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Benchmark Stock Indices under Foreign Institutional Capital Flows: Evidence from the Indian Equity Market

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Abstract

Foreign portfolio investors, formerly known as foreign institutional investors, are a major force in India's stock market. The daily buying and selling of funds by FIIs and how it affects market indices like the Nifty 50 and the BSE Sensex is a staple of financial news. In layman's terms, this article examines the connection between foreign institutional investors' money flows and the two most closely followed benchmark indices in India. From the recovery of 2009–2010, through the COVID-19 crash and rebound, to the record outflows of 2024 and 2025, the article traces significant episodes over the last two decades where huge FII inflows or outflows coincided with big moves in the indices. It also explains how FIIs are regulated in India. Additionally, the article examines the increasing impact of domestic institutional investors, who have begun to mitigate the negative effects of selling by FIIs. This study aims to provide students, academics, and anybody else seeking a clear, non-technical understanding of this significant relationship in Indian finance. It is based on secondary data obtained from SEBI, NSDL, and previous academic studies.

Keywords: Foreign Institutional Investors; Foreign Portfolio Investors; Nifty 50; BSE Sensex; capital flows; Indian stock market; Domestic Institutional Investors.

1. Introduction

With its stock market seeing phenomenal growth over the past 30 years, India has emerged as one of the world's leading emerging markets. The Nifty 50 and the BSE Sensex are the two most closely followed stock market indexes in India. The former follows the 50 biggest businesses listed on the National Stock Exchange, while the latter follows 30 prominent companies listed on the Bombay Stock Exchange. These two indexes are known as "benchmark indices" because of their essential role in evaluating the performance of the market as a whole and of specific investment portfolios. The term "Foreign Institutional Investor" (FII) refers to the big organizations based outside of India that invest in Indian stocks and bonds. This includes pension and insurance funds, mutual funds, and sovereign wealth funds. While the term Foreign Portfolio Investors (FPI) has been formally used since SEBI's 2019 reform, the older term FII is still commonly used in news and research articles; hence, this study employs both words as appropriate. In September 1992, India's stock market opened to foreign institutional investors (FIIs), allowing global capital to pour into the country's markets for the first time.

Because of its size and velocity, FII capital is significant. The indices and share prices in India tend to climb when foreign institutional investors (FIIs) purchase shares in large quantities because of the increased demand for these shares. It usually works the other way around when FIIs sell in large quantities. Foreign direct investment (FDI) flows can instantly translate global events into the Indian stock market in a matter of days or even hours. This is due to the fact that FII decisions are impacted by global factors such as US interest rates, dollar strength, oil prices, and the overall sentiment of international investors towards emerging markets. In order to make the connection between foreign money and India's benchmark indexes easy to understand, this paper uses publicly available data and previous research to study this relationship in a simple, descriptive approach.

Since its humble beginnings as a local exchange in the early 1990s, the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) of India have expanded to become two of the world's largest stock markets by market capitalization, listing thousands of firms. Economic liberalization starting in 1991, consistent GDP growth over 30 years, increasing domestic household savings into equities, and, most importantly for this paper, a big and growing pool of foreign capital looking for returns in one of the world's fastest-growing major economies — these factors have all contributed to this growth. There are millions of Indian investors, businesses seeking funding, and politicians attempting to maintain a stable financial system that have a vested interest in knowing how foreign capital interacts with India's benchmark indices.

Following is the outline of this paper. The second section provides a literature review on the topic of the FII-index relationship. In Section 3, the gap that this work seeks to address is highlighted. In Section 4, we discuss the significance of the study, and in Sections 5 and 6, we lay out our objectives and hypotheses. The research technique is detailed in Section 7. The rules and regulations that FIIs in India must follow are detailed in Section 8. With the use of a summary table, Section 9 traces the important historical incidents that connect FII flows to index movements. Financial Institutions' (FIIs') several entry points into India are detailed in Section 10. Section 11 delves at the ways in which FII flows affect indexes. Chapter 12 delves into the growing influence of domestic institutional investors, while Chapter 13 sets India's position in the global arena. Topics covered in Sections 14–18 include the main results, their policy implications, limits, recommendations for further research, and the actual conclusion.

2. Review of Literature

A large body of literature from India on the topic of foreign direct investment (FDI) flows and stock market indices has consistently found that the two go hand in hand, with the strength of this relationship fluctuating over time.

