

White Paper
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The Strategic Case for Indian Markets

**Macro foundations, market structure,
and the case for a long-term equity allocation**



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With its demographic dynamics, accelerating capital formation, reform momentum, and increasing strategic importance to the global economy—India no longer sits comfortably within the frameworks of “emerging markets” or “BRICS” (Brazil, Russia, India, China, and South Africa).

Over the next three to five years, we believe India’s trajectory will be shaped by a powerful combination of structural tailwinds and transitional pressures. Long-term drivers are laying the groundwork for sustained economic momentum and market evolution—and making a strong case for India as a core allocation.

The world's most compelling macro story?

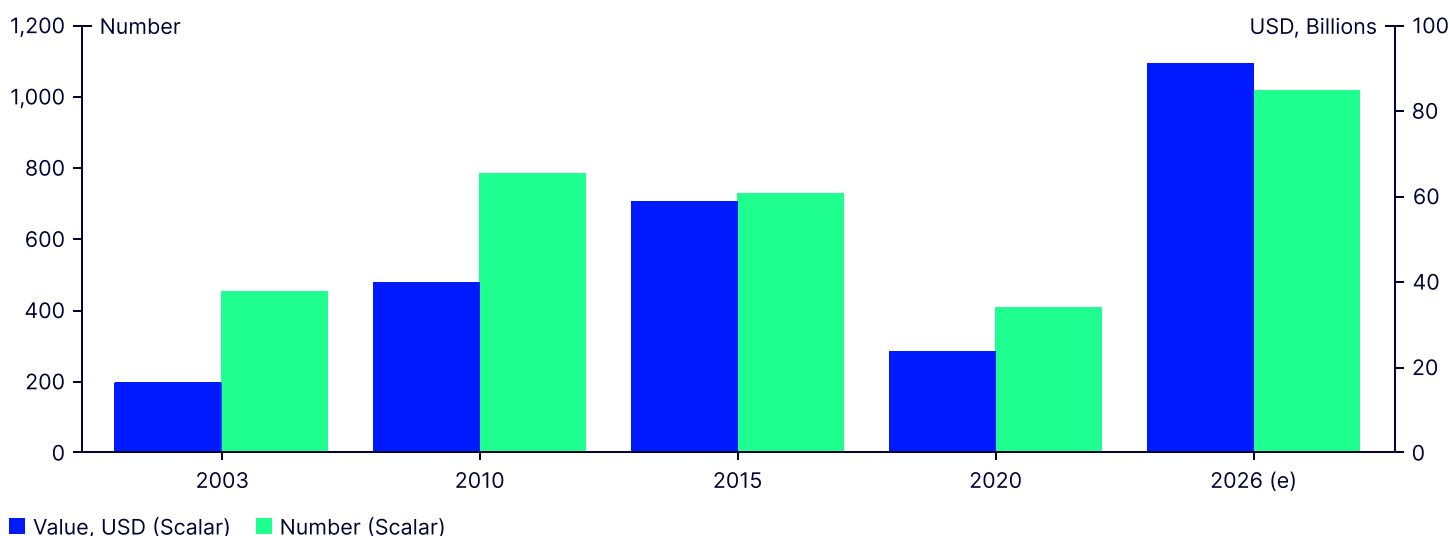
Twenty-five years ago, India's economy was about 11% the size of Japan's. Today, the two are essentially equal. What's more, India's economy is now about 20% that of China's.¹ What will that growth trajectory look like in the next twenty years?

In this section, we explore how India's trifecta of exceptional age demographics, scope for intense industrialization, and potential for market share gains in global trade all suggest the potential for superior, sustained growth outperformance over the long run.

Where are the fireworks?

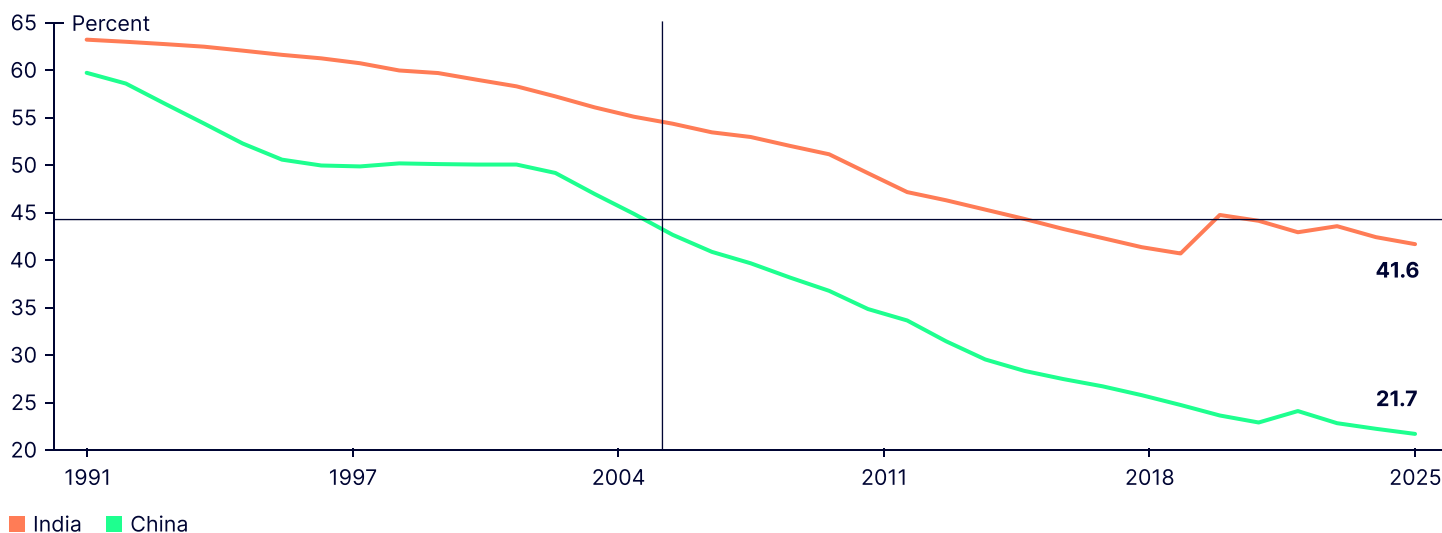
India's macro story has been tested repeatedly in recent months. Markets first had to deal with Liberation Day tariffs, then the absence of a completed US trade deal, with progress on several other trade agreements doing little to change the narrative. The Iran conflict then brought back the familiar concerns around oil prices, inflation and rupee (INR) vulnerability. Yet, through all of this, the domestic economy has continued to hold up well. Growth has remained robust, reform momentum has continued, and India met a record 256 GW of peak power demand in April 2026 with limited disruption.² That matters because it happened exactly when global markets were once again pricing India through the lens of energy risk. Two years ago, we argued that India was where the fireworks would come from for the global economy. The world has changed since then,

Figure 1: India: Greenfield Foreign Direct Investment projects continue rising



Source: Macrobond, State Street Investment Management Economics, UNCTAD. Updated as of June 15, 2026. 2026 numbers are estimated by SSIM.

Figure 2: Agriculture employment



Source: Macrobond, State Street Investment Management, World Bank, as of February 2, 2026.

and that view on India has been tested. But the core story has not been broken. If anything, India is starting to look less like a cyclical macro trade and more like a structural growth story—one that global markets may still be underestimating.

Demographics turning

According to UN projections, India's working-age population (ages 15-64 years) is set to grow by 11% between 2025 and 2040, creating the potential for an impressive boost to economic growth, on both the supply and demand side. By comparison, China's working population is poised to decline by 13%. Moreover, India's share of agriculture employment is still extremely elevated: at almost 44%, it is double China's, nearly four times that of Mexico, and about 15 percentage points higher than Indonesia's.³ While this is not an easy transition given the scale of change, the shift into higher productivity sectors adds further tailwinds to growth prospects. For benchmarking purposes, if India was to replicate China's growth over the 2005-2023 period (the period when Chinese agricultural employment declined from 43.5% to today's 22.3%), it would deliver a compound annual growth rate of about 8.7%. The scale of the challenge is immense, but there is a compelling precedent. This exceeds the World Bank's estimate that India must grow

