CENTRUM WEALTH

Global Semiconductor Sell-Off: A Valuation Reset

What happened

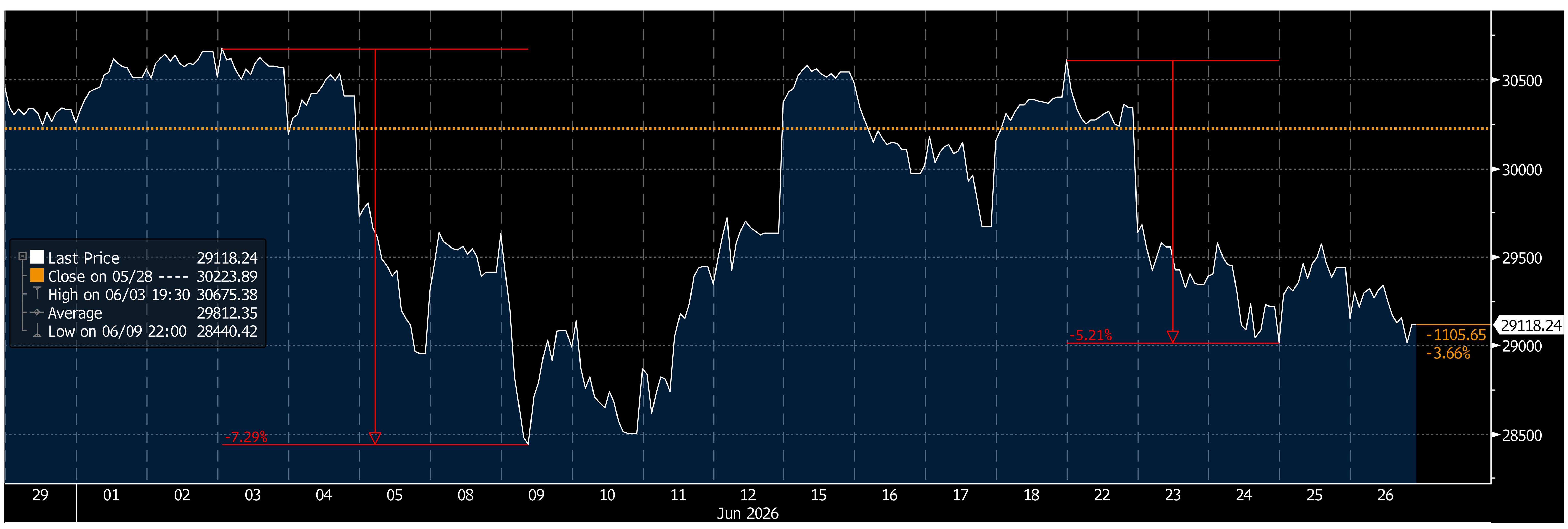
Over the last eighteen months, global equity markets have been driven by an unprecedented concentration of capital into a narrow set of themes—Artificial Intelligence, semiconductors, hyperscale data centers, and AI infrastructure. What began as a technology-led rally gradually evolved into a valuation-led 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%

