

The Alternate Opinion

Quantitative & Alternates

Global Liquidity Tracker: Redemptions from India Midcap funds for 1st time since Aug'18. Foreign flows into China improving slowly

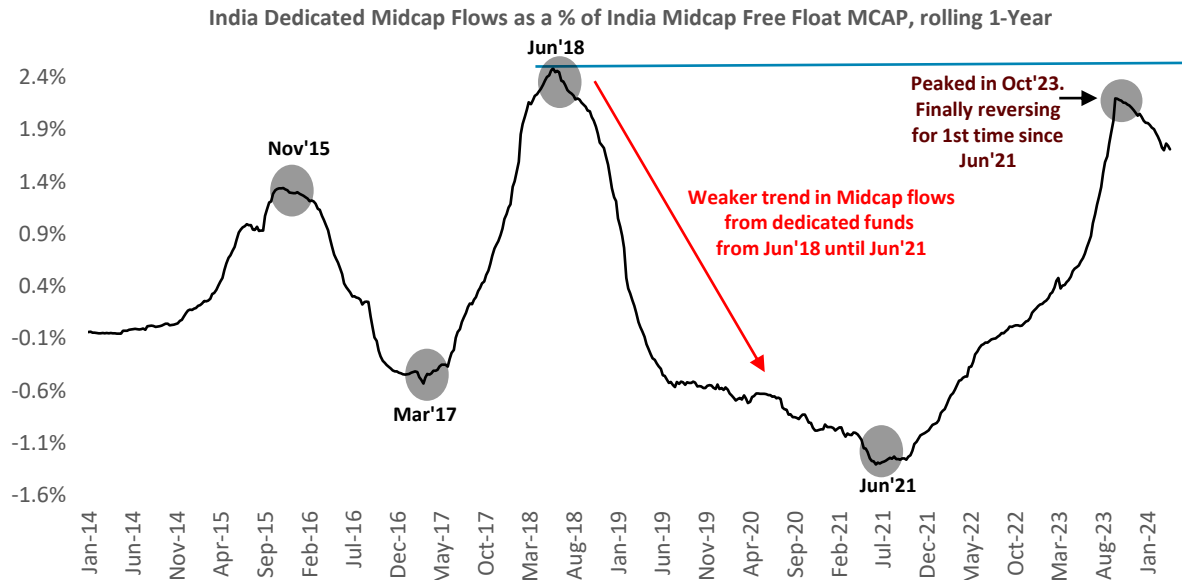
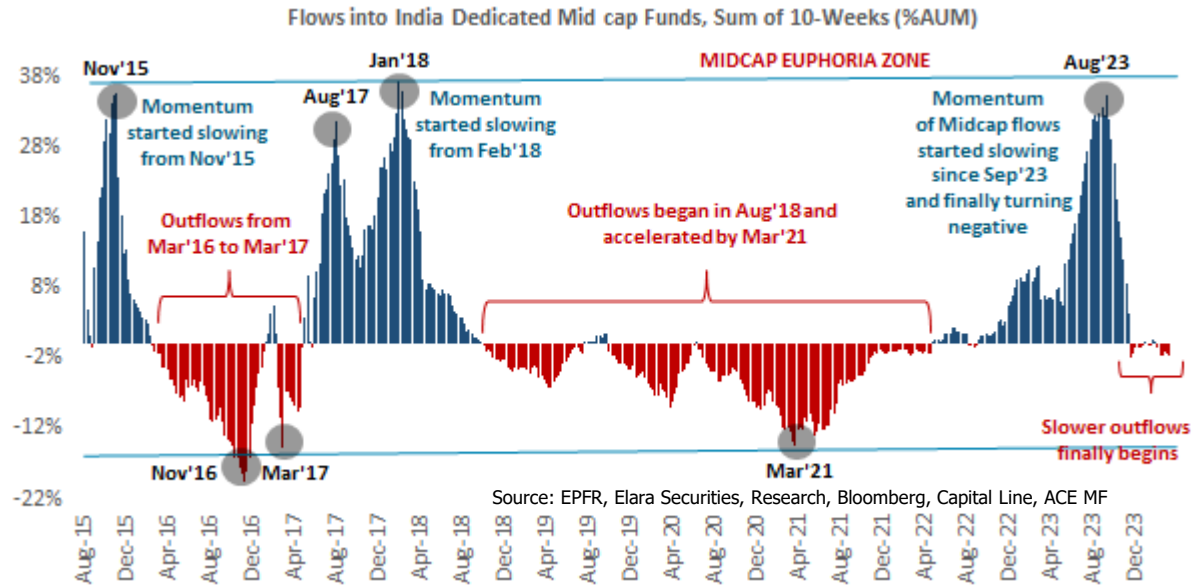
Redemptions from India Midcap funds for 1st time since Aug'18. Foreign flows into China improving slowly

After record inflow of \$56bn in the US last week, we saw flows cooling off with outflow of \$22.6bn. **US Smallcap flows continue to show strong momentum since the beginning of 2024.** EM flows have remained relatively soft since the past few weeks not showing any significant trend.

We are finally witnessing initial signs of slowdown in India flows. **Total inflows into India dedicated funds of \$144mn (Large + Mid+ Small) are slowest since May'23.** This is largely on back of big outflow of \$256mn from Luxemburg domiciled funds while inflows from US and Japan domiciled funds also dropped by 55%-65% from average levels. **India dedicated Long-only funds saw their first redemption of \$184mn in 1-year.** India midcap funds had started taking slower outflows since Jan'24 but pace has finally started expanding. **Only place where India flows remain relatively strong was in ETFs.** In CY23, India saw strong liquidity from both Foreign and Domestic investors. This created a frenzy in Small and Midcap space. **Currently, the foreign liquidity is drying up in SMID space which can slow down the price momentum.** Need to closely monitor how the domestic liquidity shapes up from here.

In past, India dedicated Midcap funds had seen strong inflows in 2014-2015 and 2017-2018 period. In the 2016 redemption cycle, Midcap stocks did not suffer as Domestic flows were very strong post Demonetization. In 2018-2020 redemption cycle, Midcap stocks took a big beating as domestic liquidity also dried-up.

Along with the slowdown in India flows, foreign flows have shown some recovery in China with 7-week large inflow of \$534mn. **India has underperformed China by 10% from the peak, largest since Oct'22 period.** This could be another trigger for liquidity shifting back into China for some time.



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