Why Are FPIs Walking Away From Indian Markets Despite Its Growth Story?

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An Indian-origin emerging markets fund manager once told me how, in the early 1990s, Brazilian inflation topped 2,000%, yet residents of Rio de Janeiro danced the samba on the beaches.

Despite flailing macroeconomic indicators, the country's stock market powered ahead, crowning Brazil as Latin America's best-performing market in 1993.

When I asked him about India's prospects in the late 1990s, his answer was straightforward: Markets always look ahead, so look ahead and not back.

That axiom has stayed with me, especially now, as India is experiencing the exact reverse.

On paper, the country's macroeconomic data remains stable.

Yet, Indian equities are taking a pounding as foreign portfolio investors (FPIs) rush for the exits.

IPO's Are Making It Worse

In September, FPIs dumped $2.1 billion in local equities, abruptly halting two months of net buying.

The flight extends to debt. Outflows from index-eligible sovereign bonds reached $1.1 billion this month, according to a Bloomberg report.

That would mark the worst bleed since March and a sharp reversal from June's record inflows.

A relentless flood of initial public offerings is making the liquidity squeeze worse.

Indian companies raised a record Rs 2.43 trillion ($25.27 billion) in the first half of fiscal 2027, according to PRIME Database Group.

Equity fundraising jumped 75% year over year between April and September, helped by average listing gains that have risen from 7% to 19%.

Oil Is Still The Big Variable

Then there is oil.

The outlook is hazy. Flows through the Strait of Hormuz may have recovered to near pre-war levels going by some reports, but crude stubbornly remains around $102 a barrel.

Indian policymakers are now openly acknowledging the severe downstream reality of the war against

Iran.

Last week, External Affairs Minister S Jaishankar warned of a looming "major food crisis," compounding the fertiliser shortages already stemming from the conflicts in Ukraine and Iran.

He rightly noted the situation is highly stressful for the Global South—economic havoc the US administration appears to have neither anticipated nor particularly cared about when hostilities commenced.

Economy No Longer The Signal

Domestic policymakers, meanwhile, are taking comfort in the resilience of the financial system and strong corporate balance sheets.

Whether those defences hold will become clearer as second- and third-quarter earnings arrive.

But the more interesting question is what, exactly, would persuade foreign investors to return. Since it is their return that will lift markets to a fair extent.

A recent report from the brokerage Bernstein offers a fascinating thesis on how foreign institutional investors actually think, asking whether they follow the broader economy or simply earnings.

Historically, up until 2007, FII flows and India's GDP growth moved in tight tandem.

Over time, that relationship has fractured. Today, the correlation between India's macroeconomy and foreign flows appears to be outright negative.

We are left with a profoundly counterintuitive reality.

If markets truly look ahead, and foreign capital now views peak macroeconomic performance as a signal to sell, a sustained market recovery in India might well depend on the arrival of weaker economic data.