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Global Diversification: A Strategic Imperative for Indian Investors

Indian investors have benefited significantly from the country's strong growth trajectory, supported by favourable demographics, rising incomes, financialization, and structural reforms—driving robust wealth creation across asset classes. However, long-term portfolio construction extends beyond domestic participation. Indian investors typically exhibit high concentration in local assets—across income, real estate, business ownership, and financial investments—resulting in elevated single-country risk.

While India remains a compelling long-term opportunity, global investing plays a critical complementary role by diversifying risk, providing access to global innovation, and expanding sectoral exposure beyond domestic limitations.

Evolving global dynamics further strengthen this case. With moderating U.S. dominance, valuation dispersion across markets, currency movements, and shifting macroeconomic trends, investors are increasingly re-evaluating home bias to enhance risk-adjusted returns.

This shift is already visible among Indian investors, with growing overseas allocations and rising participation in global investment vehicles. Despite this trend, India represents only ~3–4% of global market capitalization, highlighting the limited opportunity set within domestic markets alone.

Simultaneously, India is integrating more deeply with global capital flows, with GIFT City emerging as a strategic hub for cross-border investments, offering regulatory efficiency and seamless access to international markets.

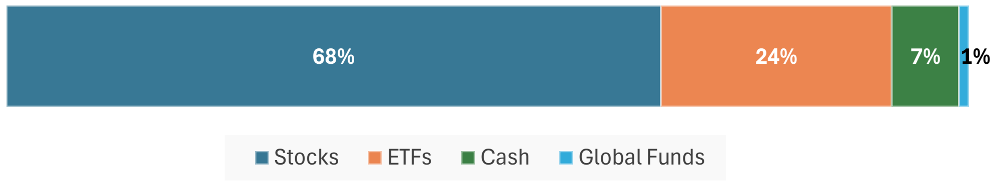
In this context, global investing is no longer tactical. It is a core pillar of portfolio construction, helping investors reduce concentration risk, access global growth sectors, and build more balanced, resilient portfolios for the future.

Beyond Home Bias: The Need for Global Allocation:

Indian investors have traditionally allocated a large share of their wealth to domestic assets such as equities, fixed deposits, gold, and real estate—supported by India's strong growth trajectory. However, this has resulted in structural concentration risk, with portfolios heavily exposed to a single economy, currency, and market cycle.

This bias is evident in current allocation patterns, where global investments form a negligible portion of portfolios (refer chart below), highlighting the limited diversification despite increasing financialization.

Exhibit 1: High concentration in domestic assets with minimal allocation to global funds highlights the persistence of home bias in investor portfolios.



Source: Vested Finance

Despite India's growth, it represents only ~3–4% of global market capitalization, making a purely domestic portfolio inherently narrow. As investor awareness and investable surplus increase, there is a growing need to expand beyond home bias to access broader opportunities, improve diversification, and build more resilient portfolios.

Encouragingly, investor behaviour is evolving. Overseas investments have risen meaningfully, with equity and debt allocations increasing ~56% in FY26 to USD 2.65 billion, while overseas fund-of-funds AUM has grown 53% to ₹38,287 crore—indicating a gradual but clear shift, albeit from a low base.

Global investing is also becoming more accessible and broad-based. As per a study by Vested Finance, participation is expanding beyond metros, with Tier-1 cities accounting for 53% of investors and Tier-2/3 cities contributing 47%. Additionally, younger investors (46% below age 35) are increasingly adopting global investments, supported by digital platforms and ease of access. Over 80% of investors prefer ETFs, reflecting a bias toward simple, efficient global exposure.

Overall, while India remains a core portfolio allocation, investors are increasingly recognising that global diversification is essential to reduce concentration risk, expand opportunity sets, and build more resilient portfolios.

Benefits of Investing Globally:

Market Performance & Case for Global Diversification: Cyclical Leadership Across Markets

Global equity markets operate across distinct economic cycles, leading to periodic divergence in regional performance (Table 1). While India has been among the top three performing markets over the past decade, recent trends indicate moderation, with subdued returns in 2025 and negative performance in CYTD 2026, even as markets such as the US, Japan, China, and Korea delivered strong double-digit returns in CY2025.

