The Reflexive Trinity in Indian Equities

A 22-month panel test of whether the Indian equity market is now jointly governed by domestic flow, fiscal credit divergence, and the rates cycle

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The data points that started this work

In June 2024, Indian retail investors put Rs 21,262 crore into mutual funds through monthly SIPs. Twenty-one months later, in March 2026, that figure was Rs 32,087 crore, an all-time record set in the same month the Nifty 50 fell 9.4 percent, the steepest monthly drop since March 2020. Across those months, foreign portfolio investors sold continuously, with March 2026 outflows alone exceeding Rs 1.18 lakh crore on the broader NSDL series. The rupee depreciated 11.4 percent. Industry capacity utilisation stayed near 75 percent for eight straight quarters. Yet the Reserve Bank of India eased policy by 125 basis points cumulative, and CPI inflation collapsed from 6.21 percent in October 2024 to 0.25 percent by October 2025 before recovering to 3.40 percent by March 2026.

These numbers do not fit the older textbook lens, where foreign flow drives price, the policy rate drives valuation, and the credit cycle moves as one thing. So I built a 22-month panel from June 2024 to March 2026 and tested whether the market is now jointly governed by a different set of three conditions. If three things that should not happen together are happening together, then either one of them is wrong or my model of how they connect is wrong. The data is consistent across multiple independent sources, so the model is what needs revising.

What the reflexive trinity means

The trinity is the three legs that, together, determine where the Indian equity market goes from here. They are reflexive because each feeds the other two, and none tells the full story alone. The first leg is flow, by which I mean domestic systematic investments and institutional buying set against foreign portfolio flow. The question is whether monthly auto-debit discipline has structurally replaced foreign-led demand for Indian paper. The second leg is fiscal credit, the deployment of bank credit into specific sectors. Different segments are now running at very different speeds, so the question is whether the recovery in real-economy lending is broad or narrow. The third leg is rates, by which I mean the policy rate, the bond yield, and inflation, which together set the discount rate for equities and the implied real return on financial assets.

What I have found, working through the panel month by month, is that none of the three legs is moving independently. The rate cut cycle freed up domestic credit. That, in turn, enabled NBFC and housing finance lending to recover sharply, which fed asset prices through a different channel than foreign flow. Meanwhile the SIP base became large enough that foreign flow is no longer the marginal mover of price, even when it remains the marginal mover of sentiment. The three legs are reinforcing each other in ways the older flow-driven framework misses entirely.

First leg: domestic flow and the SIP question

The headline SIP number is misleading on its own. Yes, monthly contribution rose to a record. But the second number that matters, which most desk research does not bother with, is the SIP stoppage ratio. In FY20 it was 42 percent, meaning of every 100 new SIPs registered with the industry, 42 got cancelled within a year. By FY24 it was 60 percent. By FY26 year-to-date it is sitting at 76 percent. Three of every four new SIPs are being cancelled before completing twelve months. The two numbers tell different stories and both are real.

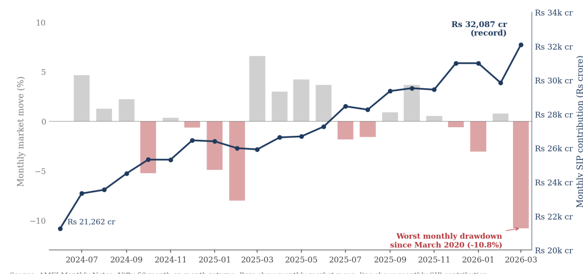

Figure 1. Monthly SIP contribution stayed on a steady upward path through every market drawdown of the panel period, including the worst single-month Nifty fall since March 2020.

Here is how the math works. In February 2026, 65.7 lakh new SIPs got registered while 49.7 lakh got cancelled. The net add was roughly 16 lakh accounts. Aggregate contribution still rises because the average ticket size on new accounts is larger than on accounts being cancelled, and the standing book is large enough that even modest net additions move the headline number meaningfully. So the right read is not that SIP is fragile. The marginal SIP investor has changed character. Co-

horts that joined in 2021 and 2022 are hitting their three-year mark and cancelling at higher rates as soon as ELSS lock-ins expire or initial five-year goals get tested, while average commitment from new entrants is climbing. This is a maturing investor base, not a panicking one.

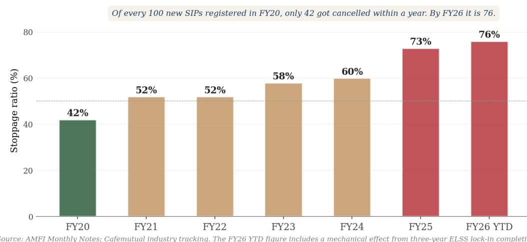

Figure 2. The SIP stoppage ratio has nearly doubled in five years. The FY26 figure includes a mechanical effect from three-year ELSS lock-in completions of the March 2023 cohort.