at 7.8% annually over the next 22 years to meet its 2047 development target.⁴

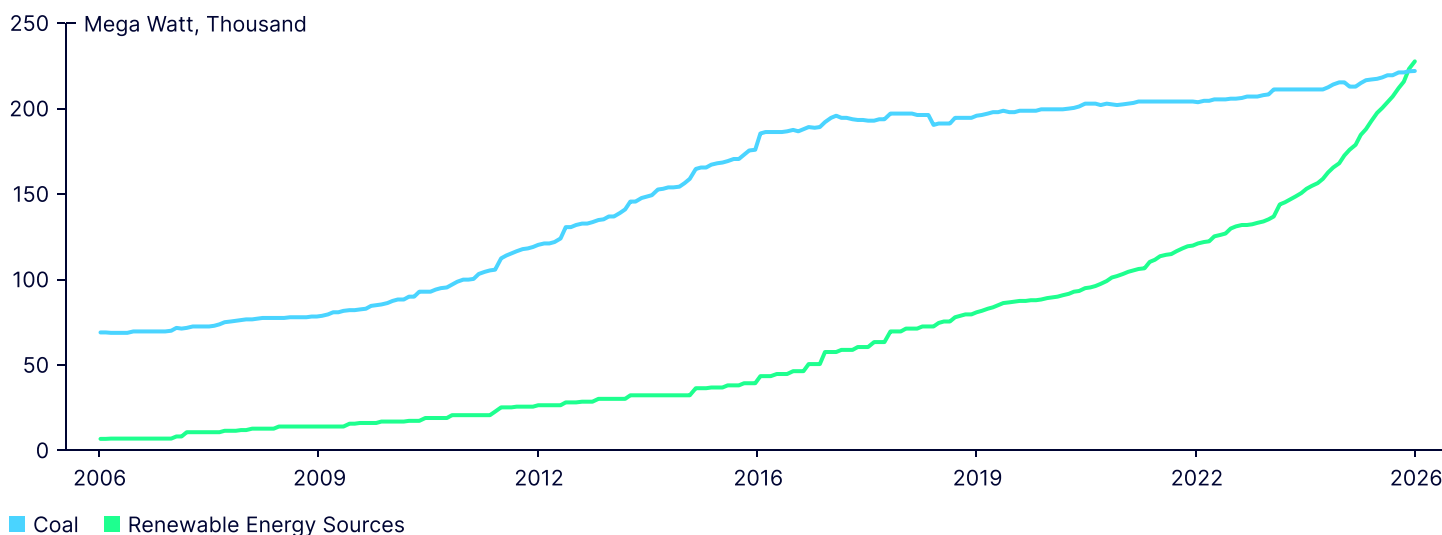
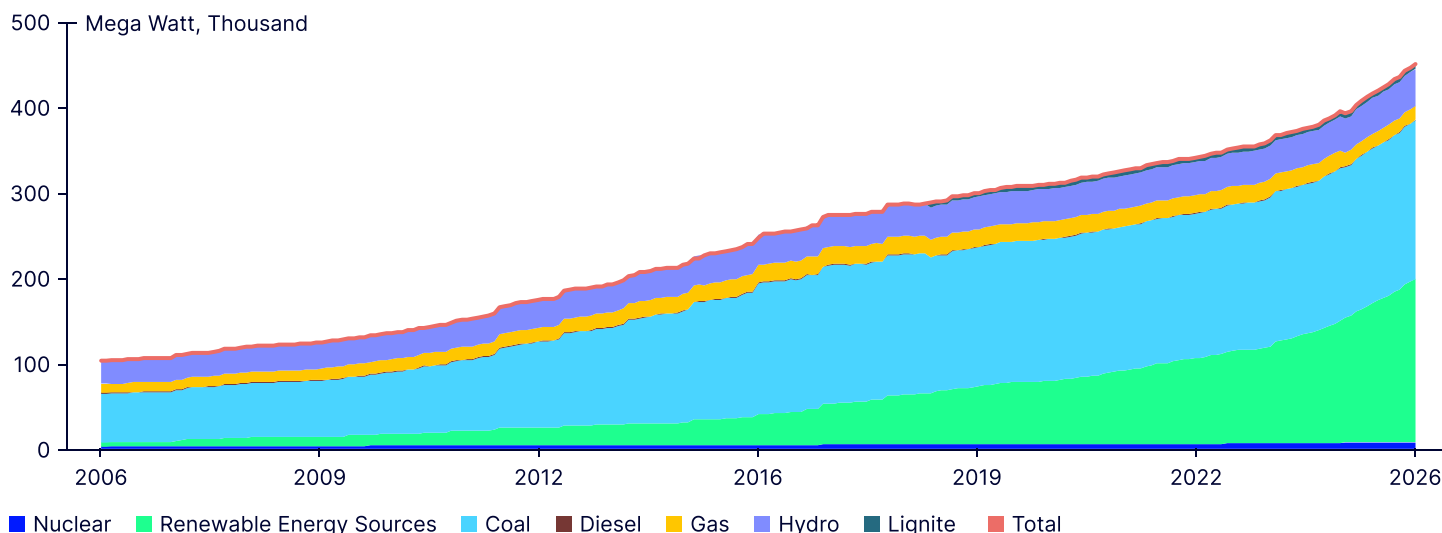
Historically, only a few nations—notably, China; other East Asian nations such as Taiwan, South Korea and Singapore; Eastern Europe (e.g. Czechia, Poland, and Romania), as well as Israel—have successfully advanced from middle-income to high-income status.⁵

However, the demographic story is starting to deliver returns, with early signs of the industrial transformation ahead.

A grid built for scale

India's power grid is becoming a strategic asset in the country's growth story. Unlike many developed markets facing stagnant demand and aging infrastructure, India has spent the last decade building a highly integrated national grid capable of handling extremely rapid load growth. Peak demand has already risen from roughly 150 GW a decade ago to around 250-270 GW recently, yet the system has remained broadly resilient even through severe heatwaves. This is expected to reach 459 GW by 2035-36.⁶ The IEA expects⁷ demand to grow 6% annually in coming years on cooling requirements, industrialization as well as rapid electrification, while the Indian government anticipates a peak demand of 708 GW by 2047.⁸

Figure 3: India's installed Renewable Energy is now higher than that of Coal



Source: Macrobond, State Street Investment Management, Indian Central Electricity Authority. As of May 1, 2026.

A key advantage is India's synchronized nationwide transmission network, which allows power to be moved across regions depending on weather patterns and demand conditions. This helps integrate renewable-rich states with industrial and cooling-heavy demand centers. At the same time, India is developing a more flexible power mix: renewable capacity has now surpassed thermal capacity, but coal and hydro still provide important reliability anchors during peak stress periods (Figure 3). Massive planned investments into inter-state transmission lines, batteries, pumped hydro

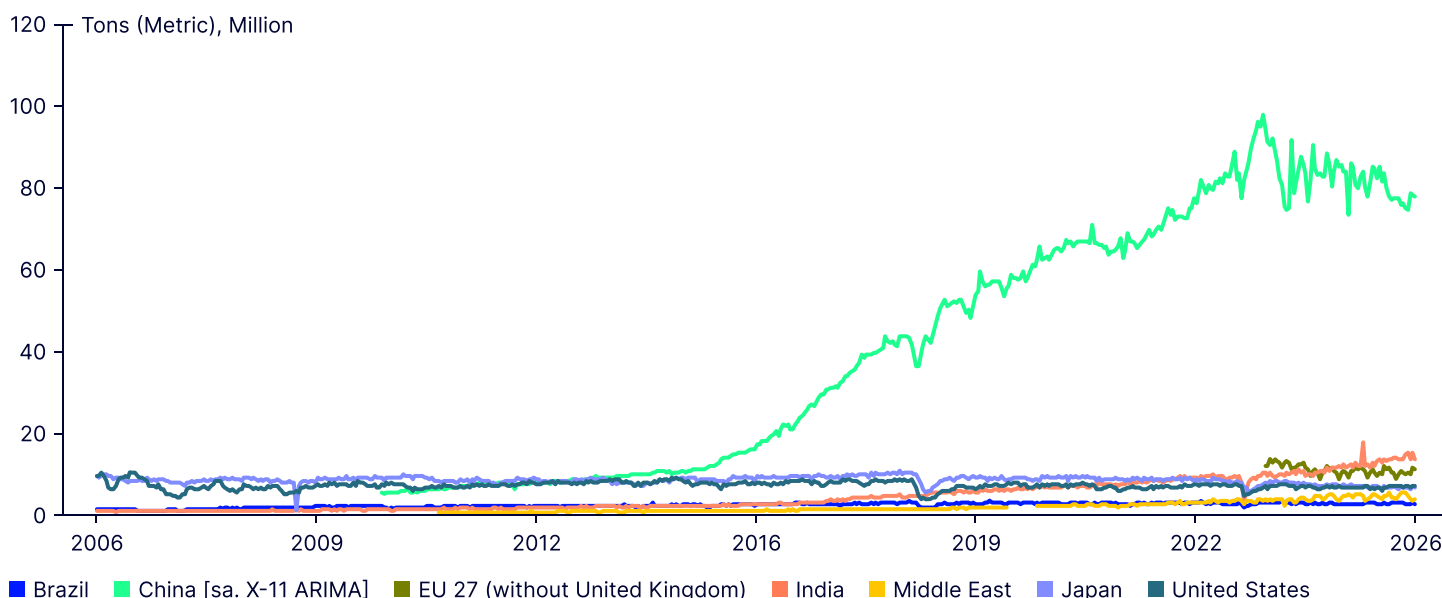
storage, and real-time balancing systems are further improving flexibility and resiliency.

