Equity fund inflows near record as retail investors return

Investment in equity mutual funds by domestic retail investors has hit the highest since 2008, signalling the return of individual players drawn to a stock market that is outperforming physical assets such as gold and real estate.

Domestic net inflows into equity mutual funds in June were the second-highest ever - second only to January 2008 before the financial crisis took hold, according to data from the Association of Mutual Funds in India. Retail investors are now set to make July the 15th straight month of net inflows, fund managers say.

Retail investors are helping extend an almost two-year stock market rally just as country's $100 billion social security and pension fund too begins to invest in equities for the first time. "Retail investors are finally coming back to the market, after almost five years of muted participation," said Sundeep Sikka, chief executive officer of Reliance Capital Asset Management.

The increase in domestic investors, fund managers say, could help reduce price volatility, even if domestic retail investment flows remain a fraction of the size of foreign investment. This matters, at a time when an expected US interest rate hike could lead to some foreign investors pulling out in the short term.

Mutual funds owned about 3.33 per cent of the stock market capitalisation compared with 25.3 per cent held by foreign institutional investors, as of March, according to an analysis of the constituents of the BSE 200 index by investment bank Kotak. But an outperformance by mutual funds, compared to the broader market, is helping to increase that proportion. The top 100 equity mutual funds, which manage a combined $42.1 billion in assets, gained about 21.4 per cent over the past year, beating a 10 per cent rise in the benchmark NSE index, Lipper data shows.

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