Table 1: Annual Performance of Global Equity Markets (MSCI Indices, % Returns)

MSCI Indices	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	CYTD2026
World	-2.74	5.32	20.11	-10.44	25.19	14.06	20.14	-19.46	21.77	17	19.49	9.8
EM	-16.96	8.58	34.35	-16.63	15.42	15.84	-4.59	-22.37	7.04	5.05	30.58	24.76
India	-7.42	-2.81	36.83	-8.75	6.08	14.14	25.1	-8.73	19.55	11.12	2.99	-11.42
US	-0.77	9.21	19.5	-6.33	29.07	19.22	25.24	-20.76	25.05	23.4	16.29	10.54
UK	-11.03	-4.22	17.41	-17.74	15.24	-13.4	13.92	-8.51	9.51	3.42	30.4	5.14
Germany	-3.74	0.42	25.18	-23.87	17.81	9.06	3.47	-24.3	19.92	7.7	33.67	0.21
Japan	7.76	0.46	21.77	-14.54	17.08	12.15	-0.09	-18.51	17.83	6.29	22.11	15.16
HongKong	-3.32	-1.06	32.22	-10.49	7.04	2.53	-6.41	-7.87	-17.83	-4.19	29.34	6.38
China	-10.04	-1.43	51.1	-20.43	20.94	27.32	-22.79	-23.6	-13.26	16.27	28.05	-8.99
Brazil	-43.45	61.34	21	-3.9	22.07	-20.93	-23.53	1.66	23.39	-34.63	39.91	11.67
Korea	-7.94	6.98	45.51	-22.6	10.39	42.63	-10.04	-30.84	21.65	-24.49	96.63	116.92
Taiwan	-14.36	14.83	23.8	-11.8	31.53	37.22	23.51	-32.18	26.91	31.86	36.16	60.11

Source: MSCI, LSEG, Data as of May 29, 2026

This divergence highlights key market leadership rotation across geographies. Economies like Japan, Taiwan, and Korea are currently benefiting from structural themes such as manufacturing and technology, offering relatively non-correlated return streams. Additionally, persistent INR depreciation has enhanced the attractiveness of overseas investments by improving INR-adjusted returns.

Despite near-term performance differentials, India's macro fundamentals remain robust, supported by strong capital inflows (cumulative FDI > USD 1.14 trillion) and structural growth drivers. However, elevated valuations and cyclical moderation reinforce the need for balanced allocation rather than excessive concentration. Investor behaviour reflects this shift. Overseas investments under the LRS route increased by ~56% in FY26 to USD 2.65 billion, with allocations rising 5.6x over five years and 8.3x over a decade, indicating increasing acceptance of global diversification.

From a portfolio perspective, the diversification benefit is evident in low to moderate correlations across markets (Table 2). Indian market movements do not consistently align with global trends, enabling global allocations to reduce volatility, smooth returns, and lower dependence on domestic cycles.

Table 2: Correlation Matrix of Key Global Equity Markets

Correlation	MSCI India	MSCI World	MSCI EM	MSCI US	MSCI China
MSCI India	1.0				
MSCI World	0.8	1.0			
MSCI EM	0.2	0.6	1.0		
MSCI US	0.9	1.0	0.6	1.0	
MSCI China	-0.4	-0.1	0.7	-0.2	1.0

Source: MSCI, Data as of May 29, 2026

Importantly, India accounts for only ~3–4% of global market capitalization, limiting access to several global leaders and sectors. International investing expands opportunity sets across technology, healthcare, and global consumer sectors, while also providing currency diversification.

Today, investors can access global markets through multiple avenues, including LRS, mutual funds, and GIFT City—offering a simplified, tax-efficient, and regulated gateway to international investing.

Access to Underserved Sectors & Global Leaders:

While India's equity markets continue to evolve, several global megatrends—such as artificial intelligence, semiconductors, biotechnology, and clean energy—remain underrepresented domestically. Global investing enables access to innovation-led sectors and world-leading companies that are not available in India (Table 3).

Table 3: Access to Global Sectors and Leaders Not Available in India

Global Sector/Megatrend	Global Leaders	Comparable on NSE/BSE
Artificial Intelligence	Nvidia, Microsoft, Alphabet	No direct equivalent
Semiconductor Manufacturing	TSMC, Broadcom, AMD	None listed in India
Global E-commerce Platforms	Amazon, Meta, Alibaba	Partial (Zomato, Nykaa)
Clean Energy Technology	Tesla, BYD, NextEra Energy	Not directly listed
Global Defense/Aerospace	Lockheed, RTX, BAE systems	Limited

Source: MSCI, Data as of May 29, 2026

Differences in market composition further strengthen the case for diversification. India remains relatively concentrated in financials, whereas global markets offer varied exposures across technology, energy, and consumer sectors (Table 4).

Table 4: Global Leaders Gap

India (NIFTY 50)	Japan (Nikkei 225)	UK (FTSE 100)	Brazil (MSCI Brazil)
Financials: ~38%	Technology/Electronics: ~48%	Financials: ~23%	Financials: ~38%
IT: ~11%	Consumer Discretionary: ~21%	Consumer Staples: ~18%	Energy: ~16%
Oil & Gas: ~10%	Materials: ~13%	Healthcare: ~11%	Materials: ~13%
Automobiles: ~7%	Capital Goods: ~9%	Energy: ~11%	Utilities: ~11%

Source: Nikkei 225 Japan, Siblis Research, MSCI Brazil Index, 1Finance Research

Together, these gaps highlight how global allocation can reduce dependence on domestic sectors, broaden opportunity sets, and enhance portfolio resilience.