India also has unique renewable energy strengths that are increasingly aligned with its demand profile. Unlike Europe, where peak winter demand often occurs after sunset, India's fastest-growing load source is daytime air-conditioning demand during heatwaves, which coincides more naturally with solar generation. This creates a structurally favorable setup for large-scale solar deployment. Solar power alone is projected to become 45% of installed capacity by 2036.⁹

India already has some of the world's lowest solar tariffs and continues to ramp installations rapidly, while also expanding wind, hydro, and battery storage capacity. The country is effectively pursuing a hybrid model: renewables provide incremental daytime energy growth, while coal and hydro stabilize the system during evening ramps and weather shocks. In addition, India benefits from strong policy coordination through the Central Electricity Authority, ambitious transmission expansion plans, and rising sophistication in grid management, including 15-minute dispatch systems and renewable forecasting tools. Together, these factors make India one of the few major economies simultaneously scaling industrialization, electrification, and decarbonization at scale.

In a way, global investors still underestimate the sheer scale of India's industrialization pipeline. India is targeting ~300–330 MT of steel capacity by 2030 versus around 150 MT currently,¹⁰ while simultaneously doubling major port cargo capacity toward 3,500 MTPA and building out massive freight, power, and manufacturing corridors. India's steel production has risen quite spectacularly, but is still way behind that of China. The foundation laying of India's largest greenfield steel manufacturing plant will aid this development meaningfully.¹¹

Figure 4: India's crude steel production in focus (monthly production rate)



Source: Macrobond, State Street Investment Management, World Steel Association. As of April 1, 2026.

India's slow AI play: Are global investors missing out?

Global investor attention in AI often centers on the US (with its frontier models and chip innovation) and China (with its state-backed, full-stack dominance). India's AI story is different—quieter, more infrastructure-led—but potentially powerful. While still a developing AI market, India is methodically building the foundations (“AI plumbing”), leveraging its IT services giants as global AI adoption catalysts, and skilling its massive workforce from schoolrooms to corporate campuses.

1. AI plumbing: Domestic chips and data centers over cutting-edge fabs:

India is prioritizing foundational AI infrastructure—semiconductor manufacturing and cloud data centers—even though it isn't yet competing at the bleeding-edge (3–5 nm chips, 100+ billion-parameter models) dominated by the US, South Korea, Taiwan, or China. The India Semiconductor Mission (ISM), launched in 2021 with ₹76,000 crore (~\$9 billion) funding, explicitly targets mature nodes like ~28 nm for domestic fabs, plus OSAT/ATMP packaging and chip design incentives. Why 28 nm? It is a “proven node” capable of most chips (except ultra high-performance compute)—an optimal starting point for India's nascent chip industry, given its significantly lower cost and higher success odds. This means India's first fabs will focus on volume and reliability rather than chasing the latest nanometers. Similarly, India is investing heavily in packaging, such as Micron's new ATMP memory plant (₹22,500 cr). These efforts won't dethrone TSMC or Samsung (leaders at 3–5 nm), but they'll anchor India's AI hardware supply chain by securing local capacity in widely used chip categories (automotive, IoT, telecom, etc.) and fostering know-how for future leaps.

In tandem, India's data-center ecosystem is surging, enabling the compute backbone for AI. Over the past 2–3 years, global hyperscalers and local conglomerates have announced tens of billions in cloud infrastructure. For example, Amazon Web Services plans to invest ₹1,05,600 crore (\$12.7 billion) by 2030 to expand its India cloud regions. Google unveiled a \$15 billion (₹1.25 lakh crore) commitment (2026–2030) for a 1 GW AI hub data-center campus in Visakhapatnam—its largest outside the US.¹² Recently, Blackstone-backed AirTrunk announced¹³ ₹3,00,000 cr (\$30 billion) investment for 5 GW of AI-driven data-center by 2030. These massive multi-year investments reflect India's advantages (land, talent, renewable energy potential) and surging domestic demand for cloud/AI services. To put it in context, India's data-center capacity (under 1 GW in 2022) is projected to quadruple to ~4–5 GW by 2030.¹⁴ That's still modest next to the US or China, but India is now among the fastest-growing AI infrastructure markets globally.

2. Indian IT services: Springboards for enterprise AI adoption:

Another underappreciated strength is India's IT services sector—massive tech firms like TCS, Infosys, Wipro, HCL that collectively employ millions and serve Fortune 500 clients worldwide. These companies act as “AI transmission belts” to industry: they integrate AI into enterprise workflows at scale, bridging the gap between cutting-edge AI models (often from U.S. Big Tech) and real-world deployment in banks, factories, and supply chains worldwide. Indian IT services firms bring unmatched depth in domain know-how, long-term client relationships, and cost-effective engineering talent. Rather than inventing new AI models, these service majors focus on applying existing AI to everyday enterprise use cases. Moreover, partnerships with frontier AI companies seek (?) to deepen abilities to scale enterprise solutions by automating complex workflows and accelerating deliveries.

3. Talent pipeline & GCCs: Skilling millions, mitigating “AI job loss” fears

India's greatest asset is its human capital, and the country is actively future-proofing its workforce for AI—from schoolchildren to experienced engineers. The national education system and skilling programs are weaving AI into curricula across levels. Under the National Education Policy 2020, AI is now taught in high schools: Central Board of Secondary Education offers a 15-hour AI module from Class VI and AI as an elective in Classes IX–XII. Meanwhile, industry bodies and IT firms are upskilling legions of tech workers: for instance, TCS, Wipro, and others have trained well over 300,000 engineers in AI skills by 2024–25. Government missions like IndiaAI (approved in 2024) also earmark funds for AI research fellowships and PhD scholarship.

Importantly, India's burgeoning network of Global Capability Centers (GCCs)—captive R&D and tech centers of multinationals—is absorbing and elevating AI talent rather than displacing it.

GCC hiring has already outpaced IT services for a third year,¹⁵ even as over 2400 GCCs now employ nearly 3 million professionals.¹⁶ building full-stack AI teams and innovation hubs in India for global operations. This trend suggests that AI, rather than simply replacing jobs, is creating new high-value roles in India.^{17,18} However, these complex trends take complex pathways to deliver change. Finding the right talent for the job at the right time remains a challenge even as new GCCs become more selective.¹⁹

Global investors who stay on the sidelines for too long may find India's AI bus already pulling away.

Reform Express

India is undergoing the strongest reform phase since its economy was liberalized 35 years ago, albeit gradually. The Indian government recently did away with a structural impediment for investing in fixed income by eliminating the withholding and capital gains taxes on Indian Government Bonds, which we think should help revive portfolio flows in fixed income.²⁰ However, there is a lot more work to be done, with markets fixated on when a similar move might come up for equities.

Furthermore, the government and Reserve Bank of India (RBI) are recognizing the necessity of Foreign Portfolio Flows (FPI) from a Balance of Payments perspective as a supportive plank for the Indian rupee (INR), which has been under persistent pressure for the last few years. This led to the introduction of two forex swap facilities, including the Foreign Currency Non-Resident (Bank) play that lets banks raise deposits between 3–5 year tenures and swap them into INR. This play was used even during the 2013 taper tantrum episode when the INR was also under similar pressure. However, the key change is the zero hedging cost this time, as opposed to a 3.5% rate back then. This move could give substantial risk-free annual returns to eligible non-resident Indians while helping banks gain spread-free benefits.²¹

In addition, the Indian government is reportedly discussing more measures to attract foreign capital, a welcome move for the Indian rupee and markets.²²

The country has rolled out more than 350 reforms since August 2015, including the simplification of direct and indirect taxes,²³ which lifted disposable income for households, and the Goods and Services Tax reform,²⁴ (GST) which led to simplified business taxation and with the aim of generating sustained tax revenue growth. The government also simplified the 29 legacy labor laws into four comprehensive codes which mandate

