

Overview

India has a strong claim to being the best long-term structural growth story in global equities. It is set to become the world's 4th largest economy in 2026, surpassing Japan and closing in on industrial powerhouse, Germany.

It also enjoys a unique demographic edge: a young, English-speaking and digitally native population. This human capital was recognised in a GDP rebasing in February 2026, which should highlight the explosive growth of its digital economy. In turn, that should catalyse a recovery in a currently unloved equity market (and currency), which would result in significant gains over the medium to long term.

The theme can be summarised as follows:

What?

A broad India equity theme.

Why?

After its worst 12-month performance in 30 years relative to the EM and All World indices, its multi-year low rating, demographic edge and self-help measures (such as the GDP rebasing) combine to offer a compelling entry point for patient, long-term investors.

How?

Implemented via the Xtrackers MSCI India Swap ETF (XCSP), which offers a market leading fee (19bps TER) and swap-based structure that avoids India's onerous CGT (12.5%-20%, incurred by physical peers).

Holding Period?

5+ years

A more detailed explanation of why an India equity theme makes sense follows:

Summary

India has a strong claim to being the best long-term structural growth story in global equities but beckons today as a contrarian gem in a polarised world. The Indian market has suffered its worst 12-month performance in 30 years relative to EM and All World. Since its peak in 2024, when a wave of 'Emerging ex China' fund launches saw investors chase a massive 'Modi premium', India has suffered a -50% relative return versus a China-led (and All World-leading) EM recovery.

This has opened an attractive entry point amid a much-compressed equity (and currency) valuation. India has fallen to a multi-year rating low versus regional and world markets.

Trump's 'Art of the Deal' bombast has stirred a storm, obscuring India's valuable neutrality, which draws Western "friend-shoring" investments whilst allowing for pragmatic ties with resource-rich Eastern powers. Short-term geopolitical frictions are harnessed for strategic advantage in the long run. In the wake of the EU and India agreeing 'the mother of all trade deals' in January, the stage was set for Trump and Modi to forge a deal, which came in February.

India enjoys a unique demographic edge: a young, English-speaking and digitally native population. This human capital was recognised in a GDP rebasing in February 2026; it has the potential to highlight the explosive growth of its digital economy (and catalyse a recovery in an unloved equity market and currency).

Historically fragile, India no longer relies on the 'kindness of foreigners'. Rising domestic buying 'has kept the lights on' amidst record foreign outflows, backstopped by all-time high FX reserves. 2022 highlighted India's improving resilience; India led the All World by +14.8% during a global bear market and +94% oil spike. As conflict in the Middle East has reignited a global energy crisis, we suspect India's resilience, courtesy of its rational neutrality, may once again positively surprise a sceptical market.

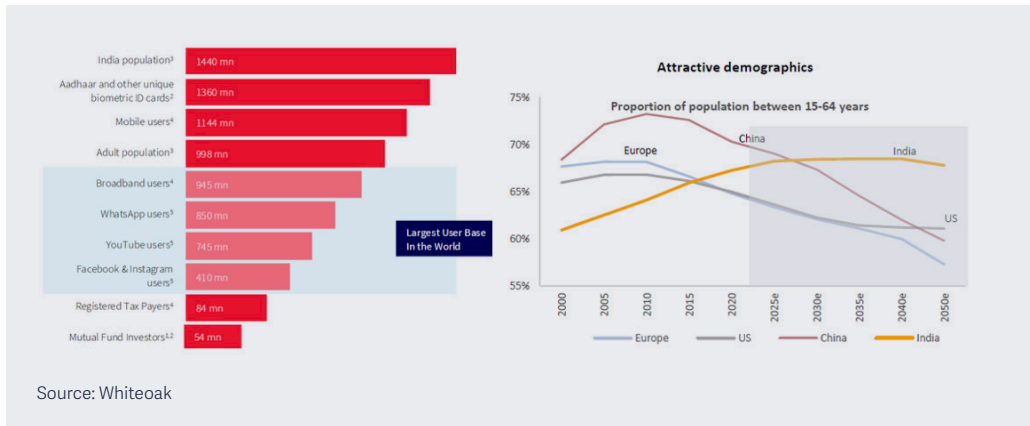
We added a 2.5% position for Balanced portfolios and 4.0% position for our Growth portfolios in the Xtrackers MSCI India Swap ETF. Xtrackers offers a market leading fee (19bps TER) and swap-based structure that avoids India's onerous CGT (12.5%-20%, incurred by physical peers).