In the years following India's market liberalization, **Chakrabarti (2001)** was one of the first to do a comprehensive analysis of the correlation between FII inflows and returns on Indian stock indices; nevertheless, the exact direction of causation was not always apparent. The factors that drew or turned off foreign direct investment (FDI) into India were the market's returns and the relative risk of investing in India compared to other markets, according to research by Rai and Bhanumurthy (2004). After looking at data from 2001 to 2011, **Sultana (2012)** utilized the Sensex and Nifty to measure stock market performance. Using regression and correlation approaches, she found a substantial association between FDI, FII, and index movements. After analyzing 10 years of closing index data from the NSE and BSE (2003-2013), **Kumar (2014)** discovered a strong connection (r=0.786) between FII investment and the Indian stock index. This finding was extensively referenced in subsequent research conducted in India to support the idea that the two variables move hand in hand. Research by **Kulshrestha (2014)** on the effects of foreign institutional investors (FIIs) on India's stock market found that FII activities affected market indices and volatility. Foreign institutional investors (FIIs) had a greater and more immediate effect on short-term changes in Indian market indexes, according to research by **Mahajan, Porwal, and Porwal (2015),** which contrasted the effects of DIIs and FII flows. Finding the same thing, **Arora and Kumar (2015)** said that FIIs are the main thing that move the Indian stock indices. Through the use of E-views regression analysis, **Singh, Singh, and Kaur (2016)** examined the effect of FII flows on the Sensex and Nifty and found a statistically significant correlation between the two. There was strong evidence of a linkage between FIIs and the Nifty in a study that Mannar (2018) conducted that spanned a decade. While other macroeconomic variables, like inflation and changes in exchange rates, do play a role alongside FII activity, **Gahlot (2019) and Mohammed and Behi (2020)** both looked at the effects of FIIs on the Nifty and Sensex and discovered a robust positive correlation between FIIs and index returns. With a correlation coefficient of 0.7 for the Sensex and FII flows from April 2022 to March 2025 and a correlation coefficient of 0.6 for the Sensex and the Indian Rupee, a more recent industry study by Bank of Baroda indicated a strong positive mirror-like relationship. This means that an increase in FII buying usually occurs alongside a rise in the Sensex, and vice versa. Even though the exact strength of the relationship varies somewhat depending on the time period studied and the statistical method used, this body of literature, which encompasses over 20 years of research in India, consistently supports the idea that FII flows and benchmark index movements are closely related.

It is worthwhile to put these conclusions about India in a broader global context as well. Bekaert and Harvey, two prominent figures in the field of global finance, conducted research on the effects of capital market liberalization on developing nations in the 1990s and 2000s. Their findings indicated that allowing foreign portfolio investment lowered the cost of capital for firms in those markets and led to higher stock market valuations in the years after liberalization. However, they also found that short-term market volatility increased as flows became more sensitive to global sentiment. In line with the results summarized above for India, this larger body of international literature finds that, in the medium run, foreign capital tends to support rising valuations and, more directly than under a closed capital-account regime, transmits global volatility into domestic markets. Thus, the rest of this paper will focus on India's experience since 1992, which is just one well-documented illustration of a much broader pattern witnessed across emerging nations that opened their capital accounts around the same date.

3. Research Gap

Although numerous studies have examined the relationship between FIIs and indexes, the majority of these studies have focused on a specific time period, usually between 2001 and 2020, and have ignored the most recent years, 2024 and 2025, when the Indian market witnessed the greatest outflows of FII capital. Another factor that has been under-discussed in earlier works is the increasing importance of Domestic Institutional Investors (DIIs). These investors have been instrumental in absorbing a significant portion of FII selling in recent years, thanks to their systematic investment plans (SIPs). By integrating the prior work of other researchers with the most recent data from SEBI and NSDL, and by paying special attention to the DII cushioning effect—something that studies conducted before 2020 were unable to detect—this work aims to update the situation.

4. Significance of the Study

Many different types of readers will find this study useful. It provides a straightforward, jargon-free introduction to a subject that is often covered in financial media but never addressed in one place from basic concepts, making it ideal for commerce and finance students. Headlines like "FIIs sold Rs. 5,000 crore today" can make more sense for retail investors if they understand the historical pattern and underlying mechanism of the FII-index relationship. This way, they will not get too excited or panicked about any one day's news. Policymakers and regulators can use the data presented in Sections 9 and 12 of this paper to inform choices on market regulation, capital account policy, and investor protection measures by monitoring the changing ratio of domestic to foreign capital. As a conclusion, this study aims to provide academics with a point of departure for future, more technical research along the lines proposed in Section 17 by consolidating findings from over twenty years of dispersed research in India into a single, up-to-date, and easily comprehensible account.

