

Global Semiconductor Sell-Off: A Valuation Reset

What happened

Over the last eighteen months, global equity markets have been driven by an unprecedented concentration of capital into a narrow set of themes—Artificial Intelligence, semiconductors, hyperscale data centers, and AI infrastructure. What began as a technology-led rally gradually evolved into a valuation-led market phenomenon, with a handful of semiconductor companies accounting for a disproportionate share of global equity returns.

In the last one month, tech-led indices have suffered two distinct drawdowns, not one continuous slide — the market repeatedly testing the same question on AI returns. The first leg came in early June (Broadcom Q3 AI chip revenue guidance at \$16bn below market expectation of \$17bn); the second on 23 June, after Korean lawmakers proposed a tax on unrealised gains - sending the KOSPI down 10% in its second-largest one-day fall on record.

NASDAQ-100: Drawdown 1 ≈ −7.3% (3→9 Jun), Drawdown 2 ≈ −4.2% off the 22 Jun high



Source: Bloomberg.

KOSPI: Drawdown 1 ≈ −15.6%, Drawdown 2 ≈ −13.3% from the 19 Jun record high; two circuit breakers on 23 Jun.



Source: Bloomberg.

TWSE / TAIEX: Drawdown 1 ≈ −9.3%, Drawdown 2 ≈ −3.9%

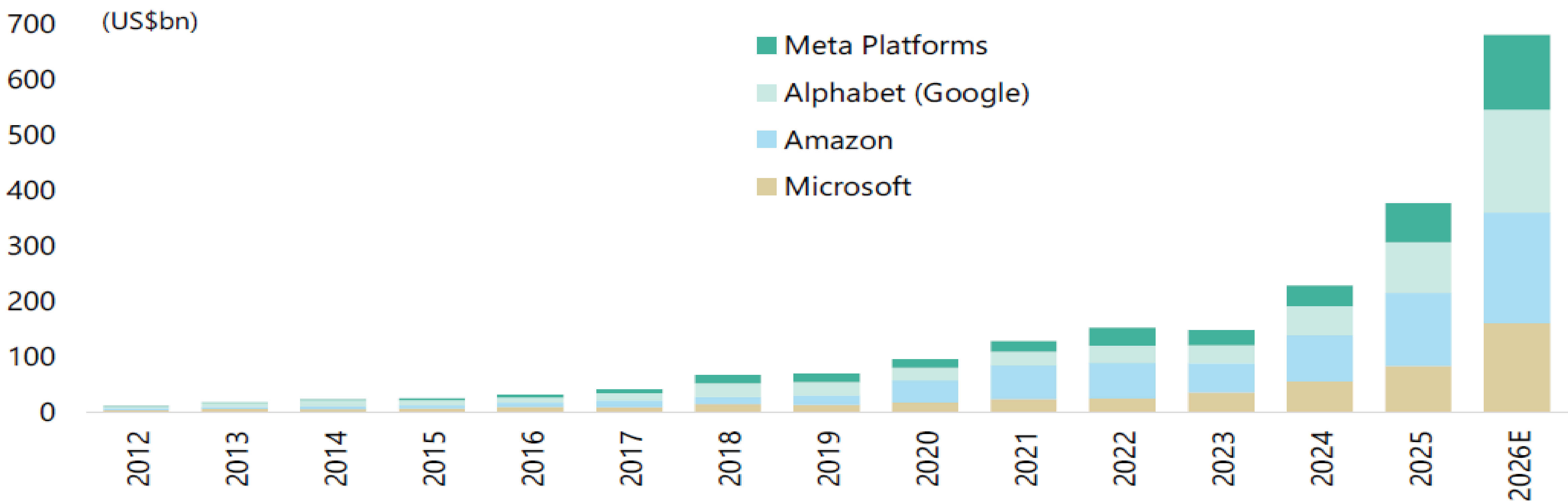


Source: Bloomberg.

We believe this was a price event, not an earnings one and was shaped by the below four drivers.