The investment in Indian equities was funded from our holding in the Ninety One Environment fund, which had led the India ETF by 14.3% & 17.4%, respectively, over 6 & 12 months to the end of January 2026, and performed in line with the All World ETF. This outperformance had seen Environment re-rate to a premium versus India despite its inferior growth and quality metrics (and higher fee).

Macro Backdrop

India is set to become the world’s 4th largest economy in 2026, overtaking Japan and bearing down on Germany. India’s rise has been fuelled by its leader, Narendra Modi’s reforms, which show little sign of abating. In November, Modi announced the most significant structural overhaul since its independence in 1947.

India’s growth engine centres on the world’s largest, youngest and most digitally native population.



India is set to be the consumer growth behemoth of the 21st century, with Indian companies best placed to benefit

A GDP rebasing occurred on 27 February 2026 that saw India’s economic data restructured to capture the modern reality of its economy. India has tilted significantly to capital-light, high productivity sectors over the past decade, but has reported growth figures that overweight old and informal sectors.

Economic Sector	Old Weight (2011-12 Base)	New Est. Weight (2022-23 Base)	The "Aha!" Moment for Investors
Digital Services & FinTech	~2%	12% - 15%	Formally captures the 1B+ users of the "India Stack" (UPI/Digital ID).
Manufacturing & Electronics	14%	19%	Reflects the "China Plus One" shift and Apple/Samsung localization.
Renewable Energy	<1%	6%	Validates India’s massive structural shift toward solar and green hydrogen.
Agriculture (Traditional)	18%	12%	A statistical decline as the economy "matures" and diversifies into services.
Informal/Cash Economy	High (Estimated)	Low (Formalized)	The rebasing proves that GST has successfully moved trillions into the taxable, "visible" economy.

Source: Indian Ministry of Statistics and Programme Implementation

By resolving the long-standing 'transparency discount' flagged by the IMF, India’s pending GDP rebasing should serve as validation of India’s transition from a labour-intensive EM frontier to a tech-enabled global leader

However, sentiment toward India has soured since investor euphoria peaked amid an 'anything but China' rotation in 2024. At its peak in late 2024, India enjoyed the highest country allocation (a 27% weighting) in the EM ex China index, which a wave of newly launched, very popular, funds tracked.

EM ex China strategies offered foreign investors access to the 'Modi premium' trade and were funded by redemptions from poorly performing Chinese holdings (ahead of a powerful recovery in the Chinese market). India’s weight in EM funds has fallen precipitously over the past 18 months, where it now sits below both Taiwan and South Korea.

AJ Bell moves towards EM ex-China stance in strategic asset allocation

Darius McQuaid
22 January 2025

Emerging Market Investing: The Rise of Ex-China Funds

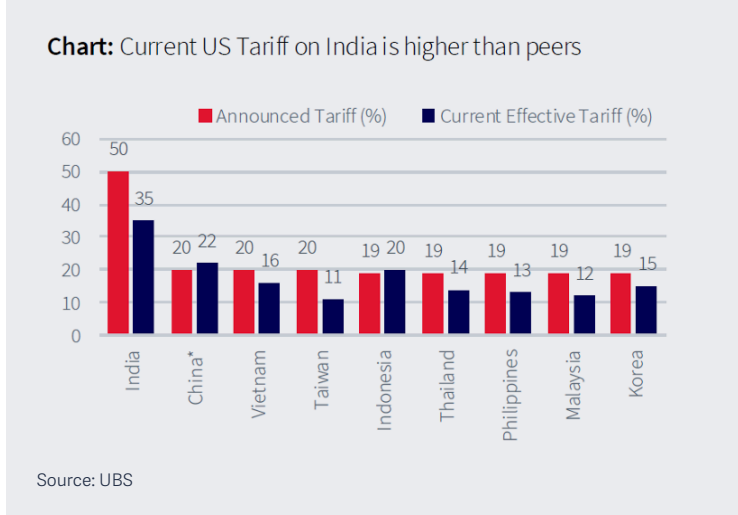
Shunning China may tempt investors because of its recent returns, but this strategy may be shortsighted.

