

India mutual funds trim IT, but add to top names

Multibagg AI

Indian mutual funds are sending mixed signals on listed IT stocks in 2026. Portfolio data shows a clear cut in sector allocation during May, even as overall equity exposure rose. At the same time, separate stock-level flow tallies highlight net buying in select IT heavyweights earlier in the year. Social media discussions have focused on this apparent contradiction, especially as technology-oriented mutual funds have seen steep drawdowns. The common thread across posts and reports is caution on near-term growth, with a willingness to buy only where fund managers see defensible franchises or valuations.

What changed in May 2026 IT holdings

Sectoral holding data from Prime Database indicates mutual fund investments in IT companies fell in May 2026. The market value of mutual funds' IT holdings declined by Rs 4,810 crore to Rs 3.13 lakh crore from Rs 3.18 lakh crore in April. The IT sector's share in total mutual fund equity holdings also slipped to 5.99% from 6.16%. This made IT one of the few sectors that saw reduced portfolio allocation for the month, even as total equity holdings increased. The move has been framed online as a tactical risk-off call rather than a full exit. Several posts point to macro uncertainty and cautious global technology spending trends as the immediate triggers. The repeated reference is not just to prices, but also to weaker earnings visibility. Taken together, May looks like a month where allocations were tightened, not expanded.

IT allocation fell even as overall equity exposure rose

The IT reduction happened alongside an increase in overall mutual fund equity exposure. Prime Database data shows mutual funds increased their overall equity exposure by Rs 61,404 crore in May. Total sectoral holdings rose to Rs 52.3 lakh crore during the month. That combination is central to the discussion because it implies active rotation rather than broad de-risking. In other words, funds were adding to equities but choosing sectors other than IT. This also aligns with reports that fresh allocations were directed toward healthcare, industrials, and consumer-focused sectors. Those are widely described as closer to India's domestic growth story. The contrast has been used to argue that IT is being treated as a global-demand proxy in portfolios. The implication for investors is that the underweight is more about near-term uncertainty than about the sector's long-term relevance.

Metric (Mutual Funds)	April 2026	May 2026	Change/Notes
MF IT holdings (market value)	Rs 3.18 lakh crore	Rs 3.13 lakh crore	Down Rs 4,810 crore (Prime Database)
IT share of MF equity holdings	6.16%	5.99%	Allocation reduced (Prime Database)
Total MF equity holdings	Not specified	Rs 52.3 lakh crore	Up by Rs 61,404 crore in May (Prime Database)
MF ownership of IT sector m-cap	11.16%	11.22%	Ownership share edged up (Prime Database)

Why managers turned cautious on IT services

Posts and reports attribute the trimming to concerns over the sector's near-term growth outlook. The cited reasons include persistent macroeconomic uncertainties and signs of slowing discretionary technology spending by global clients. Another thread in discussions is artificial intelligence and the risk of AI-led revenue deflation for IT services. Motilal Oswal Financial

Services also flagged weak earnings growth and AI disruption risks in its tracking notes that circulated online. Rajesh Minocha, a Certified Financial Planner (CFP), told ETMutualFunds that allocations have declined due to weaker global IT spending, delayed deal flows, and muted earnings growth. These themes have shown up repeatedly in investor forums, especially in debates around whether the sector's premium valuations are still justified. The takeaway is that the cut is not presented as a one-off technical move. It is being discussed as a response to slower demand and a changing competitive landscape.

The ownership paradox: higher stake, lower value

One of the most cited details is that mutual fund ownership as a percentage of the IT sector's market capitalisation rose slightly in May. Prime Database data shows this ownership share edged up to 11.22% from 11.16%. This happened even though the rupee value of holdings fell during the month. The most straightforward explanation offered is that IT stock prices fell faster than mutual funds reduced their positions. In that scenario, the denominator (sector market capitalisation) contracts more sharply than the numerator (fund holdings). Social posts have interpreted this as evidence of sector weakness in valuations, not necessarily aggressive selling by domestic funds. It also supports the idea that some funds were holding through the drawdown. For market watchers, that nuance matters because it suggests that allocation cuts were measured. It also hints that further price moves can quickly change allocation percentages even without big trades.

Where the money went instead

Reports cited in the discussion show a preference for sectors aligned with domestic demand. Prime Database commentary highlighted healthcare, industrials, and consumer-focused sectors as areas that received fresh allocations. Another May 2026 summary noted mutual funds increased

investments in banking, oil and gas, and new-age technology stocks, while reducing holdings in IT, metals, and power equipment. In the large-cap segment, increased investments were reported in major private banks like ICICI Bank and HDFC Bank, alongside names such as Adani Enterprises, Reliance Industries, and Eternal. On the flip side, notable reductions were reported in Infosys, Vedanta, Bank of Baroda, State Bank of India, and Polycab India. The pattern being discussed is a tilt toward financials and select large liquid names, while trimming pockets with valuation concerns and earnings uncertainty. The mention of “new-age technology” in some reports also suggests that the rotation is not away from tech broadly, but away from traditional IT services exposure. This distinction is frequently debated in online threads.

