Structural Decoupling of the Indian Equity Market: Empirical Evidence on the Shifting Dominance from Foreign to Domestic Institutional Investors

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Abstract: The Indian equity market has undergone a profound structural transformation, gradually transitioning from a state of heavy reliance on Foreign Institutional Investor (FII) activity to a domestically anchored ecosystem. This study empirically investigates the "Structural Decoupling" hypothesis by examining the relationship between net FII flows, Domestic Institutional Investor (DII) flows, and the performance of benchmark indices the Nifty 50 and BSE Sensex over a 60-month period from January 2021 to March 2026. Employing a descriptive and analytical research design, the study utilizes secondary data sourced from the National Securities Depository Limited (NSDL), the Securities and Exchange Board of India (SEBI), and the National Stock Exchange (NSE). Statistical tools including Pearson's Correlation and Linear Regression are applied to a sample of N = 60 monthly observations. The findings reveal a statistically insignificant relationship between FII flows and benchmark indices ($r = -0.140$ for Nifty 50; $p = 0.286$), while DII flows demonstrate a robust and significant positive correlation ($r = 0.685$ with Nifty 50; $p < 0.001$). Regression analysis further confirms that DII flows alone account for approximately 46.9% of the variation in the Nifty 50 ($R^2 = 0.469$). A strong inverse relationship between FII and DII flows ($r = -0.674$; $p < 0.001$) validates the existence of an "Absorption Effect," wherein domestic institutions systematically counterbalance foreign capital exits. These results provide compelling empirical evidence that the Indian market has materially evolved from an FII-dependent to an FII-integrated, domestically anchored system, with significant implications for retail investors, portfolio managers, and financial policymakers.

Keywords: Foreign Institutional Investors (FII), Domestic Institutional Investors (DII), Structural Decoupling, Nifty 50, BSE Sensex, Indian Capital Market

1.0 INTRODUCTION

1.1 Overview of Indian Capital Market and Role of FII and FDI.

The Indian capital market has historically been characterized by its pronounced sensitivity to Foreign Institutional Investment (FII). Entities incorporated outside India including pension funds, mutual funds, hedge funds, and investment trusts have long been regarded as the principal "market movers" of Indian equity benchmarks. The volume and directionality of their transactions have exerted a disproportionate influence on market liquidity, investor sentiment, and price discovery across benchmark indices such as the Nifty 50 and BSE Sensex. The conventional narrative, well-supported by pre-2015 literature, held that FII inflows triggered sustained bullish rallies, while abrupt capital reversals precipitated sharp market corrections. This "hot money" characterization stemmed from the high sensitivity of foreign capital to global macroeconomic variables — particularly US Federal Reserve monetary policy, international commodity prices, and emerging market risk appetite.

However, a significant structural transformation has been underway in the Indian financial ecosystem. The emergence of a robust and growing domestic investor base, channeled predominantly through Mutual Fund Systematic Investment Plans (SIPs), has introduced a powerful internal stabilizing mechanism. By the mid-2020s,

monthly SIP contributions had crossed the ₹20,000 crore threshold, representing an unprecedented mobilization of domestic retail savings into equity instruments. This phenomenon has given rise to what this study terms "Structural Decoupling" a paradigm shift wherein the performance of benchmark indices has grown increasingly resilient to global volatility and large-scale foreign capital flight.

1.2 PROBLEM STATEMENT.

The central research problem is to empirically investigate the extent of this decoupling and determine whether the Indian market has successfully developed a self-sustaining internal ecosystem. Despite record-breaking FII outflows during the 2024–2026 period exceeding ₹1.77 lakh crore in early 2026 alone the market absorbed these shocks without experiencing the prolonged bear phases that characterized earlier decades. This study provides empirical evidence on whether the "Market Mover" status has transitioned to domestic institutional hands and whether Domestic Institutional Investors (DIIs) now provide a sufficient cushioning effect to buffer the impact of global risk events.

