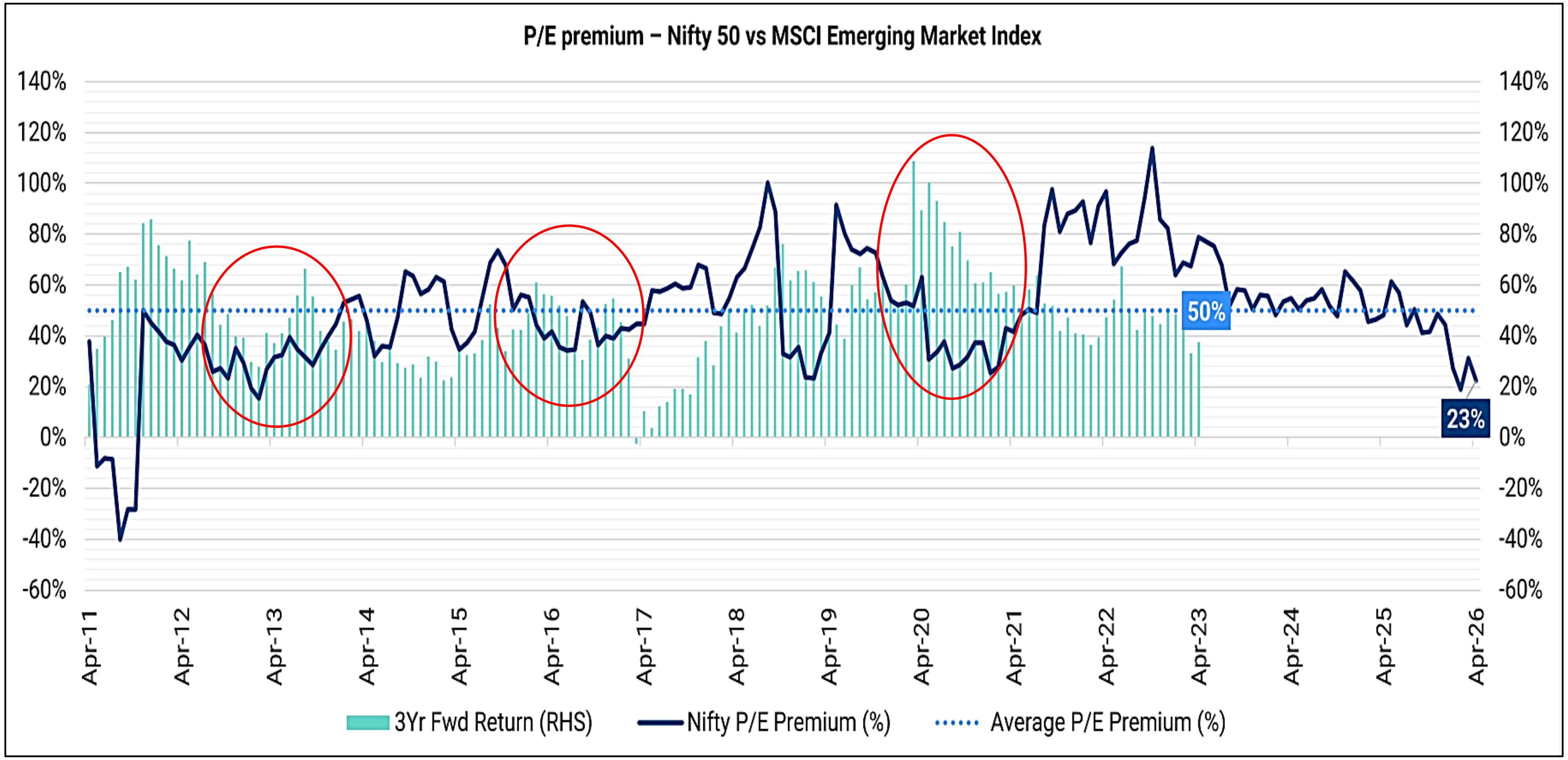
MARKET SCOOP

India Equities: Discount Season Is Here

16th May, 2026



Source : Edelweiss Mutual Fund, Bloomberg. Data as on 30th April, 2026. For analysis, Nifty 50 TRI and Trailing P/E is considered.

Valuation wise, Indian equities (Nifty 50) have historically traded at a premium to Emerging Markets (MSCI EM) due to stronger earnings visibility, superior corporate governance, deeper domestic demand, and a relatively resilient macroeconomic profile.

