India vs. EM

Diversification Vs. Concentration

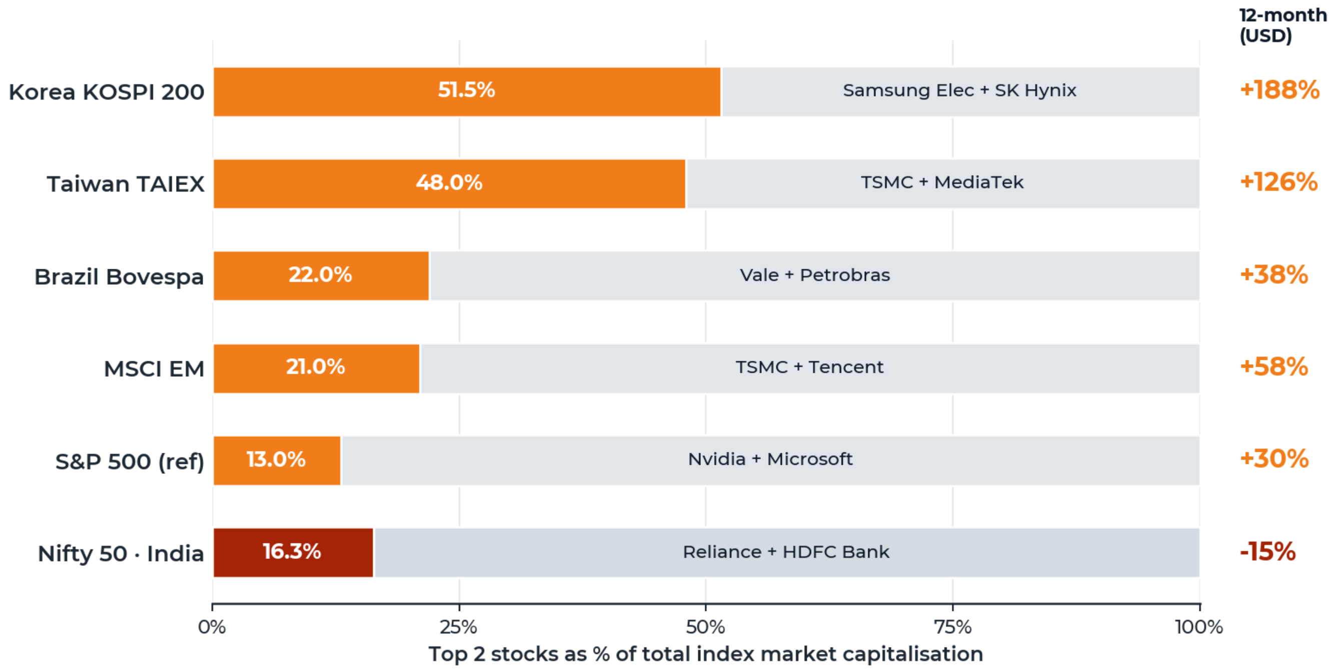
June 4, 2026

1. The 2026 EM scoreboard – "Four Tales, One Story"

The 2026 emerging-market scoreboard tells one story through four tales. **South Korea's KOSPI is up roughly 218% in won over the last 12 months, and Taiwan's TAIEX about 115% in local currency.** Brazil's Bovespa is up 27% in local terms and roughly 38% in dollars on a stronger real. **In sharp contrast, India's Nifty 50 is down about 5% in rupees and roughly 15% in dollar terms over the same 12 months, with the BSE Sensex a little worse, down about 18% in USD.**

The most uncomfortable fact: on 26 May 2026 Taiwan overtook India in total market capitalisation, $4.95 trillion versus $4.92 trillion, making Taiwan the world's fifth-largest equity market and pushing India to sixth. A week later, on 2 June 2026, South Korea passed India as well, sending India down to seventh. Every emerging market that has beaten India in 2026 has done so on the back of two to seven stocks, highly concentrated AI supply-chain bets. **India's underperformance is the price of being the only major EM whose index reflects the breadth of its economy rather than a single, crowded AI trade.** This note lays out the mechanism and the historical pattern, which says this kind of narrow leadership comes with rising volatility and is led by fast money that retreats as the tide turns. For long-term investors these stretches are painful and test patience, but they reward those with a longer horizon, and Sowilo is positioned accordingly.

