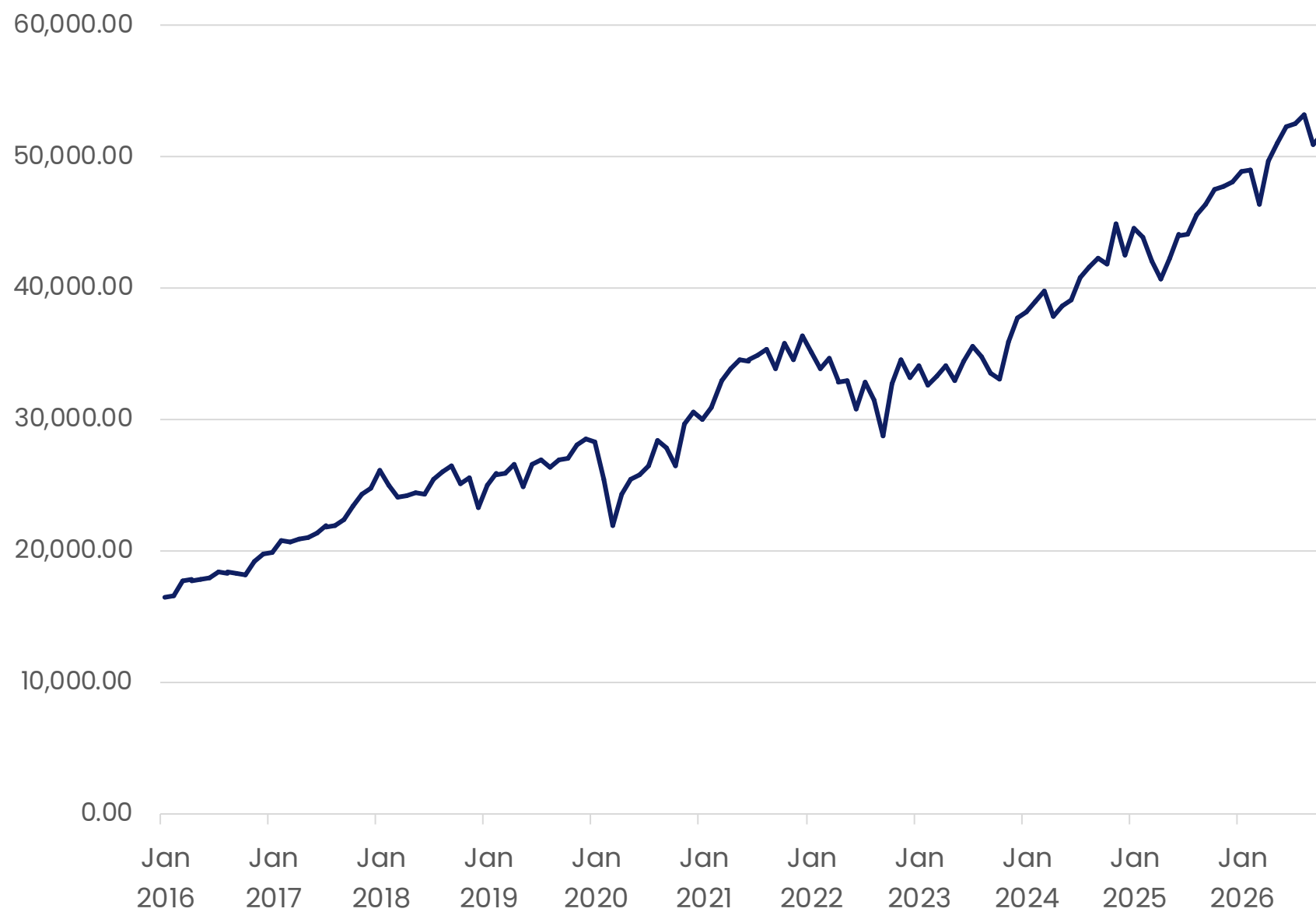
Bubble

S&P 500 — 2016–2026



2021: \$3,714 2026: \$7,651

Dow Jones — 2016–2026



2021: \$29,983 2026: \$50,906



Private Markets and AI

\$179 bn

Private Equity-backed AI funding rounds worth >\$1 bn in just Q1 2026

\$1 trn

Forecasted Private Credit lending for AI compute infrastructure

10%

Hyperscalers share of global investment-grade bond issuance in 2026
(up from less than 1% in 2024)

Sources: Reuters (2026), S&P Global (2026), Carlyle (2026),





*“Yes, the planet got destroyed. But for a beautiful moment
in time we created a lot of value for shareholders.”*

Tom Toro, The New Yorker