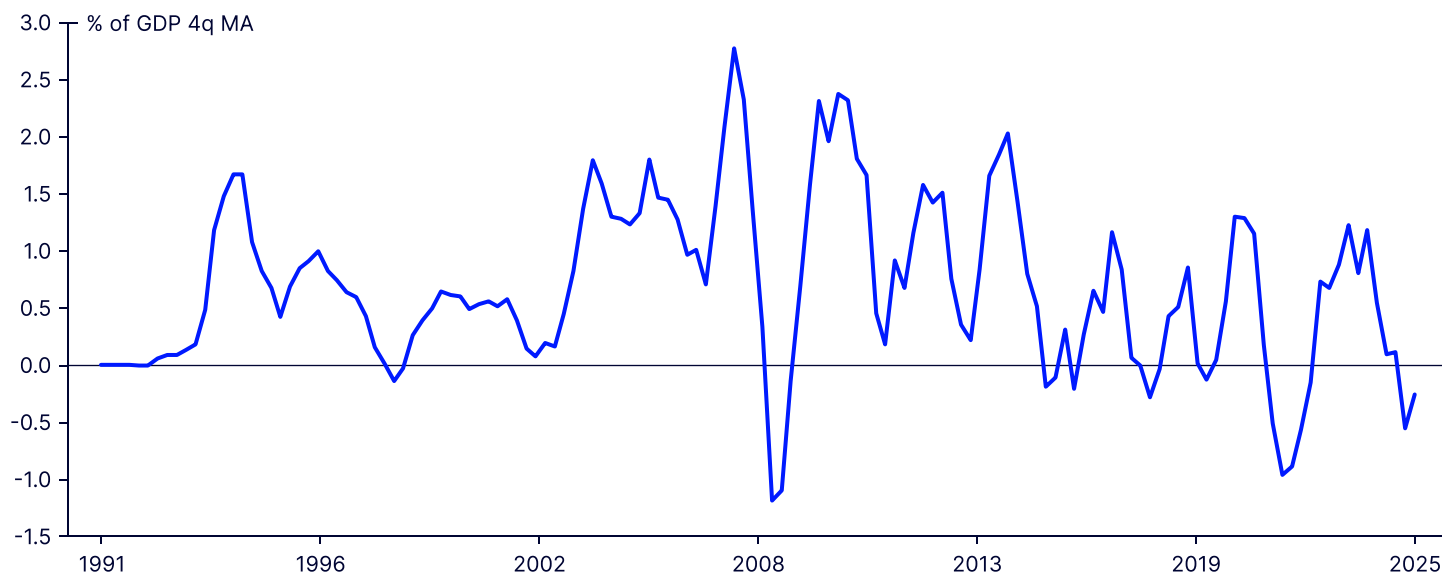
a universal minimum wage and provide an extension of social security for the vast number of gig workers. A landmark pension reform is also ensuring that India's vast workforce will be better able to save meaningfully for retirement.²⁵

Macro risks

Despite intact economic momentum, the Iran war exacerbated the downbeat sentiment on Indian markets. Broadly speaking, there are two risk themes: the persistently weakening rupee, and the potential rise in inflation due to El Niño.

As a large importer of oil and Liquefied Petroleum Gas (LPG), India's current account and balance of payments (BoP) immediately came under investor scrutiny at the start of the Iran war. While less pressured by oil than before, India's BoP is but still sensitive to it. India remains a net oil importer, relying on imports for ~85% of its crude needs. However, surging refined petroleum exports have partially offset the import bill in recent years, shrinking the net oil trade deficit. For example, India's annual petroleum exports rose from near-zero in the early 2000s to roughly \$10–11 billion by FY2023–25,²⁶ often approaching the import bill in scale. This narrower oil price shocks now **will likely** have moderate impact on the current account (and the rupee) than a decade ago. Meanwhile, persistent foreign portfolio outflows have become a major BoP driver. For instance, net FPI outflows totaled ~\$16.6 billion in FY2026 alone. In short, oil isn't irrelevant, but with a smaller net oil drag, capital flows (like sustained FPI outflows) increasingly dominate movements in the Balance of Payments and the INR. Our key insight is that FPI flows have tapered off on sentiment and the exceptional AI play in South Korea, Taiwan, and China, but India's FPI flows are sitting at a cyclical low and could revert in the medium term (Figure 5).

Figure 5: India's FPI flows are sitting on cyclical lows



Source: Macrobond, State Street Investment Management Economics, RBI, MoS&PI. Updated as of June 15, 2026.

The more prominent macro risk is a higher probability of an El Niño this year. El Niño is a climatic phenomenon marked by the warming of tropical Pacific waters, with the potential to disrupt global wind circulation, rainfall patterns, and weather systems. For India, the key risk is timing: its effects can coincide with the Kharif (summer-autumn) sowing season, the more critical sowing season. Recent atmospheric indicators have turned sharply negative, pointing to a rapid intensification of El Niño conditions and raising the risk that this event evolves beyond a standard episode into a strong, or even “super,” El Niño if ocean temperatures continue to build toward the $>2^{\circ}\text{C}$ threshold. This shifts the risk from a base-case disruption to a more adverse tail scenario, where rainfall deficits are accompanied by higher intra-season volatility.

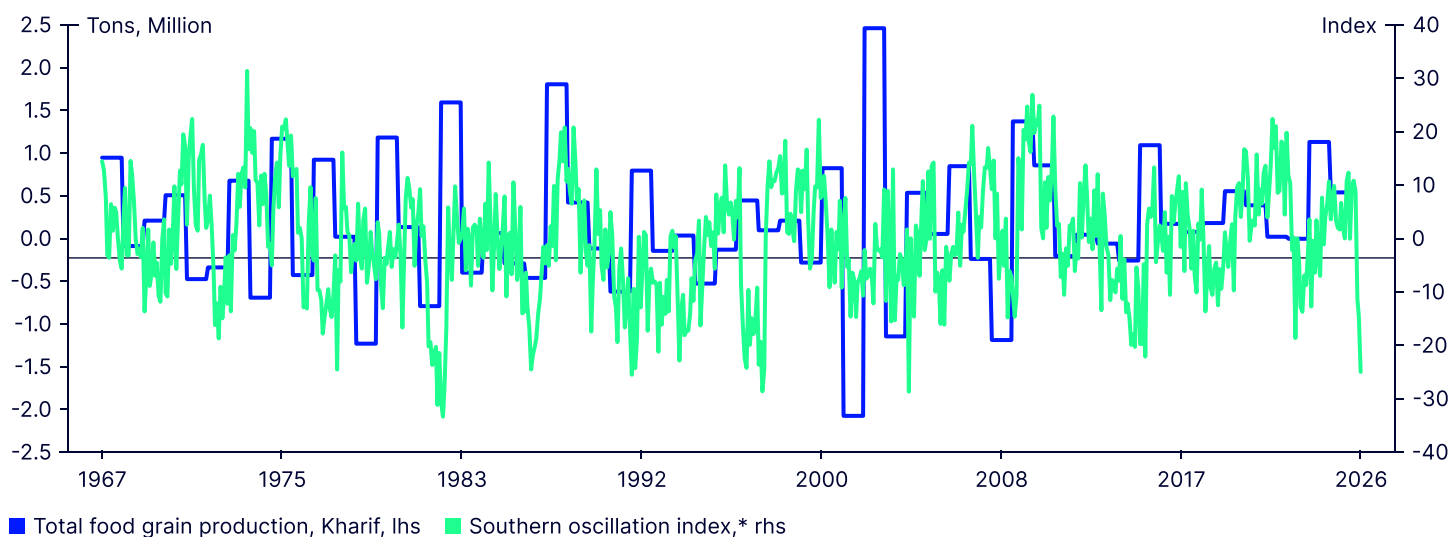
India's reservoir levels started strong in 2026, but have been declining and are currently below 2025 levels, with significant asymmetry across states. This increases vulnerability to rainfall shocks, particularly if the monsoon onset is delayed or uneven. The macro risk

stems from the 35% weight of food in CPI and the sensitivity of agrarian incomes to monsoon outcomes.

India's recent history highlights the downside skew during strong episodes. The 2015 El Niño, the most severe in the past two decades, was associated with one of the weakest monsoons over that period and a meaningful uptick in food inflation despite policy buffers. This underscores that, even with improved irrigation and supply management, a strong or “super” El Niño can materially tighten the growth-inflation trade-off.

In the context of these risks, we would expect the RBI to need at least one hike in 2026 to ensure inflation remains in their mandated range. As such, India's CPI could be coming under pressure in the near term due to the Iran war and data benchmark changes. India's CPI is now benchmarked to 2024 and updated using the 2023-24 household consumption expenditure survey, with the key weightage of food revised down to 37% from 46%, which is still high.

Figure 6: El Nino complicates India's inflation outlook



Source: Macrobond, State Street Investment Management, Indian Department of Agriculture Cooperation & Farmers Welfare, Australian Bureau of Meteorology. As of June 2026.

* The SOI is important for El Nino as it captures the atmospheric component of ENSO, with sustained negative value below -7 signaling a weakened Walker circulation that typically precedes and reinforces El Nino conditions.

Can India transform into an electrostate?

India is not yet an “electrostate”—a country where electricity becomes the dominant form of final energy use—but the direction of travel is clear. Our estimates suggest that EV adoption could lift electricity demand from about 4.6 TWh in 2024 to 30.0 TWh by 2030, while data centers could rise from 13.0 TWh to 57.0 TWh over the same period. Together, that implies nearly 90 TWh of net new power demand, or roughly 3.5% of estimated total electricity demand in 2030, driven by India’s demographic and economic growth.