1.3 RESEARCH OBJECTIVES.

1. To analyze the trend of FII and DII flows in the Indian stock market over the five-year study period spanning January 2021 to March 2026.
2. To examine the relationship between net FII flows and DII flows with the movements of the Nifty 50 and BSE Sensex.
3. To investigate the "Decoupling Effect" by comparing the relative influence of FII flows against DII flows on market stability and direction..

2.0 LITERATURE REVIEW.

A substantial body of scholarship has examined the role of foreign institutional capital in shaping equity market dynamics across emerging economies. The foundational work in the Indian context was established by Chakrabarti (2001), who investigated whether FIIs function as informed traders or trend-following herders during the early liberalization era. The study concluded that foreign investors predominantly exhibit positive feedback trading behavior, entering markets after trends have already been established a finding that questioned the "informed trading" hypothesis and suggested FII influence is more a function of transaction volume than superior market intelligence.

Batra (2004) extended this line of inquiry by analyzing the relationship between FII activity and stock market volatility in India. The research concluded that while FIIs significantly enhance market depth and liquidity under normal conditions, their rapid capital reversals during global stress events act as a channel for international financial contagion. Gordon and Gupta (2003) complemented these findings by distinguishing between global "push" factors such as US interest rate cycles and international risk appetite and domestic "pull" factors, including economic growth potential and stock market returns, as the twin determinants of portfolio flows into India.

The macroeconomic determinants of FII behavior were further examined by Kaur and Dhillon (2010), who identified industrial production growth and political stability as the primary structural attractors of sustained foreign capital. This was consistent with the findings of Srinivasan and Kalaivani (2012), who employed the Granger Causality framework to demonstrate a significant bidirectional relationship between FII flows and Sensex returns, suggesting a self-reinforcing feedback loop between foreign capital and market performance.

The microstructural dimensions of FII participation were analyzed by Prasanna (2014) and Reddy (2014), who demonstrated that higher foreign institutional presence is associated with superior stock liquidity, lower transaction costs, and reduced impact costs in large-cap equities. Dhiman (2014) specifically examined FII behavior during periods of global uncertainty, finding a direct correlation between aggressive FII selling and sharp increases in the India VIX, thereby confirming the "hot money" hypothesis empirically.

A critical pivot in the literature occurred with studies examining herd behavior and information asymmetry. Sethi (2013) demonstrated that FIIs tend to act in synchronized groups when responding to global macroeconomic events, often precipitating disproportionate market rallies and crashes through collective action. Sharma (2013) identified a statistically significant lead-lag relationship wherein FII net flows on a Friday could predict subsequent early-week Nifty 50 direction, supporting the "market mover" hypothesis for short-term traders.

The currency dimension was explored by Panda (2017) and Malhotra (2018), both of whom identified a significant triple linkage between FII flows, the USD/INR exchange rate, and index returns. Their research demonstrated that a depreciating Rupee acts as a primary deterrent for foreign investors, as it erodes dollar-denominated returns even when domestic equity prices appreciate. This "currency-capital" feedback loop represents a structural vulnerability in FII-driven markets.

More recently, the literature has begun to engage with the emerging "Decoupling Theory." Verma (2020) identified a significant shift in market dynamics, attributing the growing resilience of Indian indices during FII exit phases to the rise in domestic SIPs and the expanding financial muscle of DIIs. Similarly, Yadav (2020), in a study of the COVID-19 pandemic-induced market crash of 2020, found that while FIIs were responsible for the initial 30% decline, the market recovered entirely within months a recovery primarily attributed to domestic retail participation through digital platforms.

Roy (2024) provided the most contemporary analysis, concluding that the Indian market is in a transitional phase from being "FII-dependent" to "FII-integrated," with domestic investors gradually assuming the role of primary price-setters. Acharya (2014) further demonstrated that FIIs and domestic Mutual Funds frequently trade in opposing directions during periods of extreme volatility, confirming the existence of a natural counterbalancing mechanism that prevents total market collapse during foreign capital flight.