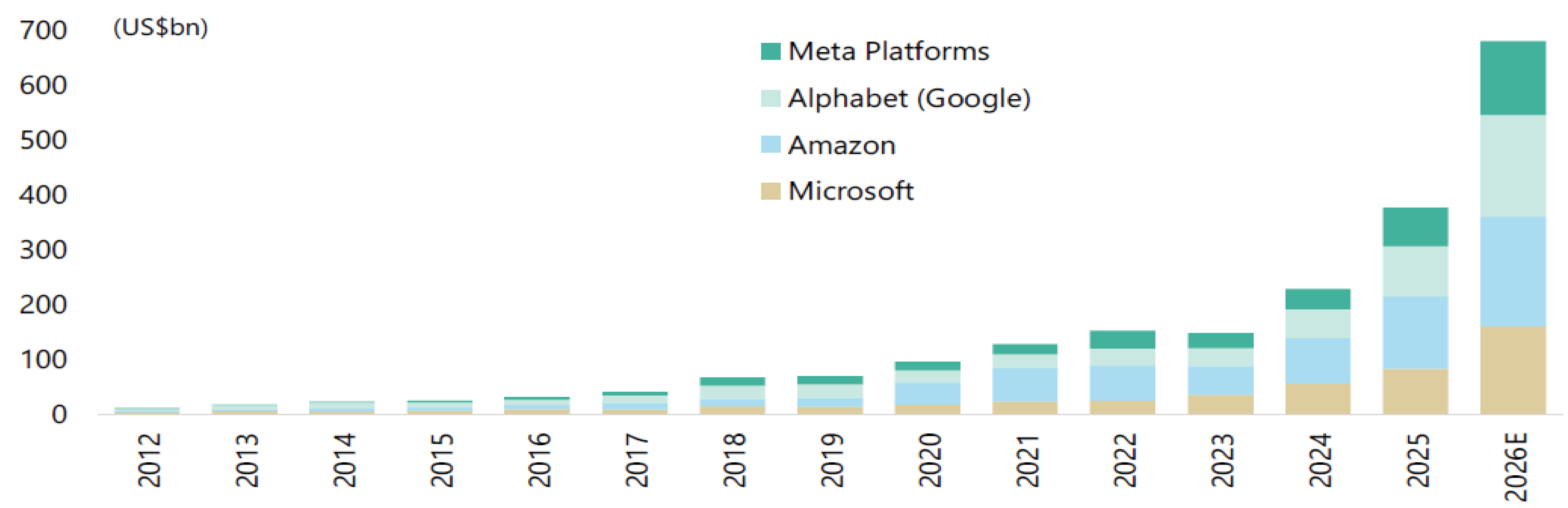
Source: Bloomberg.

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.