Mathieu Caquineau, CFA • 7 Jul 2025

Share

The multi-year outperformance of India and contemporaneous underperformance of China sparked performance-chasing into new Emerging ex China funds at India's valuation and performance peak in late 2024

For Indian equities, 2025 was defined by geopolitical friction and punitive 50% US tariffs, bearing the full force of Trump's 'Art of the Deal' bombast. Despite intense negotiations between India and the US, and the personal friendship of its leaders, a trade deal has remained elusive.



The lack of a US-India trade deal has led to a sentiment vacuum as India suffers the highest effective and announced US tariffs in Asia

Into this void, the EU and India have forged their own pact, prompting comments from EU leaders, aimed at President Trump, that may prove braggadocious in hindsight. The self-acclaimed dealmaker-in-chief found himself, by luck or judgment, in an ideal setting from which to agree a bigger deal in February 2026.

EU's dig at Trump as it agrees 'mother of all trade deals' with India

Ursula von der Leyen says agreement to end \$4bn of tariffs sends a message that 'rules-based co-operation' works

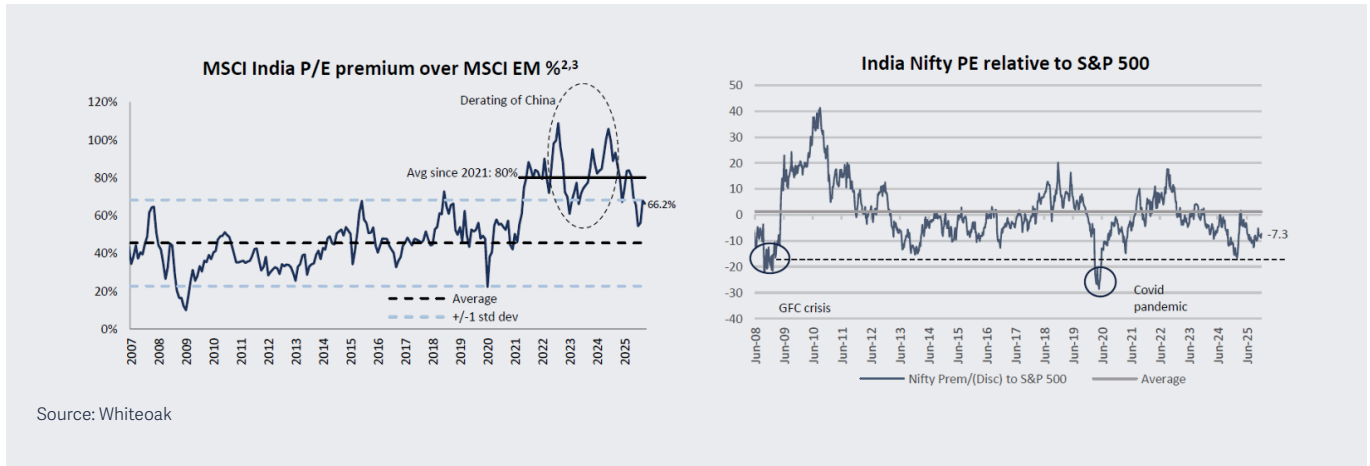
Source: The Times, 27 January 2026

The India-EU trade deal highlights the importance of India's economy on the world stage. It set the scene for a larger, but unexpected, deal with the US shortly thereafter

Valuation

If a trade deal remains elusive, current valuations price in a ‘no-deal’ scenario, providing a margin of safety. India has enjoyed a historic valuation premium courtesy of high underlying growth and superior quality metrics (that have endured). The return on equity (17.2%) and return on capital (9.2%) is far higher than the All World index (14.2% and 7.0%, respectively).