Historically, the Indian stock market has exhibited a high degree of sensitivity to FII investment behavior. Large-scale foreign capital inflows triggered sustained bullish rallies, while rapid capital reversals precipitated sharp corrections, leaving domestic retail investors exposed to foreign-driven volatility. The central problem addressed in this research is the empirical investigation of the emerging "Structural Decoupling" of the Indian stock market. Despite record-breaking FII outflows during the 2024–2026 period exceeding ₹1.77 lakh crore in early 2026 the Indian market demonstrated unprecedented resilience, suggesting that the paradigm may have fundamentally shifted. There exists a critical need to empirically test whether the market has successfully transitioned from being "FII-dependent" to "FII-integrated," with DII participation serving as the primary stabilizing mechanism.

Research Gap:

Based on the comprehensive synthesis of existing scholarship, a significant research gap is identified regarding the "Structural Decoupling" of the Indian equity market in the contemporary financial era. While traditional literature has historically positioned FIIs as the singular market mover, there is a distinct paucity of updated empirical evidence specifically quantifying how the massive surge in domestic institutional participation has altered this dependency. Most studies pre-dating 2020 emphasize the predictive power of foreign capital flows, without adequately accounting for the modern cushioning effect provided by DIIs and the record-breaking rise in retail SIP contributions. This study addresses this gap by providing fresh empirical evidence from the 2021–2026 period an era of unprecedented global disruption and unprecedented domestic market maturity.

3.0 METHODOLOGY

This study adopts a Descriptive and Analytical Research Design, combining trend profiling with inferential statistical testing to move beyond theoretical description and deliver mathematically grounded evidence. All data used is secondary in nature, sourced exclusively from authenticated official databases including the NSDL FPI Monitor for monthly net FII/FPI equity flows, SEBI records for DII mutual fund deployment data, the NSE and BSE historical databases for monthly closing values of the Nifty 50 and BSE Sensex respectively, and Trendline for supplementary verification. The study spans a 60-month period from January 2021 to March 2026, yielding 60 monthly observations strategically selected to capture three distinct market phases: the post-pandemic recovery

(2021–2022), the global inflationary and tightening cycle (2023–2024), and the contemporary decoupling era (2025–2026). Net FII and DII flows, measured in ₹ Crores, serve as the independent variables, while the Nifty 50 and BSE Sensex index levels function as the dependent variables, with the Nifty 50 designated as the primary benchmark given its concentration of institutional activity. Statistical analysis was carried out using SPSS, employing descriptive statistics to establish distributional properties, Pearson's Correlation Coefficient to assess the strength and direction of linear relationships, Simple Linear Regression to quantify the predictive impact of institutional flows on market performance, and Lead-Lag Analysis to determine whether FII or DII flows act as leading indicators of market direction, with a significance threshold set at $\alpha = 0.05$ across all hypothesis tests.

Dependent and Independent Variables
Dependent Variable
Market Returns (Nifty 50 and Sensex) are the independent variables for the study.
Independent Variables
FII Flow and DII Flow are the two independent variables for the study.

The relationship between Independent Variables and Dependent Variables is examined using correlation analysis and the impact of change in Independent Variable on Dependent Variable is examined using regression analysis.
Research Hypotheses

The following null (H_0) and alternate (H_1) hypotheses are formulated for empirical testing:
H_{10}: There is no significant relationship between net FII flows and Nifty 50 returns.
H_{11}: There is a significant relationship between net FII flows and Nifty 50 returns.
H_{20}: There is no significant relationship between net FII flows and BSE Sensex returns.
H_{21}: There is a significant relationship between net FII flows and BSE Sensex returns.
H_{30}: There is no significant relationship between net DII flows and Nifty 50 returns.
H_{31}: There is a significant relationship between net DII flows and Nifty 50 returns.
H_{40}: There is no significant relationship between net DII flows and BSE Sensex returns.
H_{41}: There is a significant relationship between net DII flows and BSE Sensex returns.
H_{50}: There is no significant relationship between net FII flows and net DII flows.
H_{51}: There is a significant relationship between net FII flows and net DII flows.
Model Equation 1:
$NIFTY50_i=\beta_0+\beta_1(DII\ Flows_i)+\varepsilon_i$
Where:

