

MARKETS

Are Technology Stocks Cheap Now?

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The tech sector started 2025 and 2026 significantly underperforming the rest of the market, setting up what Goldman Sachs Research calls a “technology value opportunity.”

Technology stocks have fluctuated since the start of 2025, weighed down by concerns about the impact of artificial intelligence (AI) and investors questioning returns on high spending by the biggest technology companies. In addition, the market is re-rating many “old-economy” capital-heavy companies in tandem with the rising importance of physical infrastructure.

At the beginning of this year, these worries culminated in a sell-off of technology stocks as fears spread about AI disrupting the business models of established software companies.

The upshot, according to Peter Oppenheimer, chief global equity strategist in Goldman Sachs Research, is that the global technology sector has so far in 2026 had one of its weakest periods of relative returns in the last 50 years relative to global stocks.

“The underperformance of the technology sector is starting to generate attractive opportunities for investors as its valuation, relative to expected consensus growth, has fallen below that of the global aggregate market,” Oppenheimer writes in a report dated April 7.

Why have tech stocks underperformed over the last year?

Several factors have contributed to the relative weakness of parts of the technology sector since 2025 and the selloff at the beginning of 2026, Oppenheimer writes.

First, the massive increase in capital expenditures (capex) by the biggest US technology companies has raised concerns about how big a return they can generate on their investment.

“The history of technology breakthroughs, from the steam engine to railways, PCs and the internet, is littered with examples of new technologies that attracted large sums of capital to build out underlying infrastructure which have led, ultimately, to low returns,” Oppenheimer writes.

In these instances, the benefits of this investment were then enjoyed by other companies, he adds.

Investors are also worried that the sums spent by some tech giants are starting to eat into cash flows and balance sheet capacity, forcing companies to raise capital or lay off workers, for example.

“That said, although the debt ratios for the sector have risen (the sector was previously net cash), they remain relatively low,”

Oppenheimer points out.

A second reason for the underperformance of technology stocks is that investors' attention has shifted from the potential benefits of AI to the negative impact that the technology could have on the companies that it disrupts.

Investors are trying to avoid getting caught up in a repeat of previous technology disruptions, where the business models of established companies collapsed under the weight of new waves of innovation.

“For the first time in a generation, investors started to question the terminal values of long duration growth companies which had previously been boosted by unwavering confidence in their ability to sustain premium growth and growth coupled with historically low discount rates,” Oppenheimer writes.

Finally, the rise in tech capex demonstrates that the future growth of technology companies is increasingly dependent on their physical

infrastructure. The result is that investors turned towards traditional, “old economy” industries including energy, basic resources, and industrials.

Are technology stocks oversold?

Investors' concerns about technology stocks culminated in a decline for the sector at the beginning of 2026, led by software companies, whose business models seemed at high risk of being disrupted by AI.

Following the decline, Oppenheimer sees a “value opportunity” in the technology sector, where the price of tech stocks globally could be undershooting the value implied by their underlying earnings growth potential.

In the US, the valuation premium of the five biggest technology stocks—the extra amount that investors have to pay for projected future earnings relative to history—has fallen almost to the same level as the rest of the market.

Globally, the technology sector now has a price-to-earnings ratio below that of the consumer staples and industrials sectors.

Crucially, tech sector earnings have stayed strong. Despite concerns about rising capex and lower potential returns, the sector's return on equity is still high. In fact, so far in 2026, tech companies

have revised their earnings upwards by more than any other sector globally.

“This has led to a record gap between performance and underlying earnings growth,” Oppenheimer writes. Despite the relative weakness of US tech stock performance, the consensus of industry analysts implies 12% year-on-year growth in earnings per share (EPS) for the S&P 500 this quarter, largely driven by tech companies.

Goldman Sachs Research estimates that AI investment spending will account for roughly 40% of S&P 500 EPS growth this year as the investment starts to translate into higher returns. And industry analysts have generally been raising their estimates for the boost to large US tech companies’ earnings resulting from their spending on AI.

At the same time, Oppenheimer points out that a severe shock to credit availability or big tech company revenues could jeopardize that AI spending.

Barring these risks, however, the recent decline in technology stocks has “opened up an opportunity in the technology sector where growth rates remain strong, but valuations are now low,” Oppenheimer writes.