

Growing Salience of Domestic Investors Makes the Indian Market Resilient – May 2022

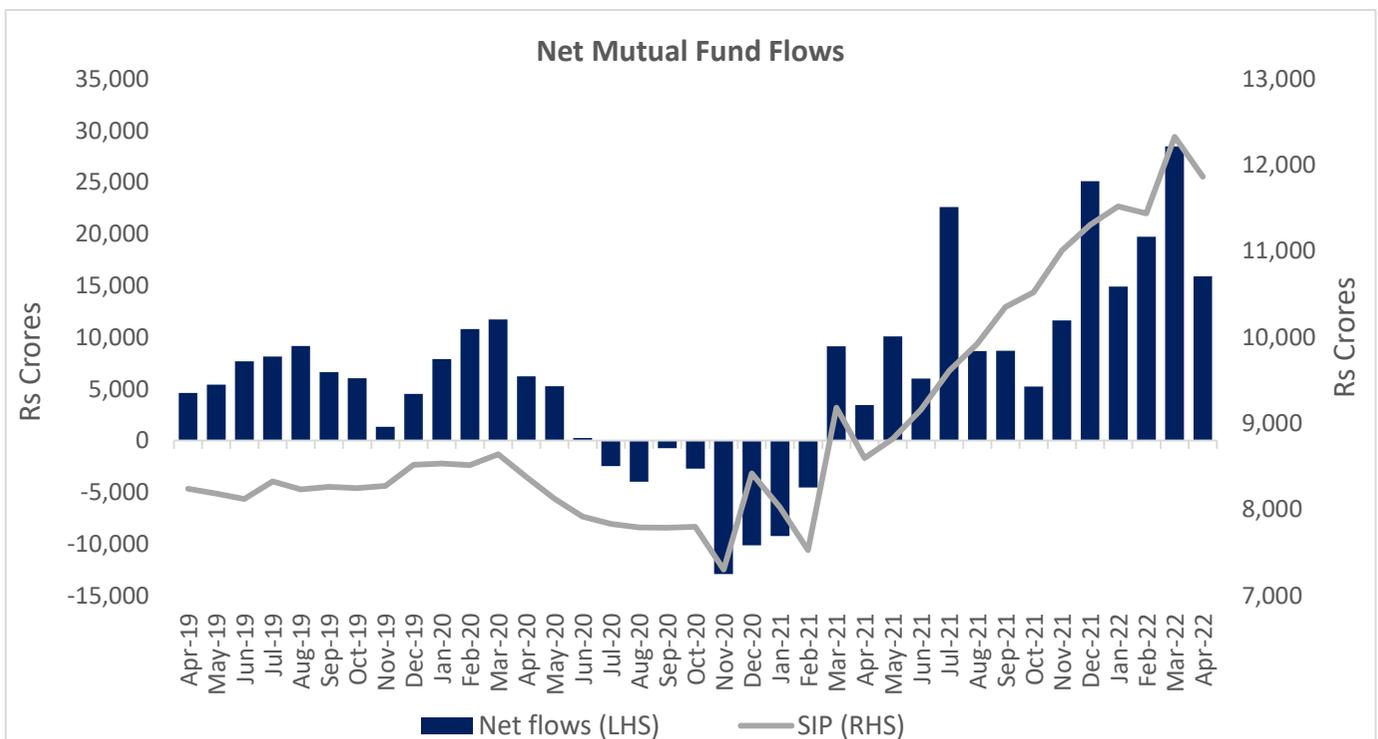
The prevalent mood among Indian market participants is distinctly downbeat and nervous. However, a glance at the data shows that the Indian market has been among the best performing ones globally over the last 12 months.