The AI capex arms race and doubts over its payback

Combined capex of the four hyperscalers (Meta, Alphabet, Amazon, Microsoft) has gone parabolic — ~US\$225bn (2024) → ~US\$350bn (2025) → ~US\$680bn (2026E), ≈US\$710bn including leases (Jefferies, Exhibit 3) — roughly doubling year-on-year. Financing has shifted from internal cash flow to external markets: Alphabet has announced an US\$80bn equity raise, Nvidia a US\$25bn bond (its first in five years), and Meta is weighing a major equity offering, with Anthropic and OpenAI IPOs still to come. Equity issuance to fund capex is dilutive and signals that internally generated cash is no longer sufficient — a meaningful tonal shift for names the market had treated as self-funding compounders. The corollary is that the chipmakers on the receiving end of this spend have become the market's real-time gauge of whether the arms race is still accelerating — and in June they twice fell short. On 3 June, Broadcom — which supplies custom AI silicon to Google, Meta, OpenAI and Anthropic — posted record results but declined to raise its full-year AI target, guiding Q3 AI revenue (US\$16bn) below the ~US\$17.2bn expected; with the stock priced for acceleration, the guidance hold read as a ceiling on AI demand. Three weeks later, a single report that SK Hynix may shift capacity from HBM (high-bandwidth memory) back to conventional DRAM revived the same fear from the memory side. In both cases the spending kept climbing while the demand signal wobbled — which is the payback question: if capex is parabolic but the revenue it should generate is merely "good," the return on that spend comes into doubt.



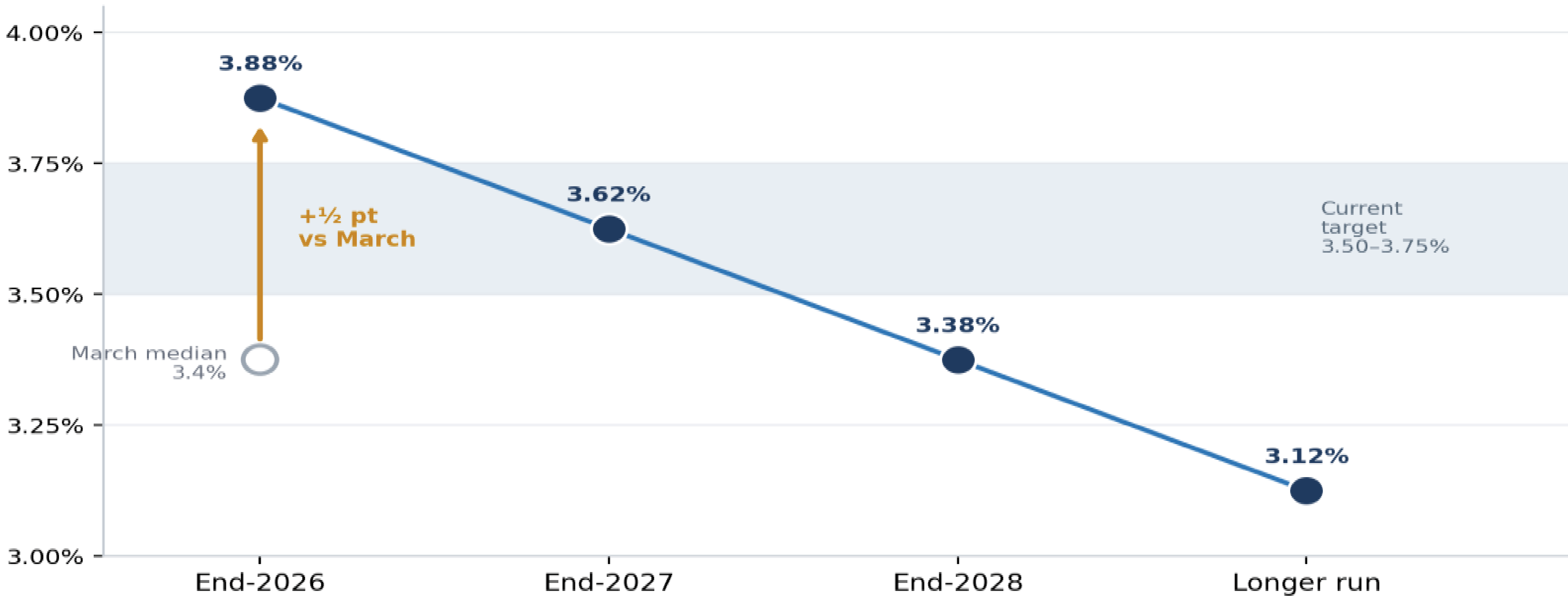
Note: Capex forecasts for 2026 are based on the midpoint of the latest company guidance for Amazon, Alphabet and Meta and Microsoft, excluding finance leases. Source: Bloomberg, Companies, Jefferies

Source: Jefferies, GREED & fear, 18 June 2026.