Chart 1: The concentration scoreboard. Top-2 stock weight by index, with trailing-12-month USD return alongside



Top-2 weights: Asia Business Daily citing KRX (Korea KOSPI 200, 14 May 2026 print); Taipei Times / CNBC (Taiwan TAIEX); Rio Times (Brazil Bovespa, top names verified, weight indicative); Lazard EM Concentration Note March 2026 + iShares EWY factsheet (MSCI EM); Goldman Sachs Portfolio Strategy Oct 2024 (S&P 500 ref); NSE Nifty 50 factsheet April 2026 (Reliance 10.07% + HDFC Bank 6.24% = 16.31%). Trailing-12-month USD returns to 2 June 2026: KRX, TWSE, B3, MSCI EM, S&P 500 and NSE index data; FX to 3 June 2026.

The core insight. The four markets that lead the 2026 board, Korea, Brazil, Taiwan and the MSCI EM index itself, share one feature: each is driven by a small set of names and a single sector. **Korea is two semis. Taiwan is one foundry. Brazil is six commodities and banks. MSCI EM is just over thirty per cent technology, with TSMC at 14.2% the largest single weight any company has held in EM in 30 years.** India is the only large EM in the table whose Nifty 50 top stock is below 11% and whose top three sectors together come to just half the market. The price of that breadth in 2026 has been to lag a global rotation that the breadth itself was always going to lag. The mechanism, and what it tells us about the forward asymmetry, is the rest of this note.

2. Korea is a tale of one trade (memory) dressed as a story (market)...

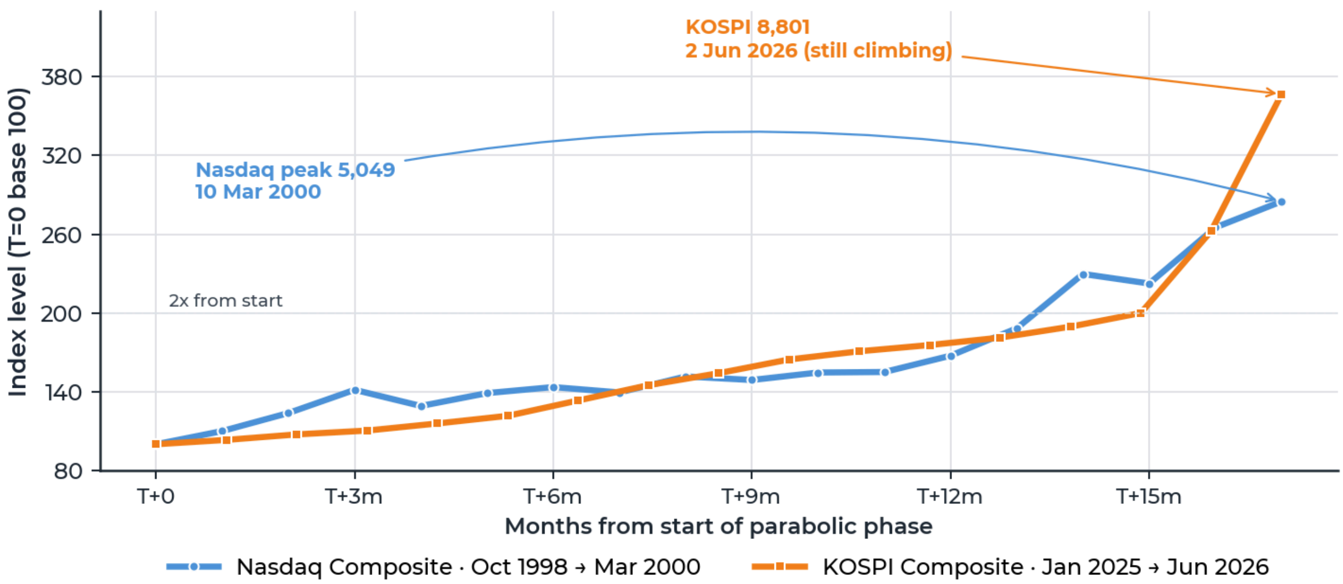
The Korean rally is the cleanest demonstration of concentration risk in any modern emerging market. **Samsung Electronics is up roughly 140% in won in 2026 and SK Hynix more than 200%, with Q1 FY26 operating profit at SK Hynix up 405% year on year and an operating margin of 72%, above Nvidia's.** The two HBM memory winners of the AI capex cycle were 38.7% of KOSPI 200 on 1 January 2026 and crossed 51.5% by 14 May, a 12.8 percentage-point shift in under five months. Strip those two names out and the rest of the KOSPI is up only around 20% in 2026 against the index's 109%; **the two stocks account for roughly 70% of the rally, and in late May more than 80% of KOSPI-listed stocks actually fell over the prior month even as the index hit fresh records. Foreign investors have been net sellers of Korean equities every week since KOSPI first crossed 7,000 in the May 2026 rally; cumulative net foreign sales of roughly ₩46.55 trillion (~$31 bn) since early November 2025 are larger than the GFC (₩8.97 trn) and COVID (₩14.72 trn) exits combined.** The rally is funded by Korean retail margin balances at record highs and by ETF and pension passive flow into a tightly held cap-weighted index. **Taiwan is the more extreme version of the same trade: TSMC alone is 42 to 44% of TAIEX and now 14.2% of MSCI Emerging Markets, the single largest weight any company has held in MSCI EM in 30 years.**