Over the last 15 years, the average P/E premium of Nifty 50 versus Emerging Markets has been approximately 50%. However, as of April 2026, this premium has reduced to nearly 23%, which is less than half of its long-term average.

Historically, such periods of valuation compression have often been followed by stronger medium-term equity returns, suggesting that medium-term risk-reward for Indian equities is becoming increasingly attractive.

Should You Really Diversify Globally NOW .. ?

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The longer the lookback, the better India looks. The shorter the lookback, the worse it looks.

Korea up 207%. Taiwan up 117%. Emerging Markets up 45%. China up 11%. ACWI up 30%. India up only 3%.

Index	1 Year	5 Year	10 Year	20 Year
MSCI India	3.00%	13.00%	13.30%	10.70%
MSCI USA	28.50%	12.90%	15.30%	11.00%
MSCI Korea	207.50%	20.50%	18.10%	10.90%
MSCI Taiwan	117.80%	25.90%	24.30%	13.40%
MSCI China	11.40%	-4.00%	6.10%	6.30%
MSCI ACWI	29.50%	11.40%	13.10%	8.60%
MSCI EM	44.90%	6.70%	10.10%	6.00%

Source : Carnelian Capital

If you're an Indian investor watching this from the sidelines, the temptation to "do something" is enormous. It is very human to feel left out when your portfolio isn't moving while others are, especially your friends. This feeling pushes market participants to create products and craft narratives that appeal to current investor psychology. So, what is the right thing to do ?

Over 10Y, India has compounded at 13.3% - ahead of EM (despite such strong performance in last 12M), ahead of ACWI on risk adjusted basis and way ahead of China.

Over 20Y, India is the most consistent performer at 10.7%, with no massive underperformance over 5-year like China and no boom-bust pattern like Taiwan or Korea.

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"Diversification is protection against ignorance. It makes little sense if you know what you are doing." — Warren Buffett

- An Indian investor diversifying today (allocating to US) is, in effect, selling a market at 120% Market Cap-to-GDP to buy one at 230% Market Cap-to-GDP. That's buying high to feel safe (investors did that with Japan in 1980s and see how that turned out) .

- Someone looking at Korea & Taiwan, they have already witnessed a significant rally, with much of the outperformance driven by semiconductor and AI-linked leaders rather than broad-based market participation. They are essentially semiconductor and electronics derivative plays — Samsung, SK Hynix, TSMC drive disproportionate weights. Single product cycle, single end-market direction (AI capex), significant geopolitical risk.
  If the AI investment cycle moderates, earnings expectations normalize, or geopolitical tensions rescalates, the very narrative that has driven this sharp re-rating could come under pressure. At this stage, investors need to evaluate the forward risk-reward far more carefully than the past returns.

- What about China - Property hangover, multi-quarter deflation, demographic decline, capital controls, and an environment where the state can wipe out entire sectors overnight (edtech 2021, tech 2022). Despite a high GDP growth rate over 20 years, the MSCI China index has compounded at ~6% in dollar terms. GDP growth alone doesn't translate to investor returns. Governance, capital allocation, and rule of law do.

Key Takeaways for an Investor

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- India today offers one of the rarest combinations globally—high growth, improving capital efficiency, demographic longevity, strengthening governance, and deepening financialization at valuations that are far more reasonable than they were 12–18 months ago.
- When global investors remain structurally underweight India (active managers are running 2-3% below benchmark) and domestic investors are being urged to reduce India to chase recent winners abroad — that, historically, has been a moment to lean into India, not away from it
- Yes, the current geopolitical situation has softened India's near-term macro — pressure on the rupee, FX reserves, and import bill is real. But these are event-driven pressures, not structural impairments.
- Twelve months of underperformance often feels permanent, while a decade of outperformance gets forgotten—this is recency bias, one of the biggest enemies of long-term wealth creation.
- Grass is greener bias - We see every bump in our own backyard. Foreign markets look smoother because we don't see their bumps from this distance.
- We are not against global investing. However, we do not believe in blindly chasing markets after sharp rallies—especially when returns are narrow, concentrated, and cycle-dependent. Global allocation should happen only when valuations, portfolio objectives, and risk-reward meaningfully justify it.

An insightful market perspective by Sankaran Naren (CIO of ICICI Prudential AMC) is a must watch

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