5. Objectives of the Study

1. To examine the impact of Foreign Institutional Investment (FII/FPI) on the NIFTY 50 and BSE Sensex.
2. To analyse the relationship between FII/FPI flows and benchmark indices during 2022–2025.

6. Research Methodology

The research methodology of this work is based on secondary data and is both analytical and descriptive. Consistent with the norm for research in this subfield of Indian finance, it does not

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undertake surveys or interviews to gather fresh primary data but rather compiles information from previously published statistics and academic publications.

Data sources: The National Securities Depository Limited (NSDL), the Securities and Exchange Board of India (SEBI), and credible financial and industry journals like the India Brand Equity Foundation (IBEF) and the economic research reports of Bank of Baroda have all contributed to the data set on FII/FPI flows. We have derived index-level data for the Nifty 50 and BSE Sensex from secondary reporting and publications of the NSE and BSE, respectively.

Period of study: The paper covers the period from 1992, when FIIs were first permitted to invest in India, up to early 2025, with particular attention to the period April 2022 to April 2025, for which recent correlation data is available.

Tools used: Instead of running new regression models, the article presents correlation coefficients and trend figures previously established in the referenced literature and industry reports; this is because the paper uses secondary and already-published statistics instead of raw time-series data. Although this is an acknowledged restriction in Section 16, it works well for a review-style paper targeting both general and student audiences.

7. Regulatory Framework for FIIs/FPIs in India

As part of its economic liberalisation policy, India opened its stock market to foreign institutional investors (FIIs) for the first time in September 1992. The regulatory system has undergone multiple updates since then to accommodate the increasing amount and complexity of foreign investment. A major update occurred on September 23, 2019, with the notification of the SEBI (Foreign Portfolio Investors) Regulations, 2019, which superseded the regulations from 2014. There are now just two types of foreign investors, down from three before the 2019 rules: Group I, which includes low-risk entities like pension funds, university funds, central banks, sovereign wealth funds, and government and government-related investors; and Group II, which includes other appropriately regulated entities like insurance companies, broker-dealers, banks, and asset management firms. On November 5, 2019, SEBI released comprehensive Operational Guidelines to facilitate the seamless implementation of these new laws.

Foreign portfolio investors (FPIs) are now required to reveal comprehensive information regarding their ultimate beneficial owners as of 1 November 2023, per new disclosure standards set by SEBI. These standards apply to FPIs that have more than half of their equity investments in a single Indian corporate group or that manage equity assets in India worth more than Rs. 25,000 crore. We took this step to make sure that everyone is on the same page and prevent anybody from abusing the FPI route to do things like avoid public shareholding minimum requirements. Taken as a whole, these regulatory measures reveal a pattern: India has been progressively easing access to its markets for legitimate, well-regulated foreign investors while simultaneously increasing oversight to forestall abuse. This has an effect on the amount and certainty with which foreign capital flows into Indian benchmark indices.

8. Major Trends: FII Flows and Benchmark Indices

The historical correlation between foreign institutional investment (FII) flows and the movement of Indian benchmark indexes is quite evident. Here we will go over a few significant episodes.

The post-crisis recovery (2009-2010)

Foreign institutional investors (FIIs) flocked back to India in droves following the 2008 financial crisis, which rattled markets worldwide. Foreign institutional investors (FIIs) poured a whopping $60.31 billion (or more) into Indian stocks between 2009 and 2010. The Nifty more than doubled, going from approximately 2,500 to about 6,300, within the same time span. Many people look at this incident as a prime illustration of the FII-index link in the real world.

The COVID-19 crash and recovery (2020-2021)

Investors' fears caused the Nifty to fall precipitously in early 2020, when the COVID-19 outbreak struck. But when markets started to calm and recover, FIIs poured money back into Indian shares. The Nifty rose from approximately 8,600 to roughly 18,600 during the same time period in 2021, and FII investment in Indian equities reached almost US$ 38 billion. While the massive influx of retail investors during the lockup period was also a contributing factor, the purchase of FIIs was a key component of the story that was the fastest and largest recovery in the history of the Indian stock market.