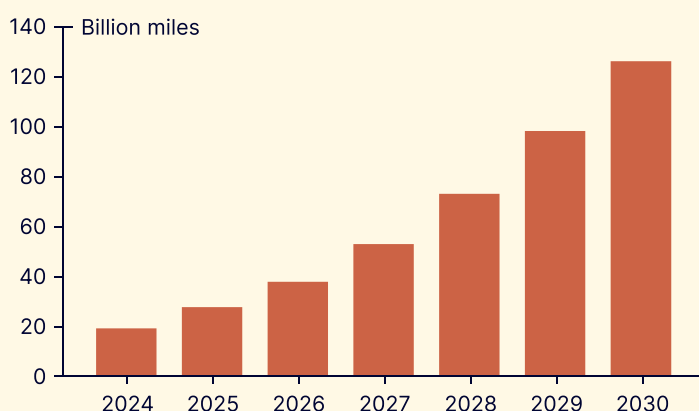
India’s synchronous national grid was completed in 2013, fulfilling the government’s “One Nation, One Grid, One Frequency” objective, and inter-regional transmission capacity has continued to expand since then. That matters because the next phase of electricity demand will not be geographically neat: EV charging will cluster in large urban

corridors, while data centers are concentrating in states such as Maharashtra, Tamil Nadu, Telangana, Karnataka, and Uttar Pradesh. A stronger national grid and rapid transmission build-out are poised to allow renewable-rich states to serve load-heavy states more efficiently, while lowering congestion and reducing the system cost of electrification.

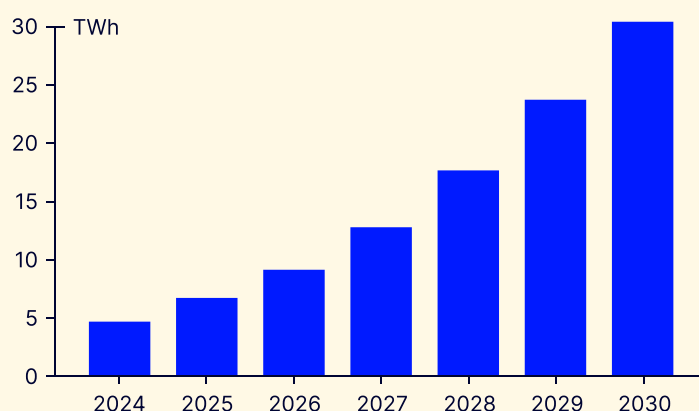
It’s worth noting that this EV-plus-data-center story is still only a partial picture of India’s future electrification. We have not modelled the coming surge in air-conditioning demand, which the IEA expects to be a major driver of India’s electricity growth through 2030, nor have we included green hydrogen, broader industrial electrification, electric cooking, or deeper digitalization beyond core data centers. As a result, these numbers likely understate the scale of the structural shift.

India electricity demand outlook: EVs, data centres and total demand through 2030

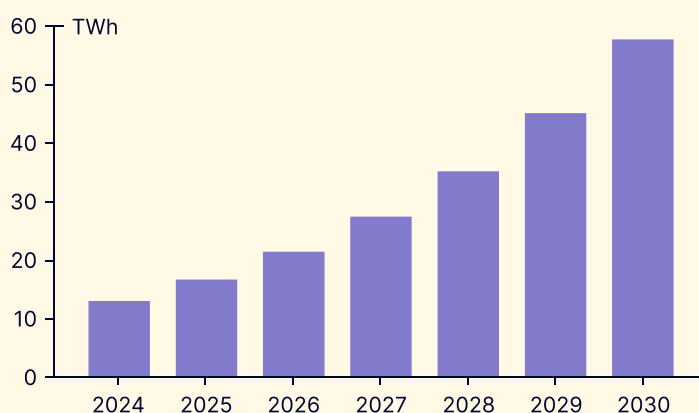
EV miles driven annually



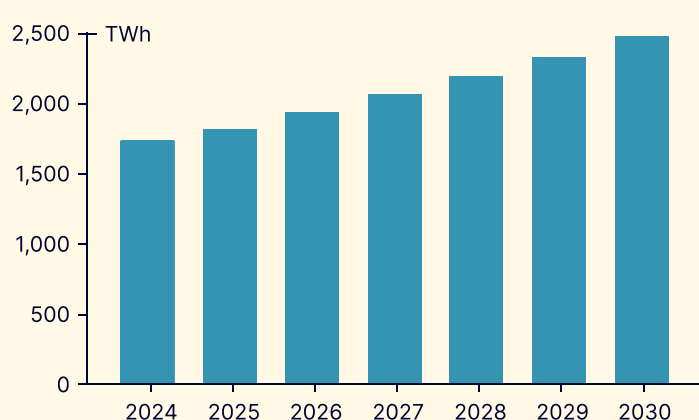
EV electricity consumption



Data centre electricity consumption



India total electricity demand, with 2026–30 split



■ EV miles ■ EV electricity ■ Data centres ■ Total electricity demand

Source: State Street Investment Management. See Appendix on page 21.

The market story

Built to compound

The macro case establishes why India's economy is likely to compound at a rate few peers can match. For equity investors, however, strong economic growth is only the starting point. The critical question is whether that growth translates into durable earnings, investable market depth, and durable market returns. The sections that follow examine how India's market structure and earnings dynamics convert macro momentum into a compelling case for allocators.

- 1 India's equity returns are earnings-driven
- 2 Structural changes in market participation have reduced volatility and reliance on foreign capital
- 3 India offers durable diversification benefits in global portfolios

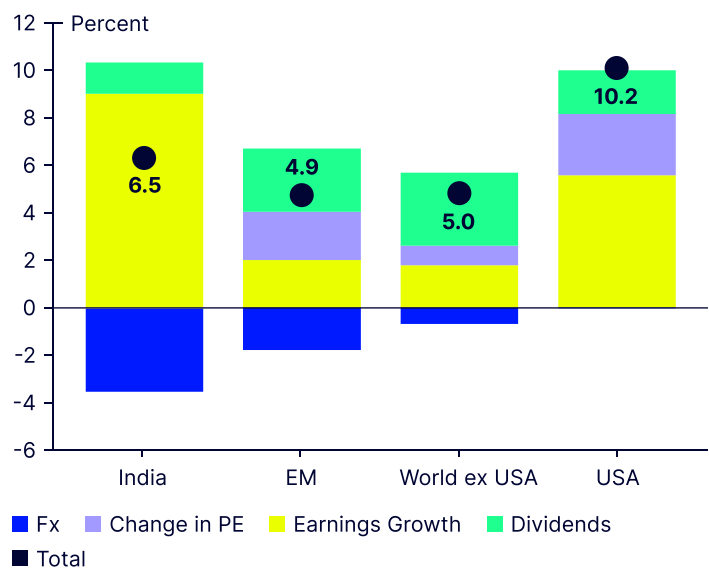
1. Where do India's returns come from?

India has delivered some of the strongest equity returns in emerging market universe over the past two decades. It has also, for most of that period, been one of the most expensive markets in the world. The natural question is: what exactly have investors been paying for? The answer, when you look at the evidence, is straightforward—and it matters more than the valuation debate that has dominated the conversation.

Figure 7 decomposes long-run USD returns for major equity markets into their constituent parts. The EM aggregate result is instructive. Rao and Gupta (2025) examine the period from December 2008 to December 2024 starting from post-GFC lows and find that while valuation re-rating contributed meaningfully to returns as compressed multiples recovered, EM earnings compounding disappointed. Despite generally strong GDP growth, EPS growth in local currency terms lagged economic expansion, held back by weak GDP-to-

earnings transmission and share dilution. Growth that should have reached shareholders did not. China tells a starker version of the same story.

Figure 7: USD return decomposition (annualized returns from 12/31/2006 to 12/31/2025)



Source: FactSet, MSCI indices, State Street Investment Management. Annualized return contributions are shown for the period 12/31/2006 to 12/31/2025. The performance data quoted represents past performance. Past performance does not guarantee future results.

Our decomposition extends further back, including the pre-GFC period and the crisis itself—a less favorable starting point for valuation change than Rao and Gupta's post-crisis start point. Across this horizon, valuation change contributes less to total returns. The lesson is straightforward: starting point matters. The multiple expansion tailwind that flattered post-crisis return decompositions is not available to investors entering today's market at elevated valuations. Looking forward, it seems more likely that earnings and dividends will do the bulk of the lifting.

India did not fit the EM earnings disappointment pattern. Earnings growth has been the dominant driver of India's return over two decades—the primary engine, not a supporting factor. Dividends have contributed meaningfully, though at a distance from earnings. Valuation expansion, despite the market's long re-rating journey, has played a surprisingly secondary role—a point we return to later in this section. Currency has been a headwind as the rupee (INR) has detracted approximately 3% per annum against the USD over the past decade, as shown in Figure 7. Although this pressure is likely to persist, the earnings growth should continue to absorb it, as has been the case historically. A sustained period of dollar weakness, alongside the progress on US-India trade agreement, could further keep a lid on currency-related drag.

