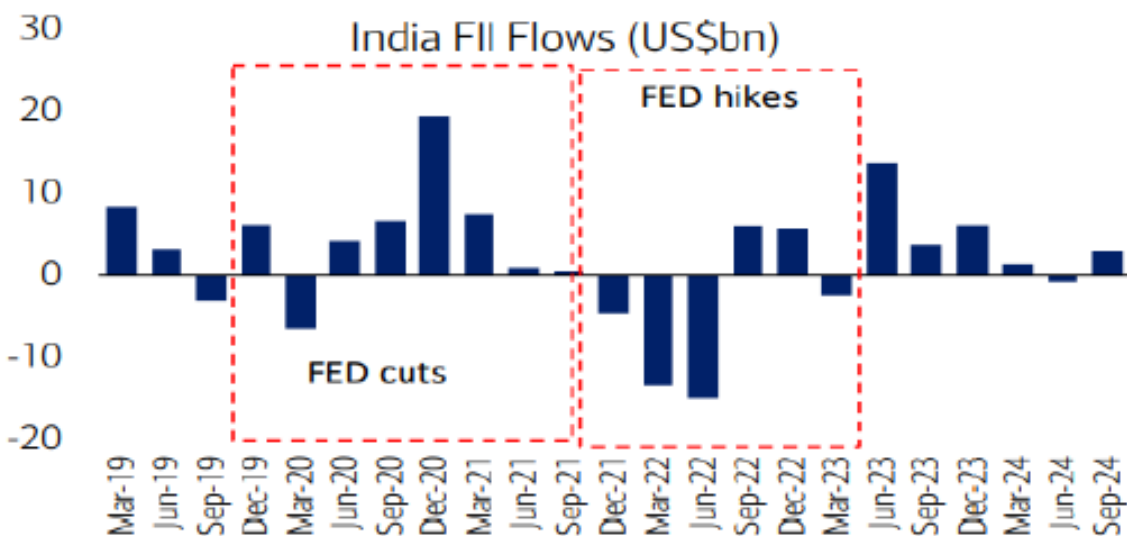
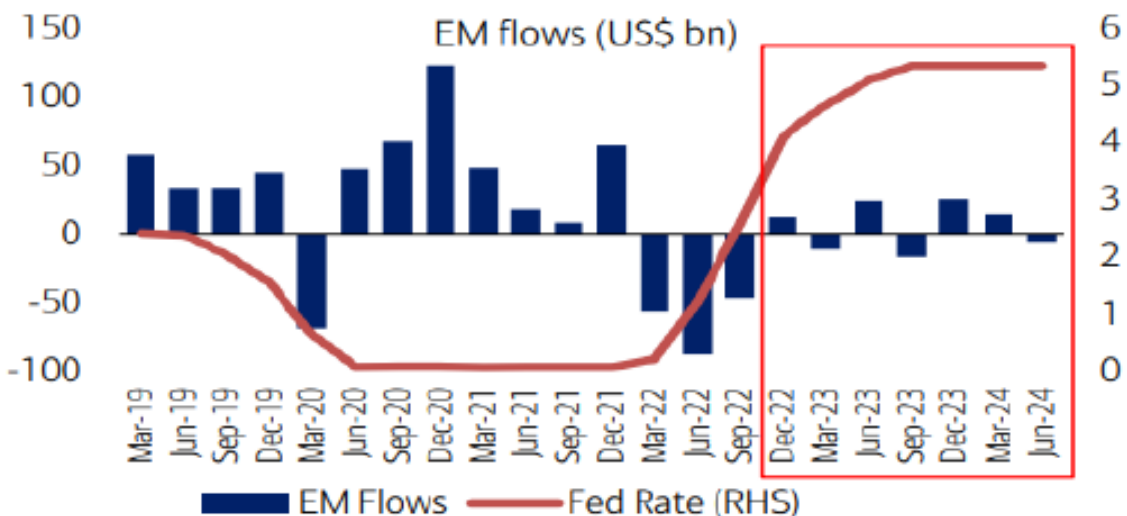


# Fed Interest Rate Outlook: A Potential Catalyst for FII Inflows into India



Historical data shows that during periods of Fed rate hikes, emerging markets, including India, often experience net FII outflows. When the Fed raises rates, it often leads to a stronger U.S. dollar. A stronger dollar makes EM\* currencies weaker, reducing the returns on investments in these markets when converted back to dollars.

Conversely, when the Fed cuts rates or maintains a dovish stance, FIIs are more likely to invest into EMs as investors seek higher yields outside the U.S. This negative correlation is a key consideration for policymakers and investors in emerging markets like India.

A softer-than-expected July employment report and other soft data like the ISM manufacturing report, points to a rate cut in Sep-24. Further, there is building consensus on three Fed cuts by Dec'24. Fed rate cut could be a positive news for the EM and for India too.

India's positioning within EM funds & FII ownership of Indian equities has reached multi-year lows with only US\$8bn inflows over CY21-CY24YTD (vs US\$33bn in CY18-20). Thus, aggressive Fed rate cut could lead to significant FII inflows in Indian markets which positive for Indian Markets.

Stable macros and resilient growth prospects makes India an attractive investment destination vis-à-vis its global peers.

ABSL Equity Funds Investors may consider investing with a staggered approach and capitalize on the structural growth story India offers.