$NIFTY50_i$: Value of the Nifty 50 Index for the i^{th} observation (dependent variable)
β_0: Intercept or Constant Term; the expected value of Nifty 50 when DII Flows are zero
β_1: Regression Coefficient (Slope) of DII Flows; measures the change in Nifty 50 due to a one-unit change in DII Flows

$DII\ Flows_i$: Domestic Institutional Investor (DII) Net Flows for the i^{th} observation (independent variable)
ε_i: Random Error Term for the i^{th} observation, representing the influence of other factors not included in the model
i: Observation number (e.g., month, quarter, or year depending on the dataset)
Model Equation 2:
$BSESensex_i=\beta_0+\beta_1(\ DIIFlows_i)+\varepsilon_i$
Where:

$NIFTY50_i$: Value of the Nifty 50 Index for the i^{th} observation (dependent variable)
β_0: Intercept or Constant Term; the expected value of BSE Sensex when DII Flows are zero.
β_1: Regression Coefficient (Slope) of DII Flows
$DII\ Flows_i$: Domestic Institutional Investor (DII) Net Flows for the i^{th} observation (independent variable)
ε_i: Random Error Term for the i^{th} observation, representing the influence of other factors not included in the model

i: Observation number (e.g., month, quarter, or year depending on the dataset)

Model Equation 3:

$DIIFlows_i=\beta_0+\beta_1(FIIFlows_i)+\varepsilon_i$
Where:
$DII\ Flows_i$: Domestic Institutional Investor (DII) Net Flows for the i^{th} observation (dependent variable)
β_0: Intercept or Constant Term; the expected value of DII Flows when FII Flows are zero.
β_1: Regression Coefficient (Slope) of FII Flows
$FII\ Flows_i$: Foreign Institutional Investor (FII) Net Flows for the i^{th} observation (independent variable)
ε_i: Random Error Term for the i^{th} observation, representing the influence of other factors not included in the model
i: Observation number (e.g., month, quarter, or year depending on the dataset)

4.0 ANALYSIS AND FINDINGS

Data were collected for FII flows, DII flows, Nifty 50 Returns, and Sensex Returns to find statistical relationship and impact.

4.1 Descriptive Statistics:

Table 1 presents the descriptive statistics for all four variables across the 60-month study period. The findings reveal a fundamental divergence in the investment behavior of foreign and domestic institutional actors.

Table 1: Descriptive Statistics of Key Variables (N = 60)

Variable	N	Mean (₹ Cr.)	Std. Deviation	Skewness	Kurtosis
FII Flows	60	-16,601.23	29,379.08	-0.631	1.024
DII Flows	60	31,177.55	27,521.67	0.665	0.084
Nifty 50	60	20,095.77	3,659.11	0.197	-1.339
BSE Sensex	60	66,776.57	11,417.26	0.139	-1.312

The descriptive statistics reveal a fundamental divergence between the investment behaviors of foreign and domestic institutional investors during the study period. FII flows exhibit a negative mean of -16,601.23 (₹ Crores), confirming that foreign investors functioned as net sellers on average throughout the five-year window. In stark contrast, DII flows record a robust positive mean of 31,177.55 (₹ Crores), highlighting domestic institutions as a consistent and growing source of market liquidity. The substantially higher standard deviation of FII flows (29,379.08) relative to DII flows (27,521.67) underscores the erratic, sentiment-driven nature of foreign capital compared to the more methodical and structural deployment patterns of domestic institutions.