The macroeconomic foundations of India's growth story are set out in detail in the preceding section of this paper—a young and expanding workforce, rising household incomes, and a domestic consumption with decades of runway. The critical question for equity investors is whether that macroeconomic expansion translates reliably into corporate earnings. For emerging markets, this transmission has historically been weak and uneven. Growth frequently accrues to unlisted firms or new capital formation that dilutes existing shareholders rather than compounding their returns. Again, India has been a meaningful exception.

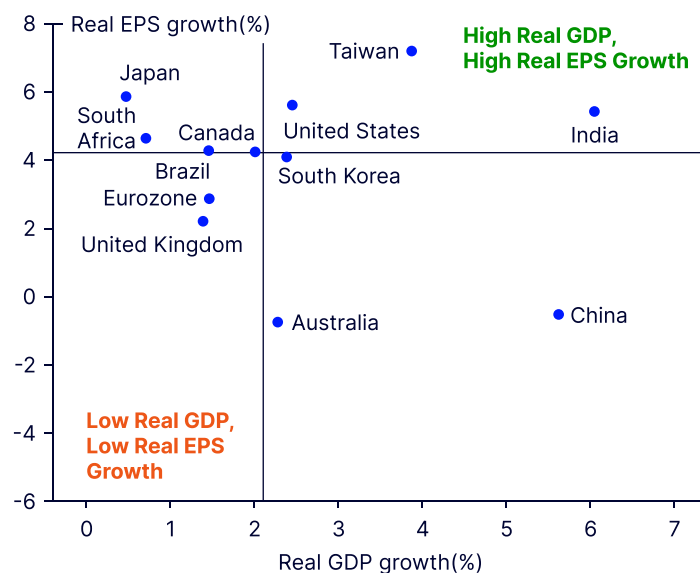
Figure 8 plots annualized real EPS growth in local currency against real GDP growth across major economies over the ten years to end-2025. Dispersion is wide. Many emerging markets cluster where real earnings growth has lagged economic expansion. India sits in the upper right, among the small group of markets combining high economic growth with high earnings growth.

While the US, Japan, and Taiwan have delivered stronger earnings growth at lower GDP growth, reflecting superior capital efficiency, India's advantage is different: the combination of credible high economic growth and strong earnings transmission.

Importantly, this transmission has strengthened over time. Figure 9 tracks the ratio of India's rolling 5-year EPS growth to real GDP growth over the past two decades. The ratio has trended higher over time,

reflecting an improving translation of economic expansion into corporate earnings. The improvement is real, rather than nominal. Earnings growth has exceeded economic growth in real terms, not merely reflected inflation.

Figure 8: India combines strong economic growth with high earnings growth

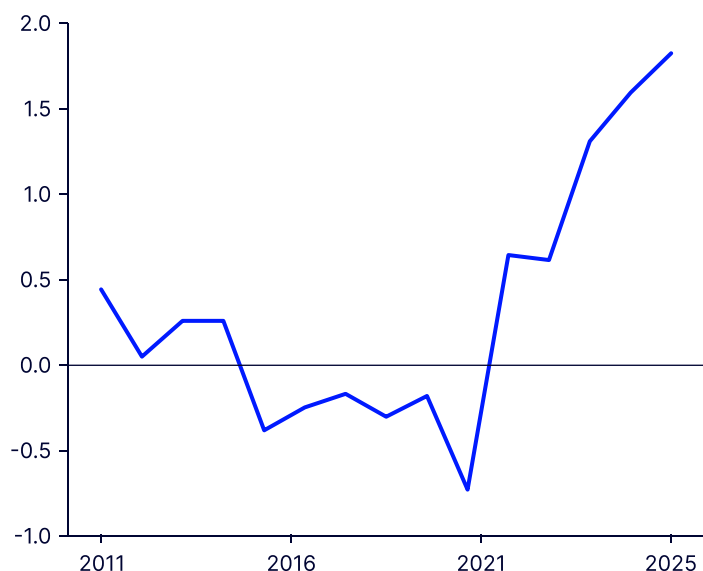


Source: FactSet, Oxford Economics, State Street Investment Management. Emerging markets with weights greater than 2% (as year-end 2025) in the MSCI EM Index along with major developed markets are shown. 10-year annualized growth numbers were calculated for the last 10 years to end-2025. Earnings growth is shown in local currency terms. Quadrants are defined by the median real GDP growth and median real EPS growth of the sample universe.

The source of this improvement matters as much as its direction. India's corporations are predominantly domestically anchored, with ties to India's own demographic trajectory, rising household incomes, and expanding credit penetration. While this earnings base is not immune to global commodity prices, external demand cycles, or the fate of a handful of large technology companies, it is largely driven by the internal logic of a large, young, rapidly urbanizing economy moving up the income curve.

The contrast with how EM earnings are currently being shaped is worth noting plainly. EM's aggregate earnings outlook has strengthened, but the strength is concentrated in AI-driven demand, which has sharply upgraded expectations for technology

Figure 9: India's earnings transmission ratio—rolling 5-year real EPS growth to real GDP growth



Source: FactSet, Oxford Economics, State Street Investment Management. 5-year rolling annualized growth numbers were calculated from 2006 till 2025. Earnings growth and GDP growth are shown in local currency terms.

hardware exporters, and commodity price dynamics, which have driven strong revisions for resource-dependent economies. These are real tailwinds, but they are cyclically exposed—sensitive to the pace of AI infrastructure buildout decisions and to commodity markets shaped by geopolitics and supply discipline. When EM's aggregate earnings picture looks strong, the relevant question is always where that strength is concentrated and how stable the foundations are.

India's earnings growth range in any given year may be narrower than markets riding a concentrated cyclical wave. Over a full cycle, that is a feature rather than a limitation.

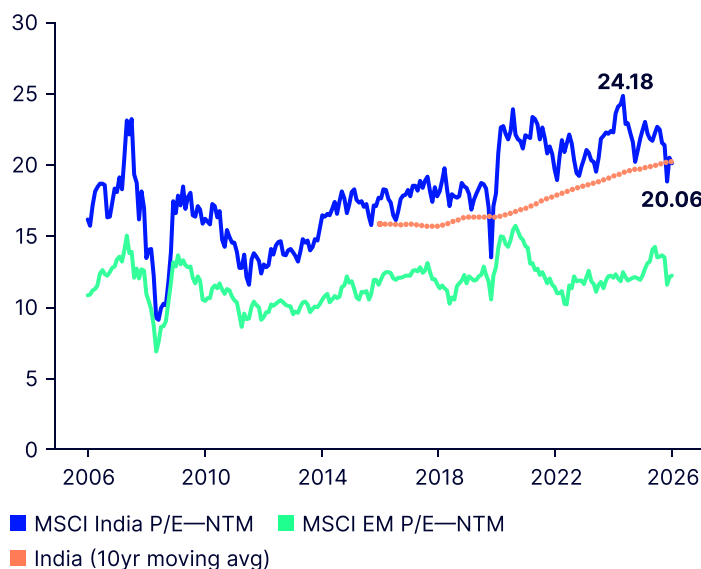
What you pay to access it

India's valuation premium often dominates the debate, but the more relevant question is what investors are paying for. The return decomposition in Figure 7 suggests the answer has been earnings, not simply multiple expansion. That distinction matters: India has rarely looked cheap, but its long-run returns have been supported by a corporate earnings engine that has done more of the heavy lifting than valuations alone.

The implication is not that valuation can be ignored. Starting point still matters, and with multiples elevated across much of the global equity market today, future returns are unlikely to be driven by another broad re-rating. For India, the investment case therefore depends on continued earnings delivery, dividend growth, and disciplined entry points—not on assuming that the market's premium continues to expand.

Figure 10 plots MSCI India's forward PE over the last twenty years, with a 10-year rolling average overlaid. The picture is not one of a market oscillating around a fixed mean. The rolling average itself has trended higher over time—reflecting India's strong earnings pathway, deepening domestic institutional investor base that has reduced reliance on volatile foreign flows, and a declining volatility profile. Together, each of these developments—discussed in this paper—explain why India's fair multiple may have drifted higher, reflecting a market response to a structurally improving investment proposition.

Figure 10: MSCI India 12-month forward PE



Source: FactSet, MSCI Indices, State Street Investment Management. Data as of May 31, 2026. Forward 12-month Price to Earnings ratio is shown.

The 2024 peak was an outlier even against this rising baseline—a moment of genuine excess, priced for near-flawless execution with limited margin for disappointment. A combination of earnings moderation in the wake of trade tensions and rotation towards

markets with stronger near-term momentum drove India's underperformance in 2025 and brought valuations back toward the long-run trend. India is not cheap, and has rarely been. At current levels, the acute excess of 2024 is behind us.

2. Deepening markets, moderating volatility

India's valuation premium is not solely a function of its earnings trajectory. Structural shifts in the market itself—a deepening domestic investor base, an expanding investable universe, and measurable declining volatility—have reduced India's risk profile in ways that matter for global allocators.