A hawkish repricing of the Fed, toward rate hikes

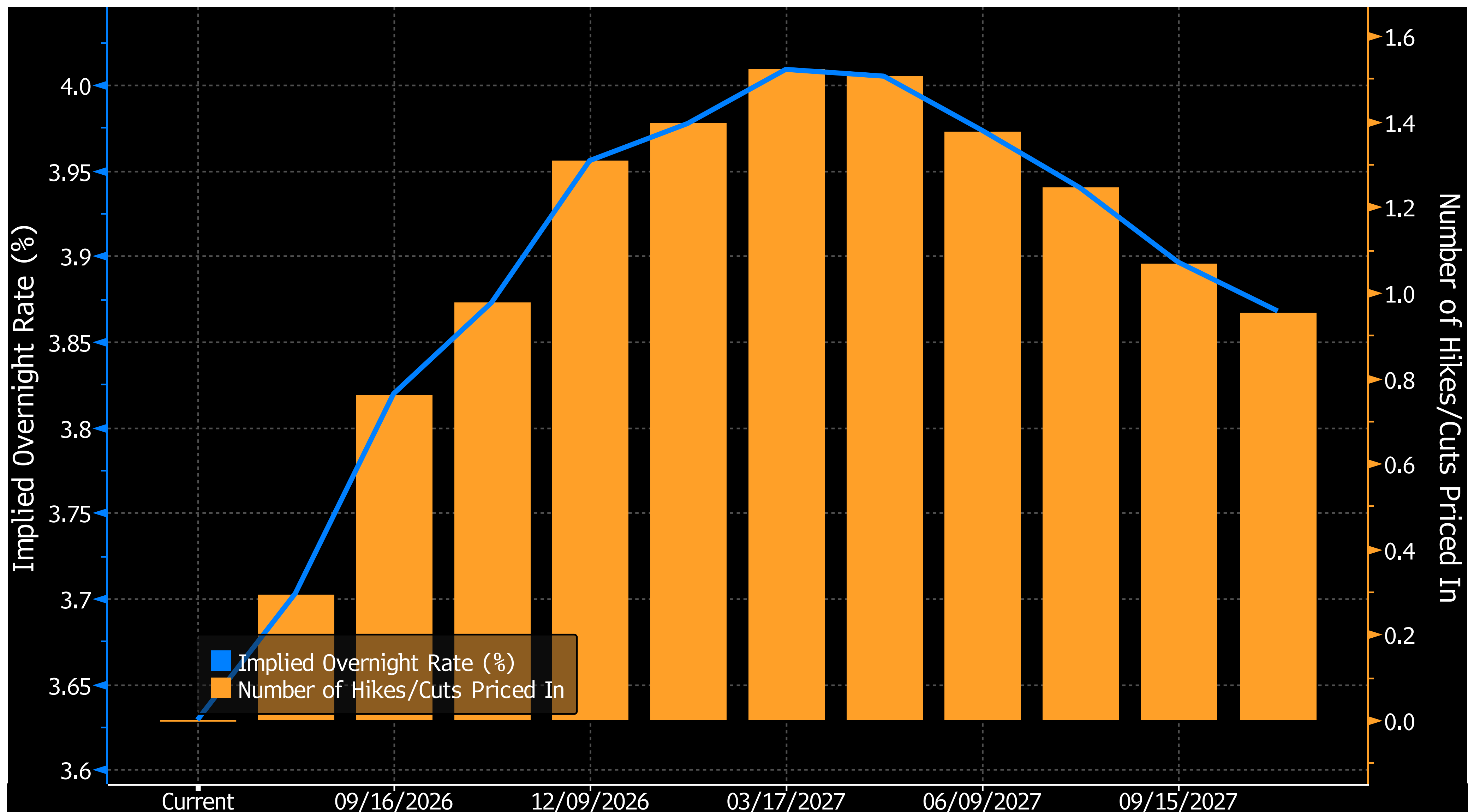
1. The interest rate market has flipped from pricing cuts to hikes. The June FOMC held rates unchanged on 17 June, but its updated dot plot raised the 2026 median to ~3.9% — up from 3.4% in March — putting a hike back on the table (9 of 18 participants projected higher rates by year-end). Futures also echoed this: the implied policy rate climbs toward ~4.0% by Dec-2026 and peaks near ~4.1% in 1H-2027 (WIRP). A higher discount rate hits long-duration semis and AI infrastructure directly — the supportive “lower rates ahead” assumption that underpinned the first-half rally has, for now, been removed.