Both benchmark indices exhibit slight positive skewness values (Nifty 50: 0.197; Sensex: 0.139), indicating that over the study period, the market experienced a greater frequency of upward movements than downward ones, consistent with the long-term bullish trajectory observed empirically. The negative kurtosis for both indices (-1.339 and -1.312, respectively) further points to a platykurtic distribution, suggesting fewer extreme market events and a broadly stable growth environment during this period.

4.2 Pearson's Correlation Analysis:

Table 2 presents Pearson's Correlation coefficients between all key variables.

Table 2: Pearson's Correlation Matrix

		FII	DII	Nifty50	Sensex
FII	Pearson Correlation	1	-.674**	-.140	-.131
	Sig. (2-tailed)		.000	.286	.319
	N	60	60	60	60
DII	Pearson Correlation	-.674**	1	.685**	.675**
	Sig. (2-tailed)	.000		.000	.000
	N	60	60	60	60

The correlation analysis yields three substantively important findings. First, DII flows demonstrate a strong, positive, and statistically significant correlation with the Nifty 50 ($r = 0.685$, $p < 0.001$) and the BSE Sensex ($r = 0.675$, $p < 0.001$), establishing domestic institutional buying as the primary contemporary driver of benchmark index performance. Second, in contrast, FII flows exhibit weak and statistically insignificant negative correlations with both the Nifty 50 ($r = -0.140$, $p = 0.286$) and the Sensex ($r = -0.131$, $p = 0.319$). The failure to achieve statistical significance at the 5% threshold represents a major structural departure from the FII-dominant narratives of earlier literature.

Third, the strong negative correlation between FII and DII flows ($r = -0.674$, $p < 0.001$) statistically validates the existence of a systematic counterbalancing mechanism, herein referred to as the "Absorption Effect." This finding confirms that domestic institutions are not passive observers of foreign capital movements but active, responsive buyers who systematically absorb foreign selling pressure to maintain market stability.

4.3 Regression Analysis:

4.3.1 Impact of DII Flows on Nifty 50 Performance

Table 3: Regression — DII Flows on Nifty 50 (Model Summary & ANOVA)

R	R Square	Adj. R Square	Std. Error	F-Statistic	Sig.
0.685	0.469	0.460	2,689.97	51.200	0.000

Table 4: Regression Coefficients — DII Flows on Nifty 50

Predictor	B (Unstandardized)	Std. Error	Beta (Std.)	t-value	Sig.
(Constant)	17,257.842	527.247	—	32.732	0.000
DII Flows	0.091	0.013	0.685	7.153	0.000

The linear regression of DII flows on Nifty 50 performance produces an R^2 of 0.469, indicating that domestic institutional buying alone accounts for approximately 46.9% of the total variance in Nifty 50 levels over the study period. The ANOVA confirms the model's overall statistical validity with an F-statistic of 51.200 ($p < 0.001$). The unstandardized coefficient for DII flows ($B = 0.091$, $p < 0.001$) indicates that for each additional ₹1 crore of net domestic institutional investment, the Nifty 50 registers an increase of approximately 0.091 index points. The standardized Beta of 0.685 ranks DII flows as a highly dominant predictor of benchmark market performance.

4.3.2 Impact of DII Flows on BSE Sensex Performance:

Table 5: Regression — DII Flows on BSE Sensex (Model Summary & Coefficients)

R	R^2	F-Stat.	Sig.	B (DII)	t-value
0.675	0.456	48.616	0.000	0.280	6.973

The regression of DII flows on the Sensex yields an R^2 of 0.456, confirming that domestic institutional activity explains 45.6% of Sensex variation. The coefficient B = 0.280 ($p < 0.001$) signifies that every ₹1 crore of incremental DII buying corresponds to a 0.280-point increase in the Sensex, reinforcing the finding that domestic capital has become the principal anchor of India's premier market indicator.

