Panam – July 2026 Newsletter

India's Large Caps: Cheaper, Cleaner, and Under-Owned

Back into Favor, While Korea & Taiwan Ride a Narrow Rally

Two threads run through this month's data. At home, India's largest, most liquid companies are trading cheaper than the rest of the market and cheaper than their own history *— a setup that historically hasn't lasted long. Abroad, the emerging-market rally has been powered almost entirely by a handful of Korean and Taiwanese technology names, leaving both markets unusually dependent on a narrow group of stocks continuing to deliver.*

This issue looks at both stories: why India's large caps deserve a closer look today, and why investors chasing the recent EM rally should understand exactly what they are buying.

1. India's Large Caps: Cheaper, Cleaner, and Under-Owned

Unlike prior cycles where richly-valued large caps needed a correction to become attractive, this cycle has done the de-rating already. Big, well-run, liquid businesses are available at valuations that are at or below their own long-term averages — a combination that has historically offered a favorable entry point for patient, long-term investors.

The Under-Ownership Story

India's top 10 companies now account for just ~17% of total market capitalization — down from a peak of 39% in late 2019. This under-ownership is echoed in the FII data: average FII ownership across these top 10 names has fallen to just ~34% of their free-float market cap — the lowest level in two decades, and even below the 37% trough reached during the Global Financial Crisis (Mar-09).

Period	Top 10 Share of Total India Market Cap
~2008	26%
~2011	25%
~2018	22%
Dec-19 (peak)	39%
~Aug-23	19%
May-26 (latest)	17%

Top 10 stocks' share of total India market capitalization. Source: NSE, Bloomberg, Capitoline, DSP. Data as of June 2026.

FII Ownership Within the Top 10

Company	Mar-26	Dec-23	Dec-19	Jun-14	Mar-09
Axis Bank	44%	57%	56%	68%	41%
Bharti Airtel	54%	50%	44%	51%	63%
HDFC Bank	38%	45%	39%	44%	32%
ICICI Bank	34%	35%	36%	40%	35%
Infosys	30%	35%	37%	49%	42%
ITC	12%	14%	15%	19%	14%
Kotak Mahindra Bank	36%	51%	57%	59%	60%
Larsen & Toubro	19%	25%	19%	20%	12%
Reliance Industries	36%	42%	47%	36%	31%
TCS	34%	45%	57%	63%	42%
Average (Top 10)	34%	40%	41%	45%	37%

FII ownership as % of free-float market cap, selected constituents. Source: NSE, Bloomberg, Capitoline, DSP. Data as of June 2026.

Valuations Below Their Own History

It isn't just ownership that has thinned out — valuations have followed. Every single constituent of the Nifty Top 10 Equal Weight Index is trading at or below its own 10-year average valuation multiple, whether measured on P/E, P/B or EV/EBITDA. At the same time, 70% of this basket is generating a return on equity at or above its 10-year average — cheap valuations are showing up alongside healthy, not deteriorating, profitability.

Company	Metric	Current	10Y Avg	Signal
Infosys	P/E	13.5x	23.3x	Below avg
TCS	P/E	14.0x	26.9x	Below avg
ITC	P/E	17.2x	25.7x	Below avg
HDFC Bank	P/B	2.1x	3.7x	Below avg
Kotak Mah. Bank	P/B	2.2x	3.8x	Below avg
Bharti Airtel	EV/EBITDA	10.8x	13.7x	Below avg

100% of the Nifty Top 10 Equal Weight basket screens at or below its own 10-year average valuation. Source: Capitaline, Internal, DSP. Data as of 30th June 2026.

The same pattern shows up sector by sector. Private banks — HDFC Bank, ICICI Bank, Axis Bank and Kotak Mahindra Bank — combine loan growth accelerating to 1.7x nominal GDP, net NPAs near historic lows of 0.4%, and an average P/B of 2.1x against a 10-year average of 3.1x. Large-cap IT is similarly out of favor on sentiment even as fundamentals hold up: the top 4 large cap IT names trade at a 36% discount to their own 10-year average PE, while still generating a ~6.7% free cash flow yield and ~5.7% shareholder yield. However, the growth in the IT sector is a matter of concern primarily due to the AI disruption.

Why This Matters Relative to the Broader Market

Much of the market narrative over the past year has centered on India's mid- and small-cap segments, which have drawn the bulk of retail flows and, as a result, carry richer valuations relative to their own history than large caps do today. Large caps, by contrast, have been relatively starved of both retail and FII flows even as their earnings and balance sheets have stayed resilient. A widening valuation gap between under-owned, reasonably-priced large caps and more richly-owned smaller companies is exactly the kind of setup that has historically preceded a rotation back toward the former.

- Top 10 stocks' share of total market cap is near a two-decade low (~17%), while FII ownership in them is at its lowest in 20 years.
- Corporate India's revenue growth (8.9% CAGR, FY24–26) is running below trend and is likely to catch up as capacity utilization (74.7%) and easing core inflation (2.4%) support a broader growth revival — a dynamic that disproportionately benefits large, scaled businesses first.
- Improving India macro conditions — a resilient Balance of Payments, an extreme Rupee REER, and narrowing India-US inflation differentials — reduce the macro risk premium that has weighed on large-cap multiples.

None of this guarantees an immediate re-rating, and large caps can stay under-owned for longer than seems reasonable. But the combination of low ownership, below-average valuations and steady fundamentals is one large-cap investors have not seen in this magnitude for some time.

