Fresh Optimism around Mutual Funds

Why in news?

In May 2021, even as the country was facing its biggest health crisis, the mutual fund industry witnessed the highest net inflow since March 2020.

What is the current equity market scenario?

- Investors have put over Rs 25,000 crore in equity schemes in the last 3 months (back from May 2021).
- This took the total investments in equity schemes to Rs 10.67 lakh crore and another Rs 3.71 lakh crore in hybrid schemes as on May 31.
- The buoyant markets have given good returns to mutual fund investors in the last 3 months.
- Investors pumped Rs 10,082 crore into equity and equity-oriented schemes amid the 3,200-point rise in the Sensex during May 2021.

What were the driving factors?

- The experience with the first wave of Covid has taught that these waves will be short-lived.
- So, there was hope that eventually economic activities would revive.
- This gave a boost to the market sentiment.
- It was along this line that mutual fund sales showed good numbers.
- Another reason is that lower spending likely prompted investors to divert money into mutual funds.
- Investors who have accumulated higher savings in the last year due to lower spending are slowly coming back.
- The strong returns in equities and the stability of the markets despite the second wave provide the much-needed positive nudge.
- Besides, investors are also coming back to MFs after having seen that in times of need, the money in MFs was always available.
- Not only domestic investors but even foreign investors have come back.

What are the risks involved?

- The biggest risk factors are the pandemic, the possibility of a third wave, and lockdowns.
- The RBI and other central banks could unwind the accommodative monetary

policy once the situation normalises.

- In that case, there could be pressure on liquidity and sell-off by foreign investors.
- Inflation is another worry, which is an emerging threat for economic recovery and equity markets.
- Prices of risky assets across countries hit record highs during 2021 on the back of unparalleled levels of monetary and fiscal stimulus.
- Whether this buoyancy in markets will sustain will depend on the economic recovery.
- So, investors have to exercise caution and go for only high quality stocks.

Source: The Indian Express

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