



Thoughts from the EM Equity desk: AI index concentration

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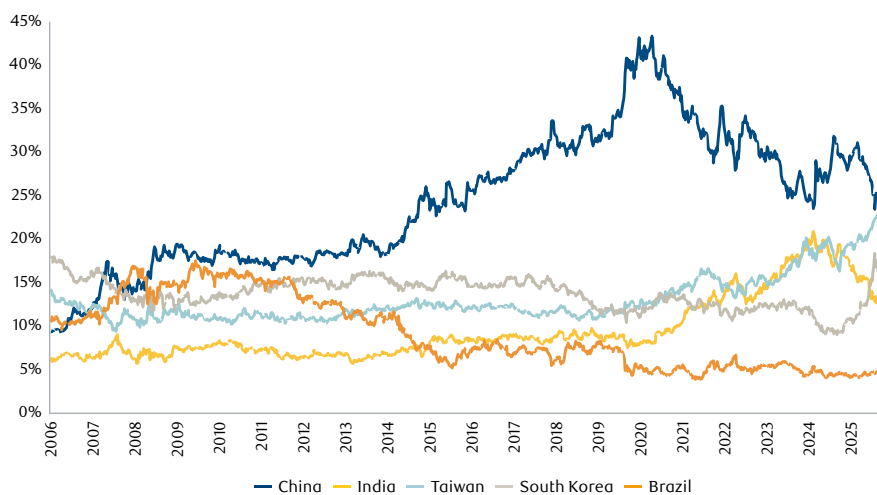
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“Taiwan and South Korea have emerged as key beneficiaries of the global AI infrastructure buildout, with investors increasingly recognising the critical role of both countries in the AI value chain.”

For much of the past decade, China dominated the MSCI EM benchmark, peaking in 2020 at an index weight of over 43%.

Fast forward to today, and Taiwan and South Korea dominate the benchmark, together accounting for over 50%. Taiwan is the largest constituent at 27%, followed by South Korea at 25%. China’s weight has fallen to below 20%, while India accounts for a mere 11% (Exhibit 1).

Exhibit 1: MSCI EM Index – country evolution



Source: Bloomberg, as at 18 June 2026.

These benchmark changes reflect a number of evolving dynamics. Firstly, Taiwan and South Korea have emerged as key beneficiaries of the global AI infrastructure buildout, with investors increasingly recognising the critical role of both countries in the AI value chain. Semiconductor leaders, TSMC, Samsung Electronics, and SK Hynix, have dramatically grown their revenues, margins, and market value over the past five years¹. Global chip giant, TSMC, now accounts for nearly 15% of the MSCI EM Index, while Samsung and SK Hynix, leaders in high-bandwidth memory used for AI training and deployment, have risen to approximately 9% and 7% of the index respectively.

¹ Mentioned for information purposes only; should not be deemed not a recommendation to buy or sell any particular stock.

As a result, the concentration of the MSCI EM index is unusually high today with the five largest constituents accounting for 35% of the benchmark (Exhibit 2).

Meanwhile, if we look at performance, today's narrow market is unprecedented, with less than 25% of stocks outperforming the benchmark over the past year (Exhibit 3). While the current level of concentration is extreme by EM standards, it is important to recognise that it has been accompanied by substantial earnings growth and genuine technological leadership (Exhibit 4).

Outside of AI, structural reforms have also driven the South Korean market higher. For the first time in history, we are seeing meaningful corporate governance reforms being written into legislation which is promoting increasing shareholder focus and addressing the South Korean equity market's longstanding discount. We believe this powerful theme is in the early stages and should continue to support the country's market in years to come as shareholder returns and governance practices improve.

We are also seeing the rise of passive investing exacerbate market moves – outperformance drives higher benchmark weights, driving incremental passive inflows and reinforcing the same group of names. As stocks outperform, their benchmark weights increase, attracting additional passive flows and further reinforcing the position of the largest constituents. This can create a feedback loop whereby benchmark concentration becomes increasingly disconnected from the breadth of the underlying opportunity set. As a result, Taiwan and South Korea have edged higher in index weight while India and China have drifted lower.