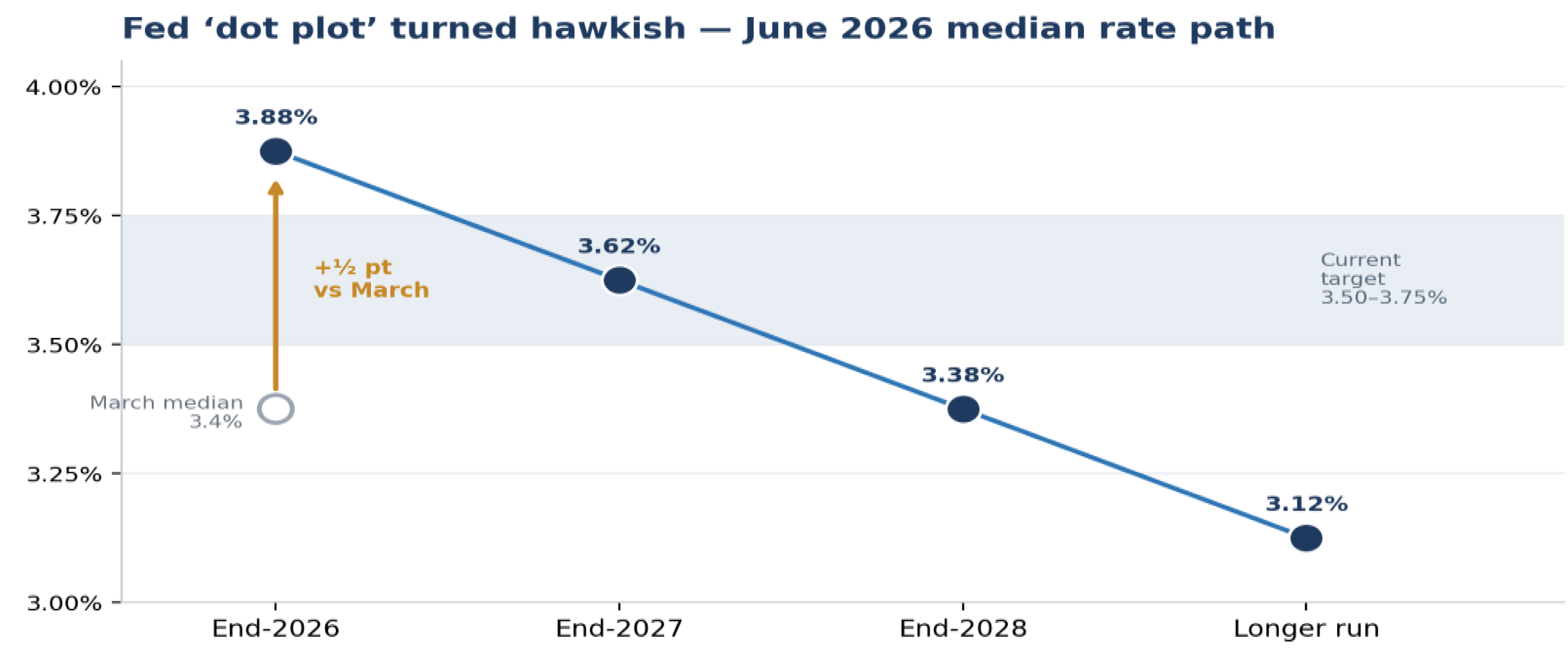


Note: Capex forecasts for 2026 are based on the midpoint of the latest company guidance for Amazon, Alphabet and Meta and Microsoft, excluding finance leases. Source: Bloomberg, Companies, Jefferies

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

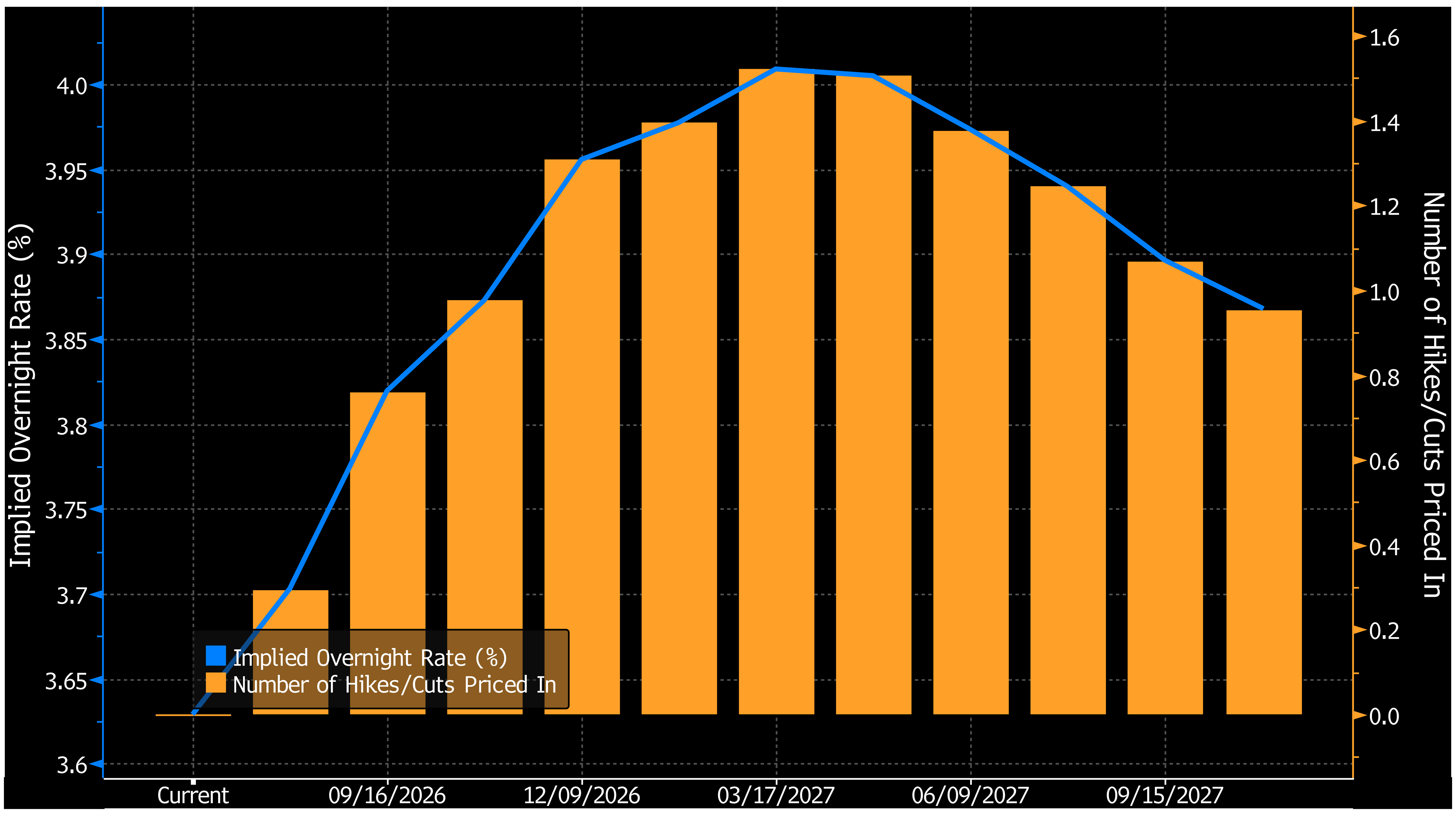
A hawkish repricing of the Fed, toward rate hikes

