

Sectoral & thematic mutual funds see record jump in inflows to over Rs 9,400 crore. Is it time to enter or stay cautious?

By Surbhi Khanna, Published on: August 13, 2025.



Sectoral and thematic mutual funds have witnessed a record jump in the monthly inflows to nearly Rs 9,426 crore in July registering a growth of 1,882% against an inflow of Rs 475 crore in June.

According to the latest data from Association of Mutual Funds in India (AMFI), much of this spike came from the seven new fund offers (NFOs) in the category, which collectively mobilised Rs 7,404 crore.

As these funds received the highest inflow among the 11-sub categories under equity mutual funds, the market experts consider this surge due to NFOs mobilization which contributes to 78.5% of the increase.

“The number of outflows also dipped by about 5% to Rs 8,666.60 crore. Major launches included Axis Services Opportunities Fund, HDFC Innovation Fund, Nippon India MNC Fund, etc,” Vishal Dhawan, Founder & CEO at Plan Ahead Wealth Advisors shared with ETMutualFunds.

Commenting on the valuation part, Dhawan mentioned that yes pockets of overvaluation do exist- In PSU, infra, defence, and manufacturing, trailing P/Es have moved far above long-term averages (e.g., PSU banks & defence stocks at 1.8–2x book value vs historical 1–1.2x; capital goods P/E >40x in some cases) and rally has been momentum-driven, with more flows chasing fewer large-cap names in these sectors.

Sectoral and thematic mutual funds which have continued to receive highest inflows for a very long time, received an inflow of Rs 170 crore in March against an inflow of Rs 5,711 crore in February. Since June 2023, the inflow in March was recorded as the lowest inflows in the category.

In April and May, these funds had started receiving inflows and again in June witnessed a sharp drop in the monthly inflows. In June, sectoral and thematic funds received an inflow of Rs 475 crore.

In the current calendar year so far, these funds have received an inflow of Rs 28,853 crore and in the current financial year, these funds received a total inflow of Rs 13,955 crore.

In FY25, sectoral and thematic funds received a total inflow of Rs 1.46 lakh crore of which highest inflow was received in June of Rs 22,351 crore. In March, Motilal Oswal Active Momentum Fund was the only sectoral or thematic fund, which was launched, and it collected Rs 40 crore.

While recommending on whether one should consider investing in these funds or not, the expert said that the outlook varies by sector such as Banking and Financial Services, appearing attractive, having underperformed in the recent rally due to concerns over credit–deposit growth divergence, narrowing net interest margins, and asset quality issues and as these headwinds are now easing, supported by the RBI’s liquidity measures and a favourable macroeconomic backdrop.

“With the sector trading at a discount to historical valuations, it offers a compelling entry point for investors seeking stability with growth potential. In contrast, sectors like Defence, Infrastructure, and PSUs may enjoy favourable long-term growth drivers but are currently trading at elevated valuations, leaving little margin of safety,” Dhawan said.

While recommending the mode of investment, Dhawan explains that given the stretched valuations in many themes and the recent NFO-led liquidity surge, a SIP approach is better suited for sectoral/thematic funds at this stage as this allows participation if momentum continues while mitigating the risk of entering at a peak.

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And lastly, one should keep allocations modest within the overall portfolio and reassess after sector fundamentals and valuations are updated post-earnings and policy announcements.

In July, the benchmark indices were in the red zone. Nifty50 went down by 3.02%, Nifty Bank index was down by 2.60%. Nifty PSU Bank dropped by 5.55% in the similar time horizon. Nifty Midcap 150 - TRI and Nifty Small cap 250 - TRI index were down by 2.57% and 3.37% respectively in the said period. As the indices were in red, the important thing to know is that could this surge in inflows lead to short term volatility?

In response to this, Dhawan while mentioning about a study said that mutual fund inflows and outflows have an impact on market volatility and the research shows that large changes in flows whether buying or selling tend to coincide with heightened market fluctuations, and that this relationship holds even after accounting for broader trading activity.

“When applied to sectoral and thematic funds, the implications are even stronger as these funds are typically launched during periods when their underlying theme is already performing well, attracting large amounts of investor capital and since the capital is deployed into a limited pool of stocks, the concentration risk amplifies price movements and heavy inflows can quickly push valuations higher, while any slowdown or reversal in flows can accelerate corrections.”

“Historical patterns underline this behaviour — in infrastructure during 2007–08, PSU banks in 2014, and defense in 2022, sharp inflows led to short-term outperformance and heightened volatility, ultimately giving way to mean reversion once inflows subsided,” he added.

Out of all sectoral and thematic fund categories, international funds offered an average return of 3.94%, followed by pharma and healthcare funds which gave an average return of 3.04% in July. And the last positive performer was MNC funds which gave an average return of 0.16% in the similar period.

Technology funds lost the most of around 4.22% in the said time period, followed by service industry funds which lost 3.04%. Auto sector funds lost the lowest on an average of around 0.11% in July.

Based on the performance of sectoral and thematic funds, the expert recommends that as of now the Banking and Financial Services sector looks attractive as it has underperformed in the recent market rally due to concerns on divergence in credit and deposit growth, lowering of net interest margin ratio, and asset quality. However, these headwinds are now showing signs of easing.

“With the RBI initiating liquidity-supportive measures, and the broader macroeconomic environment remaining conducive, the outlook for the sector appears strong. Importantly, the banking sector is currently trading at a discount to its historical valuations, offering an attractive entry point for investors seeking stability with growth potential,” he added.

One should not make investment or redemption decisions based on the above exercise. One should always invest based on their risk appetite, investment horizon, and goals.