Fed ‘dot plot’ turned hawkish — June 2026 median rate path



Median of FOMC participants' projected year-end fed funds rate (target-range midpoint). June meeting: 18 dots — 9 projected a hike by end-2026, 9 unchanged or lower; new Chair Warsh did not submit a projection. Source: Federal Reserve, June 2026 Summary of Economic Projections.

Implied Overnight Rate (LHS) & Number of Hikes/Cuts (RHS)



Market-implied policy path: Fed Funds futures, priced 24 June 2026. Source: Bloomberg (WIRP).

3. A Korea-specific policy shock — a proposed tax on unrealised gains.

On 23 June, Korean lawmakers proposed taxing unrealised gains on stocks and property under a “comprehensive income taxation” model — taxing paper profits before sale. It remains a forum proposal, not enacted law. The hit was amplified by structural fragility: Samsung and SK Hynix are >50% of the KOSPI, and forced selling of leveraged single-stock ETFs magnified the move. A tax scare was therefore the spark, but extreme concentration and leverage were the accelerant. The international precedent cuts both ways. The Netherland’s lower house passed a 36% tax on uralised gains in February 2026 — only for the government to begin scrapping the measure within two weeks under This note is for information only and does not constitute investment advice or a recommendation to buy or sell any security. Figures are indicative and sourced as noted. fierce investor and business pushback, before it ever took effect. The episode shows such proposals can gain traction, but also how quickly they unravel.

4. Stretched valuations, narrow concentration and heavy equity supply

Underlying all the above is the simple fact that these markets had run very far, very fast, leaving little margin for disappointment. Even after Tuesday’s rout. Even post-rout, the KOSPI was the world’s best-performing major index, up nearly 100% YTD — a gain concentrated in two names. Supply also competed for capital: SpaceX’s record IPO was flagged as a “liquidity drain” on the AI trade and the stock briefly fell below its IPO price. Combined with the issuance wave above, the Magnificent 7 turned negative YTD, with rotation into defensive s — profit-taking, not panic.

What it means for India?

1. What’s happening?

The global AI-led correction has had a meaningful rub-off effect on Indian technology stocks. The Nifty IT Index has corrected nearly 32% from its December 2025 peak, making it one of the worst-performing sectors in the market this year. The sell-off intensified following Accenture’s results, where the company lowered its FY26 revenue growth guidance to 3-4% from 3-5% and reported weaker-than-expected bookings. The market reaction was swift, with the Nifty IT Index declining over 6% in a single session, while frontline names such as Infosys, TCS, HCL Tech and Tech Mahindra corrected between 5-8%. Overall, the sector has declined approximately 29% year-to-date, significantly underperforming the broader Nifty 50. Nifty IT is currently trading at a trailing PE of ~21x, well below its 1Y median of ~25.4x, 3Y median of ~27.7x, and 5Y median of ~27.5x. On a 1Y forward basis, the index trades at ~14.95x, a level that prices in significant structural damage.

2. What's the debate?

Gen AI is causing 2-3% annual deflation in traditional Full-time-equivalent (FTE)-led revenues. This is the bear case, and it is real. The offset is a significant AI-led TAM expansion, with recovery expected from FY28-end or FY29 onward. The problem is timing: deflation is happening now, monetization is 4-6 quarters away.

3. How were the Q4FY26 results?

Q4FY26 prints were broadly disappointing at the large-cap level. Infosys and HCLTech skewed weaker vs. expectations, with FY27 guidance from both coming in below Street - Infosys guided 1.5-3.5% YoY CC vs. expectations of 2-5%, and HCLTech guided 1.5-4.5% YoY CC (services) vs. expectations of 3-6%. Forward commentary reflected AI-related deflation in traditional services and continued caution on discretionary spend. Consensus EPS has been trimmed across most large caps for FY27/FY28. Unlike North Asian markets, India's earnings base remains significantly more diversified. Financials, consumption, manufacturing, infrastructure, healthcare and domestic services account for a majority of corporate earnings. More importantly, India's investment case continues to be supported by domestic demand, government-led capital expenditure, manufacturing localisation, and financial sector strength. These drivers remain largely intact.

Sources: Bloomberg; Jefferies, GREED & fear (18 June 2026); Federal Reserve, June 2026 Summary of Economic Projections; company disclosures and market reporting as of 24 June 2026.

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