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 re-moved.



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 captal:SpaceX’s record IPO was flagged as a “liquidity drain” on the AI trade and the stock briefly fell below its IPOprice. 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.

The value of the portfolios may fluctuate and can go up or down. Prospective investors are advised to carefully review the Disclosure Document, Client Agreement, and other related documents carefully and in its entirety before investing and consult their legal, tax and financial advisors to determine possible legal, tax and financial or any other consequences of investing under this Portfolio, before making an investment decision. The Stock(s)/Sector(s) mentioned in this material do not constitute any recommendation of the same and the portfolios may or may not have any future positions in these particular Stock(s)/Sector(s). The composition of the portfolio is subject to changes within the provisions of the disclosure document (which is updated and published on our website from time to time). The benchmark of the portfolios can be changed from time to time in the future. Trading volumes, settlement periods and transfer procedures may restrict the liquidity of investments in portfolios. Different segments of the Indian financial markets have different settlement cycles / periods and such periods may be extended significantly by unforeseen circumstances. The inability of the Portfolio Manager to make intended securities purchases could cause the portfolio to miss certain investment opportunities. By the same rationale, the inability to sell securities held in the portfolio due to the absence of a well-developed and liquid secondary market for debt securities and other reasons would result, at times, in potential losses to the portfolio or sub optimum profits to the Portfolio. The stocks/sectors mentioned in the document may or may not form part of the Portfolio. The Client shall not make any claim against the Portfolio Manager for any losses (notional or real) or against any loss of opportunity for gain under various PMS portfolios, on account of or arising out of such circumstances/ changes in market conditions or for any other reason which may specifically affect a particular sector or security, including but not limited to disruption/prohibition/discontinuation/suspension of trading in any particular security / any index / scrip / derivatives or due to any act of the companies or by SEBI or any other regulatory authority which may result in trading in such security(ies) / derivatives being completely or partially affected and where the Portfolio Manager has taken exposure/proposed to take exposure and is unable to take additional exposure/restrain him from taking any position in a particular equity or related derivative instruments etc. or unable to unwind positions in any particular security or derivatives, due to any reason beyond the control of the Portfolio Manager, resulting in unhedged positions or losses due to unwinding of certain positions or losses due to any reason or related to any of the aforesaid circumstances.

By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. Similarly, reviews of the portfolios may show unrealized gains / profits, which may subsequently never be realized. The recipient(s) alone shall be fully responsible/are liable for any decision taken on the basis of this material. All recipients of this material should before dealing and/or transacting in any of the portfolios referred to in this material make their own investigation, seek appropriate professional advice. The investments discussed in this may not be suitable for all investors. Financial products and instruments are subject to market risks and yields may fluctuate depending on various factors affecting capital/debt markets. Please note that past performance of the portfolio does not necessarily act as indicator of the future prospects and performance thereof. Such past performance may or may not be sustained in future. Portfolio Manager’s investment decisions may not be always profitable, as actual market movements may be at variance with anticipated trends. The investors are not being offered any guaranteed or assured minimum or fixed returns.

Further, the information contained herein should not be construed as forecast or promise. The Portfolio Manager takes no responsibility of updating any data/information in this material from time to time. The information contained herein are strictly confidential and are meant solely for the benefit of the addressee and shall not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of the Portfolio Manager.