Bloomberg
NEWS
September 4, 2026 | bloomberg.com

Markets

DoubleLine's Cohen Looks for Value in Big Tech Debt After AI Selloff

By Davide Barbuscia
September 4, 2026

The debt of some technology behemoths is starting to look enticing after a borrowing binge to bankroll the artificial intelligence buildout battered valuations, according to DoubleLine's Robert Cohen.

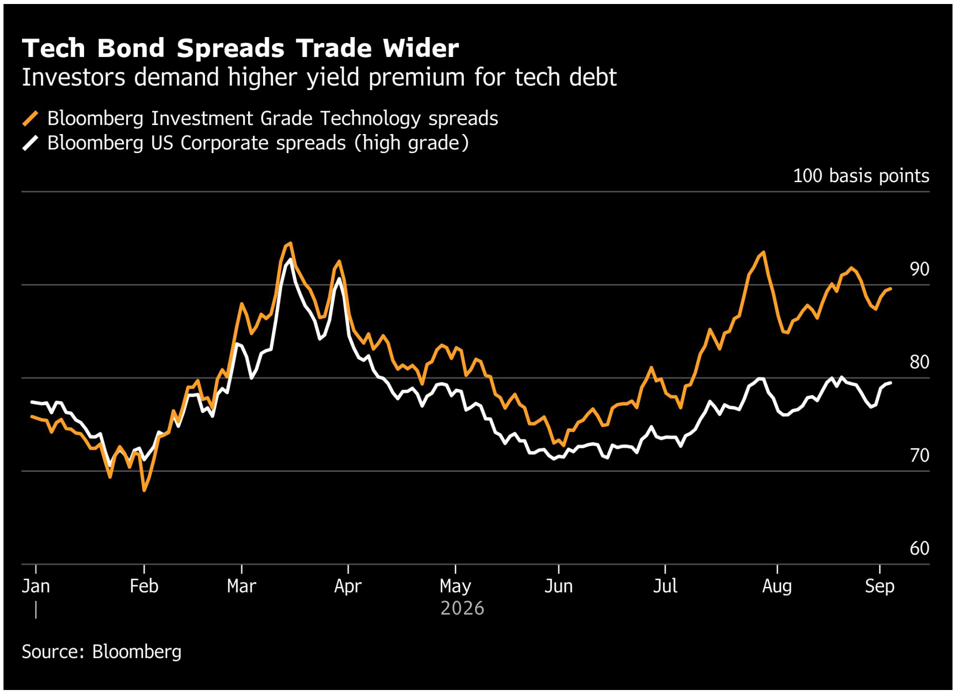
The director of corporate credit at DoubleLine, who has previously warned that an AI bubble was coming to credit markets, isn't necessarily calling for an end to tech debt's underperformance. Instead he's looking for bargains in some of the sector's top-rated bonds.

"I don't know that I need to call the bottom," said Cohen, adding, "Alphabet and Amazon are very good credits and if their spreads are significantly wider than what I consider reasonable, then they become a buy."

Investor fatigue following a deluge of AI debt sales has caused the sector to trail the broader investment-grade market in recent months. Investment-grade tech companies' credit spreads, which measure the added yield premium investors require to buy tech debt over Treasuries, are nearly 10 basis points higher than spreads for the broader high-grade corporate market. Meanwhile, the price of credit default swaps for large tech companies at the forefront of the AI buildout keeps creeping higher.

"The tech sector as a whole and these AI bonds in particular have been underperforming the market, so being underweight was the right move," he said. "But I think at some point the high-quality hyperscalers, particularly Alphabet and Amazon that have seen their spreads widen, are becoming quite interesting."

Alphabet Inc.'s 10-year bonds issued last month traded at a spread of about 81 basis points over comparable Treasuries as of Friday, while spreads for its 10-year bonds issued in February have widened by about 15 basis points since issuance to roughly 76 basis points. By comparison, the average spread on bonds for the broader high-grade bond index was 80 basis points, even though Alphabet's credit rating is several notches higher than the index average.



"They represent index spreads, but with better-than-index risk. They're AA, they're high quality," said Cohen, referring to the bonds of Alphabet and Amazon.com Inc. S&P Global Ratings rates Alphabet at AA+ and Amazon at AA.

"I generally like a setup where a credit is fundamentally sound, but there's a technical supply issue that's overwhelming the market," added Cohen.

Of course, tech giants' credit spreads could keep widening, as the market braces for a potentially record-breaking September in terms of high-grade debt sales, and as tech companies' investment race to build AI capabilities shows no sign of abating.

Cohen said it was difficult to know when valuations would stop being impacted by supply concerns.

One risk is that, as highly rated tech debt becomes more appealing, riskier borrowers may have to offer investors higher yields to compete for their money. The same could happen with data center bonds, said Cohen, and the extra yield they offer over debt issued by the hyperscalers that use those facilities may need to widen to keep attracting buyers.

"I think these large issuers could potentially be crowding out a lot of other credits," he said.

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Mr. Cohen joined DoubleLine in 2012 and serves as Director of Corporate Credit. In this role, he oversees the firm's corporate credit team and is the lead portfolio manager for investment grade, high yield and leveraged loan credit strategies. Mr. Cohen also developed DoubleLine's leveraged finance investment platform, which is utilized across closed-end fund, floating-rate, CLO and multi-sector fixed-income strategies. In addition, he is a permanent member of the Fixed Income Asset Allocation Committee. Mr. Cohen has over 30 years of experience in corporate credit investing. Prior to joining DoubleLine, he held investment roles at West Gate Horizons Advisors, ING Capital Advisors, Union Bank and Bank of Montreal. Mr. Cohen holds a B.A. in Economics from the University of Arizona and an MBA from the University of Southern California. He is a CFA® charterholder.

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The Corporate Credit team at DoubleLine manages $9 billion in assets in investment grade (IG) and below-IG corporate credit, including fixed income securities and bank debt. The team underwrites the individual credits and actively risk-manages the economic-sector concentration, duration and other aggregate characteristics of DoubleLine's corporate credit portfolios and sleeves of multi-sector portfolios. The team comprises 23 investment professionals, including portfolio managers, analysts and traders.

About DoubleLine

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