The 2022-2025 window: a strong, measured correlation

Among the strongest readings reported for this relationship in recent years was a correlation coefficient of 0.7 between the Sensex and FII flows, according to a research report from the Bank of Baroda that examined the period from April 2022 to March 2025. The report also found a correlation coefficient of 0.6 between the Sensex and the Rupee. Despite the fluctuations mentioned below, the Nifty 50 finished at 23,997.55 and the Sensex at 77,496 on 30 January 2025, which are both significantly higher than their levels even five years before.

Record outflows: 2024 and 2025

Not every period has seen inflows. In calendar year 2024, FIIs sold Indian equities The overall picture for 2024 was more balanced than what the exchange-selling figure suggests, as approximately Rs. 1,21,637 crore came in through IPOs and other primary-market routes, more than offsetting the approximately 1.21 lakh crore that came through the stock exchanges (the "secondary market").

Something changed in 2025. In what was the worst year for yearly secondary-market selling by FIIs since they started investing in India, the exchanges saw the sale of Indian shares worth approximately Rs. 2.3-2.4 lakh crore. Despite a record-breaking primary-market investment of around Rs. 73,583 crore, foreign institutional investors (FIIs) nonetheless pulled out around 1.58 lakh crore rupees that year. Foreign institutional investors continued to sell Indian stocks, selling a total of around Rs. 1.98 lakh crore from January to April 2025. Some global factors, such as high US bond yields (offering more than 4% in dollar terms), a weaker Rupee reducing dollar returns for foreign investors, and India's relatively high share valuations compared to other Asian markets that have only just begun to correct, have been attributed by analysts to this heavy and sustained selling.

Summary of major episodes

Table 1 below summarizes the key events mentioned earlier and provides an easy-to-read overview of the relationship between FII flows and benchmark indexes throughout time.

Period	FII Flow	Nifty / Sensex Movement
Mar 2009 - Nov 2010	FIIs invested US$ 60.31 billion (inflow)	Nifty rose from about 2,500 to about 6,300
Apr 2020 - Oct 2021	FIIs invested about US$ 38 billion (inflow)	Nifty surged from about 8,000 to about 18,600
Calendar Year 2024	Net FII exchange selling of Rs. 1.21 lakh crore, largely offset by Rs. 1.22 lakh crore primary-market inflow	Market broadly range-bound to positive
Calendar Year 2025	Net FII outflow of about Rs. 1.58 lakh crore (record annual outflow)	Market saw sharp corrections and high volatility

9. How FIIs Invest: Routes and Instruments

Given that this paper's data (Section 9) differentiates between the many ways in which FII money enters the Indian market, it is helpful to understand the various ways in which FII flows impact indexes before delving into the reasons for this. The first is the main market, and the second is the secondary market. Foreign institutional investors (FIIs) purchase shares directly from companies in the main market, most often through Initial Public Offerings (IPOs). In 2024, FII investment through IPOs was approximately 1.21 lakh crore and in 2025, it was about 73,910 crore. A huge net selling of Rs. 2.3-2.4 lakh crore occurred in 2025 through the secondary market, where FIIs purchase and sell already-listed shares through the stock exchanges (NSE and BSE). This channel is the most closely watched one on a daily basis because it directly impacts the demand and supply for shares that are already part of the Nifty and Sensex baskets.

10. Why Do FII Flows Move Benchmark Indices?

Supply and demand are the fundamental mechanisms behind this connection. Large purchases of shares by FIIs in index-heavyweight companies cause a surge in demand relative to supply, which in turn drives up the values of those shares. This, in turn, causes the Nifty and Sensex, which are indices, to rise as well. This is in contrast to what occurs when FIIs sell heavily. The bond, however, extends beyond a purely commercial transaction. Foreign institutional investors (FIIs) have an outsized impact on market mood because other investors, both at home and abroad, tend to interpret large FII purchases as a sign of confidence in the Indian economy, which in turn encourages further purchases. Selling by FIIs can elicit the inverse, more anxious, response. There is a feedback loop between the Indian Rupee and FII flows because when FIIs sell Indian assets, they convert the proceeds back into US dollars. This downward pressure on the currency makes Indian assets look even less attractive to other foreign investors. Lastly, foreign institutional investors' (FIIs') decisions are influenced by factors outside of India's control, such as US interest rates, global risk appetite, and the relative valuation of Indian shares in comparison to other emerging markets. As a result, FIIs' actions effectively transfer global economic events into Indian benchmark indices.