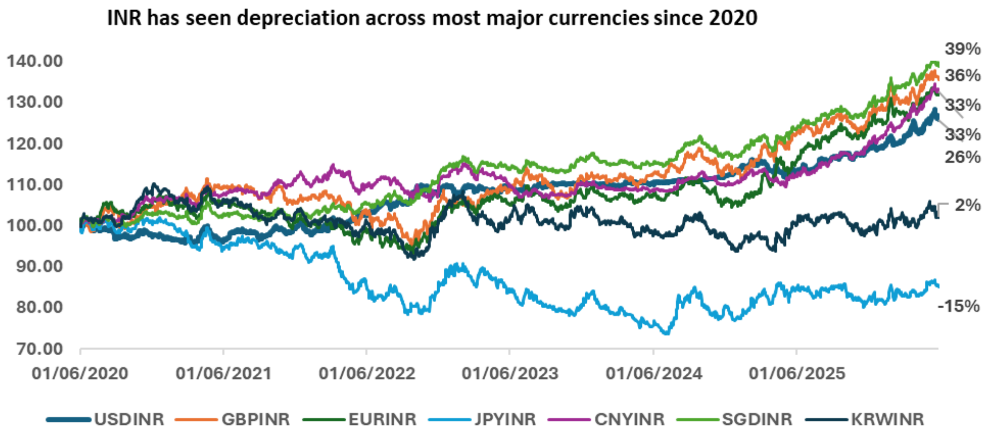
Currency Diversification:

Currency movements are a critical yet often overlooked driver of long-term returns. The Indian Rupee has structurally depreciated by 5.7x against the US Dollar since 1991, moving from approximately ₹17/USD at the time of liberalisation to ~₹96/USD currently. This translates to a depreciation of ~5% CAGR over more than three decades, indicating a persistent long-term trend rather than a cyclical movement.

This trend has persisted in recent periods as well, with the rupee weakening by ~12% over the past year, driven by factors such as trade deficits, crude import dependence, and global capital flows. Together, this highlights a structural and ongoing currency depreciation trend rather than a short-term phenomenon. While the RBI has managed short-term volatility, there has been no sustained reversal in this trend.

Over time, currency movement can contribute significantly to total returns. Unlike gold, which passively benefits from INR depreciation, global equities offer a growth-oriented hedge, combining currency gains with exposure to global innovation and economic expansion.
In this context, currency diversification not only protects portfolios from INR depreciation but also enhances return potential and strengthens overall portfolio resilience.

Exhibit 2: INR Depreciation vs Global Currencies



Source: LSEG, Data as of May 29, 2026

FII/DII Flows – Shifting Market Dynamics:

Foreign investor flows have been a key driver of Indian equity markets. Notably, FPIs have remained net sellers over the past two years, with outflows of ₹1.27 trillion in FY25 and ₹1.80 trillion in FY26, In contrast, DIIs have provided strong support, with net inflows of ₹8.5 trillion in FY26, helping cushion market volatility.

The continued FII outflows reflect a mix of domestic and global factors—moderation in earnings growth, higher LTCG taxation, and relatively better opportunities in markets such as Korea and Taiwan, which are benefiting from AI-led themes.

These trends have been further influenced by global headwinds, including geopolitical uncertainties, elevated crude prices, a strong US dollar, and INR depreciation. As a result, foreign investor sentiment remains cautious, with outflows expected to persist in the near term. This dynamic underscore the importance of geographic diversification, as reliance on domestic markets increases exposure to local cycles and external capital flow volatility.

Evolution of jurisdictional preferences:

Indian outbound investments have historically been concentrated in a few established jurisdictions such as Mauritius and Singapore, driven by favourable tax treaties, regulatory frameworks, and ease of structuring. However, recent DTAA revisions have reduced some of their advantages, prompting investors to reassess traditional routes.

Subsequently, jurisdictions like the Netherlands, Cyprus, and the UK gained traction, offering access to developed markets, strong legal frameworks, and institutional stability—supporting diversification and global market access.

More recently, preferences are shifting toward integrated, efficient platforms that combine regulatory clarity with tax efficiency. In this context, GIFT City (India's IFSC) has emerged as a compelling alternative—providing offshore-like benefits within an onshore regulatory ecosystem.
Positioned as India's gateway to global markets, GIFT City enables seamless cross-border investing with simplified compliance and operational ease, reducing complexities associated with traditional offshore structures. This shift is already evident, with over 190 fund management entities managing 300+ funds and commitments exceeding USD 26 billion (as of September 2025).