Selective buying in bellwether IT stocks

Despite the sector-level trim in May, another dataset highlights meaningful buying in select IT names earlier in 2026. According to a report shared widely on social media, domestic mutual funds deployed about Rs 1.07 lakh crore into 20 large stocks in the first four months of calendar year 2026. The same report said fund managers anchored portfolios in large-cap private lenders and selective IT heavyweights during market corrections. It cited net purchases of Infosys worth Rs 6,397 crore, with fund holdings rising from 45.36 crore shares to 49.93 crore. TCS was cited as attracting Rs 2,373 crore, and HCL Tech as seeing an additional Rs 1,815 crore. These were framed as contra calls given broader concerns about AI-driven revenue erosion. JM Financial was cited saying sector re-rating is tough in the near term until concerns about AI deflation persist, and it also noted Nifty IT underperformed 13% versus Nifty50 so far in 2026. Bajaj Finserv AMC said it remains underweight on IT services due to potential AI-led revenue deflation risks, reinforcing the idea that buying, where it happens, is selective.

How tech-focused mutual funds performed in 2026

Retail-facing outcomes have amplified the debate, because technology-oriented mutual funds have fallen more than broader indices. Data cited from ACE MF showed some technology-themed plans were down as much as 21% year-to-date as of May 6. Among the worst performers, HDFC Technology Fund, Tata Digital India Fund, and ICICI Prudential Technology Fund were each cited as declining nearly 20%. Franklin India Technology Fund, Aditya Birla Sun Life Digital India Fund, SBI Technology Opportunities Fund, and Kotak Technology Fund were cited as recording losses of around 18% so far in 2026. The same compilation noted Quant Teck Fund, Invesco India Technology Fund, and Edelweiss Technology Fund fell between 7% and 12% year-to-date. Another data point in circulation said passive and active funds based on the tech sector lost up to 26% over the last one year, with Bandhan Nifty IT Index Fund cited as down around 26.67%. These figures have been used to argue that concentrated tech exposure has been punished more than diversified equity allocations. They also explain why some investors prefer broad funds while waiting for earnings visibility to improve.

How fund-house exposure differs across portfolios

The stance is not uniform across fund houses, and that has been a key talking point. Motilal Oswal Financial Services reported that IT stocks formed 6.7% of total equity holding by mutual funds in April 2026, an eight-year low. The report said this was down 60 basis points month-on-month and 180 basis points lower than April 2025. It also highlighted that exposure to technology remains varied across major fund houses. As of April 2026, the technology weightage in key portfolios was cited as Franklin Templeton at 9.2%, SBI Mutual Fund at 7.5%, ICICI Prudential at 6.7%, and HDFC Mutual Fund at 4.7%. Separately, another report cited UTI MF as having the highest holding in a selected universe at 15.7%, despite lowering its exposure in the last one year. These ranges suggest the sector call is heavily style-dependent. Some

managers are staying closer to benchmark-like weights, while others are making stronger underweight or selective overweight decisions. For readers tracking their own schemes, the practical implication is that “mutual funds” are not a single trade.

Valuations and accumulation talk amid the drawdown

Valuation-linked accumulation is also part of the social narrative, but it is framed cautiously. One report said valuations of Indian IT stocks have fallen to their cheapest levels since July 2020 after the selloff. That same commentary said the correction could open an opportunity for gradual accumulation over the next two years. The suggested approach quoted was a balanced plan combining a lump sum allocation now with a staggered approach using SIP. This has resonated with investors who want exposure but are wary of timing the bottom. At the same time, the broader flow data still shows managers rotating toward domestically linked sectors, which keeps the pressure on IT allocations. Discussions also refer back to the structural questions around AI disruption and global deal cycles. The net message from the available data is not that mutual funds have turned uniformly bullish on IT. It is that some managers are adding selectively while the sector remains underweighted at an aggregate level.

Frequently Asked Questions

Prime Database data shows mutual funds reduced IT holdings by Rs 4,810 crore in May 2026 and lowered IT allocation to 5.99% from 6.16%.

The cited reasons include macro uncertainty, slowing discretionary global tech spending, delayed deal flows, muted earnings growth, and concerns about AI-led revenue deflation.

Prime Database data shows MF ownership of IT sector market cap rose to 11.22% from 11.16%, suggesting IT stock market values fell faster than mutual

funds reduced holdings.

A report cited net purchases of Infosys (Rs 6,397 crore), TCS (Rs 2,373 crore), and HCL Tech (Rs 1,815 crore) in the first four months of 2026.

ACE MF data cited some tech-themed funds falling as much as 21% year-to-date as of May 6, with several prominent schemes down around 18% to nearly 20%.