11. The Growing Role of Domestic Institutional Investors

The growing influence of DIIs, or domestic institutional investors, as a check on FII selling is a major trend in the Indian market as of late. DIIs mostly consist of mutual funds, insurance firms, and pension funds based in India. This strength is largely attributable to the exponential growth of Systematic Investment Plans (SIPs). Millions of retail investors in India use SIPs to deposit small amounts into mutual funds on a monthly basis, providing DIIs with a reliable and consistent source of capital to invest, virtually independent of the actions of FIIs. Diligent domestic institutional investors (DIIs) were a major player during the massive selling by foreign institutional investors (FIIs) in 2025. This caused the foreign institutional investor (FII) holdings of Indian shares to plummet to levels not seen in two decades, potentially marking a first in the market's recent annals. While foreign institutional investment (FII) flows will certainly continue to be a significant and widely monitored driver of short-term market fluctuations, this significant structural shift implies that, moving forward, Indian benchmark indexes may become somewhat less dependent on foreign money than in past decades.

It should be noted that DIIs and FIIs are not merely polar opposites in terms of their behavior, despite the fact that they are frequently characterized as being on "opposite sides" of the market when FII selling is heavy. In response to global signals, FIIs often move swiftly; for example, a change in US interest rate expectations might cause a FII positioning shift within days. In contrast, DIIs, and the SIP component of DII flows in particular, exhibit far more mechanical and steady behavior, as the monthly processing of millions of retail SIP installments is unaffected by short-term market news. Because of this behavioral difference, DIIs have been able to serve as a stabilizing counterweight to FIIs. Unlike some FIIs, DIIs' funds do not vanish during a market slump, which makes Indian indices somewhat less vulnerable to the kind of catastrophic, self-reinforcing declines that may have occurred in previous decades if reliance on foreign capital had been higher.

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12. India in a Global Emerging-Market Context

Competition for the same pool of global foreign portfolio capital is fierce among numerous significant emerging markets, including India, Brazil, South Africa, Indonesia, and South Korea. Factors such as predicted economic growth, currency stability, corporate earnings forecast, valuation, and relative value are considered by global FIIs when allocating capital across emerging nations, not India alone. Therefore, a reduction in foreign direct investment (FDI) into India may not necessarily indicate issues unique to the country; it may instead reflect a trend in the overall flow of capital into or out of emerging markets, or a preference for competing markets with more appealing valuations at the moment. Among the factors that influenced the decisions of foreign institutional investors (FIIs) during the 2024–2025 outflow episode were factors unique to India, such as corporate earnings growth and the strength of the Rupee, as well as the country's relatively high valuation (the price-to-earnings ratio in India is around 21 compared to other Asian markets where it was closer to 25 at one point and closer to parity as Indian markets corrected).

This paper is focused on the Indian case, but the FII-index relationship is really just a local manifestation of a much bigger global phenomenon: the ongoing process of huge amounts of international capital being reallocated across markets to find the best risk-adjusted returns. That is why it is helpful to keep the bigger picture in mind. Even during times of temporary outflow, India remains one of the most appealing locations within this global competition for capital due to its relatively large, liquid, and well-regulated market. This is backed by the SEBI framework, which is addressed in Section 8.

13. Key Findings

Indian benchmark stock indices, the NIFTY 50 and the BSE Sensex, are heavily impacted by the actions of Foreign Institutional Investors (FIIs) and Foreign Portfolio Investors (FPIs), according to the research. Strong upward movements in the Indian stock market have typically occurred during periods of large-scale FII inflows, according to historical evidence, whereas market corrections and volatility have been more common during large-scale withdrawals. There is a favorable correlation between FII inflows and benchmark index performance, as seen throughout the recovery periods following the global financial crisis (2009–2010) and COVID (2020–2021). The high withdrawals seen in 2024 and 2025 also added to the increased market volatility, even if the Indian economy remained resilient. According to recent studies, there is a strong positive link between FII flows and benchmark indexes for the period 2022–2025. For example, the Sensex and FII flows have a correlation of about 0.70. Additionally, the study shows that the increasing involvement of DIIs has caused a major structural shift in the Indian capital market. Investments made by DIIs on a regular basis through SIPs, mutual funds, insurance, and pension funds have helped to absorb selling pressure from FIIs, which has reduced the market's reliance on foreign capital and improved market stability. In addition, the research shows that foreign institutional investors (FIIs) still let global macroeconomic variables like bond yields, currency fluctuations, geopolitical unpredictability, and comparative market valuations significantly impact their investment choices in India. India continues to be a popular location for FPIs thanks to regulatory changes made by SEBI, such as the Foreign Portfolio Investors Regulations, 2019 and the enhanced beneficial ownership disclosure requirements put in place in 2023. These measures have increased transparency even further. Despite the continued importance of foreign institutional investment (FII) and foreign portfolio investment (FPI) flows as short-term market drivers, the data imply that the Indian stock market is now better able to weather times of global financial uncertainty due to the growing power of domestic institutional participation.