Overall, the transition from traditional offshore hubs to GIFT City reflects a broader move toward more transparent, efficient, and India-aligned global investment structures.

Table 5: GIFT City Connecting India to the World

Product	What It is	Why investors use it
Global Funds (Retail & Non-Retail)	Global portfolios managed by Indian & International AMCs from within GIFT City	Familiar fund- led experience and easy way to access global themes. Example: DSP Global Equity Fund, Parag Parikh IFSC S&P 500 FoF, etc
Depository Receipts (NSE IX)	Global stocks offered as DRs on NSE International Exchange	Stock like experience for global names.
Global Access (Exchange Connectivity)	Structured access to select global exchanges/products via the IFSC	Cleaner route to global instruments with regulated Indian gateway

Source: IFSCA

Investment Avenues for Global Investing

Investment Avenue	Description	Key Advantages	Key Limitations	Products / Platforms
Mutual Funds Investing Abroad	• Indian MFs investing globally via direct or feeder structures • ETFs listed in India providing overseas exposure	• Easy access via existing MF platforms • INR-based investing • Professional management	• Limited availability due to RBI caps • Limited Customization • Liquidity constraints for ETFs	Domestic Mutual Funds / Stock Exchanges
International MFs / ETFs	ETFs listed globally	• Low-cost passive exposure	• Tracking error • Liquidity concerns • Premium/discount to NAV	ETFs / MFs via International Brokers
Direct Overseas Investing via LRS	Direct investment via LRS through brokerages / digital platforms (Fintech) / Manufacturer	• Full flexibility • Wide investment universe • Custom portfolio construction	• LRS compliance & paperwork • Tax and estate complexities • Remittance limits	Global listed/unlisted stocks, ETFs, foreign MFs, bonds, REITs
Global Platforms (GIFT City)	Global investments via IFSC-based funds and access to offshore public / private markets	• Regulatory clarity • Tax efficiency potential • Access to institutional opportunities	• Evolving product universe • Liquidity constraints • Currency/Hedging exposure	AIF / PMS / MF (IFSC) / GDRs/ Global Funds/ Structured Products
Overseas Real Estate	Direct property ownership in foreign jurisdictions	• Tangible asset • Rental yield potential • Geographic diversification	• High transaction costs • Tax complexity • Management challenges	Residential / Commercial real estate

Key Risks in Global Investing:

While global investing offers significant diversification benefits, it also involves certain risks that investors should manage through a balanced and well-diversified allocation approach:

- Currency Risk: Exchange rate fluctuations can impact returns; while INR depreciation enhances returns, appreciation may reduce gains.

- Global Market Volatility: International markets are influenced by global factors such as interest rates, economic cycles, and geopolitical developments.

- Regulatory & Tax Complexity: Differing regulations, tax structures, and potential changes in withholding or capital gains taxes can impact returns.

- Valuation Risk: Certain global markets, particularly US technology stocks, may trade at elevated valuations, increasing correction risk.

- Geographic Concentration Risk: Some global portfolios may be skewed toward developed markets like the US, limiting true diversification if not balanced.

- Lower Familiarity: Investors may have limited understanding of global markets, companies, and macro conditions compared to domestic investments.

- Access & Operational Constraints: Limits such as LRS caps, product availability, settlement cycles, and documentation requirements may impact execution and liquidity.

- Geopolitical & Macro Risk: Exposure to global regions introduces sensitivity to events such as trade tensions, policy shifts, conflicts, and changes in global interest rates.

Conclusion: The Evolving Case for Global Investing

The case for global investing for Indian investors is being shaped not by short-term market movements, but by a gradual shift in portfolio construction. This behavioural change is already visible, with investors starting small and steadily increasing exposure to global assets.

Globally, portfolios in developed markets typically allocate 20–40% to international assets. As awareness, accessibility, and comfort improve, Indian portfolios are expected to move in a similar direction—driven by increasing interest in global themes such as AI, semiconductors, healthcare, and consumption, alongside the need to manage concentration risk.

This shift is further supported by a strengthening ecosystem, particularly with GIFT City emerging as a key platform offering regulatory clarity, tax efficiency, and seamless access to global opportunities. The expanding product universe is likely to accelerate adoption in the coming years.

Global investing is, therefore, transitioning from a tactical allocation to a core component of long-term portfolio construction. The objective is not to choose between India and global markets, but to participate in both. While India remains a compelling growth story, global exposure provides access to innovation, reserve currencies, and diversified return drivers.

A balanced allocation of ~10–15% to global assets can help reduce concentration risk, enhance return potential, and build more resilient portfolios over time.ber 2025).

Overall, the transition from traditional offshore hubs to GIFT City reflects a broader move toward more transparent, efficient, and India-aligned global investment structures.

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