INDIA STRATEGY · EMERGING MARKETS

India at the Inflection

When the World's Most Crowded Trade Cracks

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> The world's most crowded trade — semiconductors and memory — is faltering. But look past the price action and *the demand picture underneath has not changed.*

THE CONCENTRATION TRADE IS FALTERING

Semiconductors and memory stocks globally have sold off sharply over the past few weeks but look past the price action and the demand picture underneath has not changed — Memory supply remains sold out through 2026. What is faltering is not the fundamental case for AI-linked semiconductors; it is the extreme concentration that has built in a few stocks. When a handful of names in two markets absorb years of a theme's incremental capital, any pause in the narrative triggers an outsized reaction, because positioning risk, not the underlying business, has become a fragile part of the trade. We have highlighted this risk in an earlier version of The Beam, titled "The Concentration Paradox" on June 15, 2026.

THE FII SWING FACTOR: FROM NORTH ASIA, BACK TO INDIA

This is where the story becomes an India story. For the past one year, FIIs unrelentingly moved capital out of India to fund the pure-play AI narrative in Taiwan and South Korea's chipmakers and memory majors. That trade is now showing real signs of exhaustion. Foreign investors sold roughly **US$30.5 billion of South Korean equities in June 2026 alone** — the steepest monthly outflow in over 25 years and an additional US$8bn month till date. They sold **USD$18.3 billion in Taiwan equities** and a further US$13bn in July, till date. Concentration risk in a narrow set of semiconductor and memory names finally triggered valuation fatigue.

This concentrated trade sell-off has a specific implication for India. Capital stepping back from an over-concentrated bet is not capital that has lost interest in AI-linked growth — it is capital actively looking for exposure with a lower embedded valuation premium and a more durable, order-book-backed growth path. India is one of the few markets globally positioned to offer exactly that. It offers an entire array of listed equities to play the AI infrastructure plus opportunity and other domestic themes.

FIVE FORCES PULLING CAPITAL BACK TO INDIA

The AI-infrastructure argument does not stand alone — it sits alongside a macro and market backdrop that is independently turning more supportive of a genuine FII return, rather than a purely tactical trade.

Economic resilience, visible in high-frequency data. Despite the West Asia conflict and fears of high oil prices denting consumer demand, India's high frequency indicators have held up well. GST collections rose **13.9% year-on-year in June 2026**, the fastest monthly pace in over a year. Bank credit growth has accelerated sharply, from around **7% a year earlier to nearly 17% in May 2026**, as corporate borrowing picks up alongside the capex cycle. Industrial production (IIP) grew **5.1% year-on-year in May 2026**, with manufacturing leading. And passenger vehicle sales — a reliable read on discretionary consumer demand — rose **24% year-on-year in June 2026**, with two-wheelers up nearly 19%. Taken together, these high frequency indicators present concurrent evidence that domestic demand is resilient, largely independent of the chip and memory drawdown playing out elsewhere in global markets.

An earnings inflection. After a subdued FY26 in which Nifty earnings estimates were repeatedly cut, consensus forecasts now cluster around a meaningful step-up in FY27 earnings growth. We believe it could surprise us positively, at least on the top line.

The advantage of absence. Unlike Korea and Taiwan, India carries no exposure to the semiconductor and memory names currently at the center of the great concentration unwind. That absence, for two years a source of FII disinterest in a "boring" market, has inverted into a genuine advantage: India is one of the only large, liquid emerging markets that was never part of the crowded trade now being unwound, and therefore has none of its overhang to work through.

A private capex cycle. Public capital expenditure has continued to lead, with the Union Budget maintaining a double-digit increase in central government capex. The more important signal for equity investors is the visible evidence of private-sector capex following it — led by AI infrastructure plus (ex-semiconductors and memory) and defense capex.

Valuations that have done some of the work already. Two years of relentless FII selling have left Indian valuations meaningfully more reasonable than at their prior peak, even if they remain at a structural premium to broader emerging markets on headline multiples. For allocators re-underwriting India, the entry point is no longer the stretched one of 2023–24 — it is a market that has already absorbed a substantial de-rating while its underlying earnings have strengthened and firm catalysts emerged.

> Individually, none of these five forces is a sufficient reason to reallocate. Together, layered under the AI-infrastructure plus case, foreigners will now see a market where the macro backdrop, the earnings cycle, the capex cycle, and the valuation entry point are converging at the same time the world's most crowded trade is being forced to diversify.

NOT A LOCAL STORY — A GLOBAL ONE INDIA HAPPENS TO OWN

For the past two years, Emerging market investors have chosen to allocate capital to AI, and its clearest expression has been semiconductors and memory in Taiwan and Korea. What is now in question is not the theme, but how concentrated its expression had become — and, critically, India is not a bystander to that reassessment.

India is not just a defensive market to hide in while the chip and memory trade corrects. It offers a more complementary way to invest in the AI trade beyond chips and memory — power transmission, HVDC, transformers, switchgear, cooling and cabling — through a market that was never part of the crowded original trade and is not carrying its excess.

THE LITMUS TEST: QUARTERLY EARNINGS SEASON WITH A TAILWIND FEW ARE PRICING IN

The next signal for foreign investors, looking for validation of the India story is to watch the ongoing corporate earnings season. We believe it could surprise us positively, at least on the top line. India's CPI inflation, after collapsing to near-zero in late 2025 on a high base and soft food prices, has normalized back to **4.38% in June 2026**, close to the mid-point of the RBI's target band. Near-zero inflation, however comfortable for real purchasing power, was quietly compressing nominal revenue growth across corporate India through FY26. A return to a 4–4.5% inflation setting, the level at which pricing power revives without triggering a policy response is the sweet spot most consistent with strong nominal earnings growth.

Layered on top of that nominal-growth tailwind is the sector-specific test: whether the AI-infrastructure order-book story shows up concretely in the numbers, through accelerating order inflows, expanding backlogs, and management commentary. It is earnings delivery on both fronts together — a broader nominal-growth surprise and sector-specific order-book validation — not the macro thesis alone, that will let FIIs comfortably underwrite the case for redeploying capital into India. It's time to be optimistic again!

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