This matters because it changes which sectors benefit. The asset management franchise itself, the depository and registry infrastructure that processes the flow, and the housing or vehicle finance plays that benefit from the credit recovery are the durable beneficiaries. The flow-sensitive consumption names that were the prior bull market darlings are not.

Domestic absorption of foreign selling

Across 22 months, foreign portfolio investors were net sellers in 15 of them. Domestic institutions absorbed that selling at an average ratio of 2.69 times. In the heavy outflow months, defined as more than Rs 50,000 crore of FPI selling in a single month, the absorption ratio compressed to 1.02 times but stayed above one. March 2026 was the first month in the panel where domestic institutional flow was less than the FPI outflow. The ratio was 0.66.

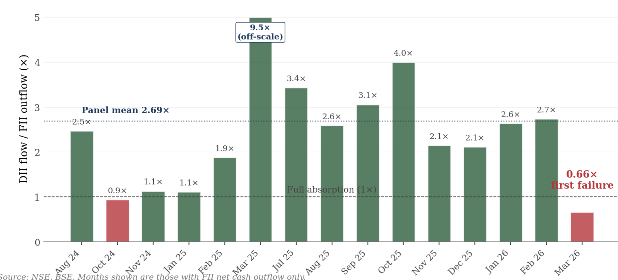

Figure 3. The DII absorption ratio stayed above one in nearly every month of net foreign selling. March 2026 was the first failure, and it required a record outflow to break it.

The structural point is not that domestic flow always wins. It is that domestic flow has been resilient enough to hold the market through every ordinary stress and only failed under the most extreme single-month outflow in Indian equity history. That is exactly what one would expect if the standing SIP book, currently around 8.5 crore active accounts, has crossed a threshold of size where its monthly contribution alone covers ordinary FPI selling. That threshold appears to have been crossed somewhere in mid-2024, and March 2026 tells us where the upper edge of its capacity sits.

Second leg: rates, inflation, the rupee

Two parallel developments framed the panel. The Reserve Bank of India started a cumulative 125 basis point easing cycle in early 2025, taking the policy rate from 6.50 percent down to 5.25 percent by December 2025. CPI inflation fell from above 6 percent in October 2024 to a low of 0.25 percent in October 2025, before recovering to 3.40 percent by March 2026 on a low-base reset. The 10-year government security yield drifted from around 7.0 percent down to 6.85 percent.

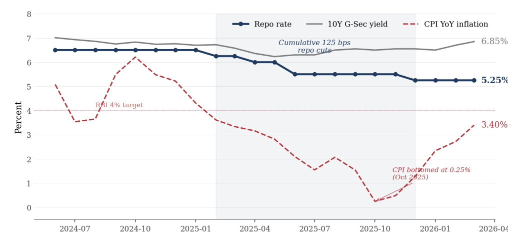

Figure 4. The repo rate, the 10-year G-Sec yield, and CPI inflation across the 22-month panel period. Inflation collapsed before recovering on the low-base reset.

The textbook lens says lower rates feed equity prices through compression of the discount rate. Across this panel that mechanism did not work cleanly. The cleanest statistical relationship in the data is between the monthly change in the 10-year yield and the same-month market move. The correlation is minus 0.490 with a p-value of 0.024, which is statistically significant at the conventional five percent level. When the 10-year yield rises ten basis points in a month, the market is on average two percent lower in that same month. The repo cut alone did not consistently move the market in the same direction. The policy rate is a slow-moving regulatory anchor, while the bond yield embeds expectations about real growth, fiscal stance, and currency risk in real time. The bond yield is the variable the market actually prices off, and the policy rate matters only insofar as it shifts where

the bond yield trades.

The complicating piece is the rupee. USD/INR rose from Rs 83.45 in June 2024 to Rs 92.98 in March 2026, a cumulative depreciation of 11.4 percent. A weaker rupee tightens financial conditions on imported input costs and drives FPI outflow because realised dollar returns on Indian holdings shrink. So the policy easing did not straightforwardly translate into looser conditions; it was partly offset by the currency.

Third leg: fiscal credit and where it is flowing

The most informative single signal of the entire panel sits in the RBI sectoral deployment of credit data. Different segments are running at very different speeds, and that divergence is the structural story.