Returns in USD Terms	1yr (%)	From 52 Week High (%)	From 52 Week Low (%)
MSCI World Index	-9.6	-17.5	1.5
MSCI Emerging Markets Index	-23.3	-26.9	3.0
MSCI EM Asia Index	-25.1	-28.7	3.0
MSCI EM BRIC USD	-33.1	-36.4	4.7
Dow Jones Industrial Average	-7.2	-13.2	2.2
NASDAQ Composite Index	-17.5	-29.8	0.0
CAC 40 Index	-14.3	-19.8	4.4
FTSE 100 Index	-6.0	-10.2	6.4
Deutsche Boerse AG German Stock Index DAX	-20.5	-21.9	7.0
Ibovespa Brasil Sao Paulo Stock Exchange Index	-1.7	-13.1	28.9
Shanghai Shenzhen CSI 300 Index	-25.9	-28.9	3.3
Hang Seng Index	-30.0	-32.5	8.9
NSE Nifty 50 Index	-0.3	-15.8	2.0

Source: Bloomberg, Data as of 24-05-2022

Its relative resilience in the face of deteriorating macroeconomic backdrop (high inflation, rising rates, quantitative tightening, strengthening USD) is quite remarkable. While it can be partially attributable to relative strength of Indian economy and the corporate sector, a far bigger reason for this phenomenon is enthusiasm of domestic individual investors.

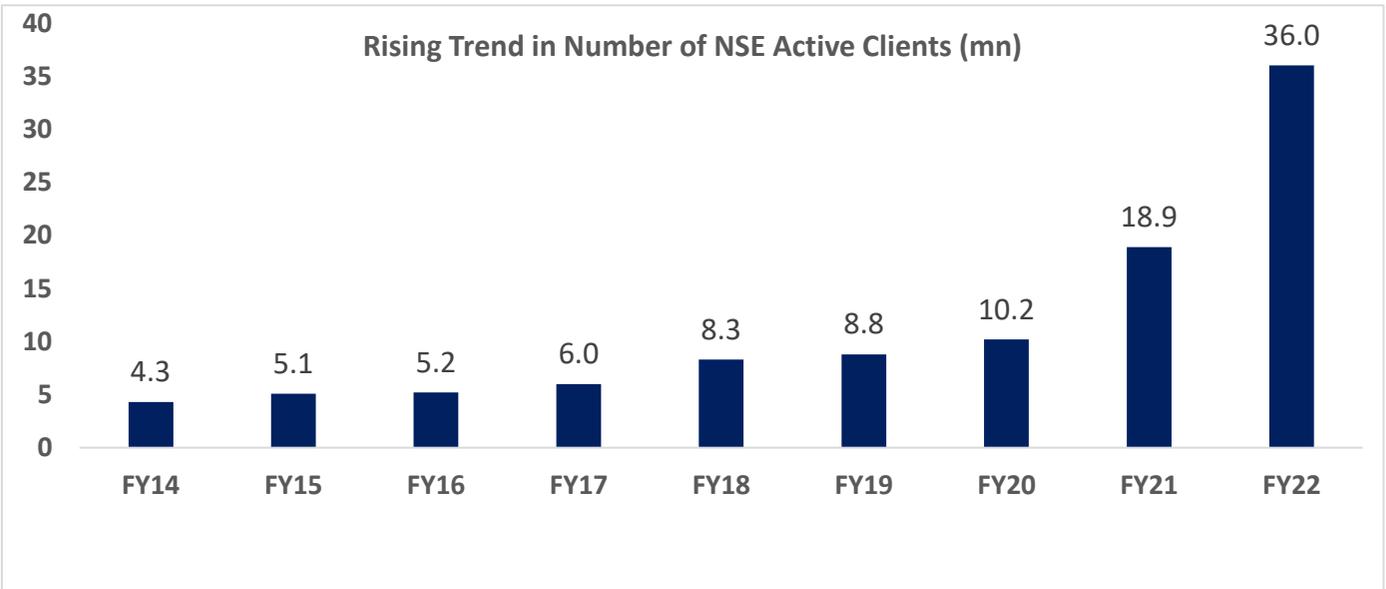
This optimism is reflected in rising inflows in domestic mutual funds over the last year or so as seen in the chart below:



