What Market Balancing Act by Domestic Institutions Signals

What is the issue?

When global markets witnessed a sell-off last week and FPIs pulled out a net of Rs 30,255 crore, Domestic Institutional Investors (DIIs) counter-balanced this by emerging as net investors.

What led to this volatility?

- Amid panic over the emergence of the Omicron variant of the coronavirus, equity markets witnessed a global sell-off.
- The markets were already under pressure because of the continued surge of infections in Europe.
- Their fall was also driven by anxiety that the US central bank may wrap up its stimulus programme and raise interest rates sooner than earlier expected.
- As top-line companies came under intense selling pressure, the benchmark Sensex at BSE crashed by 4.24%, to close at a three-month low on Friday last week.
- Over eight trading sessions, the FPIs pulled out a net of over Rs 30,000 crore, and they were net sellers on each of these days.

What are Domestic Institutional Investors (DIIs)?

- Domestic institutional investors are those institutional investors which undertake investment in securities and other financial assets of the country they are based in.
- The domestic institutional investors use pooled funds to trade in securities and assets of their country.
- These investment decisions are influenced by various domestic economic as well as political trends.
- The DIIs —mainly banks, insurance companies and mutual funds were net positive on each of these 8 trading sessions.
- Domestic institutions follow the policy of ‘buy when others sell’ and they are long-term players and utilise every opportunity to get stocks cheap.

What does DII inflow indicates when FPIs are selling?

- Continued investment by DIIs indicates that funds of retail investors are flowing into mutual funds and other market-related instrument.
- It also indicates the confidence of retail investors in the economy and growth, especially with an additional boost coming from the festival season and pent-up demand.
- Over the last 7 years, mutual funds have emerged as a strong domestic investment category and have often played a counterbalancing role when FPIs have been selling.

What is the source of DIIs' funds?

- Funds invested by DIIs are mostly from retail investors who contribute to various schemes of insurance companies and mutual funds.
- The assets under management (AUM) of equity schemes touched Rs 12.96 lakh crore as October 2021.
- There has been increase in number of demat accounts, mutual fund folios and number of SIPs.
- Insurance companies are also major investors in the market and they invest on a long-term basis of 10-15 years.
- LIC alone normally invests around Rs 50,000 crore every year.

How should retail investors view this?

- Notable improvements in the economy were noted by the following indicators.
    - A sharp expansion in the manufacturing purchasing manufacturers; index (PMI) for November
    - Strong GDP growth data for the second quarter
    - High GST collections over the last 3-4 months
    - Low oil prices
- When the market falls on global factors, it is a great opportunity for investments.

Reference

1. https://indianexpress.com/article/explained/explained-market-balancing-act-dii-signals-7653361/



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