3. The playbook the bond market already knows

> *"Our long-term return forecasts point to **3% annualised total return for the S&P 500 over the next decade**, the 7th percentile of all rolling 10-year periods since 1930. **Concentration is the primary explanatory variable.** We model a 72% probability stocks trail bonds over the decade."*
>
> DAVID KOSTIN · GOLDMAN SACHS PORTFOLIO STRATEGY · OCTOBER 2024

Goldman's call is for the US, where top-10 weight is 36.5% of S&P 500 market cap and 31% of earnings, forward P/E 31x against 19x for the other 490. **Korea's KOSPI 200 sits further out on the same distribution Goldman is modelling: a higher concentration ratio with a thinner foreign-capital base supporting it.** The history of comparable episodes is consistent across geography and decade. **The Nasdaq Composite rose 85.6% in 1999, peaked at 5,048.62 on 10 March 2000, fell 78% over 30 months, and did not close above its March 2000 level again until 23 April 2015, fifteen years to breakeven.** The Nikkei 225 closed at 38,915.87 on 29 December 1989 and did not revisit that level until 22 February 2024, thirty-four years. **Taiwan's TAIEX peaked at roughly 12,495 in February 1990 and fell about 80% in the following eight months**, an unusually fast unwind made possible by exactly the retail-funded concentration Korea now displays. The pattern does not require a particular catalyst; it requires only that the narrow leadership stops widening.

Chart 2: Parabolic rallies look the same in every alphabet. Nasdaq 1998-2000 vs KOSPI 2025-26, indexed to 100 at the start of the parabolic phase