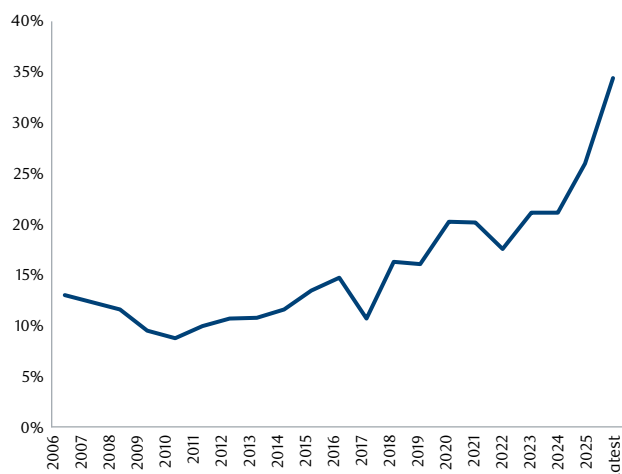
Another interesting technical dynamic observed with the likes of TSMC and more recently Samsung is, as these stocks have surpassed investor limits, typically the 10% mark, they have tended to experience share price weakness given a lack of buyers. This has led to a broadening out of AI defined stock plays as investors have sought proxies to plug their underweight positions.

Our approach

From a shorter-term market perspective, the extreme market moves and question marks over AI monetisation warrant an element of caution. History suggests that periods of extreme concentration rarely persist, however the timing and path of adjustment is very difficult to predict.

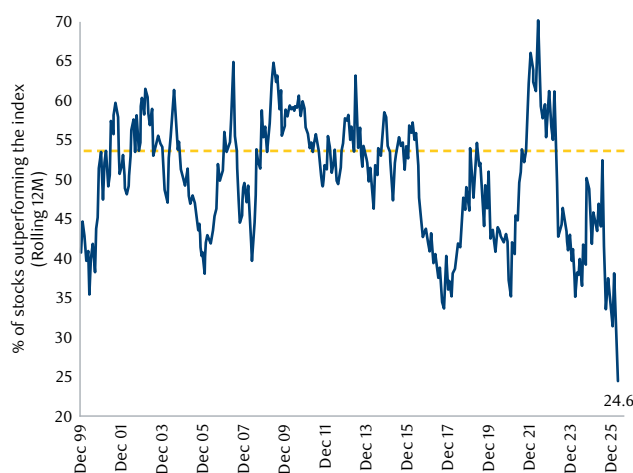
In terms of our positioning, we aim not to be too extreme one way or another on AI, but to focus on stock selection. We are slightly underweight the IT sector overall across our portfolios, and have been active within our AI exposure. In these sorts of market environments, we believe it is particularly important to focus on valuation and avoid valuation extremes. We have gradually been taking money off the very strong performers, and reinvesting some of the proceeds into non-AI areas.

Exhibit 2: Weight of top five stocks in MSCI EM Index



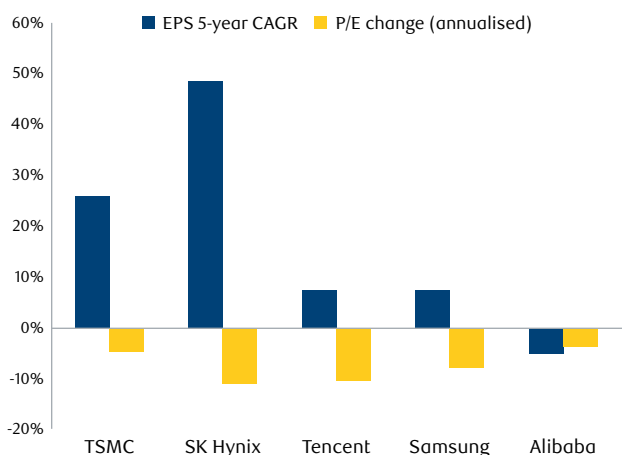
Source: RBC GAM, Bloomberg, MSCI, as at 16 June 2026.
Note: current top 5 index constituents = TSMC, Samsung Electronics, SK Hynix, Tencent and Alibaba.