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14. Policy Implications

To help safeguard the Indian market from unexpected changes in global sentiment, this paper recommends that regulators and policymakers keep pushing for more domestic institutional participation, especially through retail-friendly tools like SIPs. Despite the fact that short-term flows may continue to be unpredictable and influenced by global factors outside of India's control, SEBI and the government can encourage more consistent involvement from FIIs in the long run by preserving a predictable, open, and stable regulatory environment for FPIs, expanding upon the simplifications made in the 2019 regulations. Although it is concerning, investors should take heart from the historical pattern shown in Section 9. It is common for FII selling periods to be followed by renewed inflows when global conditions (like US interest rates or relative valuations) improve for India.

15. Limitations of the Study

The correlation figures cited in this paper are taken from the cited studies and reports rather than being independently computed for the purpose of this paper. Additionally, the paper does not build or test a new statistical model using raw daily or monthly time-series data. Factors such as domestic macroeconomic indicators like inflation, interest rates, and GDP growth, corporate earnings trends, and global geopolitical events all interact with FII flows in ways that a descriptive study cannot completely separate, and these additional factors also impact the relationship between FII flows and index movements. As mentioned earlier, correlation does not prove that FII flows cause index movements. It is possible that rising indices attract more FII money, not the other way around. To establish the direction of causality, more advanced statistical techniques like Granger causality tests would be required, and they are beyond the scope of this descriptive paper.

16. Suggestions for Future Research

Future scholars could expand upon this work in several ways by building on the descriptive technique used in this publication. The first step would be to conduct a rigorous econometric study with index-return and FII flow data collected daily or monthly. This study could use tools like Granger causality tests or vector autoregression (VAR) models to determine if FII flows cause index movements, if index movements attract FII flows, or if, more likely, a combination of the two at different times. Second, for the benefit of investors who are targeting certain industries, sector-level research might determine if the banking, financial services, and IT sectors—all of which have attracted a lot of FII in the past—are more vulnerable to FII flows than others. Third, as the importance of DIIs and SIP-driven retail flows increases, it would be beneficial for future research to examine the extent to which the traditional FII-index link, as discussed in this work, is expected to diminish in the coming decade due to the maturation of India's domestic investor base. Lastly, to better understand the extent to which the pattern discussed in this paper is unique to India and how much it represents broader emerging-market dynamics, it would be helpful to conduct comparative studies that place India alongside other major emerging markets. Such studies could look at whether the relationship between India's FII and index is unusually strong, weak, or typical when compared to countries like Brazil, Indonesia, or South Korea.

17. Conclusion

This paper sought intended to illustrate, in simple words, the relationship between foreign institutional capital flows and India's key stock indices, the Nifty 50 and the BSE Sensex. The evidence suggests a strong positive relationship, based on over twenty years of academic research in India and the most recent data from SEBI and NSDL. Historically, Indian indices have risen when FIIs buy heavily and fall or remain stagnant when they sell heavily. Recent correlation studies have revealed that this tendency has persisted into the 2022–2025 timeframe, as it did throughout the 2009–2010 recovery and the 2020–21 pandemic rebound.

However, the story is starting to even out, with India's stock market becoming more resilient to fluctuations in foreign capital compared to previous decades. This is due to a combination of factors, including record FII outflows in 2024 and 2025, the increasing power of domestic institutional investors, and SIP-driven retail participation. Since the relative importance of domestic and foreign capital in influencing Indian markets seems to be entering a truly new stage, this makes the FII-index link an interesting and worthwhile topic for academics to keep studying.

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