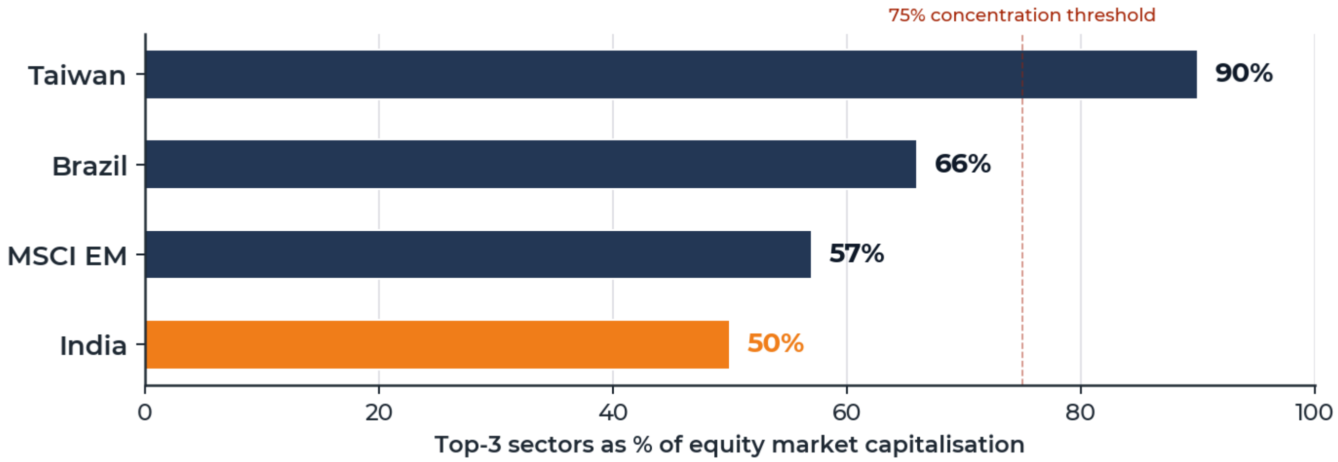
Source: Yahoo Finance ^IXIC (Nasdaq, Oct 1998 to Mar 2000) and KRX (KOSPI Composite, Jan 2025 to 2 June 2026), monthly closes, rebased to 100 at each parabolic-phase start. Intermediate KOSPI prints pending KRX verification.

4. India is the world's most diversified large equity market

> *"The Indian market is sectorally diversified, with **the top three sectors constituting 50 percent in India, versus around 90 percent in Taiwan, 66 percent in Brazil, and 57 percent overall in Emerging Markets.**"*
>
> RIDHAM DESAI · MORGAN STANLEY INDIA EQUITY STRATEGY · 2025-26

The arithmetic of Indian diversification holds up at every level we can measure. **Nifty 50's largest single stock, Reliance Industries, sits at 10.07% of the index, roughly one-quarter of TSMC's weight in TAIEX and one-quarter of the Samsung plus SK Hynix combined weight in KOSPI 200.** Nifty 50's top 5 stocks total 31.1% versus MSCI Korea's top two alone at 46.2%. Three Indian sectors carry more than 10% weight (Financial Services 33.5%, IT 13.8%, Oil & Gas 12.1%); six sectors carry more than 5%. The same diversification holds in the underlying economy: **India's exports of goods and services were 21.2% of GDP in 2024, against 44.4% for Korea and roughly 70% for Taiwan** (World Bank). Korea and Taiwan are levered to one product cycle; India is levered to a domestic-demand economy still compounding.

Chart 3: Top-3 sector concentration by market, latest available reading



Source: Morgan Stanley Asia and EM Equity Strategy, India 2025-26 outlook (Ridham Desai). India's 50% combines Financial Services (33.5%), IT (13.8%) and Oil & Gas (12.1%) from the NSE Nifty 50 sector-weight factsheet, April 2026.

5. Domestic flow has replaced FPI as India's marginal price-setter

FY26 SIP inflows annualise to roughly ₹3.7 lakh crore (~$43 bn) at AMFI's April 2026 run-rate. The CY26 YTD FPI equity outflow of ₹2.2 lakh crore (~$26 bn) already exceeds the full-year 2025 record. **The SIP wave alone is a multiple of the FPI exit, and is price-insensitive by structure.** Foreign ownership of Indian listed stocks has fallen to 14.7%, a 14-year low: the maths of "FPIs are leaving India" can only continue so long before there is less left to leave.

6. Sowilo positioning

Our approach is anchored in two principles. **First**, lean into India's breadth: domestic-demand cyclicals where the FPI exit has compressed entry valuations, and issuers with limited direct exposure to the Korea and Taiwan AI supply chain. **Second**, treat peak EM concentration as a tail-risk indicator, not a benchmark. The mean-reversion of the AI-cycle leadership trade is a question of when, not whether.

> **What to watch. USD/KRW past 1,520** (touched intraday on 26 May 2026, a level last seen in March 2009) sustains the foreign-flow exit from Korea; **HBM-4 order-book softening at SK Hynix** is the single leading indicator that the AI-memory leadership trade is breaking; **a single month of positive net FPI back into Indian equities** would mark the inflexion, which historically happens fast.

Regards,
Team Sowilo