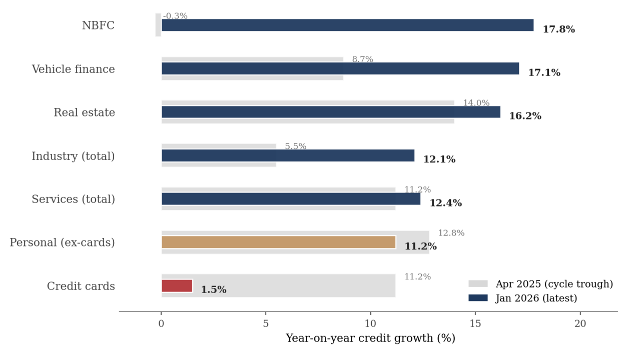

Figure 5. Year-on-year credit growth by segment, comparing the April 2025 trough month with the latest January 2026 print. The divergence across segments is the structural sector-positioning signal.

In November 2023 the RBI imposed macroprudential surcharges on unsecured retail credit and on bank lending to non-banking finance companies, tightening through a non-rate channel. Eighteen months later, the RBI rolled those surcharges back. The effect is visible in the data. NBFC credit growth went from minus 0.3 percent year-on-year in April 2025 to plus 17.8 percent by January 2026. Vehicle finance went from 8.7 percent to 17.1 percent. Industry credit went from 5.5 percent to 12.1 percent. Real estate credit stayed strong throughout, in the 14 to 16 percent range.

Credit cards collapsed in the opposite direction, falling from 11.2 percent to 1.5 percent. That segment is saturated, and the cohort that drove the prior cycle is now running out of headroom. Personal loans excluding cards softened only slightly, from 12.8 percent to 11.2 percent. So the credit cycle is real and recent, but not uniform. It is concentrated in productive lending categories, vehicle finance, NBFC and housing, while consumption-oriented unsecured segments are decelerating. This matches what a healthy credit recovery should look like.

Supply-side check: capacity utilisation

The capex piece of the story is more cautious than the credit piece. Manufacturing capacity utilisation has not broken out. Eight successive quarters of OBICUS data show seasonally-adjusted capacity utilisation stuck in a 74.5 to 75.8 percent corridor, never crossing the 75 percent threshold convincingly. The finished-goods inventory to sales ratio has been sitting at 24 to 26 percent against a pre-2022 historical median of around 18 percent.

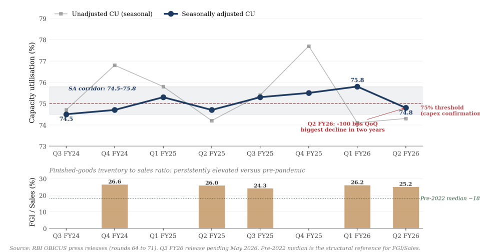

Figure 6. Manufacturing capacity utilisation has stayed in a narrow corridor across eight successive quarters. The elevated finished-goods inventory ratio confirms the slack on the supply side.

The corporate sector is not in a position to commit large fresh capex through this leg of the cycle. There is enough idle capacity and inventory to meet near-term demand without major new investment. So even though the credit cycle is recovering, that recovery is going into working capital and consumer finance rather than greenfield capex. Capital goods and industrial automation are deferred themes, not active ones, until OBICUS clears 75 percent on a sustained two-quarter basis. One more signal from the panel reads as a quiet warning. Equity folio year-on-year growth peaked at 26.4 percent in June 2025 and has slipped monotonically every month since, reaching 11.5 percent in March 2026. Nine successive declines. This does not break the SIP story; it is consistent with the same maturing investor base that the rising stoppage ratio shows. The standing book is doing the heavy lifting; the new-account engine is cooling.

Hypotheses tested on the panel

I specified a set of testable hypotheses up front, each with a pre-set acceptance criterion, before doing any sector or stock work. The point was to make the analysis falsifiable rather than narrative. Listed below are the hypotheses that produced clean results, either strongly supported by the data or strongly rejected.