Exhibit 3: MSCI EM Index – Percentage of stocks outperforming the index (rolling 12-month)



Source: Jefferies, FactSet, as at 31 May 2026.

Exhibit 4: Earnings growth and PE valuation change of top 5 benchmark stocks (2020-2025)



Source: Datastream, UBS, as at 16 June 2026.

From a longer-term perspective, we recognise that AI will redefine economies and industries over coming decades. AI Enablers has formed part of our long-standing Technology Transformation theme for the past five years (Exhibit 5), and we have maintained robust exposure throughout this period. Our stock selection within the theme has been strong, generating considerable alpha.

Exhibit 5: Portfolio themes and ways to play

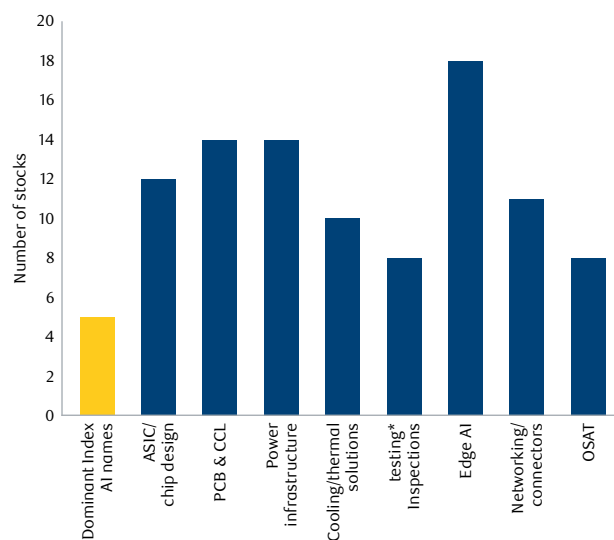
Investment themes	Ways to play
Domestic Consumption	<ul style="list-style-type: none"> Value conscious Local brands Experiences
Financialisation	<ul style="list-style-type: none"> Low financial penetration Deposit franchises Wealth diversification
Technology Transformation	<ul style="list-style-type: none"> AI hardware AI applications Power architecture
Health & Wellness	<ul style="list-style-type: none"> Healthy living Drugstores Medical services
Future Infrastructure	<ul style="list-style-type: none"> Electrification Smart grid Strategic materials

Source: RBC GAM, as at June 2026. Any references to investment philosophy, portfolio positioning or business structure are indicative only and may change over time. Provided for information purposes only.

We also believe the next phase of beneficiaries will include those companies who can successfully deploy and monetise AI application. Historically, some of the most attractive investment opportunities have emerged not from owning the dominant platform itself, but from identifying the second- and third-order beneficiaries.

Looking ahead, we believe the opportunity set is expanding, with the benefits of AI spreading well beyond today's market leaders. We identify attractive opportunities across semiconductor design, ASIC development, power infrastructure, cooling technologies, testing equipment, networking, and industrial automation (Exhibit 6).

Exhibit 6: AI opportunity set expanding beyond benchmark heavyweights



Source: RBC EM Equity, MSCI, Bloomberg, as at June 2026.

That said, we recognise technological innovation results in both winners and losers, with certain sectors and business models advancing while others will be disrupted and even displaced. Certain areas within AI hardware are likely to be commoditised as competition expands in coming years. We therefore believe that a highly selective approach is warranted, focusing on those businesses with true competitive moats and technological prowess.