The domestic anchor

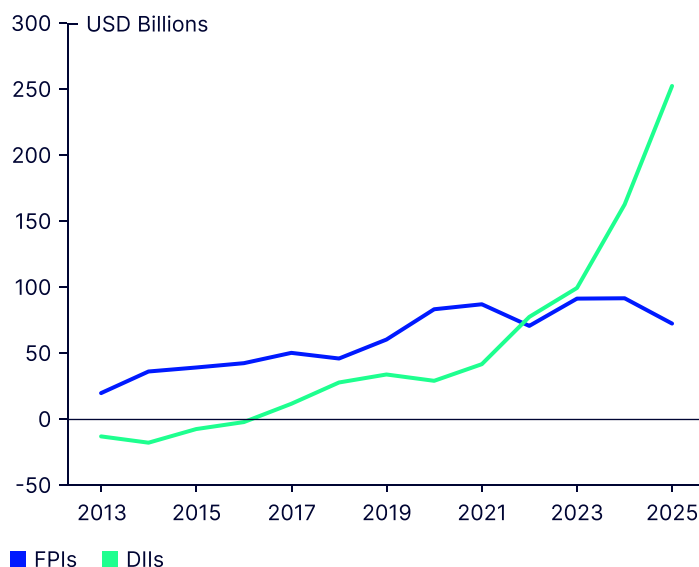
The financialization of household savings—the shift from physical assets and bank deposits into market-traded financial instruments—has been one of the most consequential changes in India's equity market over the past decade.

Figure 11 shows cumulative net flows from domestic and foreign institutional investors since 2013. Domestic flows have overtaken foreign flows, and as a result, domestic institutional ownership now exceeds foreign institutional ownership for the first time since tracking began in 2009.

This reduces the market's historical dependence on foreign capital, which has tended to move with global risk sentiment, often overshadowing domestic fundamentals.

The fuel behind this shift is financialization of household savings through Systematic Investment Plans (SIPs)—disciplined, periodic contributions into mutual funds. Figure 12 shows average monthly SIP flows compounding at approximately 24% annually since 2020. These disciplined flows provide steady capital across market cycles, smoothing the impact of episodic foreign outflows. Notably, annual SIP contributions in 2025 amounted to approximately 2.5% of India's free-float equity market capitalization at end-2025, underscoring the scale and structural relevance of these flows.

Figure 11: Cumulative net flows into Indian equities—Domestic vs Foreign Institutional Investors

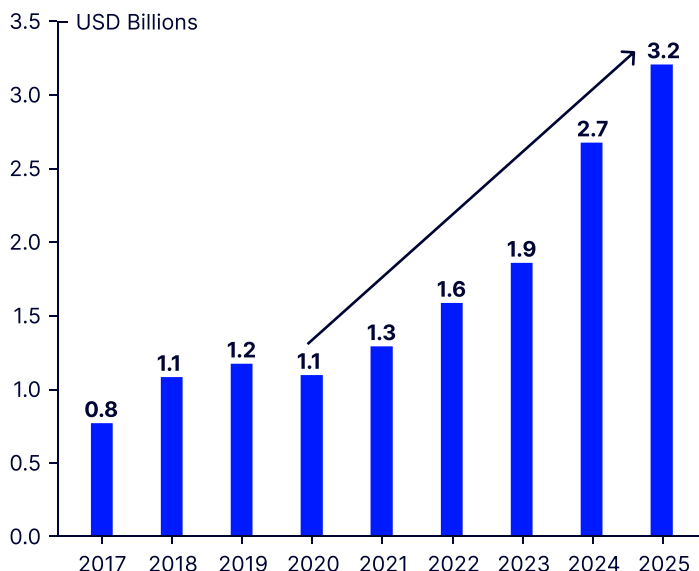


Source: NSE. Data as of December 31, 2025.

This trend has structural drivers with room to run. Rising per capita incomes and wealth aspirations are pushing household savings away from traditional safe assets such as fixed deposits and real estate to growth assets like equities. The share of equities and mutual funds in household financial savings has climbed from 2% in FY 2012 to 15.2% in FY 2025. Yet this remains materially below levels in the U.S. (47%)²⁷ and EU (36.6%).²⁸ This shift toward financial assets is ongoing, with substantial headroom as incomes rise and financial literacy broadens.

For global investors, the implication is a more stable market structure. The financialization of savings, channeled through SIPs, has created a durable domestic capital engine that reduces the market's sensitivity to external shocks. A deeper domestic investor base that invests systematically reduces sensitivity to the episodic foreign outflows that historically drove sharp volatility spikes in India equities. SIPs are not immune to cyclicalities, yet monthly contributions rose in 2025 despite a weak market year—evidence that the broader trend is anchored by a structural shift in how Indian households allocate savings.

Figure 12: Average monthly SIP contributions have grown steadily (USD billions)



Source: Association of Mutual Funds (AMFI) in India. Monthly average SIP flows for 2017–2025 in USD billions. Figures are rounded.

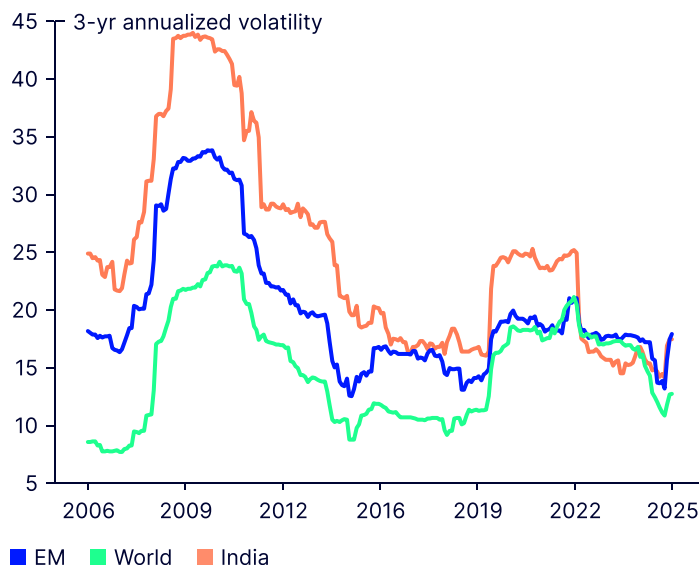
The derisking outcome

The stabilizing effect of rising domestic institutional capital is visible in India's volatility profile. Figure 13 shows 3-year rolling annualized volatility for Indian equities over the past two decades. Volatility has declined meaningfully and converged toward developed market levels. Historically, elevated volatility constrained institutional allocations. That constraint has materially diminished.

At the same time, a sustained IPO cycle has broadened and deepened the opportunity set. Notably, the number of constituents in MSCI India has more than doubled from 73 in end-2015 to 164 in end-2025,²⁹ expanding sectoral representation and improving market depth.

Taken together, these structural shifts—a deepening domestic base, more developed capital markets, and measurably lower volatility—point to a maturing market architecture. They reflect durable shifts in household financial behavior, institutional depth, and capital market development. For global investors, India today offers structural growth with a progressively moderating risk profile—a combination that was less evident a decade ago.

Figure 13: 3-year rolling annualized volatility—India, EM, and DM



Source: FactSet, State Street Investment Management, as of May 31, 2026. 3-year rolling annualized volatility is calculated using monthly returns in USD.

3. India's role in a global portfolio

India offers genuine diversification for global portfolios—not simply as an emerging market, but because of the structural features of its economy and market composition.

Low correlation, structural insulation

Indian equities have historically exhibited moderate to low correlation with global major markets. Figure 14 presents pair-wise correlations using monthly returns from January 2000 to December 2025. India's correlation to both developed and emerging markets is notably low, reflecting limited co-movement with the demand cycles and macro drivers that dominate returns elsewhere.

This low correlation is structural. Approximately 80% of revenues for companies in the MSCI India index originate domestically. Earnings are therefore anchored primarily in India's internal demand cycle rather than global trade flows, commodity pricing, or external manufacturing demand. For a large, populous country with a rapidly expanding middle class, this domestic tilt

Figure 14: Indian equities offer low correlation to global markets

	MSCI India	MSCI China	MSCI EM	MSCI USA	MSCI World	MSCI Europe	MSCI World ex USA	MSCI Pacific	MSCI Japan
MSCI India	1.00	0.48	0.74	0.53	0.60	0.60	0.64	0.63	0.53
MSCI China	0.48	1.00	0.78	0.51	0.57	0.57	0.61	0.60	0.47
MSCI EM	0.74	0.78	1.00	0.73	0.81	0.80	0.85	0.79	0.64
MSCI USA	0.53	0.51	0.73	1.00	0.97	0.84	0.86	0.75	0.65
MSCI World	0.60	0.57	0.81	0.97	1.00	0.93	0.96	0.84	0.73
MSCI Europe	0.60	0.57	0.80	0.84	0.93	1.00	0.98	0.79	0.66
MSCI World ex USA	0.64	0.61	0.85	0.86	0.96	0.98	1.00	0.89	0.78
MSCI Pacific	0.63	0.60	0.79	0.75	0.84	0.79	0.89	1.00	0.95
MSCI Japan	0.53	0.47	0.64	0.65	0.73	0.66	0.78	0.95	1.00

Source: FactSet, MSCI Indices, State Street Investment Management. Historical correlation is calculated using monthly total returns in USD from January 2000 till December 2025.

