

Is investing in optical modules still worthwhile



Overview

Optical Module Investment Landscape 2026: Demand, Scarcity, CPO, In late May 2026, AI optical modules are the most demand-certain link in the compute chain.

Key Takeaways

Optical modules remain in high demand due to AI infrastructure growth, but technological shifts and stretched valuations make careful selection crucial. Market Demand and Growth

The optical module market is experiencing strong growth driven by AI and cloud infrastructure expansion. Global spending on cloud infrastructure reached \$95.3 billion in Q2 2026, with year-on-year growth exceeding 20% for four consecutive quarters, fueling demand for high-speed optical modules like 800G and 1.6T devices . Market projections indicate the AI-dedicated transceiver market will grow from ~\$16.5 billion in 2025 to ~\$26 billion in 2026, a 57% increase, with 800G unit demand expected at 33.5–37 million and 1.6T units at 7–20 million . Goldman Sachs forecasts 800G module sales of 33.5 million units in 2026, with the total market value reaching \$19.37 billion .

Supply Constraints and Risks



Despite strong demand, the industry faces structural supply constraints. Key components like electro-absorption modulated lasers (EMLs) are produced by fewer than five companies globally, and shortages are expected to persist through 2027 . Chinese assemblers dominate unit volume but earn lower margins (20–38%) and are price-takers, while upstream suppliers of scarce components like Lumentum and Broadcom capture most of the profit . This decoupling of volume and profit highlights the risk of investing in downstream module manufacturers.

Technological Shifts

The rise of co-packaged optics (CPO) is reshaping the market. Nvidia's mass production of Spectrum-X switches with CPO embeds optical engines directly into ASICs, reducing reliance on traditional optical modules and compressing supplier margins . This structural change could limit growth opportunities for conventional optical module makers, even as overall demand for optical interconnects remains high.

Investment Considerations

- Upstream suppliers of scarce components (EML lasers, DSPs) offer more durable pricing power and higher margins.
- Chinese assemblers provide exposure to volume growth but are more cyclical and vulnerable to pricing pressure.
- Valuations are currently stretched due to the AI hype, so timing and selection are critical .
- CPO adoption is a structural variable that may redefine the market over the next 3–5 years .

Conclusion

Investing in optical modules can be attractive due to strong AI-driven demand, but investors should be cautious. The safest approach is to focus on upstream suppliers with scarcity-driven pricing power or selectively invest in fast-growing assemblers while monitoring technological shifts like CPO that could disrupt traditional module markets. Careful portfolio positioning and awareness of supply constraints are essential to mitigate risk.

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Moving forward, the company expects its Vesta 200 6.4T CPX, a CPO-based optical solution targeted at hyperscalers,

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