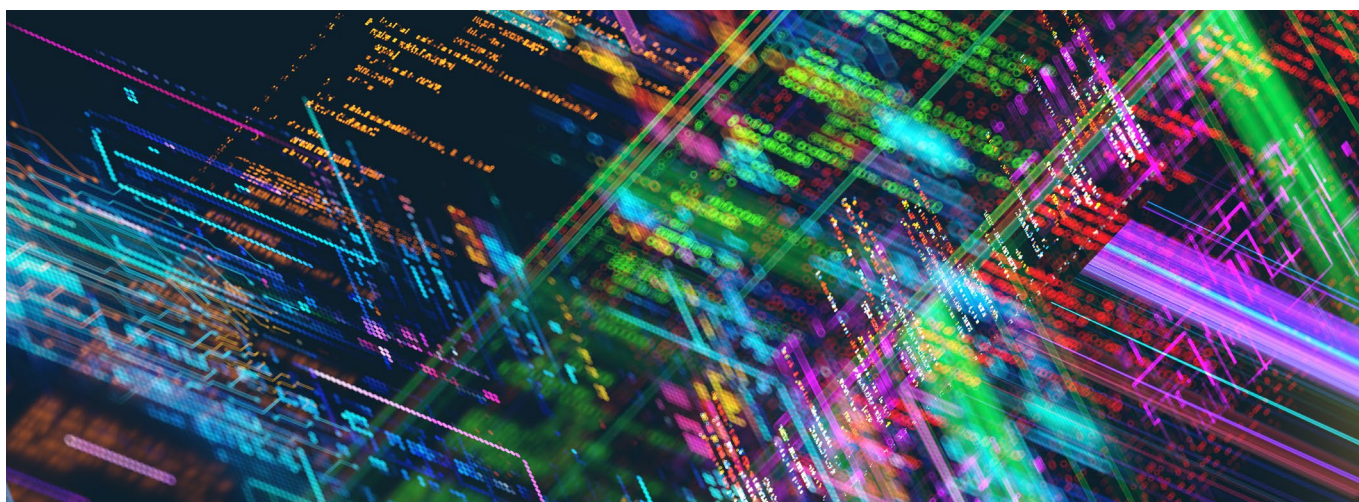
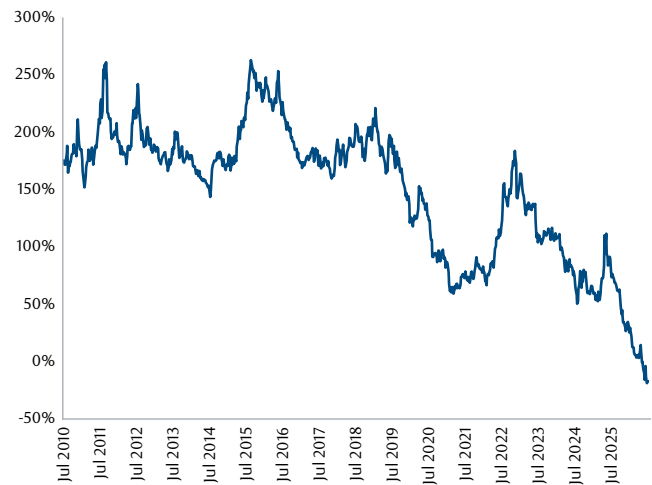


Exhibit 7: EM Consumer and Financials sectors look attractive

EM Financials P/BV valuation discount to IT is extreme



EM Consumer Staples valuation premium to IT has eroded (P/BV)



Source: RBC GAM, MSCI, Bloomberg, as 16 June 2026.

For illustrative purposes only. There is no assurance that any of the trends depicted or described herein will continue.

Outside of AI, we see many areas that currently look attractive. In particular, quality stocks and domestic sectors such as consumer and financials have been out of favour and look relatively cheap with strong ROEs (Exhibit 7). We have been looking to selectively add to some of these areas and believe they are well positioned in coming years.

From a medium-term perspective, we believe EM can continue to outperform DM equities, driven by superior fundamentals, improving earnings growth, and a weaker USD. Unlike previous cycles, we believe this new cycle will be defined by EM's growing resilience and independence from the West, and driven by expanding domestic demand growth and innovation.

Access our [Learning to Fly](#) piece to learn more.

Authors

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Guido is a portfolio manager on the RBC Emerging Markets Equity team at RBC GAM-UK. In this role he is responsible for research on Taiwan and Central and Eastern Europe. Prior to joining the organization in 2010, Guido worked as an emerging markets portfolio manager and also as an equities analyst at a U.K.-based asset management firm Rexiter Capital Management, specializing in global emerging market strategies. He had previously worked at HSBC Asset Management firm as a securities analyst, where he progressed to become a junior portfolio manager. Guido began his career in the investment industry in 1998 as an equity and derivatives trader in Italy.

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