India’s price/earnings (P/E) premium over EM has fallen to +56.8% (Jan-26); a multi-year low near the 20-year average and down from +66.2% at the end of 2025. India trades at a discount to a strongly re-rated US.



Despite its superior quality, India trades on a -6% price/sales (P/S) and -2% price/book (P/B) discount to the All World, and a reduced price/earnings (P/E) premium (+24%). At its peak in 2024, India commanded record premiums across these metrics (+39% P/B, +37% P/S 25x, +41% P/E).

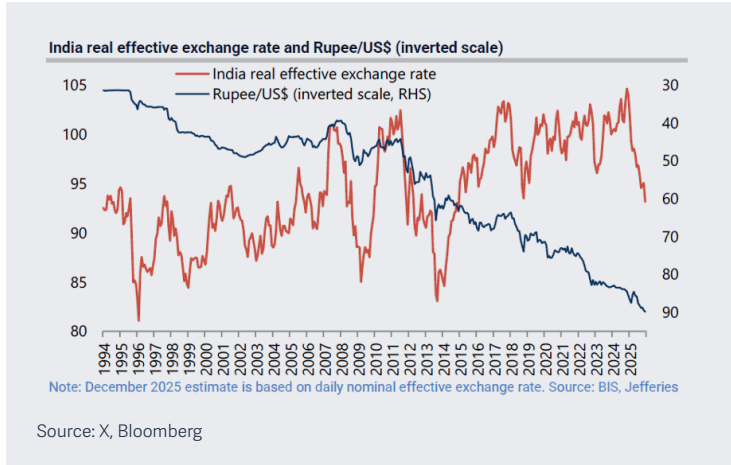
Relative to 91 Environment (the funding source), India is on average cheaper and of higher quality.

Xtrackers MSCI India Swap ETF														
Name	Wgt	P/E	B/E	P/E	P/CF	P/B	P/S	Earn Yld	EV/EBITDA	Net Debt/Equity	Debt/Equity	ROE	Div Yld	FCF Yld
Xtrackers MSCI India Swap UCITS ETF (XCSS...)	100.00	24.24	21.747	27.51	3.45	2.38	4.11	15.10	50.19	109.32	15.38	1.14	0.15	

All World ETF														
Name	Wgt	P/E	B/E	P/E	P/CF	P/B	P/S	Earn Yld	EV/EBITDA	Net Debt/Equity	Debt/Equity	ROE	Div Yld	FCF Yld
VANGUARD FTSE ALL WORLD UCITS ETF...	100.00	23.99	17.494	16.28	3.51	2.52	4.17	15.14	37.96	131.67	14.40	1.85	3.37	

91 Environment														
Name	Wgt	P/E	B/E	P/E	P/CF	P/B	P/S	Earn Yld	EV/EBITDA	Net Debt/Equity	Debt/Equity	ROE	Div Yld	FCF Yld
Ninety One Funds Series III - Global ...	100.00	25.94	20.077	15.70	3.91	2.87	3.85	14.55	31.64	68.10	15.10	1.69	3.55	

India has suffered record foreign investor outflows and a material de-rating in the rupee (INR), shifting from a ‘crowded long’ in 2024 to an ‘ignored short’ here.



The INR has fallen to a 12-year low on a real-effective exchange rate basis. This has corrected the overvaluation seen in 2024 and made India more competitive

The INR has been cheaper (during the 2008/09 GFC and 2013 'taper tantrum') but India's fundamentals have never been more robust. Recent record foreign investors outflows have occurred alongside high, and rising, domestic buying to leave India almost entirely internally funded, capping downside (and 'keeping the lights on') in a global risk off event.