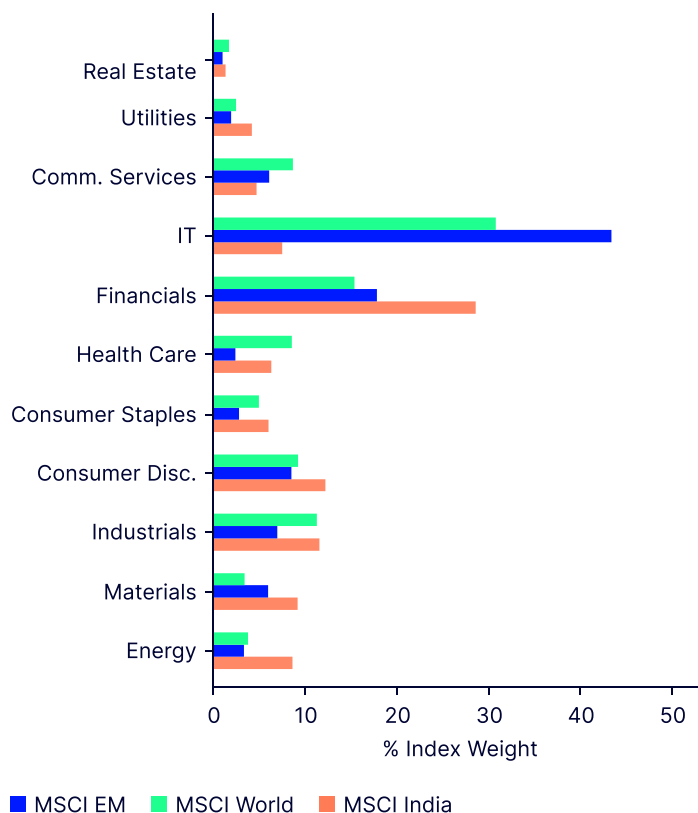
ties corporate performance to demographic expansion, rising incomes, financial deepening, and domestic infrastructure buildout. That differentiates India from export-led markets such as China, Korea, and Taiwan, and from commodity-intensive markets like Brazil, and South Africa.

It is worth noting that India is not insulated from global liquidity conditions. Capital flows still influence market behavior. But the underlying earnings base is predominantly domestic, which moderates the transmission of external demand shocks into corporate profitability, and their performance.

Distinct sector profile

India's diversification value is reinforced by its sectoral composition that differs materially from both developed and emerging market benchmarks. Figure 15 compares sectoral exposures across MSCI India, MSCI EM, and MSCI World. India is meaningfully overweight Financials and underweight Information Technology compared to global markets, but the difference doesn't stop here either.

Figure 15: Sectoral compositions—India vs EM vs World



Source: FactSet. Data as of May 31, 2026. Figures are rounded and may not add to 100%.

India's financial sector is in a structural growth phase, driven by improving credit penetration, rising household incomes, and ongoing financial inclusion—distinct from mature, leverage-constrained banking systems in developed markets. These are growth stories anchored in domestic fundamentals, not global cycles. India is also underweight Information Technology relative to global markets, where the sector is dominated by capital-intensive AI infrastructure buildout and semiconductor manufacturing. Indian IT companies are largely service-oriented, leveraging India's skilled software development base to serve global enterprise demand.

The relative trade

India's case for a long-term allocation is strong. The near-term relative picture is more complicated. EM's aggregate earnings outlook has strengthened considerably. AI-driven capital expenditure has sharply upgraded expectations for technology hardware exporters—Korea and Taiwan in particular. Commodity price dynamics have driven strong upward revisions and resource-rich economies including Brazil and South Africa. These are real and meaningful tailwinds. In the near term, they have shifted the earnings growth differential meaningfully in EM's favor, with 2025 earnings growth expected to exceed India's by a significant margin, driven by outsized revisions in Korea, Taiwan, Brazil, and South Africa.

The implication for relative positioning is real. Investors rotating within EM toward markets with stronger near-term earnings momentum have a coherent rationale—particularly now, given the continued weakening of the INR. That rotation has been visible in flows through 2025, and it may continue while these cyclical tailwinds remain intact. India, in this environment, can find itself used as a source of funds rather than a destination—a funding currency for positions in markets where the near-term earnings revisions story is more powerful.

This is a real tension, and it should not be dismissed. What it is not, however, is a structural argument against India. The near-term EM earnings story is concentrated and cyclically exposed—tied to the pace of AI infrastructure buildout decisions made by a handful of large technology companies, and to commodity markets shaped by geopolitics and supply discipline that can

shift quickly. India's earnings base is narrower in the current moment but broader in its foundation. A market driven by indigenous factors behaves differently across the cycle than one driven by semiconductor capex or commodity prices. Both can deliver strong returns. They carry different exposures and serve different roles in a portfolio.

The practical implication is a question of horizon and portfolio construction. For investors building a long-term allocation, the character of India's earnings base, the depth of its domestic capital market, and the durability of its structural growth drivers make a compelling case for a core position, accumulated with discipline and added to on weakness.

The implementation question follows naturally from the allocation case. Dispersion within India's equity market is likely to remain elevated as the opportunity set continues to broaden across sectors, ownership structures, and stages of corporate maturity. That may create a more fertile backdrop for active management, particularly for investors seeking a more selective way to access the structural opportunity than index exposure alone.

The allocation case

India represents approximately 2% of the MSCI All Country World Index, a weight that is modest relative to its share of global GDP, its population, and its contribution to global growth. For global portfolios that are already carrying significant exposure to developed markets, particularly to the concentrated technology and AI infrastructure themes, an allocation to India introduces a meaningfully different return stream.

The signals that would build conviction for a more aggressive positioning are identifiable even if their timing is not. Sustained earnings delivery would confirm that the transmission improvement is intact. Progress on trade agreements translating into visible FDI commitments and export order growth would strengthen the case that India's earnings base is broadening. As the equity market broadens, increasing dispersion across sectors and companies should expand the opportunity set for active management. And continued SIP inflows through periods of market weakness—already evident in 2025—would confirm that the domestic capital anchor is structural rather than cyclical.

A structural allocation with tactical complexity

India's case is not without near-term complications: valuations remain demanding, currency pressure can weigh on USD returns, and other emerging markets may offer stronger tactical earnings momentum at points in the cycle. But these risks do not weaken the central allocation argument. India combines durable macro tailwinds, improving earnings transmission,

deepening domestic capital markets, and genuine diversification benefits in a way few large markets can match. For long-term global investors, that makes India less a short-term trade than a differentiated structural allocation—one that rewards patience, selectivity, and disciplined entry points.

India may not be the highest-conviction relative trade within EM right now. It is one of the highest long-duration structural allocations within EM. For investors building a position with a genuine long-term horizon, the right approach is a core allocation sized for the decade ahead—not a tactical overweight chasing near-term momentum, but a patient, disciplined accumulation in a market that moves to its own rhythm, anchored in domestic economy with decades of runway and a market structure that is maturing without losing its differentiation.

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Appendix

This chart pack uses a structured, top-down scenario framework to estimate India's electricity demand through 2030 and isolate the incremental contribution from electric vehicles and data centers. The model decomposes total demand into three explicit blocks, EV demand, data-center demand, and a residual organic component that captures all other consumption drivers.

EV electricity demand is derived from an internally constructed EV stock trajectory covering the full fleet rather than passenger vehicles alone. Annual usage is assumed at 8,000 km per vehicle, with a blended electricity intensity of 0.15 kWh per km. This allows a direct translation from vehicle stock to both miles driven and electricity consumption over time.

Data-center demand is modelled using anchor estimates of 13 TWh in 2024 and 57 TWh in 2030 based on external research. Intermediate values are interpolated using a constant growth rate to ensure a smooth trajectory consistent with the rapid scaling of digital infrastructure.

Total India electricity demand is anchored to recent observed system-level consumption in 2024 and 2025 and extended forward using steady growth assumptions of approximately 6.4 to 6.6 percent per year. The organic demand component is calculated residually as total demand minus EV and data-center demand, thereby capturing broader structural drivers such as industrial activity, cooling demand, agriculture, and household consumption.

The resulting framework produces a coherent set of outputs, including EV miles travelled, EV electricity demand, data-center electricity demand, and total electricity demand with a stacked decomposition from 2026 onward. While the model is designed for transparency and consistency, it relies on simplifying assumptions, particularly around EV fleet composition and data-center growth, and should be interpreted as a scenario-based baseline rather than a precise forecast.

Endnotes

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