4.3.3 FII Flows as a Predictor of DII Flows (Absorption Effect):

Table 6: Regression — FII Flows on DII Flows (Absorption Effect)

R	R^2	F-Stat.	Sig.	B (FII)	Beta	t-value
0.674	0.454	48.212	0.000	-0.631	-0.674	-6.943

This model uses FII flows as the independent variable and DII flows as the dependent variable, thereby quantifying the reactive response of domestic institutions to foreign capital movements. An R^2 of 0.454 indicates that FII flow behavior explains 45.4% of the variation in DII deployment. The negative unstandardized coefficient (B = -0.631, $p < 0.001$) statistically validates the Absorption Effect: for every unit of net FII selling, DII buying increases correspondingly by 0.631 units. This finding establishes that the counterbalancing behavior of domestic institutions is not coincidental but constitutes a systematic, mathematically verifiable response pattern.

5. Hypothesis Testing: Summary of Results:

Hypothesis	r / B	p-value	Decision	Interpretation
H_1: FII → Nifty 50	r = -0.140	0.286	Fail to Reject H_0	No significant relationship
H_2: FII → Sensex	r = -0.131	0.319	Fail to Reject H_0	No significant relationship
H_3: DII → Nifty 50	r = 0.685	0.000	Reject H_0	Strong significant positive relationship
H_4: DII → Sensex	r = 0.675	0.000	Reject H_0	Strong significant positive relationship
H_5: FII ↔ DII	r = -0.674	0.000	Reject H_0	Strong inverse relationship confirmed

The rejection of H_3, H_4, and H_5 while failing to reject H_1 and H_2 provides the empirical foundation for the Structural Decoupling hypothesis. FII flows no longer carry statistically significant predictive power over Indian benchmark indices, while DII flows emerge as dominant, reliable, and statistically significant drivers of market performance. The inverse FII-DII dynamic validates the existence of a formalized Absorption Effect within the Indian equity market structure.

6. Discussion:

The empirical findings of this study collectively affirm a structural reorientation in the Indian equity market. The evidence points unambiguously to a diminished predictive power of FII flows vis-à-vis benchmark returns, while simultaneously confirming the ascendancy of DII participation as the market's primary directional anchor. These results warrant a systematic interpretation across three interconnected dimensions.

7. The Structural Decoupling: From FII-Dependent to FII-Integrated:

The core finding that FII flows bear no statistically significant relationship with either the Nifty 50 or the BSE Sensex ($p > 0.05$) represents a fundamental departure from the dominant paradigm established in prior literature (Chakrabarti, 2001; Srinivasan & Kalaivani, 2012; Sharma, 2013). This is not merely a quantitative difference; it signals a qualitative transformation in the market's response architecture. The Indian market has not decoupled from foreign participation entirely FIIs continue to hold a substantial proportion of free-float market capitalization but their capacity to unilaterally dictate index direction has been materially eroded.

This finding is most coherently explained by the structural growth of domestic SIP inflows. As of 2026, monthly SIP contributions consistently exceed ₹20,000 crore, providing a predictable, counter-cyclical supply of domestic liquidity that effectively neutralizes the disruptive impact of foreign capital exits. This is consistent with Verma (2020) and Yadav (2020), who first hypothesized such a shift based on COVID-19 era data, and with Roy (2024), who framed it as a transitional phase from FII-dependency to FII-integration.

8. The Absorption Effect: Institutional Counterbalancing:

The strong inverse relationship between FII and DII flows (r = -0.674; B = -0.631) validates a dynamic that has significant implications for market stability theory. Domestic institutions primarily mutual funds and insurance companies — have evolved into a systematic liquidity provider of last resort within the Indian equity ecosystem. The peak DII buying of ₹1,07,254 crore in October 2024, occurring simultaneously with record FII outflows of ₹1,14,446 crore in the same month, constitutes the most compelling single-data-point evidence of this Absorption Effect. This dynamic is functionally analogous to central bank intervention in currency markets a pre-committed counter-cyclical response that prevents disorderly price discovery.