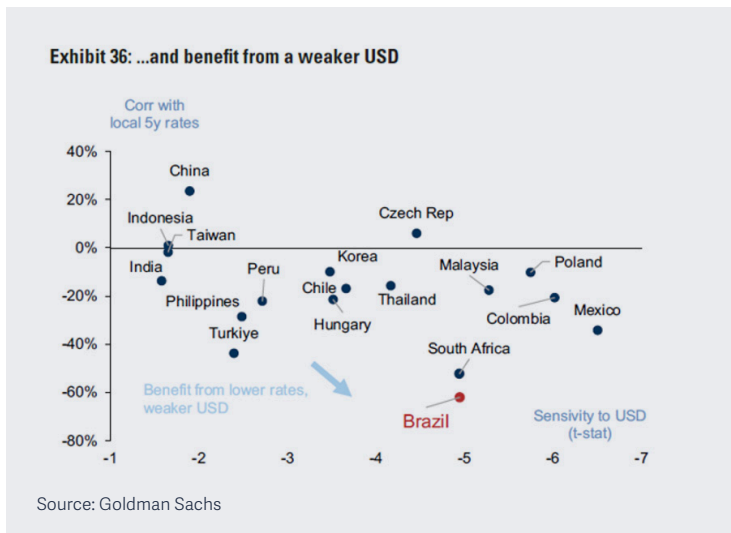
This newfound resilience was evident in 2022, as FTSE India led the FTSE All World by +14.8% during a -25.5% peak-to-trough sell off in World index amidst a +94% rally in the oil price. India remains a net energy importer and vulnerable to a future spike in oil. However, as 2022 proves, this scenario is surmountable.

Prior sustained global risk off periods have seen MSCI India underperform to the downside. The GFC crash (2007-09, saw All World fall -57% vs MSCI India -70.0%; a 1.2x bear beta (though India led All World by +40.7% in the preceding 6-months).

The Covid crash (Q1-20) saw a similar downside sensitivity (1.26x bear beta, but no preceding outperformance).

A backdrop of multi-year low inflation readings has granted the Reserve Bank of India the room to ease monetary policy in recent months, which should aid corporate earnings over time. The positive impact of lower oil and higher gold prices has helped India's FX reserves rise to an all-time high of ~\$700bn and current account deficit (FY to Mar-26) fall to 0.6% of GDP, near a 20-year low.

India, uniquely within EM, is relatively insensitive to the dollar. During periods of dollar weakness, this acts as a relative headwind to performance (as we've seen over the past year). During crisis periods, often associated with dollar strength, this relationship acts as a relative tailwind.



The INR is the least dollar sensitive constituent of the EM index; the weakness in the dollar since the re-election of President Trump has acted as a relative headwind to returns

The two terms of Trump’s presidency have seen a remarkably tight correlation in the performance of the trade-weighted dollar (DXY). Initial strength gave way to a sustained weakening during the first year of both terms.

Year one of the ‘Trump 1’ presidency saw a -14% peak-to-trough fall in the DXY reverse sharply in year two, with a gain of over 10%. The ‘Trump 2’ presidency enters year two after a -12.6% slump in the dollar, in an uncanny echo of the prior relationship. Whether or not a counter-trend rally unfolds in 2026, India’s resilience to major moves in the dollar is much improved.

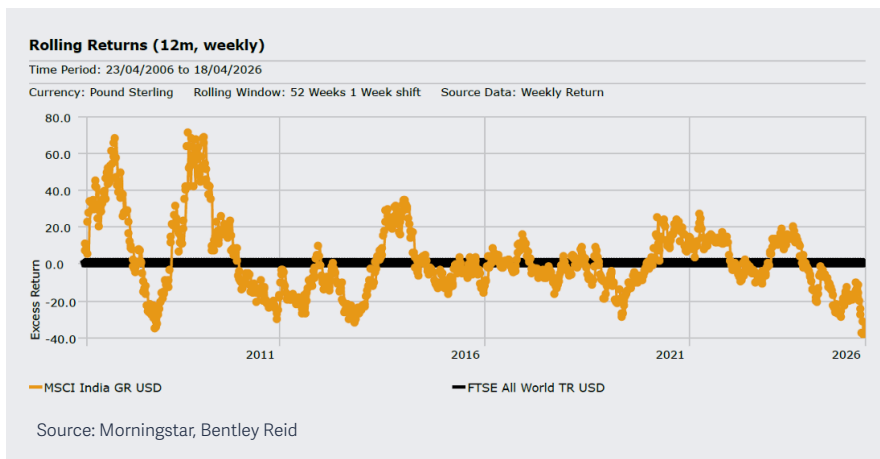


The US midterm elections historically result in a shift to gridlock halfway through the presidency. The dollar’s ‘Trump 1’ and ‘Trump 2’ analogue may persist if weakness gives way to strength

