

## **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**