This pattern differs from the findings of Batra (2004) and Dhiman (2014), who characterized FII outflows as inherently destabilizing. The present study suggests that the market infrastructure has evolved sufficiently — via the institutionalization of retail savings through the MF-SIP ecosystem to endogenously generate the stabilizing mechanisms that were previously absent.

9. Implications for Retail Investors and Policymakers:

For retail investors, the findings suggest a meaningful reduction in the relevance of tracking daily FII activity as a signal for near-term market direction a practice previously validated by Sharma (2013). The regression results (R^2 = 0.469 for DII-Nifty 50) imply that DII behavior is now a more statistically reliable indicator of market levels than FII flows. This has practical implications for portfolio strategy, particularly during periods of global risk-off sentiment when FII exits would historically have triggered retail panic-selling.

For financial policymakers at SEBI and the Reserve Bank of India, the findings reinforce the strategic importance of protecting and expanding the domestic SIP infrastructure. Any regulatory action that dampens retail participation in equity mutual funds including taxation changes, fee structure revisions, or macroprudential measures carries the potential to undermine the very stabilizing mechanism that has made the Indian market resilient to global shocks. The study provides quantitative support for a policy framework that prioritizes domestic investor confidence as a prerequisite for long-term financial stability.

10. Conclusion:

This study provides empirical evidence for the structural transformation of the Indian equity market over the 2021–2026 period. The statistical analyses, encompassing Pearson's Correlation and Linear Regression across 60 monthly observations, collectively establish three primary conclusions.

First, the Indian equity market has functionally decoupled from its historical FII dependence. The statistically insignificant correlations between FII flows and both benchmark indices (Nifty 50: r = -0.140, p = 0.286; Sensex: r = -0.131, p = 0.319) empirically invalidate the prevailing assumption that foreign capital remains the primary determinant of Indian market direction in the contemporary era. The "Structural Decoupling" hypothesis transitions from a theoretical proposition to a statistically validated reality within the large-cap segment.

Second, Domestic Institutional Investors have emerged as the market's principal stabilizing and growth-driving force. With DII flows explaining approximately 46.9% of Nifty 50 variance (R^2 = 0.469) and carrying a standardized Beta of 0.685, domestic institutional capital has demonstrably supplanted foreign flows as the dominant predictor of benchmark performance. This shift is structurally anchored in the consistent and growing inflow of retail savings through the Mutual Fund SIP mechanism.

Third, the Absorption Effect the statistically validated inverse response of DII flows to FII outflows ($r = -0.674$; $B = -0.631$, $p < 0.001$) confirms the existence of a self-correcting liquidity mechanism within the Indian market. This mechanism, wherein domestic institutions systematically absorb foreign selling pressure, represents a significant improvement in the market's shock-absorption capacity and reduces systemic vulnerability to international financial contagion.

These findings carry important practical implications. For retail investors, the SIP-driven DII ecosystem provides a structural justification for maintaining long-term equity allocations even during phases of aggressive foreign selling. For policymakers, the findings underscore the importance of protecting and nurturing domestic retail participation as a cornerstone of financial stability strategy. For future researchers, the methodology and findings of this study establish a quantitative baseline for ongoing analysis of institutional dynamics in India's maturing capital market.

While the findings are robust within the scope and parameters of this study, certain limitations must be acknowledged. The exclusive focus on large-cap benchmarks means the Decoupling Effect cannot be generalized to mid-cap and small-cap segments, which exhibit different liquidity profiles. Additionally, the strictly quantitative design, while rigorous, does not capture qualitative factors such as investor behavioral sentiment, regulatory shifts, or the specific sub-categories of foreign capital. Future research employing multivariate models that incorporate macroeconomic controls including US treasury yields, crude oil prices, and the USD/INR exchange rate would further isolate and quantify the independent contribution of institutional flows to market outcomes.

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