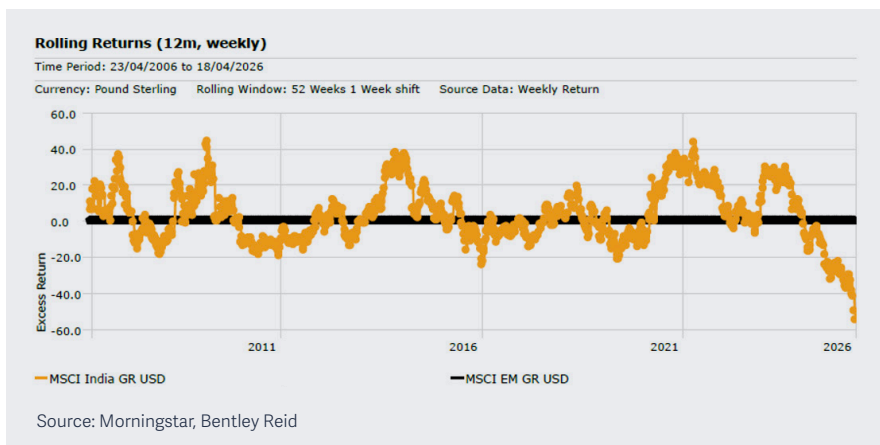
Performance

India has suffered its worst 12-month performance in 30 years relative to EM and All World, reflecting a de-rating in both the market (exacerbated by a cyclical deceleration in India’s earnings growth) and the INR.

FTSE India’s -1.2% YoY return (to 18 Apr) compares with +38.3% and +37.7% gains for FTSE EM and FTSE All World, to leave its rolling returns versus both at multi-decade lows.



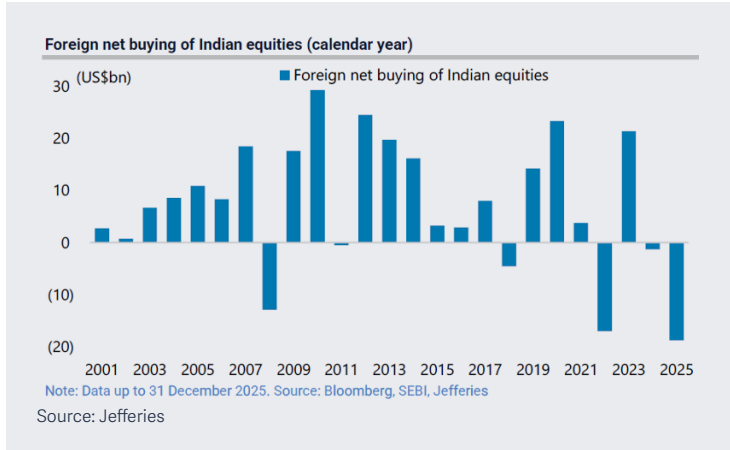
India has trailed All World by -19.7% YoY (to 23 Jan), falling to the low-end of its historic rolling 12-month performance range



India’s underperformance versus EM is more extreme; falling to a record low on a 6-month and 12-month rolling basis