2. Korea & Taiwan: A Rally Riding on Very Few Shoulders

Market	Weight in MSCI EM	Current PE	10Y Avg PE	Premium / (Discount)
China	20.2%	12.7x	14.3x	(11.0)%
Taiwan	26.6%	32.6x	17.6x	85.1%
India	10.7%	23.8x	24.4x	(2.4)%
South Korea	23.3%	24.4x	14.2x	71.5%
MSCI Emerging Markets	-	18.7x	15.0x	24.7%

Emerging markets have had a strong run, with the MSCI Emerging Markets index approaching levels last seen in 2021. But the composition of that rally deserves scrutiny. Taiwan and South Korea now account for roughly 50% of the MSCI EM index between them — a weight neither market has held before — and nearly all of the index's 2026 return has come from one sector, and effectively three stocks, within it.

A Valuation Bifurcation Within EM

Country weights as of 29th May 2026; PEs based on MSCI country indices. Source: Bloomberg, DSP.

China and India are the only two markets among the four largest EM constituents trading below their own 10-year average valuations. Taiwan and South Korea, by contrast, trade at 85% and 72% premiums to their historical average PE respectively — both well above even MSCI EM's own 25% aggregate premium. Since these two markets alone represent about half the index's weight, their valuation expansion has an outsized effect on how expensive the overall EM index now looks.

The Concentration Behind the Number

The scale of this year's move is striking on its own: South Korea is up 115.6% year-to-date and Taiwan 57.6%, against a 16.0% decline for China over the same period. But what stands out more is how narrow the source of those returns has been.

- Technology's weight within MSCI EM rose from 28.3% in December 2025 to 44.2% by May 2026 — a 56% jump — even as every other sector's weight in the index contracted, several by 25% or more.
- Of MSCI EM's 25.3% year-to-date return, Technology alone contributed roughly 25.6 percentage points — effectively the entirety of the index's gain.
- Just three companies — TSMC, Samsung and SK Hynix, with a combined index weight of ~30% — contributed around 18 percentage points of that return on their own.

Sectoral allocation of the MSCI Emerging Markets (MSCI EM) Index

Sector	Dec-25 Weight	May-26 Weight	YTD Change
Technology	28.3%	44.2%	+56%
Financial Services	22.0%	17.6%	-20%
Consumer Cyclical	11.8%	8.3%	-29%
Communication Services	9.3%	6.0%	-36%
Healthcare	3.3%	2.5%	-25%

Source:DSP, Bloomberg, Morningstar. Data as of May 2026.

This matters because the synchronized outperformance of two geographically distinct markets, driven by the same handful of semiconductor and hardware names, points to a single sector-level catalyst — the AI capex and chip cycle — rather than broad-based economic re-rating across either economy. It leaves the index's near-term path unusually contingent on whether that one theme continues to deliver, rather than reflecting a diversified improvement in emerging-market earnings.

Even Starker at the National Index Level

The concentration looks even more extreme once you move from the MSCI EM index down to each country's own domestic benchmark.

Market	Index	Stock(s)	Current Weight	Weight ~2 Yrs Ago
South Korea	KOSPI	Samsung Electronics + SK Hynix	~60%	~40%
Taiwan	TAIEX	TSMC (alone)	~42%	~30%

Sources: Samsung Electronics and SK Hynix combined KOSPI weight of ~60% as of late June 2026, up from ~40% two years earlier — Big Go Finance (Goldman Sachs research note, July 2026) and KuCoin News, citing Korea Exchange data. TSMC's ~42% weight in the TAIEX as of late May 2026, up from ~30% previously — Taipei Times, citing Taiwan Stock Exchange data.

For scale, Goldman Sachs has pointed out that Nvidia and Apple together make up only about 20% of the Nasdaq, and Toyota and Kioxia combined are less than 10% of Japan's Nikkei 225 — making Korea's ~60% two-stock weight and Taiwan's ~42% single-stock weight unusual even by the standards of concentrated, mega-cap-heavy markets. Regulators in Taiwan have already had to raise the single-stock concentration limit for domestic funds (from 10% to 25% of net assets) specifically to accommodate TSMC's weight, while Goldman Sachs has flagged that a further one-percentage-point rise in the Samsung/SK Hynix combined KOSPI weight could mechanically trigger roughly $2 billion of forced selling by foreign funds bound by US diversification rules.

In other words, the MSCI EM-level concentration in Section 2 is not a coincidence of index construction — it is a direct pass-through of concentration that already exists inside each domestic market. An allocator buying "Korea" or "Taiwan" today is, to a large extent, buying two stocks and one stock respectively.

What This Means for Positioning

An investor buying a passive EM allocation today is, in practice, taking a concentrated bet on the continuation of a three-stock, one-sector rally, layered on top of two of the most historically expensive readings Korea and Taiwan have carried. That is a very different risk profile from a broad-based emerging markets allocation, even though it is sold under the same label.

India, sitting at a near-decade-low share of the MSCI EM index (10.7%) while trading close to its own fair valuation, stands out as the more contrarian — and arguably better-diversified — allocation within the same benchmark. It is worth remembering that India was the largest consensus 'buy' in this basket only two years ago; sentiment across EM constituents can shift quickly in either direction.

In Summary

- India's large caps are under-owned and trading below their own long-term valuation averages, even as earnings quality holds up — a setup worth watching as the broader growth and margin cycle turns.
- Korea and Taiwan's 2026 rally has been driven almost entirely by three technology stocks, leaving both markets — and by extension the MSCI EM index — unusually dependent on a single theme continuing to play out.

- Investors should look through headline index labels (e.g., "EM exposure") to understand exactly which stocks and themes are actually driving the return they are underwriting.

Companies mentioned here are for educational purpose only and should not be constituted as an investment idea.

Source for all data: DSP Netra — Early Signals Through Charts, Bloomberg, Capitaline, Company Financials, Morningstar and DSP internal research.