Source: AMFI

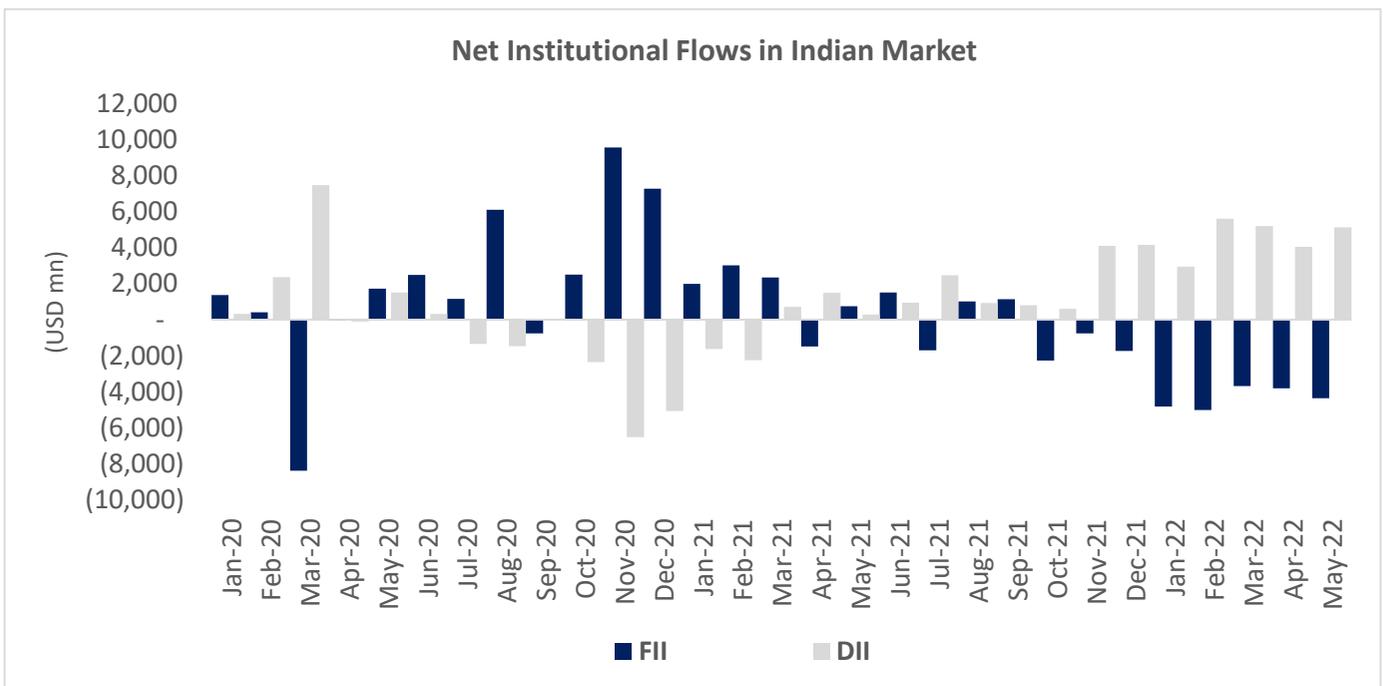
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In addition, new Indian Robinhood investors have participated in the equity markets in millions by opening broking accounts at an unprecedented rate over the last couple of years.



Source: MOSL/NSE

Inflow from these domestic investors have substantially cushioned the impact of large FII selling in the Indian markets since October of last year as seen below:



Source: Bloomberg, Data till 24-05-2022

The near term risk is that we do not know how these new investors will behave when faced with adverse market conditions. However, if the emergence of domestic investors persists over medium to long term, it will be a very positive structural development for the Indian equity markets as there will be an additional source of demand for equities.