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Global Liquidity Tracker: AI liquidity remains strong, but crowding raises return risks; India outperformance begins to ease flow pressure

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AI liquidity remains strong, but crowding raises return risks; India outperformance begins to ease flow pressure

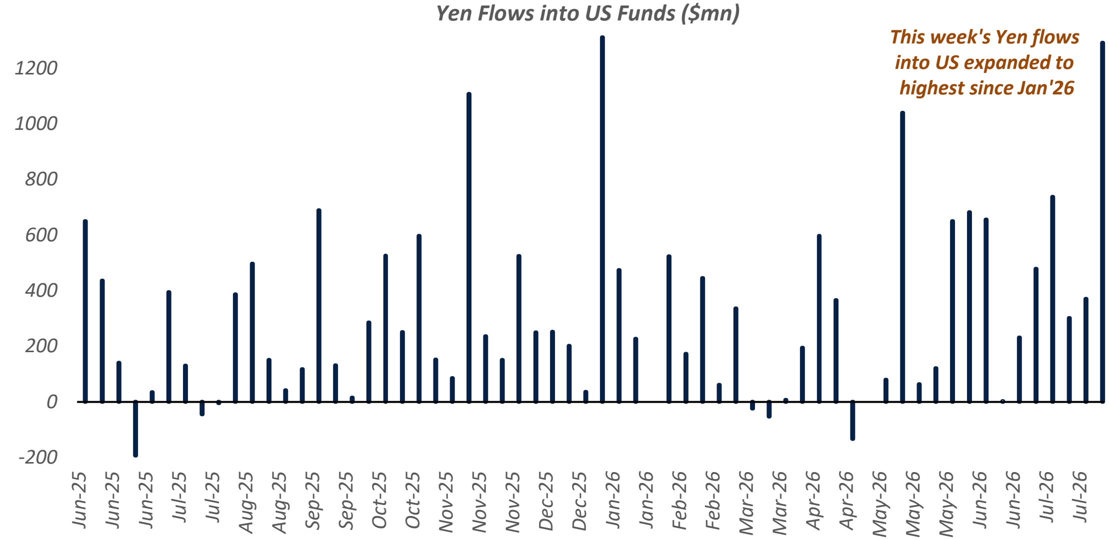
Inflows into the AI ecosystem strengthened for the 2nd week following the recent correction, suggesting investors continue to treat weakness as a buying opportunity. GEM funds attracted a 6-month high inflow of $4bn as the EM Index rebounded from its support of 200-day moving average. At the country level, S Korea led the recovery with another $3.5bn of foreign inflows, while Taiwan recorded a 23-week high inflow of $1.8bn. Brazil and Mexico also witnessed improving foreign participation as both markets stabilised near their 200-DMA. Global Industrial funds saw inflows accelerate to a seven-week high of $1.3bn, as broader AI ecosystem continues to attract capital.

An important aspect to monitor is the timing of these allocations. A significant portion of the AI trade has become crowded over the past 3-months, precisely when returns have started moderating. While the correction has not triggered redemptions, the real test will be whether investors who entered during the recent phase of euphoria continue to hold positions if the return profile remains subdued.

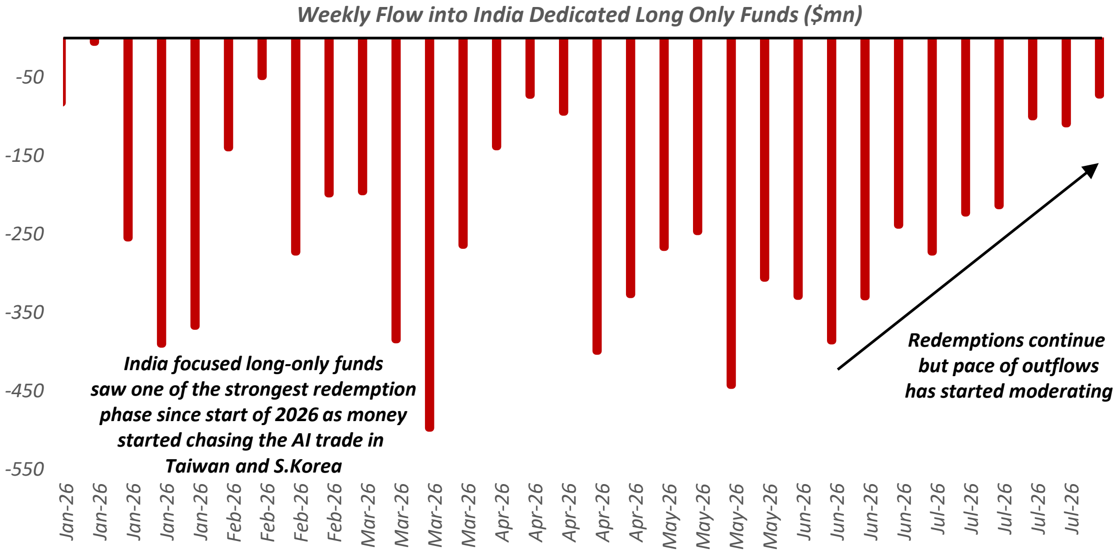
Following recent central bank interventions, JPY-denominated flows into US rose to $1.3bn, strongest inflow since Jan'26. Since the COVID period, Japanese investors have been one of the largest sources of capital for US equities, making these flows an important indicator for monitoring any potential unwinding of the yen carry trade. A similar trade into India had already peaked in Aug'24, with Japanese funds remaining persistent sellers of India over the past year.

India-focused long-only funds continued to witness redemptions since Jul'25, although the pace of selling has moderated over recent weeks. Much of the pressure during CY26 reflected capital being redirected toward the AI trade. With that rotation now showing early signs of slowing, India's relative performance has started improving. Since mid-June, India-focused long-only funds have outperformed EM long-only funds by ~10%, marking the strongest phase of relative outperformance since Feb–Apr'25.

Gold inflows continued for 5th week; cumulative inflows of $5bn after $17bn redemptions since Mar'26. Commodity equity flows remain soft.



Source: EPFR, Elara Securities, Research, Bloomberg, Capital Line, ACE MF



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