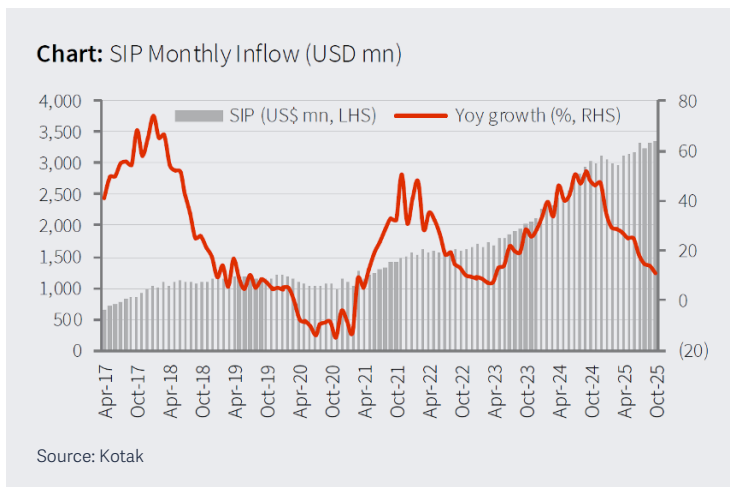
Sentiment and Positioning

India has become something of a 'reverse AI' trade over the past year, with record foreign net selling of Indian equities to chase better performing, AI-plays elsewhere in EM (led by silicon-heavy Taiwan and South Korea). This has left investors underweight (u/w) India, completely reversing the backdrop from 2024.



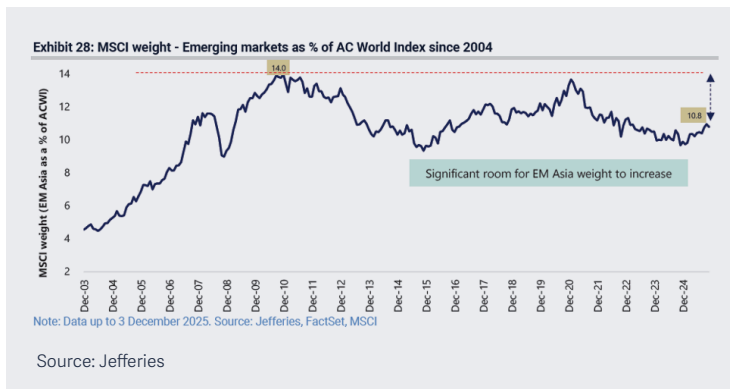
Extreme underperformance and trade fears have seen record outflows of 'hot money' investors from India, into markets perceived as 'AI winners'

At the same time the pace of domestic buying has slowed, with weakness in the local market and the outperformance of precious metals causing investors to tilt allocations elsewhere.



If the historic 'sine wave' pattern of domestic equity inflow growth persists, support for Indian equities is likely to grow more quickly in the months/years ahead

EM accounts for 41% of global GDP, up from 19.6% in 1999, but still only 10.8% of the MSCI All Country World Index, of which China and India account for only 3.1% and 1.65% respectively.



Given the importance of the Chinese and Indian economies and depth of their equity markets, their share of the global index (and investor portfolios) remains anachronistically low

Positioning

Xtrackers MSCI India Swap ETF (XCSP). 164 holdings, \$650m AUM.

- 19bps TER (reduced from 75bps Mar-24)
- Synthetic/Swap-based India ETFs avoid capital gains tax (CGT).
 - Swap spread funding cost 57bps p.a. (year to Apr-26).
 - Physical ETFs accrue CGT (at 12.5% to 20.0%) on the underlying holdings, creating a drag on performance relative to the index. The swap-based structure avoids this leakage.
 - 4 Swap counterparties (gross exposure, Sep-25):
 - Barclays Bank (26.0%)
 - BNP Paribas (24.2%)
 - Société Générale (26.0%)
 - Goldman Sachs (23.8%)
- The ETF tracks MSCI India (daily collateralised swap, limiting counterparty risk to swap's daily P&L).

Top 10 index constituents

Issuer	ISIN	Weight
HDFC BANK LTD	INE040A01034	8.06%
RELIANCE INDUSTRIES LTD	INE002A01018	6.75%
ICICI BANK LTD	INE090A01021	5.11%
INFOSYS LTD	INE009A01021	3.93%
BHARTI AIRTEL LTD	INE397D01024	3.87%
MAHINDRA AND MAHINDRA LTD	INE101A01026	2.41%
TATA CONSULTANCY SERVICES LTD	INE467B01029	2.13%
BAJAJ FINANCE LTD	INE296A01032	2.01%
AXIS BANK LTD	INE238A01034	2.00%
LARSEN AND TOUBRO LTD	INE018A01030	1.94%

Source: DWS

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