	Hypothesis	Verdict	What the data showed
H0	SIP contribution is sticky enough that it does not fall sharply during market drawdowns.	**Supported**	SIP year-on-year stayed in the 14.8 to 28.3 percent range across all 22 months, never fell below minus 5 percent month-on-month, and rose 7.5 percent in the worst drawdown month of the panel.
H1	The share of SIP within total equity mutual fund flow is structurally large and stable.	**Supported**	SIP share of equity MF flow averaged 91.2 percent across the panel and never fell below 88 percent in any month.
H2	Domestic institutional flow is large enough to absorb foreign selling in ordinary stress months.	**Supported**	Mean DII to FII outflow ratio of 2.69 times across 15 net-selling months. Compressed to 1.02 times in heavy outflow months but stayed above one until March 2026.
H3	Bank credit growth across sectors is diverging, not moving together.	**Supported**	January 2026 spread between fastest segment (NBFC at 17.8 percent) and slowest (cards at 1.5 percent) exceeded 16 percentage points, the widest in five years.
H4	The NBFC credit cycle has decisively re-accelerated after the November 2023 macroprudential rollback.	**Supported**	NBFC credit went from minus 0.3 percent year-on-year in April 2025 to plus 17.8 percent by January 2026, a clean directional reversal.
H5	The monthly change in the 10-year G-Sec yield is negatively correlated with the same-month equity market move.	**Supported**	Pearson correlation of minus 0.490 with p-value of 0.024 across the panel, statistically significant at the 5 percent level.
H6	Equity folio year-on-year growth is decaying over time, not accelerating.	**Supported**	Nine successive monthly declines from 26.4 percent in June 2025 to 11.5 percent in March 2026. Monotonic decay.
H7	Manufacturing capacity utilisation has crossed the 75 percent threshold on a sustained basis.	**Rejected**	SA capacity utilisation stuck in a 74.5 to 75.8 percent corridor across all eight quarters of the panel. Never two consecutive prints above 75.
H8	A repo rate cut feeds market liquidity in the same month it is announced.	**Rejected**	Counter-sign in the data. Average market move in cut months was plus 0.35 percent versus plus 0.88 percent in hold months, the opposite of the textbook prediction.
H9	Same-month equity inflows are positively correlated with same-month market returns (the older flow-driven view).	**Rejected**	Correlation of minus 0.474 with p-value of 0.030. The relationship runs opposite to the older textbook lens.

Hypotheses with insufficient qualifying observations during the panel period are not listed. The acceptance criterion for each was set before testing.

The supported hypotheses describe a world where domestic systematic flow is sticky and large, where credit divergence is the cleanest sector sorter, and where the bond market leads the equity market. The rejected hypotheses describe the older world that desk research often still defaults to, where foreign flow drives same-month price, where repo cuts drive same-month liquidity, and where capex is about to break out. The data does not support any of those propositions for this panel.

What I am assuming

There are three assumptions baked into this work that I want to call out, because the conclusions only hold if the assumptions hold. The first is that the SIP base remains large enough to dominate flow even as the stoppage ratio rises. The absolute size of the standing book, roughly 8.5 crore active SIPs as of March 2026, makes net flow resilient even with elevated cancellations. If the stoppage ratio crosses 80 percent and stays there for two consecutive months, this assumption needs to be re-examined. The second is that the macroprudential regime stays accommodative. The November 2023 surcharges were imposed because consumer credit was running too hot. If asset quality at the NBFC level deteriorates over the next two quarters, the regulator can re-impose those surcharges, and the credit divergence that anchors the third leg reverses. The third is that the rupee finds a level. A currency at Rs 92.98 is uncomfortable for foreign capital but not yet disorderly. If USD/INR runs to 95 or beyond inside a single quarter, FPI selling intensifies regardless of domestic absorption.

Conclusion

What I take away from this work is that the Indian equity market has shifted on a structural axis between mid-2024 and early 2026, and the framework that worked in the prior cycle is not the right framework for the next one. The textbook FPI-led model is no longer the dominant lens. The marginal mover of price across this panel was domestic systematic flow plus the sectoral credit cycle, with rates and the rupee acting as second-order conditioning variables.

There is a real fragility worth respecting. The first failure of domestic absorption in March 2026, combined with nine months of folio decay and a stoppage ratio crossing 76 percent, says the system is not invulnerable. What it survives cleanly is ordinary stress. What it does not survive is a single-month foreign outflow at March 2026 scale stacked on currency depreciation and a maturing investor base. So the regime is not just structurally bullish. It is biased toward a specific kind of bullish, where durable beneficiaries are the asset management franchises, the depository and registry infrastructure, the housing and vehicle finance lenders, and the defence integrators that draw on government capex insulated from foreign flow.

What I am most confident about is the credit divergence. Different segments of bank credit are running at very different speeds, and that divergence will persist for at least two more quarters. The right macro-derived sector tilt is overweight on producers of credit growth, underweight on consumption-oriented unsecured segments.

What I am least confident about is the durability of the SIP base. The stoppage ratio is the single signal I am watching most closely. If it crosses 80 percent and stays there for two consecutive months, I would mark the AMC overweight thesis down by 25 percent.

Where the regime stands today. As of April 26, 2026, the FPI cumulative monthly outflow trigger has fired, with Rs 48,213 crore of net foreign selling in the first ten days of April alone. Every other trigger holds. The regime today is mixed leaning fragile, not broken. Quality positioning over leverage, and a tilt toward the durable beneficiaries identified above. Not a time to lever up; a time to identify quality names that hold ground.

Conclusions are based on a 22-month panel from June 2024 to March 2026. Sourced data is referenced inline in the figure captions. Research framework, not investment advice.